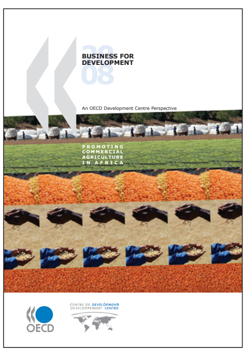
2008 BUSINESS FOR DEVELOPMENT

TANZANIA

The Challenge of Moving from Subsistence to Profit

Denise Wolter



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The views expressed in this study, however, remain those of the author and do not necessarily reflect those of the OECD Development Centre.

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Preface

Since the beginning of the new millennium, African governments, donors and the private sector have all stepped up their efforts to revitalise the agricultural sector by mobilising additional resources and putting new business initiatives to work. Through the approval of NEPAD's Comprehensive Africa Agriculture Development Programme (CAADP) in 2003, African leaders agreed to governmental responsibility for providing technical and financial support to the agricultural sector and the development of the agro-based private sector. In addition, trade issues have been increasingly seen as intrinsic to agricultural development strategies.

Governments and business actors agree on the need for better co-ordination of each other's strategies and interventions in the agricultural sector. This places public-private dialogue at centre stage of Africa's agricultural development process. More emphasis should therefore be placed on policies in favour of market expansion and improved regulatory conditions to underpin private-sector development and redefine the roles of government, donors and business.

Africa is daily facing new challenges caused by market transformations on a global scale. Technological advances, changes in food consumption patterns, the demands of private retail companies and stricter quality and health standards imposed by OECD importing countries have been at the root of some of this change. Meanwhile, African agro-food companies are faced with rising demand for food in Africa due to rapid urbanisation and increased industrial activity. In addition, China and India have provided new outlets for African agricultural exports but have also increased competitive pressures.

To address these challenges, a change of perspective is needed to promote commercial agriculture and the development of rural non-farm activities. More emphasis should be placed on policies that raise agricultural productivity and expand market opportunities at the international, regional and national levels. Private investment in appropriate technology and scientific expertise to support the agricultural sector in Africa requires adequate policies and regulations.

This edition of *Business for Development: Promoting Commercial Agriculture in Africa* looks at recent trends in trade and aid in African agriculture, including an overview of the corporate landscape of the agro-food sector, and takes stock of donor activities aimed at supporting commercial agriculture in the continent. This new publication will make a substantial contribution to what we know and need to do to support private-sector development in Africa.

Javier Santiso,

Director, OECD Development Centre

March 2008

ACRONYMS ABBR.

Acronyms and Abbreviations

AfDB	African Development Bank
AMSDP	Agricultural Marketing Systems Development Programme
ASDP	Agricultural Sector Development Programme
ASDS	Agricultural Sector Development Strategy
ASLMs	Agriculture Sector Lead Ministries
ASSP	Agricultural Services Support Programme
BADEA	Arab Bank for Economic Development in Africa
BEST	Business Environment Strengthening for Tanzania
CAADP	Comprehensive Africa Agriculture Development Programme
DADPs	District Agricultural Development Plans
DASIP	District Agriculture Sector Investment Project
DIDF	District Irrigation Development Fund
DPP	Director of Policy and Planning
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FBO	Farmer-based Organisations
FSDT	Financial Sector Deepening Trust
GDP	Gross Domestic Product
GNI	Gross National Income
GoT	Government of Tanzania
IFAD	International Fund for Agricultural Development
JAST	Joint Assistance Strategy for Tanzania
LGA	Local Government Authority
MAFC	Ministry of Agriculture, Food Security and Co-operatives
MCA	Millennium Challenge Account

MDG	Millennium Development Goals
MITM	Ministry for Industry, Trade and Marketing
MKUKUTA	Swahili acronym for Tanzania's NSGRP
MPEE	Ministry of Planning, Economy and Empowerment
MTEF	Medium-Term Expenditure Framework
MUVI	Swahili acronym for the Rural Micro, Small and Medium Enterprise Support Programme
NGO	Non-Governmental Organisation
NIDF	National Irrigation Development Fund
NSGRP	National Strategy for Growth and Reduction of Poverty
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PADEP	Participatory Agricultural Development and Empowerment Project
PASS	Private Agricultural Sector Support
PIDP	Participatory Irrigation Development Programme
PMO-RALG	Prime Minister Office-Regional Administration and Local Government
PSD	Private Sector Development
PRSP	Poverty Reduction Strategy Paper
RDS	Rural Development Strategy
SWAp	Sector-Wide Approach
UK	United Kingdom
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNIDO	United Nations Industrial Development Organization
URT	United Republic of Tanzania
USAID	United States Agency for International Development
WFP	World Food Programme

TANZANIA

The Challenge of Moving from Subsistence to Profit

ABSTRACT

Tanzania could be a major food-exporting country but its dependence on rainfall, poor transport and marketing infrastructures, as well as low access to technology, lead to persistent food security problems.

The Tanzanian government has decided to focus its Agricultural Sector Development Programme (ASDP) on irrigation. However, even though the importance of irrigation to reduce Tanzania's dependency on rainfall is undisputed, it would have been better to have a two-fold programme with one part focusing on production-related investments such as irrigation and the other fostering commercial agriculture and the private sector.

While donor commitments to agriculture show a mixed trend, Tanzania is one of the few African countries with a basket fund in agriculture. The Tanzanian government aims to establish the ASDP as the sector programme to which all donor interventions should be aligned.

First reviews of the ASDP reveal that capacity to implement the programme is lacking at all levels. A lot of capacity building and a change of mindset in Local Government Authorities (LGAs) are needed to make farmer empowerment and private sector involvement a reality. Furthermore, rural and agricultural development efforts should be better co-ordinated as both draw on the same limited capacities at the local level.

INTRODUCTION

The Tanzania country study reviews what the Tanzanian government and donors are doing to unleash the so far largely untapped agricultural potential of Tanzania. The study starts with a short analysis of the Tanzanian agricultural sector followed by an examination of how far the strategies of the Tanzanian government are effectively addressing the problems faced by stakeholders in the sector. Afterwards the study provides an overview of donor activities in the agricultural sector and discusses the recently established donor basket and several large donor projects in more detail. The study concludes by pointing out positive developments, such as donors' efforts to align their support in the agricultural sector, but also areas which require improvement such as the insufficient efforts to promote agribusiness and the commercialisation of agriculture.

STATUS OF AGRICULTURE AND AGRIBUSINESS

Tanzania's agriculture remains today a traditional, smallholder production system, even though the modernisation of agriculture has been on the political agenda of the Government of Tanzania (GoT) for some time. In this section, the major challenges of Tanzania's agricultural sector for food crop production and export crop production will be highlighted, as well as other emerging agro-industries.

Food Crop Production - Far below Potential

The main food crops in Tanzania are maize, rice, wheat, sorghum/millet, cassava and beans. Tanzania could be a major food-exporting country, but so far Tanzania's agricultural potential is largely undeveloped. Only 11 per cent of the total land area suitable for agriculture (about 44 million hectares) is under cultivation, mostly by smallholder farmers[1]. The planted area has been stable for several years, indicating that land expansion has ceased to be a major source of agricultural growth. Furthermore out of 29.4 million hectares (31 per cent of the total land area) with irrigation potential, only 227 490 hectares (less than 1 per cent) are currently under irrigation. The usage of modern agricultural inputs is very low; only 15 per cent of all farmers use fertilizers (Temu, 2006*a*; URT, 2006*a*; World Bank, 2005).

Unsurprisingly, food crop productivity has been very low. In the past six years (2001/02 – 2006/07) average food crop productivity was 1.7 tonnes per hectare, whereas good management and optimal fertilizer use should result in yields of 3.5-4.0 tonnes per hectare (URT, 2007*b*). The recent reintroduction of the fertilizer subsidy in 2003/04 has yet to show its effect. At the same time, profitability analysis reveals negative or extremely thin gross margins for traditional maize and paddy rice because of the use of local seeds, which respond poorly to fertilizers. Thus the fertilizer subsidy will not help to increase the productivity of smallholder farmers using local variety seeds. Improving crop profitability requires a comprehensive approach: encouraging smallholders to use both improved variety seeds (such as hybrid maize) and fertilizer as a package (URT, 2006*a*).

Much of the sector's recent growth has been due to production diversification at the farm level (horizontal diversification). Traditional food crops (maize, rice, sorghum and millet) now occupy only 50 per cent of total planted areas, while non-traditional export crops such as oilseeds, pulses, vegetables, roots and tubers have increased their shares (URT, 2006*a*). To sustain and expand production diversification at the farm level, yields of food crops need to increase at the same time to meet rising domestic and regional demand. However, food crops are still mainly produced for subsistence and the incentives to produce them for the market are not in place. According to the 2006 Agricultural Sector Review, existing taxation erodes the incentives to produce food crops in general and to produce for the market in particular. Furthermore, Tanzania faces the problem of inefficient food markets within the country. Field interviews revealed that regions with a surplus prefer to export their produce to neighbouring countries because of the poor state of transport infrastructure within Tanzania, undeveloped market information systems regarding prices and needs of other regions, and unpredictable GoT interventions for certain food crops such as maize (URT, 2006*a*; URT, 2007*b*).

As a result of these problems, agricultural imports have actually been increasing, with food imports taking the largest share (80 per cent in 2005). Major food imports include wheat, rice and dairy products (URT, 2007*b*). Tanzania's agro-food industry is very small and not able to meet local demand[2]. While the GoT has realised the importance of promoting commercialisation at the policy level, implementation has been lagging behind. Currently, lack of medium and long-term financing, lack of infrastructure, duplication and multiplicity of taxes levied on producers in the agricultural sector result in low investments in the agricultural sector in general and agricultural processing in particular[3].

Export Crop Production - Traditional Exports are on the Decline

Traditional agricultural exports accounted for only 20 per cent of total merchandise exported in 2006, down from over 55 per cent in 1995/96. Traditional export crops in Tanzania are coffee, cotton, tea, cashews, tobacco and, on a much smaller scale, cloves and sisal. Production of traditional export crops is also dominated by smallholder farmers, except for tea and sisal where larger estates are common (URT, 2007*b*).

The horticultural sector (vegetables, fruit and cut flowers) is still very small and contributes little more than 1 per cent to total merchandise exports ($18.2 million). However, the sector has shown strong growth rates in recent years, and as indicated above the production of horticultural products is partly ousting food crop production. Only about 4 per cent of fruit and vegetable production is processed, with most of the produce exported in a raw state to regional markets (URT, 2006*a*; URT, 2007*b*).

Fish and Livestock – New Drivers of Growth?

Tanzania's most important non-traditional agricultural exports are fish and fish products which earned half as much as all traditional agricultural exports ($138.6 million) in 2006. Nile perch from Lake Victoria constitute about 80 per cent of Tanzania's total fish exports. The sea-fishing potential of Tanzania is still largely unexploited, but production is constrained by a shortage of modern fishing equipment. Furthermore, the fish industry faces the challenge of having to comply with quality and sanitary standards imposed by importing countries (URT, 2007*a*).

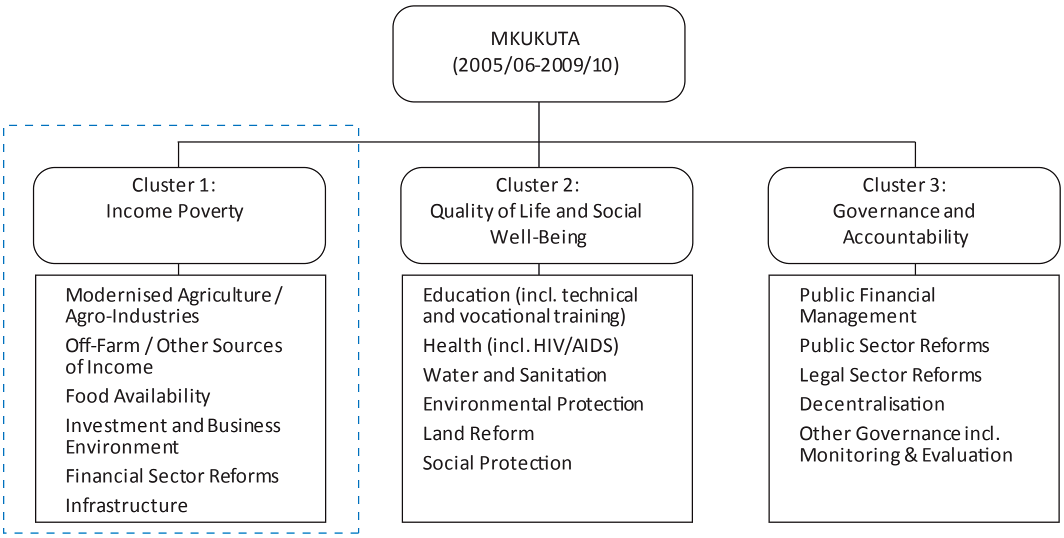
Tanzania has the third largest cattle herd in Africa, after Ethiopia and Sudan. While the livestock sub-sector contributes almost 6 per cent to GDP, its share in total exports is very small (less than 1 per cent). Despite high growth in egg and milk production, Tanzania continues to import most of its dairy products as production has not kept pace with rising domestic demand[4]. Per capita consumption of major livestock products such as meat, milk and eggs doubled between 2000 and 2005 (EIU, 2007; URT, 2006*a*; URT, 2007*b*).

To sum up, Tanzania has a large untapped agricultural potential not only with respect to food crops but also livestock and fish. One of the major problems is its dependence on rainfall, therefore developing irrigation systems should be a high priority, ideally introduced together with other measures to enhance productivity. At the same time, development of transport and information infrastructure is crucial as at present high transportation costs and lack of market information have led to malfunctioning internal food markets. Lastly, while Tanzania's agricultural production is fairly diversified, it needs to promote value addition and processing to move on from being an exporter of raw materials, and also to benefit from rising internal demand for dairy and other products.

WHAT IS THE GOVERNMENT DOING?

Tanzania's medium-term development strategy is outlined in the National Strategy for Growth and Reduction of Poverty (NSGRP, commonly known by its Swahili acronym MKUKUTA). MKUKUTA puts the reduction of poverty and the attainment of the Millennium Development Goals (MDGs) at the centre of the national development agenda. The strategy was adopted in June 2005 and is organised around three clusters:

Figure 1. The Clusters of MKUKUTA



Source: Author's presentation based on URT (2005).

Through the implementation of MKUKUTA, the GoT seeks to achieve real GDP growth rates of 6-8 per cent per annum between 2005/06 and 2009/10. More specifically, the target for the agricultural sector is to increase growth from 5 per cent to 10 per cent by 2010. These growth targets will not be attainable without a significant rise in productivity and the modernisation of the agricultural sector.

The measures envisaged under Cluster 1 with respect to the agricultural sector are two-fold: first, to promote the production of food crops to improve food availability and accessibility; second, to facilitate investments to modernise small, medium and large-scale agriculture. Efforts will also be made to strengthen the links between agriculture and industry and to encourage agro-processing. At the same time, the GoT wants to increase employment in other growth sectors such as tourism and mining. Therefore Cluster 1 also puts a strong emphasis on improving the business and investment climate, and infrastructure in general (URT, 2005).

Before going into a more detailed discussion of GoT's agricultural policy, it is necessary to look briefly at how far MKUKUTA priorities are matched by actual budget expenditures.

Government Expenditures on Agriculture – On the Rise but Still too Low

During the implementation of Tanzania's first Poverty Reduction Strategy Paper (PRSP-1 2000/01 – 2003/04), GoT targeted the social sectors as the main strategic component for development and poverty reduction, failing to include the growth sectors as one of its priority areas for intervention. Consequently, GoT spending on agriculture was minimal. Actual disbursements for the agricultural sector averaged only 2.5 per cent of total government expenditures during 2001-2004 (URT, 2006*a*).

However, with the introduction of MKUKUTA the share of agriculture in the total government budget has increased considerably: the share was 5.8 per cent in 2005-06, 6.1 per cent in 2006/07 and will rise to 6.2 per cent in 2007/08. Overall, the sector budget allocations more than doubled from TShs 76.5 billion ($62.4 million) in 2003/04 to TShs 194.8 billion ($158.5 million) in 2006/07 (URT, 2007*b*)[5].

Despite these positive developments, the 2006 Agricultural Sector Review considered GoT expenditure on agriculture still too low and called for an increase of the expenditure share to 10-15 per cent of the total government budget (Temu, 2006*b*). This level of expenditure would be more in line with the Comprehensive Africa Agriculture Development Programme (CAADP) goal of spending 10 per cent of the budget on agriculture. GoT has pledged to meet the CAADP goal by 2015. It is also true that so far the sector development budget has been largely financed by donors (about 80 per cent). However, in the framework of the Agricultural Sector Development Programme, which will be discussed in more detail further down, the GoT has committed itself to significantly increase public spending, especially on irrigation (URT, 2006*c*).

Agricultural Strategy - Transferring Power to the Districts and the Private Sector

In late 2001 the GoT produced the Rural Development Strategy (RDS) and the Agricultural Sector Development Strategy (ASDS). Both strategies served as input to the MKUKUTA and envisage that the rural (predominantly agricultural) sector of the economy should become an engine of growth which in turn should lead to a substantial reduction in (rural) poverty. While the RDS covers the entire rural sector, including agriculture, non-farm economic activities, social services, and economic and social infrastructure, the ASDS covers crop and livestock production and related agribusiness activities in more detail.

Despite the functional and geographical overlap between RDS and ASDS, two separate implementation frameworks have been maintained, raising concerns over problems of duplication and co-ordination of efforts at the local level. The 2006 Agricultural Sector Review therefore argued that the ASDS should be merged into the RDS (EIU, 2007; URT, 2006*a*). Since donors have aligned their efforts primarily to the ASDS and not to RDS, the analysis will focus on the ASDS. However, the early implementation experience of the Agricultural Sector Development Programme reveals that agricultural development and rural development cannot be separated and that it is essential to link efforts to promote rural and agricultural development as one entity.

The major objective of the ASDS is to achieve an agricultural growth rate of 5 per cent, and then to increase agricultural growth to 10 per cent by 2010. This goal is to be achieved through the private sector leading the transformation from subsistence to commercial agriculture. Actual implementation of the ASDS will be the responsibility of the District Administrations which develop District Agricultural Development Plans (DADPs) according to their needs (URT, 2001)[6].

The ASDS identifies five areas of interventions: *i)* strengthening the institutional framework for managing agricultural development; *ii)* creating a favourable climate for commercial activities; *iii)* clarifying public and private roles in improving support services, including agricultural research, extension, training, regulation, information and technical services and finance; *iv)* improving the marketing of inputs and outputs, with proposed actions including a private agribusiness unit; and *v)* ensuring the specific needs of the agricultural sector in other sectors (such as transport and trade) are taken into account (URT, 2002).

The ASDS is closely linked to the GoT decentralisation agenda and the idea of allowing for more involvement of the private sector in public service delivery. In Tanzania, service delivery in the agricultural sector has traditionally been an exclusively public sector domain. The Ministry of

Agriculture, Food Security and Co-operatives (MAFC) has yet to adapt to its new mission of providing a conducive environment for agricultural producers and building the capacity of local government authorities (LGAs) and the private sector to deliver agricultural support services (URT, 2006*a*).

Actual implementation of the ASDS is guided by the Agricultural Sector Development Programme (ASDP), which is financed by a number of donors through a specific basket fund and will be discussed in more detail in the next section.

Private Sector and Trade Strategy – Focusing on the Business Environment in General

The Ministry of Planning, Economy and Empowerment (MPEE) should have finalised the Private Sector Development Strategy (PSDS) in 2007 but according to field interviews the strategy development process has stalled. After three years, a weighty document has been produced but not finalised and it is unclear what will happen next. For the time being private sector development efforts are guided by the MKUKUTA and the two major donor-financed programmes in the sector: the Business Environment Strengthening for Tanzania Programme (BEST Programme)[7] and the Financial Sector Deepening Trust (FSDT)[8]. While the BEST Programme focuses on the improvement of the business environment in general, the FSDT is essentially an investment fund for microfinance institutions and other small financial agencies. A specific strategy to promote private sector capacity through business support services, training etc. in general and in agriculture in particular is so far missing. According to field interviews, the private sector in Tanzania is still in its infancy and in strong need of capacity-enhancing support.

Tanzania's National Trade Policy states that export-led growth is a prerequisite for Tanzania's integration and effective participation in the global economy. The strategy emphasises the role of the government as facilitator, creating an enabling environment for business growth, increasing international competitiveness and promoting a new philosophy of economic management in Tanzania. However, even though agricultural exports are extremely important, the current overall trade policy falls short in addressing specific export challenges in the agricultural sector (Temu, 2006*a*; URT, 2003*a*).

As the discussion above has shown, the GoT emphasises the need for private sector-led growth of the agricultural sector to attain its poverty reduction targets in the MKUKUTA and the ASDS. At the same time, actual GoT expenditures reveal that the agricultural sector has obtained only a very small fraction of the funds. This is supposed to change under the ASDP – but as this programme has only just started it remains to be seen if the promises materialise. Considering the limited capacity of the private sector, there is also an unmet need for developing effective strategies and programmes to promote the private sector beyond improving the general business environment.

WHAT ARE DONORS DOING?

Thanks to its political stability and commitment to economic reforms, Tanzania is one of Africa's donor "darlings" with aid amounting to more than 10 per cent of gross national income (GNI) (12.5 per cent in 2005). Between 2000 and 2005, Tanzania received an average of $1.9 billion of official development assistance (ODA) per year. Most aid came from bilateral donors, whose yearly support averaged $1.1 billion. Multilateral aid amounted to $731 million per year. However the averages mask large variations in aid flows between the years. Tanzania's prominence with international donors can not only be seen by the amounts of aid it is receiving but also by the sheer number of actors: 21 bilateral donors and eight multilateral agencies are providing aid.

According to the Joint Assistance Strategy for Tanzania (JAST), budget support is the preferred aid modality of the GoT. During the fiscal year 2006/07 almost 60 per cent of ODA took the form of general budget support (42 per cent or $660 million) and basket funds (16 per cent or $250 million). This high amount of programme aid can be seen as a sign of the advanced harmonisation and alignment in Tanzania (URT, 2006*b*; URT, 2006*d*). However aid modalities vary between the sectors, and while these new ones have been established as the norm in the social sector, most of the donor support in the agricultural sector is still provided in the form of projects. Even so, Tanzania established an agricultural sector basket fund to finance the implementation of the ASDP in 2006.

Moreover, despite the acknowledged importance of the agricultural sector for Tanzania's development, donor commitments to this sector show a mixed trend. In Tanzania aid to the agricultural sector is dominated by three multilateral donors: the World Bank, IFAD and AfDB. These three donors participate in the ASDP basket and their agricultural sector portfolios are due to rise in the future. The EU has decided to leave the ASDP basket in 2008 and to move to general budget support. At the same time, the EU will continue to provide support to certain non-state actors to improve service delivery in agriculture. Denmark had been the most important bilateral donor in the past and initially supported the development of the ASDP[9]. But following the GoT decision to increase the irrigation component of the ASDP (see discussion below), Denmark chose not to join the ASDP basket. Denmark is leaving the agricultural sector in 2008 and plans to refocus its support on other sectors in line with the JAST. The United States (US) has been another important bilateral donor, but the resource envelope has been substantially reduced from $12 million per year to only $2 million[10]. One of the most active bilateral donors is Ireland. Although its financial contributions are small, Ireland is participating in several of the major ongoing donor projects in the sector.

Mapping Donor Support to Private Sector Development in Agriculture

Building on the Medium Term Expenditure Framework (MTEF) projections of the Tanzanian Ministry of Finance, Table 1 provides a classification of 140 ongoing development projects supporting private sector development in agriculture in the fiscal year 2006/07. The ASDP Basket Fund is counted as one project (3.1) and the information on donor commitments was taken from the latest ASDP Review. The actual number of projects is likely to be higher since the table only covers major bilateral and multilateral donors, excluding NGOs and non-DAC donors such as China or the Arab Bank for Economic Development in Africa (BADEA). At the same time, donors such as the US operate mainly outside the GoT structures and therefore their projects do not appear in the table either.

Table 1. Ongoing Support to Private Sector Development in Agriculture
(Fiscal Year 2006/07, commitments in $ million)

No	Area of Intervention	Donors	No. of Projects	Total Commit-ment	% of Total	Smallest Project	Largest Project	Average per Project
1	**Firm / Farm Level**							
1.1	Access to Inputs and Irrigation	Denmark, FAO, IFAD, Japan	12	7.84	1.8	0.40	2.40	0.65
1.2	Production	AfDB, Belgium, EU, FAO, Ireland, Japan, UNIDO, USA, WFP	19	15.63	3.5	0.03	6.36	0.82
1.3	Agricultural Marketing	AfDB, EU, IFAD, Ireland	3	18.42	4.1	0.20	13.03	6.14
2	**Public Sector**							
2.1	Agricultural Policy and Interventions	Denmark, EU, FAO, Ireland, Japan, Norway, UNIDO	12	13.90	3.1	0.06	6.33	1.16
2.2	Trade, Commerce, Industry	France, Sweden, Switzerland, World Bank	9	12.53	2.8	0.01	7.50	1.39
2.3	Business Environment	Denmark, Germany, Netherlands, Norway, Sweden, UK, World Bank	14	29.64	6.7	0.44	6.00	2.12
2.4	Specialised Agencies	Sweden	1	1.04	0.2	1.04	1.04	1.04
2.5	Economic Infrastructure	AfDB, Belgium, Denmark, EU, France, Germany, Japan, Norway, Sweden, Switzerland, UNDP, UNESCO, UNIDO, World Bank	46	280.34	63.0	0.05	46.40	6.09
3	**Public/Private Sector**							
3.1	ASDP Basket	EU, FAO, IFAD, Ireland, Japan, World Bank	1	28.87	6.5	0.33	14.20	28.87
3.2	Business Development Services	FAO	1	0.20	0.0	0.20	0.20	0.20
3.3	Advocacy/ Lobbying for Policy Reform (FBOs)	EU	1	0.20	0.0	0.20	0.20	0.20
3.4	Other	Denmark, EU, World Bank	3	14.88	3.3	1.24	9.60	4.96
4	**PSD Support**							
4.1	General PSD Support	Finland, Sweden, Switzerland, UNCDF, UNDP, UNIDO, World Bank	10	12.21	2.7	0.02	7.60	1.22
4.2	Financial Sector	AfDB, Canada, Denmark, Netherlands, Sweden, UK, World Bank	8	9.30	2.1	0.80	2.07	1.16
			140	**445.00**	**100.0**	**0.01**	**46.40**	**-**

Source: Author's presentation based on URT (2006*c*) and URT (2007*d*) (for the ASDP basket).

AfDB, EU, FAO, IFAD, Ireland, Japan and the World Bank are the donors currently participating in the agricultural sector basket to finance the ASDP (3.1). AfDB only joined the ASDP basket at the end of 2007 and therefore does not appear in Table 1. All seven donors maintain other projects in the agricultural sector; but basket donors have committed themselves to aligning ongoing project support to the ASDP. According to the GoT, all current area-based projects and programmes supporting the agricultural sector are to be fully integrated into the ASDP by 2008.

The goal is to establish the ASDP as overarching sector programme. However, the timeframe appears to be a rather ambitious (URT, 2006*c*).

As Table 1 shows, there is a large variation in yearly disbursements: some small projects such as France's support to the regional integration process only disburse $10 000 a year, while big projects such as the World Bank's Central Transport Corridor Program disburse $46.4 million.

At the moment the focus of donor support is on the upstream problems of the agricultural value chain. This is in line with the observation made during field interviews that commercial farming does not figure prominently on the current donor and government agenda. On the firm/farm level, most (nine) donors focus on production (1.2) with many projects being related to food security issues. Tanzania also receives considerable support for inputs, especially irrigation and maize seeds. To a certain extent Table 1 underestimates the support to irrigation as the ASDP basket (3.1) has a strong focus on irrigation as well. One area which receives only limited attention from donors so far is that of marketing. At the same time the Agricultural Marketing Systems Development Programme (AMSDP), which will be discussed in more detail below, shows encouraging results.

One of the few donor programmes explicitly targeting agribusinesses is Denmark's Private Agricultural Sector Support (PASS). Initially only accessible in four regions, PASS now covers all of Tanzania[11]. PASS offers a credit guarantee fund to provide incentives for commercial banks to lend to the agricultural sector. Moreover, PASS has been quite successful in supporting small-scale but also some larger commercial farmers in developing business plans which are a prerequisite to access commercial bank loans. However, according to field interviews such a programme would not work for subsistence farmers since they cannot pay the consultancy fees and do not have collaterals. While very few, there are some examples of donors trying to promote commercial agriculture involving small producers. The Rural Micro, Small and Medium Enterprise Support Programme (known by its Swahili acronym MUVI), which is financed by IFAD and Ireland, will help smallholder farmers and fishers to link up with processors using a value chain approach. MUVI is due to start in 2008 and will cover six regions.

With respect to donor support to the public sector, two observations can be made. The largest category turns out to be economic infrastructure: 14 donors are providing support through 46 projects. Consequently infrastructure, especially road construction, receives most of the funds – $280 million (over 60 per cent) of total funds serving to support private sector development in agriculture. The second largest category, though on a much smaller scale, is support to improving the business environment (2.3). This is in line with the fact that most donor support to the private sector is currently provided under the BEST programme which has a strong focus on improving the national regulatory environment. The same is true for financial sector support (4.2), where most of the donor support goes to the FSDT.

Currently no donor or project covers the whole agricultural value chain. At the same time Table 1 shows a high concentration of donors in certain areas, e.g. irrigation, production, infrastructure and improving the business environment, which implies that there is some room for improving the division of labour between donors. Marketing and the provision of business development services in particular need to receive more attention considering the as yet undeveloped state of the private sector in Tanzania.

Major Donor Projects in the Agricultural Sector

The following section will examine several donor projects in the agricultural sector in more detail. In Tanzania the largest and most important programme is the Agricultural Sector Development Programme (ASDP). The GoT aims to establish the ASDP as overall sector programme to which all donors should align their support. The project discussion will therefore start with the ASDP and the related donor-funded ASDP basket. Afterwards several other important ongoing donor projects in the agricultural sector and their link to the ASDP will be analysed. Table 2 provides an overview of the projects being examined in the order of presentation.

Table 2. Discussed Donor Projects

Donor	Project	Primary Objective	Amount* ($ million)	Time	Element of Interest for the Study
AfDB, EU, FAO, IFAD, Ireland, Japan, World Bank	ASDP Basket	a) Increase smallholder farmers' access and use of agricultural knowledge, technologies, marketing systems and infrastructure b) Promote private sector investment in agriculture	198.4	2006-2013	Attempt to move to a sector-wide approach in agriculture
World Bank	PADEP	Raise the production of food, incomes and assets through the implementation of small agricultural development sub-projects planned and managed by community members	56.6	2003-2008	Incubator of approaches for ASDP
IFAD, WFP, Ireland	PIDP	Increased crop productivity through small-scale irrigation	21.5	2000-2007	Lessons learnt for ASDP
AfDB, IFAD, Ireland	AMSDP	Improving agricultural marketing systems	31.9	2003-2009	Usage of new technologies to enhance agricultural marketing

*Amounts are not the total programme costs but only the commitments made by donors.

ASDP – The Challenge of Moving from Top-down to Bottom-up

The development of the ASDP: from commercialisation to irrigation

The ASDP is the major GoT instrument for achieving agricultural growth and poverty reduction until 2012/13, as outlined in the ASDS and MKUKUTA. The objective of the ASDP is to increase productivity, profitability, and farm incomes by *i)* improving farmers' use of and access to agricultural knowledge, technologies, marketing systems and infrastructure; and *ii)* promoting agricultural private investment (URT, 2007*c*). The development of the ASDP started shortly after the adoption of the ASDS in 2001 but programme development was not completed until June 2006. This was due to the changing institutional environment with the advancement of decentralisation, the large number of donors (seven) and ministries (four) involved and limited programme ownership on the side of Agriculture Sector Lead Ministries (ASLMs) at the beginning (Greely, 2007). There was also a major shift in programme focus after the presidential election in 2005.

The ASDP Framework and Process Document was already completed by March 2003. The document was jointly produced by the four ASLMs, the Ministry of Agriculture, Food Security and Co-operatives (MAFC), the Ministry of Industry, Trade and Marketing (MITM), the Ministry of Water and Livestock Development (MWLD) and the Prime Minister Office-Regional Administration and Local Government (PMO-RALG). MAFC has been the lead ministry in developing the programme. The focus of the document was on the commercialisation of agriculture (from subsistence to profit) and the decentralisation of implementation to district and field level. The ASDP Framework and Process Document envisaged not only a change of what is done to promote the development of the agricultural sector, but how it is done. The ASDP was to be "business as un-usual", mainly through the adoption of a demand-driven approach, a greater focus on efficiency and profitability of sector investments and the involvement of the private sector. The ASDP cost was estimated at TShs 617.2 billion, or $625 million (2003 prices), and the programme was to be implemented over a period of five years (EU, 2008; URT, 2003*b*).

Following the ASDP Framework and Process Document, the District Agricultural Development Plan (DADP) Framework and the Agricultural Services Support Programme (ASSP) Document were prepared to guide implementation. The ASSP put a strong focus on research and extension (World Bank, 2006). In 2005, the GoT and donors decided to integrate the ASSP and DADP activities and in May 2006, the ASDP Programme Document was finalised. However, there are some notable differences between the 2003 Framework and Process Document and the 2006 ASDP Programme Document in terms of the scope of intervention, implementation time and resource needs.

The ASDP consists of a local and a national component with three and five sub-components respectively. The implementation time was increased from five to seven years. Table 3 provides an overview of the programme components as well as the expected financing needs as estimated by the GoT.

Table 3. Proposed Programme Costs of the ASDP (2006/07-2012/13, in $ million)*

ASDP Programme Components		Total Cost by Component (06/07-12/13)	Expected Contribution in % of component financed by			Component Share of Total Cost (in %)
			GoT	Donors	Farmers	
Component 1 : Local Level Support						
1.1	Agricultural Investments	1 261.6	77.0	5.5	17.5	65.4
	Irrigation	1 156.4	81.1	1.2	17.7	59.9
	District Agricultural Development Grants	105.2	31.6	53.7	14.7	5.5
1.2	Agricultural Services	146.8	68.6	29.5	1.9	7.6
1.3	Agricultural Capacity Building and Reforms	44.4	7.4	92.6	-	2.3
Sub-total Local Programme		1 452.9	74.0	10.6	15.4	75.3
Component 2: National Level Support						
2.1	Agricultural Services	83.0	34.2	65.8	-	4.3
	Research and Training	73.0	37.5	62.5	-	3.8
	Extension	7.7	13.6	86.4	-	0.4
	Livestock	2.4	-	100.0	-	0.1
2.2	Irrigation Development	367.1	98.6	1.4	-	19.0
2.3	Marketing & Private Sector Development	8.8	-	100.0	-	0.5%
2.4	Food Security	4.1	-	100.0	-	0.2
2.5	Co-ordination and Monitoring & Evaluation	13.9	-	100.0	-	0.7
Sub-total National Programme		476.9	81.9	18.1	-	24.7
Total		**1 929.8**	**75.9**	**12.5**	**11.6**	**100.0**

*Original numbers in Tanzanian Shilling (TShs), exchange rate used $1 = TShs 1,291.42 of 05/31/06 taken from www.oanda.com.

Source: Author's presentation based on URT, 2006c.

The total cost for the ASDP amounts to almost $2 billion (about $275.6 million per year), which will be financed mostly by GoT (76 per cent), while donors are expected to contribute 12.5 per cent of the necessary funds. Farmers are supposed to contribute 11.6 per cent, mainly through cost-sharing in local investments. The cost of the programme more than tripled compared with that of 2003 because of the large irrigation expenditures. Irrigation investments receive most of the funds at both local and national levels; as a result 80 per cent of the total ASDP resources envelope is allocated to irrigation. GoT has set up a District Irrigation Development Fund (DIDF) and a National Irrigation Development Fund (NIDF) through which the irrigation financing will be made accessible.

The distribution of spending also clearly illustrates that the GoT is putting a high priority on local-level support, which obtains 75 per cent of the total ASDP funds. This is in line with the GoT decentralisation agenda, according to which districts should develop their own DADPs in which they outline their investment priorities in agriculture.

The ASDP financial commitments of the GoT appear very ambitious, especially when considering the historic difference between approved and actual budget in the agricultural sector. It remains to be seen whether the GoT programme on irrigation materialises. In the fiscal year 2006/07, 96 per cent of ASDP operations were funded by donors (EU, 2008).

The ASDP basket fund – a programme apart from the GoT programme on irrigation?

The strong focus on irrigation of the ASDP, which emerged after the presidential election in 2005, has been quite controversial among donors. As discussed in the first section, Tanzania has huge irrigation potential and there is a need to reduce the vulnerability of its agriculture to rainfall, as the drought of the last three years has shown. Investments in irrigation could also make significant inroads in poverty reduction, which was one of the major motivations for GoT to choose that focus. At the same time, the attention on irrigation brought into the open tensions between national and local-level ownership. Since most funds are to be spent on irrigation, then districts have little space to set their own priorities in DADPs. The focus on irrigation was also perceived by some donors as a turn away from a private sector-led approach to agricultural development – even though the private sector is supposed to be involved in constructing the irrigation infrastructure (Greely, 2007).

Although the 2006 ASDP is just supposed to be the first phase of the ASDP, since it covers only a sub-set of the interventions envisaged in the 2003 ASDP Framework and Process Document, a two-fold programme would have been a better solution, with one part focusing on poverty-reduction investments such as irrigation, and the other fostering private sector development and potential growth sectors. Such a dual ASDP would not only have eased the collaboration between the GoT and donors, but it would also have better reflected the needs of the different stakeholders in the agricultural sector. The diversification into high-value crops at the local level (see first section) shows that farmers are interested in moving from subsistence to profit, but the ASDP leaves marketing and PSD completely to donors (see Table 3).

In practical terms the controversy over irrigation has led to a split into two ASDPs, one being a national irrigation plan funded by GoT and the other a much smaller programme for the non-irrigation agricultural sector funded by donors. While the GoT has signed up for scant financing outside irrigation, the ASDP basket fund explicitly excludes "the large GoT cost" for irrigation as well as personnel emoluments and other GoT charges. As a result of excluding irrigation, total costs for the ASDP basket fund amount to only $315.5 million (or 16 per cent of the GoT ASDP programme). The ASDP basket is to be mainly financed by donors ($263.7 million, or 83.5 per cent) with GoT contributing $28.7 million and farmers another $23.2 million (EU, 2008; World Bank, 2006).

Since September 2007, the following donors have been part of the basket fund: World Bank ($90 million), AfDB ($59.87 million), IFAD ($36.0 million), EU ($8.5 million), Japan ($3.0 million) and Ireland ($1.0 million). FAO is the co-ordinator of the ASDP basket donor group which is a sub-group of the agriculture sector working group. The EU is currently part of the basket but plans to move to general budget support in 2008. There is at present a funding shortfall of $65.3 million for the ASDP basket. The GoT was planning to organise a fund-raising conference at the beginning of 2008 to get additional donors on board (AfDB, 2007).

As previously explained, all donors in the basket are maintaining projects at the same time while trying to avoid overlaps in project and ASDP funding; e.g. districts receiving support through the AfDB's District Agriculture Sector Investment Project (DASIP) or the World Bank's Participatory Agricultural Development and Empowerment Project (PADEP) should not receive additional funds through the ASDP basket. However, the integration of projects into the district budgets and the alignment of projects to the ASDP remains a challenge.

First experiences with implementation – ASDP needs to be adapted to the capacities of implementing agencies

While it is too early to assess the impact of the programme on agricultural growth and rural poverty, the two ASDP implementation reviews conducted jointly by donors and the GoT[12] already reveal the major challenge: capacity deficiencies at all levels impede implementation on the ground (see Box 1). At present the ASDP is still very much "business as usual", following a public sector-driven top-down approach. Doing business as "un-usual" (meaning demand-driven by farmers) as foreseen by the ASDP Framework and Process Document is proving to be quite challenging, especially at the district level, as capacities are very limited.

Box 1. Lessons emerging from first ASDP Reviews

At the national level, integration of the ASDP into the MAFC remains a challenge owing to lack of staff, but also because the ASDP is not yet fully established as overall sector programme (instead of another project). The ASDP secretariat at the MAFC continues to be viewed as a parallel structure similar to a traditional Project Implementation Unit. Also, many activities – GoT's as well as donors' – continue outside the ASDP and outside the district plans and budgets.

At the local level, districts do not have the necessary capacity to develop, plan and implement DADPs. The lack of capacity at the districts is twofold: it is relative, i.e. caused by ASDP requirements such as the need for a participatory development of DADPs; and absolute, i.e. overall, LGAs are unable to implement the different national policies (health, education, infrastructure, etc.) because of insufficient personnel and inadequate physical infrastructure. There is also still some confusion concerning the function of DADPs; they are seen partially as projects operating in parallel to conventional ones such as PADEP or other donor-supported activities.

With respect to participation of stakeholders, the evidence so far suggests that the involvement of recipients, and especially the private sector, in the development and implementation of DADPs is limited. The conventional top-down approach still dominates, in which the public LGAs construct facilities, supply materials (kit, seeds, chemicals, etc.) and technical skills (trainers or exemplars), and show the farmers what to do.

Lastly, while the number of irrigation projects has increased, the absolute number remains low and the quality of the design and implementation of the schemes vary widely. One of the major lessons learnt from past projects is that the social infrastructure (ownership, user groups etc.) should be established first and the physical infrastructure constructed afterwards. But in some districts, organisations are formed after the irrigation infrastructure, leading to lack of ownership by the farmers and consequent risk of the projects being unsustainable.

Source: EU (2008), URT (2006*c*), URT (2007*d*).

The scale of the ASDP programme needs to be more closely matched to the capacity of the implementing organisations, while at the same time building the capacity of the LGAs and the private sector (EU, 2008). The capacity building needs should not have come as a surprise, and the problems encountered during implementation reveal that lessons learnt from past and ongoing interventions in the agricultural sector have not been sufficiently taken into account when designing the ASDP.

According to Greely (2007) much of the sharing in the programme development process took place with regard to process issues such as planning, financial flows and monitoring, but donors were much more reluctant to share the lessons they had learnt from their projects. Some donors also seemed to have found it difficult to bring in their project experience. As a result the chance to feed project experience into programme support was largely missed, apart from emphasising that a participatory approach should be taken and the analytic basis of the ASDP was much weaker than it could have been. The 2007 World Bank evaluation of several of its projects in the agricultural sector points to the Bank's limited analysis beforehand of the institutional capacity of the GoT to implement the ASDP (World Bank, 2007).

The 2007 World Bank evaluation is also rather sceptical with respect to the sustainability of the ASDP. The World Bank appraisal document for the programme contains only two short paragraphs on sustainability, and argues in its favour essentially on the grounds of greater government and donor commitment. There is no analysis of the trends of past budgetary allocations to the agricultural sector, or the needs during and after the project period (World Bank, 2006; World Bank, 2007). Discussion of an exit strategy is also absent, even though one of the major problems with past interventions in the agricultural sector has been that they stopped shortly after donor funding ceased.

While other donors have not conducted a detailed analysis either, the lack of analysis on the part of the World Bank is particularly astonishing, since at the same time the ongoing World Bank project PADEP is regarded as a pilot for the ASDP (URT/World Bank, 2006).

PADEP – Pilot for the ASDP?

The World Bank-financed Participatory Agricultural Development and Empowerment Project (PADEP) started in 2003 ($56.6 million) and will end in 2008. The project seeks to raise the production of food, incomes and assets in about 840 villages through the implementation of small agricultural development sub-projects planned and managed by the community. The drought of the last three years has generated a large demand for irrigation and water storage sub-projects, especially at village level[13]. However, implementation has been slow. At the time of the mid-term review (June 2006), PADEP had disbursed only 30 per cent of the total project funds. Disbursement doubled from 2004/05 to 2005/06, and only if this pace can be maintained will PADEP be able to complete its activities as planned by mid-2008 (URT/World Bank, 2006).

Since PADEP's investment and capacity building activities mirror ASDP's investment and capacity building grants, the project mid-term review states that PADEP can be seen as a pilot for ASDP. Many lessons emerging from the PADEP mid-term review appear to be valid for the ASDP, and three seem to be of particular importance (URT/World Bank, 2006):

- Districts are reluctant to involve external service providers: District administration officials often overestimate the skills and capacity of district staff, while the capacity of external service providers, both public and private, is underestimated. According to the review, the GoT must be more effective in informing the districts that the use of outside service providers is expected under the ASDP.
- Donor projects are not integrated in the district budget: While PADEP has been integrated in the national budget, it remains excluded from some district budgets.
- Best practices with respect to irrigation infrastructure (especially dams) need to be developed: At the time of the mid-term review, over one-third of PADEP investments were dams to harvest rainwater (chaco dams). Since so far no best practices have been established on how to construct and manage irrigation infrastructure, the quality of construction and management varies widely, leading to questions about the sustainability of certain installations.

Field interviews also revealed that project staff were not necessarily handing on their expertise to the ASDP as was hoped. To ensure that PADEP knowledge is not lost after the project ends in 2008, the assignment of PADEP staff to non-fiduciary work (those professional tasks not dealing with financial management or procurement) has been changed. During the project's final year, these employees will divide their time equally between implementing PADEP and acting as advisors to ASLM task teams working on specific aspects of ASDP implementation. The mid-term review emphasises that PADEP staff should act as advisors, not executives.

In theory, this should lead to a seamless continuation of activities under ASDP after the end of PADEP (URT/World Bank, 2006).

Despite all the potential advantages of a participatory approach, the 2007 World Bank evaluation highlights one possible shortcoming – it might result in too strong a focus on short-term investments. Originally PADEP was conceived as a project to promote soil fertility, but then its focus changed in favour of a more socially oriented approach that emphasised client demand. Investments such as soil fertility research, development and training will not feature prominently on the agendas of poor households, but their benefits are vital for long-term development (World Bank, 2007). So far neither PADEP nor ASDP has addressed the problem of how to ensure a balance of investments in the agricultural sector that are both short-term (such as irrigation infrastructure) and long-term (such as prevention of land degradation).

PIDP – The Challenge of Targeting the Poor and Financial Sustainability of Irrigation Investments

The Participatory Irrigation Development Programme (PIDP) came to an end in June 2007. Total cost of the programme was $25.3 million of which IFAD provided $17.1 million, the World Food Programme (WFP) $3.6 million and Irish Aid $0.8 million. Its objective was to increase crop productivity sustainably through expansion and improvement of small-scale irrigation schemes that had been set up and managed by farmers. The programme covered 12 crop-producing districts in the central plateau regions (IFAD, 2007*a*).

By 2006, PIDP had constructed 56 irrigation schemes to cover 14 000 hectares and benefited over 25 000 households. In addition, 56 associations of water users were set up to manage the schemes. Through its food-for-work activities, WFP has supported the construction of over 328 km of market-access roads and has provided food items worth over $800 000 for the excavation of 300 km of irrigation canals. Irish Aid provided finance for the training of water users' associations, savings and credit co-operatives and women's economic groups. The funds of Irish Aid were strictly earmarked for the training of women, which caused some delays during early implementation since women's groups first needed to be formed (IFAD, 2007*a*; IFAD, 2007*b*).

A recent evaluation of PIDP found the programme had demonstrated that the demand-driven participatory approach is effective in managing water in small-scale irrigation schemes and can enhance ownership and sustainability. However the evaluation also noted that participation slows down implementation as additional time is needed to create water-user associations etc. According to field interviews, building the social infrastructure may take up to two years. Irrigation had an unexpected, negative impact on health, as the incidence of malaria and bilharzias grew when the schemes became operational (IFAD, 2007*b*).

As well as the general lesson learnt that capacity building at all levels is crucial, two experiences from PIDP appear to be especially important for the success of the ASDP:

a) There is a trade-off between ownership and targeting the poor: In order to promote ownership, beneficiaries were required to contribute labour, local materials or some funds. However this requirement made it difficult for the poor to participate. Women were particularly disadvantaged, since they were already overburdened with household work. As a consequence, the 50 per cent target of beneficiaries living below the poverty line was met in only two out of seven schemes visited by the evaluation mission. Despite the fact that the irrigation focus was chosen to make an impact on rural poverty, the problem of how to target and involve the poor effectively is not even on the agenda of the ASDP (Greely, 2007).

b) Financial sustainability remains a challenge: District programme co-ordination units financed under the programme have already been phased out and their responsibilities have been taken over by the line departments at the district level, which have not allocated any specific resources for the operation and maintenance of the programme's schemes. Funds from the national ASDP are expected to fill the financing gap, but these have not yet materialised. If recently constructed irrigation schemes already (or again) face the challenge of being maintained under the ASDP, then the sustainability of even newly constructed schemes will be insecure as well.

AMSDP-The Importance of Market Information

One of the few projects addressing the problem of agricultural marketing is the Agricultural Marketing Systems Development Programme (AMSDP). The AMSDP, which will be completed in 2009, aims to increase the incomes and food security of the rural poor in the Northern and Southern Highlands Marketing Zones, by improving the structure, conduct and performance of the country's agricultural marketing systems. The total programme costs amount to $42.3 million, out of which IFAD provides the largest part with $16.34 million, followed by AfDB/ADF ($14.46 million) and Ireland Aid ($1.10 million). GoT should contribute $4.22 million, district government $1.19 million and beneficiaries $513 000. The remaining financing gap of $4.49 million is to be filled by other donors (AfDB, 2002; IFAD, 2001).

The AMSDP consists of five components: 1) policy development support; 2) producer empowerment and market linkages; 3) financial market support services; 4) rural marketing infrastructure; 5) programme organisation and co-ordination (IFAD, 2001). The AfDB is mainly financing and implementing component 4 through the construction of rural feeder roads and market places, and the provision of associated capacity building for the LGAs, the MITM and local communities (AfDB, 2002).

By December 2006, the AMSDP was operating in eight regions and 21 districts. Major outcomes at the national level have been the development of an Agricultural Marketing Policy and the passage of the Warehouse Receipt System Act. In 2006, warehouse receipt systems were operating in eight locations with year-end maize/paddy rice stock of 5 000 metric tonnes, and TShs 1 billion credit to members of savings and credit co-operatives (IFAD, 2007*b*). A quite successful short-term pilot initiative under the AMSDP has been the First Mile Project, which was supported by a grant from Switzerland.

The First Mile Project ran from June 2005 to March 2006 in 14 districts. It built on support teams established by the ASMDP, known as district core groups. These included district officials for agriculture and marketing, a representative of the local partner NGO and representatives of local farmers, processors and traders. However, only a few, if any, of the district core groups set up by the ASMDP are servicing more than 15 per cent of the farmer population. Still, during the short implementation period the project demonstrated that smallholder farmers could raise their incomes significantly through access to and use of market information. The gross income of farmers benefiting from the project increased by $1.8 million as a result of increased marketed volumes and sales at better prices. The project also facilitated the exchange of ideas between different groups/districts through the "Linking Local Learners" system, which combines face-to-face learning with online sharing of ideas through an internet platform (www.linkinglearners.net) (URT, 2006*e*).

The major challenge will be to sustain and extend the First Mile Project beyond the life of the AMSDP. By the time the project ends in 2009 the AMSDP must have established commercially viable rural service companies which can continue to improve market linkages for smallholder farmers (URT, 2006*e*). But according to field interviews it is quite difficult to get farmers to pay for business services. Indeed, farmers are not accustomed to paying for services and first need to be convinced of the value-added associated with them.

It is unclear to what extent the AMSDP is linked to the ASDP as agricultural marketing falls under the responsibility of the MITM. Even though the MITM belongs to the ASLMs, it has been somewhat sidelined because of the ASDP's focus on irrigation which at first sight has little connection to trade and marketing[14].

CONCLUSIONS

In order to halve poverty by 2015 (MDG 1), Tanzania will have to increase its agricultural growth. This will require better use of the country's agricultural potential, which is so far largely untapped. Concerning exports, new drivers of growth such as livestock, fish and horticultural products are emerging as traditional agricultural exports are in decline. Moreover, Tanzania could be a major food-exporting country but its dependence on rainfall, poor transport and marketing infrastructure, as well as low access to technology, has resulted in persistent food security problems. Next to reducing its dependency on rainfall, Tanzania should strive to move away from being a raw-material exporter and benefit from rising internal demand for dairy and other products. The current business environment (especially with respect to finance and taxation) needs to be improved if investment in agriculture in general, and in agro-processing in particular, is to materialise.

While the agricultural sector did not figure prominently in Tanzania's first PRSP, the country's second generation PRSP – the MKUKUTA – has put transformation and modernisation of the agricultural sector back on the political agenda. Agricultural growth is intended to be private sector-led and to increase to 10 per cent a year by 2010. However, past GoT spending on the agricultural sector has been low. With the introduction of MKUKUTA, expenditures have increased, although from a very low level. So far the GoT is still a long way from achieving the CAADP goal of 10 per cent and the development budget is largely donor-financed. GoT's financial commitment to agricultural development has yet to become a reality.

A look at the most relevant GoT sector strategies to achieve private sector-led agricultural growth reveals inconsistencies between the rural development strategy and the agricultural strategy. Agriculture should be a part of rural development, but so far two separate frameworks for implementation have been maintained. As stated in the Agricultural Sector Review 2006, it would be better to integrate agricultural development within the rural development strategy. The first experience of implementing the ASDP also shows the need to connect the efforts of rural and agricultural development as both rely on the same limited public resources at the local level. At the moment, GoT and the donors appear to be focusing their efforts more on the ASDS than on the RDS.

The ASDS emphasises that decision making should be decentralised and that the private sector should play a substantial part in service delivery. This would require a significant change of approach from the past when service delivery was exclusively a public sector domain. Not only MAFC, but also the local government authorities, are still struggling to become accustomed to their new roles as facilitators and regulators rather than implementers.

Despite the fact that Tanzania is putting a high priority on agricultural development in MKUKUTA, donor commitments in the agricultural sector show a mixed trend. While the portfolios of the three major donors (World Bank, IFAD and AfDB) are bound to rise, Denmark is leaving the sector in 2008 and the budget of USAID has been reduced. Looking at the distribution of donor support along the value chain shows that donors are currently concentrating much more on the production than the commercial aspects of agriculture, which implies some room for improvement. The experience of the AMSDP in particular reveals that marketing information and infrastructure can be crucial in raising incomes, and, as discussed in the first section, the food security problems encountered in Tanzania are also partly due to the malfunctioning of internal food markets.

Concerning private sector development, there is a need for support beyond improvement of the general business environment. Field interviews indicate that the private sector in Tanzania is still in its infancy and in urgent need of capacity building. Donors and GoT should reflect on how to address this need effectively, and the stalling of development of the new PSD strategy is a serious setback in this respect.

At the same time, Tanzania is one of the few African countries where donors and the government are trying to move to a sector-wide approach in agriculture. With the ASDP, GoT envisages breaking away from past approaches based on fragmented and area-based projects with their own donor-specific systems, to a single comprehensive sector programme. But donor projects are not yet integrated into the ASDP and into district budgets, and even at the ministry level there is still a need to change the view that ASDP is just another project. The GoT target of having aligned all donor projects to the ASDP in 2008 appears very ambitious.

The ASDP's focus on irrigation has been very controversial, and has led to the programme splitting into two: one, a national irrigation plan funded by GoT, and the other a much smaller programme for the non-irrigation agricultural sector funded by donors. It would have been preferable to have a dual programme, with one part focusing on poverty-reducing investments such as small scale irrigation, and the other fostering private sector development and potential growth sectors. Such a dual ASDP would not only have made collaboration between the GoT and donors smoother, but it would have better reflected the needs of the different stakeholders in the agricultural sector. The diversification into high-value crops at the local level shows that farmers are interested in moving from subsistence to profit.

The first reviews of the ASDP reveal that capacity to implement the ASDP is lacking at all levels. The major lesson learnt from past donor interventions incorporated in the ASDP was the emphasis of participatory approaches. But districts currently lack the capacity to develop DADPs, and so far the involvement of farmers and the private sector in the development and implementation of DADPs has been minimal. Much capacity building and a change of attitude in LGAs are needed to make farmer empowerment and private sector involvement a reality.

Furthermore, several challenges have emerged for the ASDP from donor projects such as the recently closed PIDP. The major lesson learnt from PIDP is that there is a potential trade-off between beneficiaries' ownership and targeting the poor. While it is true that the sustainability of interventions depends on the involvement and contributions of the beneficiaries right from the start, this requirement can lead to the exclusion of the poor. The current focus on irrigation was chosen to make inroads into rural poverty, but without an effective targeting strategy this might not happen. Financial sustainability also seems to remain a challenge: if maintenance of schemes recently constructed under PIDP is already being left undone, then it is very likely that ASDP schemes will suffer the same fate.

Last but not least, the recent World Bank evaluation of several agricultural projects brought to light a challenge which may result from the participatory approach itself – too strong a focus on short-term investments. So far neither PADEP nor ASDP has addressed the problem of how to ensure a balance of investments that are short-term (such as irrigation and infrastructure) and those that are long-term (such as prevention of land degradation) in the agricultural sector.

NOTES

1. According to Temu (2007), the smallholder production system itself is Tanzania's major problem. Temu argues that the size of farms needs to be increased (e.g. through a minimum acreage for smallholder farmers) as Tanzania's land resources so far remain largely untapped, and larger commercial farms are more likely to achieve the desired growth effects through economies of scale. However, medium and large-scale farmers may support small-scale farms through the transition, e.g. through outgrower schemes.
2. For example, domestic sugar consumption currently amounts to 12 kg per person per year, equivalent to a total of more than 340 000 tonnes however local production amounted only to 263 000 tonnes. Other major agro-food products are wheat flour, sugar and beer.
3. In 2006, the Tanzania Investment Centre registered a total of 679 new projects, out of which only 34 were in agriculture and livestock. Most the projects were in the tourism sector (205) followed by manufacturing (179) (URT, 2007*a*).
4. Egg and milk production grew 35 per cent and 14 per cent respectively each year between 2001 and 2005 (URT, 2006*a*; URT, 2007*b*).
5. The crops sub-sector received the largest part of the funds: the budget allocation increased from TShs 43.7 billion ($35.7 million) in 2003/04 to TShs 123.1 billion ($100.4 million) in 2006/07. The budget allocation for the livestock sub-sector increased from TShs 9.7 billion ($7.9 million) in 2003/04 to TShs 22.5 billion ($18.4 million) in 2006/07 (URT, 2007b; Temu, 2006b). Original numbers in Tanzanian Shillings (TShs), exchange rate used $1 = TShs 1 225.64 at the end of the Fiscal Year 30 June 2007 taken from www.oanda.com.
6. The DADPs were supposed to be operational in 2003; however the guidelines were not developed until January 2005 and the first Swahili version was only distributed in late 2007.
7. The BEST Programme is currently supported by Denmark, the Netherlands, Sweden, the UK and the World Bank.
8. The FSDT is currently financed by Canada, the Netherlands, Sweden, the UK and the World Bank.
9. For example, since 2003 Denmark has provided support to districts in the Iringa and Mbeya Regions under the District Agricultural Development Support (DADS), a component of the Denmark-funded Agricultural Sector Support Programme Phase 2. Under DADS, district capacities are enhanced to plan and implement DADPs which are a prerequisite to access ASDP funds. At the beginning implementation was slow as DADP guidelines were not in place until 2005; however since then better progress has been observed. DADS will end by June 2008.
10. The decision to reduce the engagement in agriculture was taken by the US Congress who thought that the funds of about $700 million which Tanzania will be receiving under the upcoming MCA compact in 2008 will be sufficient and cover the agricultural sector. However according to USAID Tanzania the MCA compact will mainly focus on infrastructure (water, roads and electricity). While these investments will have a positive impact on economic growth in general, USAID Tanzania is lobbying to get more funding for its agricultural and trade facilitation activities again.
11. Even though Denmark is leaving the agricultural sector in 2008, PASS will continue with an increased budget under Denmark's Business Sector Support Programme Support III.
12. The first joint GoT-donor review of the ASDP took place between 10-24 of April 2007, the second ASDP review was conducted between 19 October and 2 November 2007.

13. Overall the supported farmer groups have been mostly interested in investing in better crop production, but investments in improved livestock (especially chickens) have also been significant.

14. Field interviews also revealed that current DADPs do not include marketing as a potential investment area. Partly this is because districts were unaware that such an activity could be included in the plans, but there is also a political dimension to the problem. As district officials want to be re-elected they tend to have a preference for visible actions such as dams instead of “intangible” services.

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