The Guardian
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KILIMO KWANZA
Tuesday 8 November 2011
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Clove industry under scrutiny

■ Growers' club queries its liveliness, call for its overhaul

Investment in agriculture: Success well within reach

WHEN our country was a British protectorate, the colonial government endeavoured to encourage settler farmers and the colonial government itself to invest in agriculture. The British, who had just annexed the country from Germany, invested in a 100,000 hectares (about 405 sq km) wheat project in 1943.

Freddie Smith, the American national overseeing the project, hired 30 tractors and various other implements and utilities from the US and even brought in technical expertise in the form of Italian prisoners of war from Somalia and Ethiopia. But the project, which covered Ardai (Arusha), the slopes of Mount Kilimanjaro and Ngorongoro, was at best only moderately successful.

This failure did not deter the colonialists and between 1946 and 1951 they pumped in an estimated USD25 million in taxpayers' money, a staggering amount even by today's standards, into another failed agricultural scheme in Kongwa, Dodoma.

The 'groundnut scheme' soon became the target of jokes across the developed world for its failures. References to the doomed 'peanuts' project even found their way into movies.

Political independence in 1961 saw the new government trying to increase both agricultural output and investments in agriculture. The period between 1961 and 1980 saw the government adopting a range of slogans such as "Chakula ni Uhai" (food is life), "Siasa ni Kilimo" (politics is agriculture), "Kilimo cha Kufa na Kupona" (agriculture as a matter of life and death) and "Mvua za Kwanza ni za Kupandia" (the first rains are for planting), all of which sought to encourage agricultural activities, investment and output.

The trying economic times that defined the 1980s also defined agriculture in that era. Towards the end of that decade, the government took a more liberal stance on investment, scrapping price restrictions on produce, allowing private importation of farm machinery and encouraging private investments in commercial agriculture.

The third phase government (1995 to 2005) implemented the Agricultural and Livestock Policy of 1997 and a number of other policies meant to improve the agricultural sector. These reforms saw the agricultural sector record an annual growth rate of 6 per cent, up from the previous average of 3 per cent. However, there was need for more investment in agriculture.

A 2001 review of agriculture in the country led to a number of recommendations on the major factors impending investment in the sector. The exercise identified six high potential investment areas for the private sector with appropriate support mechanisms from the government.

These areas related to seed production, outgrowers/contract farmers' schemes, farm service centres, produce marketing, agro-processing and investment in irrigation infrastructure. The result of this and related reviews was the Kilimo Kwanza policy, which seeks to modernise and commercialise agriculture in the country.

However, one year into Kilimo Kwanza, a recent report on barriers to agricultural investment shows that the incentives in place do not match the levels of investment. The report mentions deterrent tax rates, inefficient tax administration systems and persistent power woes as among the factors limiting investment into the sector.

Others culprits are corruption and limited access to finance, with macro-economic instability due to fluctuating inflation and interest rates also playing a part in inhibiting agricultural investment. Also mentioned are inefficient customs and trade regulations that increase the cost of doing business and disrupt productivity, together with restrictions by local authorities to traders and producers, especially farmers.

With this in mind, it appears that 50 years after independence, we are still struggling to attract the kind of investments in agriculture that would make a real difference to the sector and eventually the national economy in general. Why, you may ask?

A study on the effectiveness of public policies in Tanzania released by the Economic and Social Research Foundation (ESRF) in August 2010 noted with concern that the effectiveness of public policies in Tanzania was below average, with the trade policy leading to mediocre outcomes. Only the transport policy rose above the average mark.

With this grim historical outlook, we can only hope that one day, preferably in the near future, our policy makers will find the elusive secret to increasing investment in the backbone sector and steer our agriculture in the right direction.

Wallace Mauggo
Editor

inside

Deadly viral diseases threaten crops, forests

By Gerald Kitabu

Two deadly diseases, Aphids and *Amleria melea*, are reportedly terrorising green vegetation and forests in a good number of regions in the country. A local forest officer has warned that the viral diseases require immediate attention to contain and save green plants.

The diseases attack plant roots, stems and leaves in deforested and drought prone areas, which previously had much water supply, but due to climate change and wanton tree felling in particular, no longer have enough water supply.

In the process, they viruses cause thick layers of yellowish, blackish and whitish small spots, something which, if not controlled, can kill plants, which could cause food shortage in the country.

While *Amleria melea* affects the roots of natural vegetation especially acacia trees, *Aphids* is after the leaves and stems, and recently tomatoes, flowers, pawpaw, guavas, avocados and mangoes.

Regions under attack

John Masam, central zone Forest Officer, says all regions in the country are at a big risk of being affected by the diseases which experts detected five years ago. He says the diseases are reportedly wreacking havoc in Tanga, Rufiji, Kilwa as well as Dodoma, Singida and Manyara. Reports have it that early signs of the disease have also been spotted along Lake Tanganyika in Nkansi district, Rukwa region where vegetables have suffered the attack from the deadly viral diseases.

"If bourders between one region and another are affected, it's possible for natural forests and vegetation in neighbouring regions to catch it," cautions the forest officer.

According to him, climatic changes coupled with unsustainable agriculture and mining activities are responsible for the spread of the viruses causing the diseases. "There is an urgent need to arrest the situation because all regions are in one geographical location and that the diseases know no boundaries," he stresses.

Fruits not spared

Ali Salumu, an agricultural officer for Kirando, working along Lake Tanganyika which is shared by Tanzania, Zambia and the Democratic Republic of Congo (DRC), says the diseases have also been detected in the area especially on tomatoes, something which has affected income levels of the people in the area.

"There are signs of the diseases and they have started affecting green vegetables such as tomatoes which has developed thick layers of yellowish, blackish and whitish substances and some tomatoes have withered," he says.

Juma Chilumbalumba (70), a resident of Kirando says deforestation in the areas is rampart especially along the lake and that it might have contributed to the spread of the diseases.

Rivers gone

"When I was young, there were many rivers such as Rwamfi and Katongolo, which the whites said they could produce power, but the rivers have since disappeared due to human activities, including farming," he informs. Chilumbalumba says the tendency by farmers to encroach shores of the lake for farming activities, particularly gardening, accelerates the shrinking of the Lake.

He urges responsible organs to make sure that the problem of environment degradation along the lake shores is addressed; otherwise, biodiversity will be adversely disturbed by increasing crop diseases, like Aphids and *Amleria melea*.

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COVER STORY 5

Clove industry under scrutiny

Growers query its liveliness, call for its overhaul

...clove is back

After over four decades of decline and stagnation, clove – once Zanzibar's backbone sector – is back with a price bang and renewed advocacy.

By Kilimo Kwanza Reporter

Scepticism about regeneration

Clove growers are sceptical about the current regeneration path taken by the government and its agencies in an effort to bring to new life the clove industry in Zanzibar. The farmers feel that focusing just on few issues like price to revive such a huge industry won't help a great deal.

The growers, through their club, the Zanzibar Clove Growers Organisation (ZACPO), want authorities to do more, in terms of policy as well as law reforms, to fully regenerate the production of the Isles key cash crop.

In its final Clove Advocacy Report compiled by ZACPO Advocacy Project external consultant Juma Ali Juma in July last year, the association states categorically that restoring the Zanzibar's lost clove industry glory requires purpose actions to rework the entire system – not just dealing with its patches.

The report, which contains inputs from two independent consultants – Alex Mkindi and Zeinab Ngazy, calls for the scrutiny of the entire sector, setting up of a strong foundation for its viability and stability as well as exposing it to the new challenges in the global arena.

"The government should commission a thorough investigation into the actual clove production and export data to enable an independent, transparent, complete and authentic economic analysis of the clove industry for informed decisions in the sector," it states.

ZACPO also calls for the speeding up of law and regulation reforms to improve performance with a view to making the industry at par with global changes and realities. It states: "The government should accelerate the pace of deregulation of the clove industry to give a new thrust in sector performance as projected under market liberalisation.

The study, whose thrust is advocating the urgency of stepping up efforts geared to revive the key cash crop in the Zanzibar economy after decades of decline and stagnation, assesses the implementation of a plan to revive the clove industry adopted by the government in 2004 – to establish to what extent different recommendations put forward in there have been implemented. It also seeks to identify reasons for deficiencies and give recommendations accordingly.

ZACPO states in the report that the increase in production will depend on many factors, including adequate education and training for farmers on good practices in clove husbandry and management.

Disband ZSTC

The association recommends transformation of the Zanzibar State Trading Corporation (ZSTC) to facilitate an efficient marketing of cloves under a liberalized environment, improving production support and extension services to properly manage clove plantations as well as addressing poor husbandry practices during planting and other field operations.

> "The growers, through their organisation, Zanzibar Clove Producers Organisation (ZACPO), want authorities to do more to fully regenerate the sector, in terms of policy as well as law reforms

The other recommendations are: Deliberate efforts to improve clove research and development, provision of clove support services, including appropriate and targeted extension services, credit facilities, markets and price information as well as having effective and capable groups to defend and protect the interests of clove farmers and dealers.

ZACPO says despite disappointing years, clove still contributes significantly to the gross domestic product (GDP) and export earnings (an average of 6bn/- annually). It adds that the contribution shows that there are opportunities in the clove industry for reduction of poverty and efforts to curb food insecurity, if constraints to local production and marketing are addressed.

ZACPO says a wealth of experiences on clove production, husbandry and management among the peer (old generation), that is not currently shared among the youth is therefore doomed to be lost. It notes that in recent years, the clove industry has been declining due to various problems in areas of production, marketing and processing as well as smuggling.

Citing an example of Indonesia, the leading nation in the production of the crop, the ZACPO report says the country has embarked on a process of deregulation of clove industry that involves regulatory and structural changes that responds to the needs of main actors in the national effort to rejuvenate the industry.

ZACPO strongly recommends disbandment of the ZSTC and introduce free market mechanisms to run the industry for better performance. "Efforts should also be made to activate local demand for cloves especially industrial demand for production of essential oils. The main instrument for rejuvenation of Indonesian clove industry was high local demand of cloves from kretek cigarette manufacturers," it stresses.

Essential oils

ZACPO further states in the report that as a matter of priority, the government should workout and endorse complete privatization of the oil distillery in Wawi, Pemba, to pave the way for industrial and commercial production of essential oils that on one side will trigger local demand for cloves and its products and on the other side will increase the share of Zanzibar in the flourishing global oil markets.

> "There are opportunities in the clove industry for reducing poverty and curbing food insecurity

Clove contains 11 - 17 per cent essential oils, which is mostly eugenol – an effective unaesthetic. Clove buds essential oil is used in perfumery and, though less frequently, in pharmaceuticals.

The essential oil is also used in food industry in meat products, sauces and pickles, confectionery and bakery products. Less expensive stem oil, pale yellow, obtained after distillation is used in the massage-market products and in meat seasoning. Less expensive leaf oil is used as main source for production of eugenol, which is used in analgesic and raw material for other chemical products such as vanillin.

According to the organisation, Indonesia produced around 70 per cent of world clove oil in 2005, followed by Madagascar. Tanzania and Comoros share was 10 per cent and 2.4 per cent respectively. Singapore and India are the leading importers.

In 2005 Singapore share was around 39 per cent or 21,416 tones of total world demand, while India represented 13 per cent or 6,945 tonnes. ZACPO notes that during the same year, the European Union (EU) share was 5 per cent or 2,739 tones.

ZACPO expresses optimism that the new market developments are favourable for the Zanzibar clove industry with her large underutilised essential oil distillery, which under proper liberalised arrangements, could be put under maximum utilisation and significantly contribute to increased production of essential oils for export

Reversing the decline

As it has been pointed earlier, cloves have been a major foreign exchange earner in Zanzibar for the last hundred and fifty years, before the spate of steady decline and stagnation over the last forty years – from an annual average of about 16,000 tonnes in 1970's to between 1,500 and 3,500 tonnes in 2000's.

So, to reverse the trend, ZACPO recommends several interventions: Since, the clove market law of 1985, which provides that the ZSTC in the sole legal buyer and exporter of cloves in Zanzibar, has not been repealed, the government leaders should be adequately sensitised to appreciate the importance of amending it.

The mass media should also be engaged to enlighten the general public on the presence of the law; its negative impacts on the clove industry and the importance of amending it to pave the way for private sector participation in clove marketing and development.

ZACPO also recommends the formation or identification of a specific institution mandated to guide the deregulation process. To this effect, a stakeholder committee comprising members from the private sector and the government should be created for following up the amendment procedures. He also calls for deliberate steps to facilitate the tabling of a Bill on the issue in the House of Representatives. On production support services and extension, it recommends promotion of farmers' education and awareness, including revising curriculum for primary and secondary education to include subjects on cloves history, production, husbandry and management of plantations.

ZACPO also recommends the use of mass media such as radio and television to raise farmers' awareness and prompt actions in clove rehabilitation; facilitate the use of effective and targeted extension approaches such as group training in seminars and workshops, demonstration plots and farmer field schools to promote and arouse interests of various stakeholders on clove replanting schemes as well as plantation management.

According to the organisation, a major clove development project that will include research, extension and training on clove development to re-establish and manage clove plantations should be established to promote provision of incentive schemes and packages to farmers who plant new clove seedlings and successfully manage them to fruition stages.

Other recommendations include research and development on market exploitation and promotion. ZACPO says there have been very little efforts, if any, on the clove market promotion and exploitation at regional and international levels. "This has mainly been caused by lack of commercial dynamism and vitality, a characteristic inherent in the private sector, but lacking in the public sector domain. The growing regional economic integration provides the opportunity for the expanded market for Zanzibar cloves and its byproducts," it states.

> "The mass media should also be engaged to enlighten the general public

To solve the problem, ZACPO recommends that private sector participation in the clove marketing should take a new approach to include exploitation of opportunities in the regional markets such as the East African Common (EAC) and Southern Africa Development Community (SADC).

"Exploit possibilities for value addition on cloves that will yield to products that could be used in regional cosmetics, perfumery and medicinal industries. Establish Cloves and Spice trade fares in Zanzibar to promote cloves and spice products that could also be attraction to tourists and as such linking the clove industry with the flourishing tourism industry," ZACPO stresses.

Readiness to compete

Regarding the preparedness to compete, ZACPO says: "It's a well-established fact that the Zanzibar clove industry is facing increasingly strong competition in the world market.

Over the years, however, there has been a generally diminished interest on the part of the government in Zanzibar on the clove sector, save for the final product (cloves) that is strongly and even militarily handled through the ZSTC."

The lack of interest has depleted the sector of the motivational policies, fund allocation for research and development and targeted training of farmers and staff, says the ZACPO. Records from other competitors show a completely reverse trend. They are giving the clove sector due priority in terms of appropriate and responsive sectoral policies, motivating farmers, targeted research and development funding.

"In a nutshell our competitors in the world clove markets are adequately prepared for competition while Zanzibar is not," states ZACPO in the report, suggesting promotion and facilitation of investments into the clove sector, focusing on trained personnel, funded research, motivated farmers and supportive policies. These tools, ZACPO concludes, should help clove development and preparation for competition by learning from the competitors' strategies.

Way forward

ZACPO states categorically that the major stumbling block to the implementation of the 2004 study recommendations is the Clove Market Law of 1985 as well as the congruent existence and mandates of ZSTC. "This means that the amendment of this law and disbanding of ZSTC should be taken as a priority advocacy agenda in all subsequent engagements between the government and non-state actors on this subject area".

ZACPO also stresses on three other important points: A need for the government to honour its commitment to implement recommendations of the 2004 clove study; a detailed cost benefit analysis of the ZSTC to validate the ZACPO findings; and engaging the Zanzibar Business Council in accelerating changes envisaged in the clove industry. "The quantitative and qualitative evidence provided through this study should complement the courteous effort to deregulate and subsequently liberalize the clove sector for the benefits of the people of Zanzibar," it closes.

...new hope as prices soar

By Kilimo Kwanza Writer

After experiencing steady decline and stagnation over the last four decades, the clove sector in Zanzibar has shown the good signs of coming back with a bang. The comeback is signified by high prices of the commodity in both local and international markets as well as prospects of higher yields. Essentially, the two factors forecast robust economies of both Unguja and Pemba – the two main Zanzibar islands – and improved farmers' wellbeing in the near future.

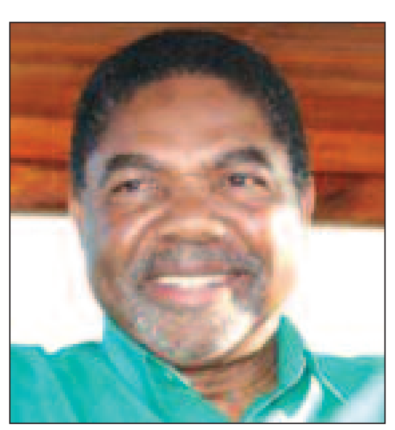
It's the time with a big difference by all standards. Farmers, who have been grappling with disappointing prices and extremely low production levels over the years, the latest developments suggest the dawning of a new era of hope.

Prices up threefold

In a dramatic move, the Zanzibar government announced in August this year that it has increased the price of cloves to 15,000/- per kilo up from 10,000/- hardly a month after raising it by 100 per cent from 5,000/- per kilo to 10,000/- for Grade I a month earlier.

Zanzibar State Trading Corporation (ZSTC) director Suleiman Jongo, who announced the price change in a statement issued by the Isles State Information Department, says the move is essentially geared to beef up farmers' income. According to him, a kilo of Grade II clove will now fetch 14,500/- and Grade III 14,000/-.

He attributes the rise in the price of the crop to increased exports in the global market, promising to continue raising the prices often. "The government has increased the price of cloves after the world market increases. It will continue to do so in accordance with changes in the global market," Jongo says. Zanzibar Trade, Industry and Marketing minister Nassor Ahmed Mazrui says the new prices were about 80 per cent of the one prevailing in the world market, assuring farmers that they will get more whenever prices in international markets go up. The increase, says the Minister, is encouraging because just few years ago, the farmers got only half of the world market price.



Dr Shein upbeat about clove sector

However, farmers say these prices don't benefit them much. ZACPO gives conflicting data on this. It says the clove price in the world market right now is about USD30 equivalent to 50,000/-. "For that case, what the farmers are getting is roughly 30 per cent, not 80 per cent as Mazrui claims." Citing another example, it says in 1998, farmers were paid between USD2.15 and USD2.69 per kilo, which then was around half the selling price in international markets.

Regeneration plan

President Ali Mohamed Shein carries on an ambitious comprehensive plan he inherited from his predecessors to regenerate clove production in the Spice Islands, as the Zanzibar islands commonly referred to for growing clove.

He briefed about the plan during an official visit of Pemba, where he met with farmers in clove fields to launch in style, this year's clove harvesting season. Apart from promising to review prices of the crop, Dr Shein said the government intends to spend 36bn/- in the purchase of cloves from the farmers. The president also said his government intends to distribute over 500,000 clove seedlings to the farmers free of charge annually over the next ten year in a move to bolster production of the cash crop and in turn improve their earnings.

Zanzibar Trade, Industry and Marketing minister Mazrui details the measures announced by his boss when launching the new clove buying season in August in Pemba that the move is part of the implementation of government's ten-year Clove Development Strategy (CDS) adopted five years ago.

He says the strategy involves reforming the Zanzibar State Trade

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Why agro-incentives fail to attract enough investments

By Kilimo Kwanza Reporter

Purpose

Tanzania has put in place a number of investment incentives for agriculture, but studies show that the amount of investments obtained in return are not enough. Interestingly, returns from numerous incentives in the backbone sector appear to be few compared to other countries offering similar packages.

In response to the anomaly, the BEST-AC supported the Agricultural Council of Tanzania (ACT) in December, 2009 to commission an assessment to the sixth pillar of Kilimo Kwanza, which focuses on incentives for attracting investments in the agricultural sector in the country.

The report on the assessment was intended to develop a solid policy proposal of incentives to make the key sector competitive as well as enable it to attract new domestic and foreign investments.

ACT says in the report compiled by independent consultant, Professor Deogratias Rutatora of Sokoine University of Agriculture (SUA), that the study was necessary to address deterrents to investing in the sector. It also shows that the following factors affect its growth in Tanzania: Inadequate technical support, including research and extension services under explored opportunities, particularly markets and lack of financial support and services, i.e. long term finance at affordable interest rates.

Incentives

Among others, the report mentions the following agricultural incentives provided by the government to investors: zero-rated duty on capital goods, all farm inputs including fertilizer, pesticides and herbicides; and favorable investment allowances and deductions on agricultural machinery and implements.

Others are: deferment of value added tax (VAT) payment on project capital goods; imports duty drawback on raw materials for inputs for exports; zero-rated VAT on agricultural exports and for domestically produced agricultural inputs; indefinite carry-over of business losses against future profit for income tax; and reasonable corporate and withholding tax rates on dividends.

The report also identifies barriers to agricultural incentives. They are: deterrent tax rates; inefficient tax administration system; persistent power shortages; limited access to finance; and corruption – when seeking services in public offices and institutions.

Others are: macro-economic instability due to fluctuating inflation and interest rates; inefficient customs and trade regulations, which increase the cost of doing business and affects productivity; and restrictions by local authorities to traders and producers, particularly farmers.

Generally, the report concludes that Tanzania has put a number of agro-investment incentives – some are similar to those in other countries under this assessment – Malaysia, Nigeria, Malawi, Zambia and Ghana – but, the same don't make the sector attractive to make it pull enough investments as expected.

"The barriers to agro-investments discussed in the assessment make the cost of doing business in Tanzania higher than other countries; as a result they put off or scare away the investors," said the ACT report.

Recommended policy reforms

ACT recommends in the report that the government should first identify the causes of concern among existing and potential investors in the formulation of investment policies

"It is strongly recommended that administrative and financial support should be given to courts and tax-related agencies with a view to enhance capacity and effectiveness while formulating regulations for greater transparency," it says.

It also recommends adoptions of strategies for integrating small and medium enterprises (SMEs) into the world markets as well as enhancing sustainable high quality production by organising smallholder producers or processors to access technologies and credit in groups. The ACT report also calls for review of legislations to update them because most of them were enacted in 1990s during the era of liberalisation and privatisation, appealing for sound strategies to address all the obstacles to investment in agriculture.

"It is strongly advocated that the legal and policy environment should enable farmers to increase their credit status by improving the security of collateral types through property laws as proposed by the World Bank in 2004. Property rights should be developed very clearly to facilitate agro-financing and secure rights for lenders and borrowers," the ACT report states.

Way forward

Generally, the ACT report states that while Tanzania is strategically placed to continue to ride on its success in attracting local and foreign investments, many areas of the agricultural and allied sectors could use reform, revision and improvement to attract more investors in the agricultural sector.

...new hope as prices soar

FROM PAGE 4

Corporation (ZSTC), currently the sole buyer, processor and distributor of the crop, to be able to oversee reforms focusing on reviving the crop and boosting production. According to Mazrui, the government has allocated about 30bn/-, equivalent to USD20 million, for the ambitious plan to bring the clove industry back to life.

However, ZACPO believes the government is not committed to the plan. "The government is cheating the farmers on this because the clove development strategy was developed since May 2004 and to date nothing has been implemented. Even what is now referred to as ZSTC restructuring is nothing, but an economic comedy by its nature," it says.

Z'bar clove branding

President Shein also told the farmers that his government intends to brand Zanzibar cloves in order to differentiate them from that produced in other parts of the world, including Indonesia and Madagascar.

He said he strongly believed that cloves produced in Zanzibar, which was once the world number one producer and exporter of the crop, was far better compared to those grown in other parts of the world.

Clove smuggling

Dr Shein says latest planned measures, including branding of cloves grown in Zanzibar, will help curb smuggling. Clove smuggling is currently high in the Isles where dhow traders transport the crop to Kenya where they sell it at a higher price. Mazrui informs that between 2001 and 2009, Kenya sold 9,510 kilograms of cloves, worth USD16m. East Africa's biggest economy does not produce cloves.

Zanzibar's first vice-president Maalim Seif Sharif Hamad, who have been directly involved in government-led efforts to curb smuggling of the crop outside the country says, the government of national unity (GNU) currently ruling the Isles, will award up to 20 per cent of the market price of confiscated cloves to anyone with information which may lead to the arrest of clove smugglers.

"Since the government has hiked clove prices there is no justification for clove smuggling, which denies the government revenues and leaves clove farmers in poverty," argues the vice-president.

Growth prospects

Zanzibar exported 2,000 tonnes of cloves last year and anticipates buying 3,000 tonnes from farmers, this season, says Mazrui, ruling out any possibility of liberalising the Isle's clove industry. ZACPO questions the authenticity of the report, as the ZSTC "is always not willing to report" on the export and its actual income.

"We'll consider [liberalising it) after the government has revived the crop. We need to revive the industry through CDS before thinking of liberalising it," he stresses, adding: "Let us educate farmers about the risks of privatising the industry."

Clove production in Zanzibar is projected to grow from an annual average of about 4000 tonnes recorded in 2008 to about 4500 tonnes in 2018, an increase of 12.5 per cent in output if specific plans and strategies will be worked out soon, an expert in the clove industry points out. During the same period, the farmers also expect an increase in revenue from USD10.7 million to about USD11.8 million, a modest increase of about 10 per cent.

Dairy sector in the doldrums

The Tanzania's dairy sector, which is currently grappling with a myriad of setbacks including economic losses due to lack of competitiveness, has a long way to go in achieving better performance today and in the future. This requires reforms geared to give it a new life. Policy and law reforms are particularly crucial, as this study indicates...

Daunting task ahead

Reviving the dairy industry against the backlog of poor management which has resulted into the decline in the competitiveness as well as great losses in revenues and jobs, is a daunting task. The Tanzania Milk Processing Association (TAMPA) has conducted a detailed study with the support of the Business Environment Strengthening for Tanzania-Advocacy Component (BEST-AC) in 2007/2008 to assess the extent and the impact of over-regulation on business in the dairy sector.

The study found that 15 regulations were in force to guide the sector. Then, TAMPA recommended that the legal and regulatory framework should be reformed to make the sector more competitive. It also came up with a policy proposal that will be used to influence policy change on improving competitiveness of the dairy sector through rationalisation of the regulatory framework.

The objective of the policy reform study arose from the concern about the decline in competitiveness and performance of the sector. According to TAMPA, the policy reforms are intended to address the regulatory burden which increases the cost of doing business and contributes to the decline in competitiveness of the sector.

The report, which was submitted by Dr Goodluck Urassa and Dr Kassim Mchau, finds that the main cause of inefficiency is the regulatory burden which increases the cost of doing business. The policy proposal will be used as a tool for influencing local and central government authorities to rationalise and harmonise overlapping regulations in the sector.

The proposal was developed by combining research data and information, views of stakeholders gathered from various workshops and regulatory authorities, and secondary information from relevant documents and literature.

According to TAMPA, findings from various sources indicate that the impact of declining performance of the dairy sector on the economy of Tanzania is enormous.

Key regulatory issues

The main regulatory issues affecting competitiveness of the sector and that require harmonization include multiple uncoordinated inspections of premises. Two major kinds of regulations are involved here, those aimed at food hygiene which are normally done by the Tanzania Foods and Drugs Authority (TFDA) The Tanzania Bureau of Standards (TBS), Tanzania Dairy Board (TDB) and Zoo-sanitary and those safeguarding the safety of employees, that is Occupational Safety and Health Association (OSHA).

Multiple uncoordinated testing of products is another cumbersome regulatory issue which involves periodic testing of all kinds of processed milk and dairy products.

Despite the high testing fees, the main cost here is the market opportunity lost in waiting for the results and the necessary permits. There is also the issue of unco-ordinated inspections of premises and testing of dairy products, multiple licensing, lack of rationale for inspection as well as clear procedures and division of responsibilities.

Overlaps and compliance cost

The analysis of regulations of the Dairy industry shows that in areas where there are overlaps of regulation more costs are incurred by the private sector and competitiveness is greatly affected. Areas of regulatory overlaps include registration and licensing, as well as inspection.

Under the cost of compliance, the study analysed the costs of compliance for a small milk processing enterprise with the daily capacity of 6,000 litres. The cost figures extracted indicate costs related to registration, licensing, inspection and permits. The analysis also takes into account one-off and recurring costs as well as other costs incurred due to over-regulation. In order to establish the real impact of the regulations, the value of time taken to comply is estimated and included in the total costs.

Therefore, the business costs for a 6,000 litre-capacity entreprises will be as follows: Starting the business 12,325,000/-, running it 48,895,090/- and the time spent on various activities, including licensing and inspection, over 820 hours.

TAMPA notes that when the study was conducted, there were no fees for weight and measures. Based on the fees introduced in October last year, the fees for weight and measures for the sample enterprise is at least 500,000/-, making the cost of starting and running business for the sample enterprise to reach over 70m/-.

Bleak past

According to statistics from the Ministry of Livestock Development, the formal milk processing has declined by more than 80 per cent over the last 15 years following the closure of business of 13 dairy plants. Current government statistics show that most processing plants are working at less than 30 per cent of their installed capacity, resulting in only 105,000 litres processed per day, down from 496,000 litres recorded in previous years when the sector was doing better.

Giving more details, TAMPA quotes statistics from the Ministry of Livestock Development indicating that in 2009, the country had an annual installed capacity to process 325,600 litres per day, but operated at an average rate of less than 100,000 litres.

"The national per capita consumption of milk is 41 litres per annum which is low compared to the FAO recommended level of 200 litres and only a small proportion (10 per cent) of marketable surplus milk filters into the urban markets and processing plants annually. This is despite the fact that Tanzania ranks third in Africa in terms of livestock population after Sudan and Ethiopia, with an estimated 19 million cattle," says TAMPA.

Neighbours doing better

The following table compares Uganda, Kenya and Tanzania, in terms of the number of cattle each country has and the amount of milk processed:

Comparatively, Uganda processes more than 500,000 litres per day and Kenya more than 1,000,000 litres per day. Studies indicate that the impact of the declining performance of the dairy sector on the country's economy is enormous.

When the current level of the sector performance is compared with the previous performance, the country has lost 9,601 jobs per annum as a result of the decline in the capacity of the dairy sector. The country also loses the income tax amounting to 12.91bn/- annually due to declining performance of the sector.

s.no.	Country	Estimated Number of Cattle	Milk Processed per Day
1.	Uganda	5.4 million	More than 500,000 litres
2.	Kenya	13 million	More than 1,000,000 litres
3.	Tanzania	21.3 million	105, 000 litres

NOTE: The above statistics have been sourced from the TAMPA sample and do not represent data for the whole country.

Best way out

TAMPA recommends in the report that the best way to salvage the sector from further decline is through effective coordination of regulatory services, proper laws and support to milk producers.

"Joint inspection will save costs and production days per processor per year. On the side of regulators, enforcement costs will decrease through shared resources and wider coverage of clients in a given time," it says, adding:

TAMPA also calls for the amendment of the laws to get rid of multiple licenses to recognise each of the issuers of licenses. Only one license should be issued and should be recognised by all other agencies. This will not only save time but will reduce the cost of doing business and increase competitiveness.

The report also rallies support for TAMPA to perform compliance services to its members on cost recovery basis. This will increase the salience of TAMPA as well as its influence in the public domain. Additionally, rregulatory agencies will benefit by achieving higher rates of compliance among its clientele per unit cost of follow-up.

TAMPA says the TDB should be strengthened to do more than regulating the industry. This can be achieved by increasing the staffing capacity of the TDB, capacity building through training and development, sharing of resources with other regulators and increasing the budget allocated to the Board.

The move will improve the capacity of TDB to deliver most of the regulatory and other functions more effectively as well as reduce the cost of milk processors to comply with the regulatory framework.

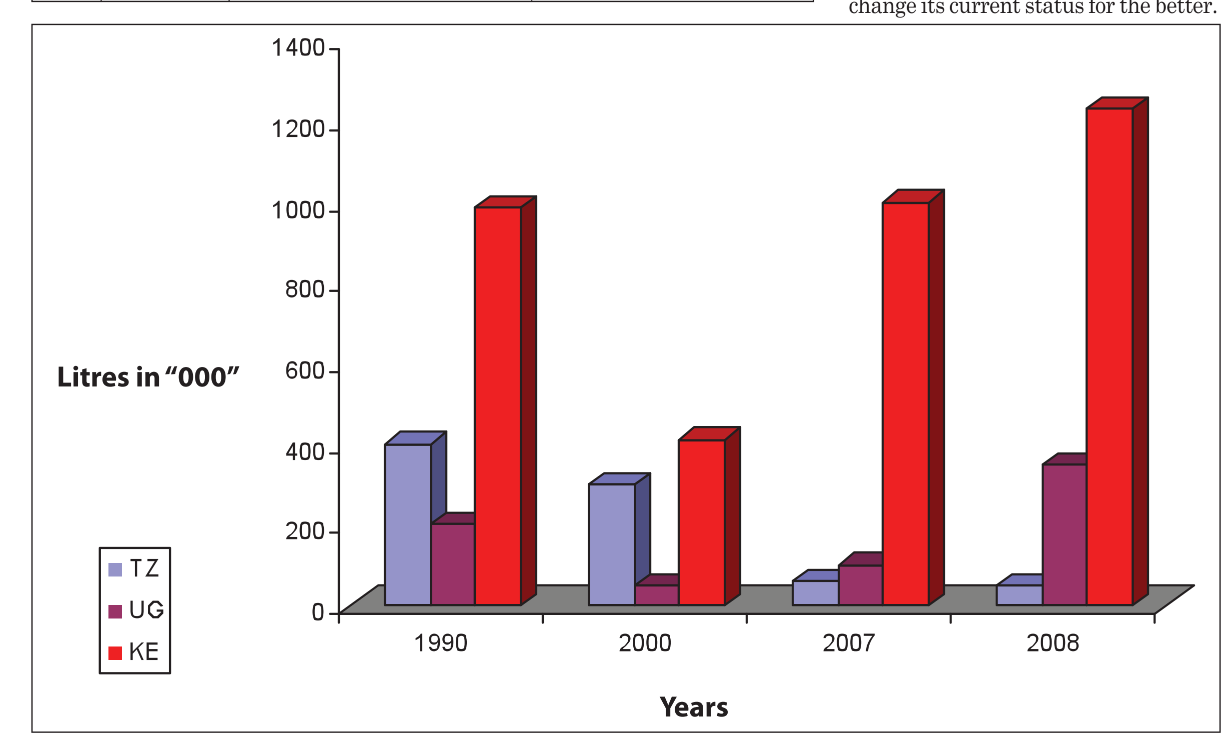
"It will enable regulators to harmonise most of their functions through TDB and reduce the costs in executing their regulatory functions," says the TAMPA report.

The report also calls for the development of the criteria and standard procedure for inspection system for enterprises to cooperate more. Regulatory authorities will increase efficiency of implementing their regulatory functions and be able to share the findings generated by the authority given the role of executing particular functions.

If the recommended reforms are implemented, performance of enterprises and of the dairy sector in general is expected to improve. From the studies done by TAMPA and TDB, the total annual saving for the firm with the capacity of processing 6000 litres per day would be 15,137,467/- and the annual saving for the sector based on the current capacity is 218,383,190/-. If the capacity of the sector is restored to 325,600 litres per day, the total annual saving would be 821,459,875/-. If the sector processes 50 per cent of the milk produced at present (2,000,000 litres), the total annual saving will be 5,045,822,333/-.

The savings are significant given the fact that this is just one of the factors affecting the sector. The country would also benefits by regaining some jobs and revenue lost due to over-regulations. There could also be a lot of other benefits, including commercialisation of the dairy sector and reducing importation of milk and milk products to save foreign currency. "This would enable other sectors to learn from the dairy sector and institutionalise good regulatory practices by introducing new legislations," says TAMPA.

Successful reform of the regulatory framework requires sustained political support to undertake significant changes in the legislative, regulatory and institutional framework. TAMPA believes this will enable the sector to change its current status for the better.



CTI: Adopt alternative power sources to salvage economy

Speed up power projects

The Confederation of Tanzania Industries (CTI) has called upon the government to speed up implementation of the projects earmarked to address the on-going power problem. The CTI believes this will save billions currently being lost as a result of unreliable power supply.

The call is contained in a set of recommendations put forward by the CTI in its July 2011 report entitled: "Challenges of Unreliable Electric Power Supply to Manufacturers in Tanzania". The report is a policy research paper submitted to energy sector stakeholders, which focuses on advocacy for ensured reliable electricity supply to manufacturers.

Specifically, it was intended to present to the stakeholders facts about intermittent power outages facing manufacturers in the country. "The paper is a product of policy research which examined the major reasons for unreliable electricity supply to manufacturers and to draw strategies to overcome the challenges," it states.

Its findings are based on various documents reviewed, the study of 60 sampled manufacturing firms experiencing the challenge of unreliable electricity supply and views of other key stakeholders in the sector.

Losses due to outages

According to the CTI, the government has been losing an estimated 9.5bn/- annually in revenue collections due to interrupted power supply. On the other hand, a survey conducted by CTI for 60 companies involved shows that manufacturers have been losing around 3bn/- annually despite using their own costly means of power generation at times. And above all, around 7,341 jobs are lost as productivity is reduced and competitiveness of the industry is undermined.

As manufacturers get hit hard by the power blues, the agriculture sector too gets affected, states the CTI.

"The milk industry for example is directly affected since milk processing is interrupted by the power cuts," it says. Farmers who depend on selling their produce such as fruits, cashew nuts and vegetables for processing also get affected.

For who would buy things they are not sure of using? Additionally, the factories manufacturing agricultural inputs are also affected, for example Minjingu.

To help the farmers and all those depending on the manufacturing sector for their livelihood, CTI advises that emphasis should first be given to the stability of voltage supplied to ensure quality of energy received by manufacturers. "If the planned projects could be completed within the scheduled time-frame, the problem of low voltage and shortage could be reasonably reduced," reads the CTI report in part.

Power demand to triple 2020

The report says despite government attempts to solve the power problem it's unlikely to meet the population demand, given the current economic growth. It is estimated that the demand for electricity in terms of population will triple from the current 14 per cent to 42 per cent by 2020. It is therefore suggested that other strategies should be adopted to increase power generation and supply.

The power demand is 800 MW. This covers 14 per cent of the population as a way to reach 42 per cent 2000 MW needed, which is equivalent to 200 per cent. There is a big challenge to reach the 3000 MW by 2020.

Despite current efforts to redress the situation, manufacturers are still experiencing obstacles of intermittent power supply, frequent rationing and outages. "Manufacturers also experience poor service quality, power cuts without notice, unplanned power stoppages and interruptions, voltage fluctuations, phase failures and unbalanced voltages," says the CTI report.

Machinery gets damaged from power fluctuations and instabilities. To recover production costs incurred in the process, manufacturers are forced to increase prices which in turn undermine competitiveness or reduced their profit margin and therefore undermine investment.

Outages scare away investors

Power interruptions have been scaring away prospective investors in various sectors. Those wishing to expand their businesses also have been discouraged. The study discusses a number of factors, as major root causes of power challenges facing manufacturers.

They include policy hindrances, under which the CTI says there are no explicit provisions binding the Tanzania Electric Supply Company Limited (Tanesco) or any other energy producers to assure reliable electricity supply. The report also cites poorly coordinated policies that hinder private investors' effective participation in the energy sector to compete with Tanesco monopoly. "Power generation, transmission and distribution problems facing Tanesco are due to worn out infrastructure amid unsolved fate of the firm's privatisation," the report says.

Why not adopt alternative sources?

The CTI recommends in the report the adoption of alternative sources of energy, natural gas in particular, which it says could be enhanced to produce electricity rather than relying on unreliable seasonal rains. "We suggest the government to facilitate Tanesco in capitalisation of the new power generations planned for the interim period of 2010-2013," the report says, adding: "[The] government needs to foster its commitment to speed up implementation of the Electricity Act, 2008 in order to encourage private investments in mini-power grid operations".

CTI also wants the law be reviewed to formally open the door for private investments in non-renewable energy sources like thermal.

"Private investors are given a limit of production of only 10MW respectively. CTI does not see why this should be so given the country's chronic power problem," states the CTI report. Additionally, the Confederation also appeals for the waiver of import duty on equipment used in the generation, transmission and distribution of electricity to reduce the cost. "This is because most equipment used in the power sector are expensive and hence contributing to high cost of electricity in Tanzania," the CTI concludes.

"Power generation, transmission and distribution problems facing Tanesco are due to worn out infrastructure amid unsolved fate of the firm's privatisation

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