



INVOLVEMENT OF SMALLHOLDER PRODUCERS IN DOMESTIC AND EXPORT MARKETS

Key Messages:

- SHPs should know market needs, preferences and produce to meet market demands in terms of quantities, quality, and consistent supply.
- SHPs should be supported to strengthen collective marketing and bulk procurement of inputs to reduce costs of production and marketing and become more competitive; contract and block farming options should be looked at.
- Digital Technology applications (ICT) in production, extension services and marketing should be enhanced to reduce production and marketing costs.
- Continuous reviews of policies, acts with changing business environment.

INTRODUCTION

The Smallholders Producers (SHPs) include crop farmers, livestock keepers, beekeepers and hunters and gatherers, and fisher folks, and are characterized by small production volumes of variable quality. SHPs are central to an inclusive development process and key for two pivotal reasons: as producers of food contributing to the national food security and income generation. Increasingly SHPs are becoming surplus producers of the main food staples and there is increasing trends in the production of cash earning crops like horticulture. The participation of smallholder producers, particularly women and young people in local, national, and global markets have been dismal especially where SHPs are not well organised for collective actions. In addition, higher quality standards, higher value products, traceability and contracts are all becoming part of the game in domestic and international markets. Moreover, smallholder producers are not homogeneous and face different sets of constraints to their participation in markets. Therefore, the design of policy interventions aimed at encouraging greater levels of smallholder production for sale in markets needs to take better account of this heterogeneity (FAO, 2014).

Agricultural Non-State Actors Forum (ANSAF) through JUWAVITA platform conducted four studies to analyse the Smallholder Producers (SHP) involvement in domestic and export market with specific focus on (i) **Livestock**, (ii) **apiculture**, (iii) **fisheries** and (iv) **crop farming**. These studies have analysed the status of different value chains in the targeted sectors, identified challenges and provided recommendations for enhancement of SHPs market participation. This report is summarising key findings of the four studies.

Key findings

1. Livestock subsector

- (a) **Beef sector:** Livestock production serve the domestic market and some export markets of live animals, meat, milk and more substantially hides and skins (URT, 2015). Markets for live animals are conducted at three levels; that is primary, secondary and border markets. There are 504 primary markets where SHPs mostly sell animals: fifteen secondary markets and 5 border markets. The main buyers at primary and secondary markets include private individuals, local and urban butchers, wholesalers, and feedlot operators while large abattoirs, processors/manufacturers and exporters mainly participate in secondary markets. The annual meat production increased by 23 percent between 2014 and 2020 from 597,757MT in 2014/2015 to 738,166MT, mostly coming from the traditional sector (URT, 2021) while consumption is estimated at 867,302MT by 2022 hence there is a readily available market (Nandonde et al., 2017; URT 2017).



- (b) **Dairy subsector:** About 90% of the milk produced is consumed at the farm level while 10% goes through collection centres, and only about 3% go through processors to the market (Dalberg, 2019). There are 221 milk collection centres distributed across the country of which 173 have a cooling capacity. There are 99 milk processing units handling 862,100 liters daily, ranging from micro-processing units to large processors such as Tanga Fresh which handles 45,000 liters daily.



- (c) **Leather sub-sector:** About 90% of hides and skins produced in Tanzania is exported in raw form and only 10% is processed. Out of the 16.02 million kgs produced in 2018/2019 only 1.47 million kgs were processed. There are 11 tanneries in Tanzania that buy salted or dried hides and skins directly from slaughterhouses, salting slabs/drying sheds or collectors. Exports of hides, skins and wet blue leather from Tanzania increased from 5.38 million kgs valued at TZS. 13.0 billion in 2018/2019 to 7.95 million kgs valued at TZS. 16.1 billion in the year 2020/2021.



2. Smallholder Crop Producers

(a) Crop marketing

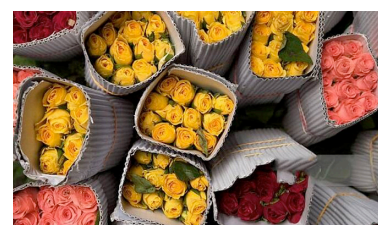
There are two main marketing models, that is, the spot market and collective market aggregation models. The spot market model may involve farmers selling their produce in weekly markets within the villages; middlemen/traders/collectors who buy crops at the village and sell to millers; wholesalers or aggregators and large-scale millers. The model has proved to be expensive and inefficient because of the high transaction costs involved. Intermediaries or agents/middlemen contributed 12-30% of the costs incurred by both farmers and buyers. Hence these agents are source of the low and inflated prices of maize to both farmers and buyers respectively (Sundy Merchant, 2020).



The collective market aggregation model may involve cooperatives or informal farmer groups linked to off-takers like medium and large maize millers or institutional buyers such as the National Food Reserve Authority (NFRA) and World Food Program (WFP). Other marketing models include contract farming and the Warehouse Receipt System. Crop auctioning is done for some crops like coffee, tea, sesame and cashewnuts at international markets and recently through the Tanzania Merchandise Commodity Exchange.

(b) Horticulture sector

The **production of horticultural crops** increased from 6.6 million tons in 2016/2017 to 7.6 million tons in 2019 (URT, 2021). The exports value of horticultural crops grew from US \$ 64 million in 2005 to US \$ 374 million in 2013 up to US \$777 million in 2019. The horticulture sub sector employs about 2.5 million people with 65 -70% being women, which makes the industry a major employer within the agricultural sector (Match Maker Associates, 2017). The horticulture industry



is dominated by SHPs (70%) operating less than 2 hectares who operate on individual farms or under contract (out-growers) to large scale export firms.

Most SHPs of horticultural crops sell their produce in the domestic market either to intermediaries/middlemen or established companies under contract or to processors. Some SHPs with support from TAHA aggregate fresh produce and sell it directly into export markets. The export market is dominated by foreign companies with subsidiaries in Tanzania and a few SME companies. There are about 50 SME companies involved in the export of horticultural products in Tanzania.

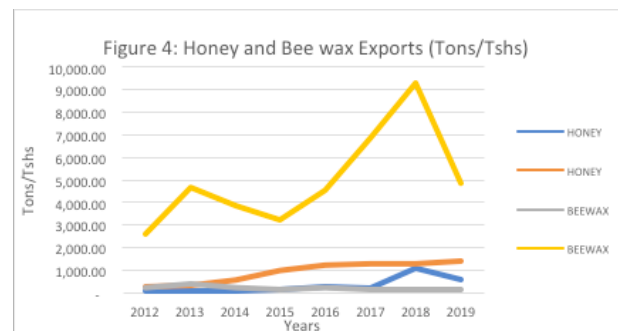
3. Fisheries and Aquaculture

Smallholder Producers are key players in the Fisheries sector. The sector attracts direct employment to 195,435 fisherfolks in fisheries and 30,064 in the aquaculture sub-sector and have a significant contribution to the daily needs of about 4.5 million people who are indirectly involved in fisheries such as fish processing, distribution, and marketing (Budget speech 2021/2022). The total production of fish in 2020/2021 (up to April 2021) was 422,859.78MT valued at TZS 2.62 trillion compared to 434,036.18 MT valued at TZS 2.04 trillion in year 2019/2020. Processing and packaging is done at small scale and industrial level, whereas at small scale level traditional methods sun drying (sand, grass and/or racks), smoking, salting and oil frying are used. Most processors are women and their role in trading is remarkable but often over-looked. Industrial processing is technologically advanced to allow for sorting, packing, and branding various fisheries products (Fillets, Mabondo). The market of fish is both formal and informal. A substantial proportion of the fish catches produced in the fishing areas (marine and inland fisheries) is consumed in the domestic market and only 11.14 percent goes into the export market. The regional markets in neighbouring countries of Rwanda, Burundi, DRC Congo and Zambia, South Sudan, Kenya, and Malawi is growing where they are used for human consumption (Food) and for animal feed manufacture.

4. Beekeeping industry

The management of the beekeeping industry by SHPs is still traditional. The majority (more than 95%) use traditional beehives with little or no management on the bee colonies. Smoking is done during harvesting by burning grass and twigs to chase away bees to protect themselves against bee stings. Processing is done by squeezing the honey through some cloth materials and storage is done inside their houses without taking into consideration temperature control requirements for quality. Marketing of bee products is dominated by small traders, SMES and a few established companies.

In some districts, SHPs have organized themselves in associations or cooperatives. Lack of grading and proper packaging lead to low prices which SHPs get. However, there is an increasing trend in the export market for bee products. Honey exports increased from 103.8 tons worthy TZS 262,000,000 in 2012 to 1,095.9 tons worthy TZS. 1,287,100,000 in 2018 before dropping down to 607.6 tons worthy TZS 1,437,900,000 in 2019, mainly because of unfavourable weather conditions (too much rain).



Opportunities for domestic and exports markets

- i. **Availability of land, diverse agro-ecological conditions** in Tanzania which is favourable to produce tropical and sub-temperate crops and the strategic positioning of the country with useful links to ports and airports provides guarantee for sea freighting and airlifting of produce to destined for export markets. In addition, a favourable regional crop calendar that allows for Tanzania harvests to coincide with lean season in key destination region markets which include Kenya, Burundi, South Sudan, and global markets.
- ii. **Political will and conducive policy environment:** with the government reviewing several taxes and acts waving and reducing taxes, levies, and crop cess; improvement of infrastructure; rural electrification and ICT applications to ease marketing/trading and reduce cost of production.
- iii. **The Government's industrialization drive:** that allow for participation of the private sector for investment in the agricultural sector provide room for markets for SHPs.
- iv. **Opportunities for value addition** exist in processing of crops, livestock, fisheries, and bee products like recent tax incentives in processing of oil seeds, hides and skins and production of sugar and leather goods.
- v. **Availability of domestic, regional, and global markets:** Bilateral and regional trade agreements that open up export markets such as the African Continental Free Trade Area (AfCFTA), East African Customs Union, COMESA-EAC-SADC tripartite, European Union Everything but Arms, African Growth Opportunity

Act (AGOA), and EAC–EU Economic Partnership Agreement.

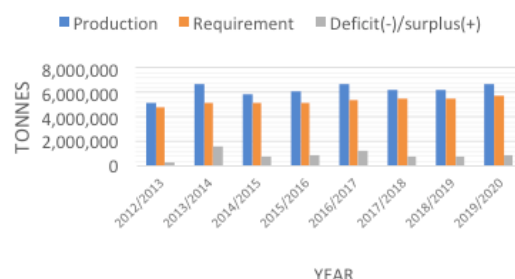
vi. **Financing schemes:** presence of financial institutions with innovative financing schemes that are inclusive to enable SHPs to access financial facilities to enable them to acquire capital for investment

vii. **Presence of Development Partners and Non-State actors** supporting the leather industry e.g., International Trade Centre, FAO, Bill and Melinda Gates Foundation, IFAD, UNIDO, USAID, TAHA, ANSAF, ESAFF, TACAPPA and others.

viii. **Surplus production of maize, rice, and deficits in**

EAC: There has been surplus production of maize and rice in the past 10 years. In 2015, there was a deficit of 2.7 million tons of maize in the EAC region; Uganda supplied 73,347 tons (80%) and Tanzania supplied 18,000 tons only (20%) while the surplus production was 946,284 tons. Between 2009-2015, about 500,000 tons of maize have been imported in EAC region mainly from South Africa, Malawi, and Zambia because of quality. (URT, 2021).

FIG. 5: PRODUCTION AND REQUIREMENT OF MAIZE IN TANZANIA



Challenges: SHPs in all subsectors are constrained by:

- Limited knowledge and skills in good agricultural and animal husbandry practices; small tradable volumes of low quality; crop and animal risks and market price volatility.
- Poor infrastructure, transportation facilities, and electricity supply; and limited support services in research, extension, financial and insurance services
- Unstructured marketing systems, limited market information and ICT applications and dominance of intermediaries or agents/middlemen who increase costs of marketing hence being a source of the low and inflated prices of commodities to both SHPs and buyers respectively e.g. middlemen in the southern highlands paid farmers an average of TZS 39,100-50,600/90 kg bag of maize and sold the same maize to large buyers at TZS 55,200-69,000/bag (Sundy Merchant, 2020).
- Enabling environment: High tariffs and non-tariff barriers and prolonged bureaucratic procedures increase transaction costs and reduce SHPs incomes. e.g., a maize farmer paid a levy of TZS 66 per kg at Kibaigwa International market which was 30% of the selling price of TZS 220/kg during the peak season or 16% of the selling price TZS. 420/kg during off-season; the levy was 24% of the total cost of production which was TZS 273/kg (Gabagambi, 2013).

Policy Analysis

Several sectoral policies, acts, regulations, and strategies were designed and implemented to guide the marketing and trading of agricultural commodities. Among them are the National Trade Policy 2003, the Agricultural Marketing Policy in 2008, the National Livestock Policy 2006, the National Agricultural Policy 2013, National Fishery Policy of 2015, and others. There are also numerous institutions that engage in regulating marketing, among them are the Tanzania Bureau of Standards (TBS), Tanzania Medical and Drugs Authority (TMDA), National Food Reserve Agency (NFRA), Deep-Sea Fishing Authority (DSFA) Tanzania Environmental Management Council (NEMC) etc. The numerous acts and regulation institutions sometimes have overlapping duties resulting in double taxation and delays in obtaining necessary permits and licenses which increase unnecessary costs of doing business. For example, there are seven ministries involved in the beef value chain while in the horticulture industry there are over forty-five taxes, fees and levies paid by registered agricultural business in Tanzania involving 15-20 regulatory bodies. (Shem, 2021; TAHA, 2019).

In some years intermittent export bans have been imposed by the government as a measure of ensuring food security in the country. However, export bans have created business uncertainty in regional and global markets due to irregular/discontinuous supplies in the market. Export bans on rice (July-December 2016) in Tanzania lead to a 35% decrease in traded rice and a 23% decline in revenue; an 8% reduction of farm gate prices; a 17% increase in wholesale rice prices; an increase in informal exports and hoarding that reduced the availability of the commodity in the market (Kilimo Trust, 2017). Disruptive border closures, animal confiscations and failure by officials to acknowledge cross-border trade has increased informal trade whereby approximately 300,000 heads of cattle are reported to cross into neighbouring countries (Kilimo Trust, 2009 ; Shem, 2021).

“...the government has been taking several steps to harmonise the agricultural sector including reviewing some policies and acts and waving or abolishing some taxes, levies.”

However, the government has been taking several steps to harmonise the agricultural sector including reviewing some policies and acts and waving or abolishing some taxes, levies, and cess. In the past 10 years, the government has reviewed over 50 policies and regulatory frameworks and removed or reduced more than 200 fees and charges in crops, livestock and fisheries; VAT tax exemptions on packaging materials and machines used for processing of crops, livestock and fisheries; reduction of produce cess from 5% to 3%; increased import duty for edible oil, horticultural and leather goods and more reforms are continuing (Kirenga G and Nyange D, 2019; TAHA, 2019; URT, 2021).

Recommendations

There are several efforts done by government and different development actors to enhance involvement of SHPs in local and export markets as summarised in sector specific sections. The following recommendations are proposed for improvement:

Capacity building: To enhance SHPs involvement in the domestic and especially exports markets there is need to strengthen their knowledge and skills in good production practices, harvesting and post-harvesting handling by promoting mechanisms for quality assurance and adherence to standards. Higher quality standards, higher value products, traceability and contracts are all becoming part of the ever more demanding environment that smallholders need to adapt to, even in their domestic and more so in international markets.

Productivity enhancement: Increasing access to guaranteed and profitable markets for smallholder producers should be supported by efforts to raising smallholder productivity to ensure high volumes of required quality standards and consistent supply. To achieve this access to knowledge and information of good production practices and productivity enhancing technologies (improved seeds, fertilizers, mechanization, etc.) is a necessity.

Promotion of cooperative movement will strengthen SHPs especially women and youth, to increase their capacity to bargain for better prices in export market. Cooperatives can also help in building production capacity and conformity to quality standards for their members, enabling them to produce more marketable quality surplus by facilitating access to quality input, training, collective investment, and credit. They can access price information, establish contact with large buyers, organize bulk transportation for members, and provide storage facility for members minimising dependence on intermediaries or agents/middlemen. All these services contribute to reducing transaction costs.

Production and marketing costs: To achieve profitable farming SHPs should increase efficiency by adopting farming as a business mindset by increasing use of improved inputs and technologies to reduce cost of production and become competitive. Promotion of structured market and increase use of ICT platforms that link buyers/traders and allow for negotiation in more transparent environment for both producer and buyer will reduce cost of doing business.

Technology: Access to market information through effective utilization of ICT and especially mobile phones, radio and TV will increase bargaining power of SHPs when they meet with buyers/traders. Sector Ministry should invest more in creating awareness about the m-Mkulima App and other ICT interventions to make market information readily available. M-Mkulima App should be linked to other ICT initiatives by private sector like ICT service providers to increase access to the ICT services. Increased access to ICT infrastructure and avail marketing information/intelligence, online application forms, permits and advisory services, will improve trading, reduce transport and transaction costs making the produce more competitive at domestic and export markets.

Infrastructure: Investments in infrastructure by the government such improving road/railway networks, air freight facilities for perishables, electricity, market, and storage facilities and establishing strategic warehouses close to border posts will increase efficient in trading.

Access to Finance. More innovative financing mechanism should be investigated that are inclusive to SHPs such as lease purchase agreements, integrated value chain financing model that bring together suppliers; strengthening micro financing organizations and farmer organizations that can guarantee their members to access loans. Crop risks and market price volatility are high mostly unmanageable by SHPs and hence introduction and strengthening of insurance facilities and introduction of the National Agriculture and Livestock Insurance Scheme (NALIS) should be done to safeguard losses in the sectors.

Enabling environment. The government should continue reviewing policies and regulations to ease marketing and trading. Both tariff and non-Tariff barriers like taxes, levies, and cess should be reviewed; reduce bureaucratic procedures to make SHPs produce more competitively both in domestic and export markets. PPP should be encouraged to increase investments.

Research and Extension Services. Government to strengthen Research-Extension-Farmer linkages including streamlining client-oriented research to serve both farmer and market preferences. Research and Extension services should be well funded to enable to deliver/impart modern technologies to enable SHPs to catch up with market preferences.

Women and Youth engagement: Deliberate efforts should be made to target women and youth to empower them to be fully involved in production, processing, and marketing by linking them to local and export markets. Training of female extension officers on market-oriented extension should be to ensure that gender considerations are mainstreamed throughout the value chain development.

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Agricultural Non State Actors Forum (ANSAF)

P. O. Box 33562, Dar es Salaam, Plot 167,
Migombani Street, Regent Estate, Mikocheni A,
Telephone: +255 22 2771566
Fax: +255 22 2775970, Email: info@ansaf.or.tz
Website: www.ansaf.or.tz
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