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# **Tanzania SERA: Enabling Policy Environment for Agriculture Sector Growth**

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**QUARTERLY REPORT  
October 1 – December 31, 2011**

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## ACRONYMS AND ABBREVIATIONS

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AgCLIR	Agricultural Commercial Legal Institutional Reform
AGRA	Alliance for a Green Revolution in Africa
ANSAF	Agriculture Non-State Actors Forum
APCC	Africa Practice Communications Consultant
BizCLIR	Business Commercial Legal Institutional Reform
BTO	Back-to-Office
CGE	Computable General Equilibrium
COMPETE	Competitiveness and Trade Expansion Program
EAGC	East Africa Grains Council
FtF	Feed the Future
GoT	Government of the Republic of Tanzania
iAGRI	FtF Implementing Partner
IFPRI	International Food Policy Research Institute
MAFC	Ministry of Agriculture, Food Security and Cooperatives
NAFAKA	FtF Implementing Partner
REPOA	Research on Poverty Alleviation
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SMEs	Small and Medium Scale Enterprises
TASTA	Tanzania Seed Traders Association
USDA	United States Department of Agriculture

## QUARTERLY REPORT

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### EXECUTIVE SUMMARY

The SERA project made substantial progress during the quarter on all of its primary focus areas; Policy Research and Reform; Individual and Institutional Capacity Building; and Advocacy, Communications and Alliances. Within the Policy and Research Reform Areas, the primary policy research activity was to propose a program of research to support better understanding of food security needs in Tanzania and explore policy alternatives to the use of export bans. The proposed program of work was strongly endorsed by the government and suitable partner institutions were identified to conduct research with guidance from SERA. The development of the collateral registry system which will make it easier for lending institutions to secure financial transactions and borrowers to obtain credit on moveable assets was restarted with support of the Bank of Tanzania. The Cereals and Other Product Act of 2009 was analysed and the implications described in a briefing note prepared for the ANSAF Policy Working Group and widely disseminated. Efforts to support reforms of seed policy continued and discussions with TASTA, the private sector industry association, were undertaken. Policy discussions were begun with the GoT in Zanzibar and initial efforts will focus on food security and agricultural policies. SERA's effort to build local capacity to conduct policy research was supported by agreement to sponsor an agricultural policy seminar series in the Department of Agricultural Economics at Sokoine University to be jointly funded with iAGRI. A communications officer was added in December following an extensive search for the best candidate with the assistance of a communications expert from Booz Allen headquarters. A capacity building specialist was identified and hired to begin in January. Close collaboration with other partners and stakeholders was maintained and resources were leveraged by working with other FtF implementing partners, IFPRI, and USDA. An active policy dialogue was maintained and leadership provided to policy activities among the FtF Implementing Partners. Alliances with important stakeholders continued to be developed to build a network of capable institutions and organizations to advocate for policy change.

### 1. Introduction

The Tanzania SERA Project will assist both the Government of the Republic of Tanzania and the private sector in enabling a broad-based, sustainable transformation of the agricultural sector through policy reform. The project will focus on current policy and the regulatory environment for agriculture—from the transactional “hot” topics to the needed strategic foundational changes—building capacity of

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for Agriculture Sector Growth**

We refer to this project as the SERA project, meaning *policy* in Swahili. Given that USAID/Tanzania's Feed the Future staple foods value chain project will be called NAFKA or *grain* in Swahili, we thought it fitting to give this project a similarly meaningful Swahili name.

local institutions to lead informed dialogue on policy and regulatory issues in the agriculture sector and advocate for the necessary changes.

The vision for SERA is twofold: to improve the policy and regulatory environment for agriculture growth and to build a group of public sector institutions, advocacy organizations, and individuals capable of performing rigorous policy analysis in support of evidence-based advocacy and policy reform. At the conclusion of the project, we expect USAID will leave behind sustainable capacity within the GoT to initiate, develop, and utilize evidence-based research in policy decisions and implementation, empowering local research and private sector advocacy groups to more effectively use analysis and strategic communications to lobby for change, and building national partnerships that create consensus around agriculture policy and monitor the impacts of policy. The SERA project will focus all activities around priorities identified in collaboration with the Southern Agriculture Growth Corridor of Tanzania (SAGCOT) initiative. The project will work closely with other Feed the Future Implementing Partners to leverage its resources, develop synergies and collaborate on important activities.

## **2. Implementation Progress**

**Policy Research and Reform** – Assisting the government to identify policy alternatives to the food crop export ban is the highest policy priority for the SERA project. The export ban has been used periodically for many years to deal with food crop shortages and food security concerns and it discourages investments in agricultural production and supporting services. It also makes it difficult to attract investors into SAGCOT, and without the potential for exports, an increase in production that would accompany Feed the Future Initiative would depress farm-gate prices. The government's reliance on export bans is because it is the primary policy tool available to address food security concerns. After discussion with government and other stakeholders, a program of work was proposed in a Concept Note (Annex 1) to the government in October. The program of work has four analytical components: 1) to examine the food security, poverty and economic growth trade-offs of the export ban and other policies; 2) to examine the regional growth potential of food crop trade to 2025 (Annex 5); 3) to examine the food security situation in Tanzania and the capacity to meet that need; and 4) to develop a policy options paper to present to the government. Suitable institutions were identified to undertake each of the research components and the policy options papers will be jointly prepared with REPOA and presented to the government in mid-May prior to the next parliamentary session that begins in June. The implementation workshop planned at the start of the analytical work has now been rescheduled for May after the analytical work is available to present to the government.

In addition to the focus on the export ban, the SERA project in collaboration with the East Africa Grains Council undertook an analysis of the Cereals and Other Produce Act of 2009 (Annex 2).

The Act authorizes the government to engage in commercial activities in any aspect of cereals and other produce and to regulate the activities of the private sector engaged in the same activities. In addition to a conflict of interest, the ability to both engage in commercial activities and regulate the private sector would be detrimental to the operation of the private sector. The SERA project prepared a background note on the content and implications of the Act in collaboration with the EAGC, and this background note was widely circulated. It helped to inform the stakeholders of the potential impacts on private sector activities of the Act, and has reportedly contributed to the government's reconsideration of the Act. Informal discussions with high ranking MAFC officials may have also contributed to a reconsideration of the impacts of the Act. SERA will now focus on alternative policy instruments to address the GoT's concerns about farmers who are not well served by the private sector because of their remoteness, high transport costs, or low production volumes.

A fact finding mission to Zanzibar was undertaken by the SERA team in December to begin discussions with the government on agricultural policy and food security issues (Annex 3). Many of the same issues, such as poor data, that constrain food security analysis on the mainland were also found to be important on Zanzibar and government officials have requested support to examine agricultural policy issues and improve data for monitoring food security. Zanzibar imports 80 percent of its main staple, rice. It has promoted increased rice production through fertilizer subsidies and expanded irrigation to reduce its dependence on imports. The role of the private sector in rice imports and food security is yet to be fully explored but will be a focus of future visits.

Two other areas of policy research undertaken during the quarter were to restart the development of the collateral registry system and to support the private sector and government in reforming seed policies. Both activities are essential to the commercialization of agriculture. The collateral registry system began under the AgCLIR and BizCLIR— Booz Allen-USAID Projects—was restarted and discussions held with the Bank of Tanzania and private sector stakeholders (Annex 4). Strong interest in continuing the work was found and the consultant who did much of the earlier work returned to work under the SERA project. Support for reforms of seed policy included discussions with the government and private sector industry association on how to contribute and the decision to focus initial efforts on improving the tax policy for seeds. The work plan had envisioned a value chain analysis, but after discussions with stakeholders that seemed premature and may be undertaken at a later stage depending on the outcome of ongoing discussions with the government and private sector. Both the collateral registry and the seed policy activities schedules were delayed because of the difficulty in arranging meetings with government and private sector counterparts.

**Individual and Institutional Capacity Building** – The main focus of SERA activities on capacity building during the quarter was to finalize the decision to jointly sponsor an agricultural policy seminar series in the Department of Agricultural Economics at Sokoine University with iAGRI, the Feed the Future Implementing Partner responsible for education and research. The objectives of the agricultural policy seminar series are to build capacity for agricultural policy research by providing funding for policy research and an enabling environment that encourages university faculty to undertake agricultural policy research. An agreement was reached with Sokoine University to support the policy seminar series and a senior faculty member of the department agreed to host the seminar series with support of other faculty members. Funding will be provided by SERA and iAGRI for policy research which will result in policy seminars at Sokoine University and the publications of the research papers in a journal devoted to the seminar series. It is hoped that the funding will stimulate interest in agricultural policy research, encourage informed debate on policy issues, and ultimately improve agricultural policies in Tanzania. Proposals for research to be funded under the policy seminar series will be presented by researchers in a concept note and funding will be competitively awarded by a seminar committee. Suitable papers will be edited and published in a research journal devoted to the policy seminar series, and outstanding papers will be eligible for additional funding support for submission to international research journals and/or presentations at international research meetings. The seminar series will begin with a call for papers during the next quarter and the first seminar will be held when research papers are available. The start of the seminar series was delayed until University approval could be obtained.

**Advocacy, Communications and Alliances** – Developing an effective advocacy and communications program, and building strong alliances with key stakeholders is important to the objectives of reforming policies to support the commercialization of the agricultural sector. A communications consultant was brought from Booz Allen headquarters to assist with the development of a communications strategy and to screen applicants for the SERA communications officer position. After receiving more than 60 applicants, and interviewing more than 10 local communications specialists, an excellent candidate was identified and hired to begin in mid-December. With continued guidance from the communications expert from Booz Allen, that person is now preparing an advocacy and communications strategy, preparing to undertake a stakeholder analysis, and beginning to design a SERA project logo and website. Close collaboration has been maintained with APCC, the consultants that developed the communications strategy and stakeholder analysis for SAGCOT.

The SERA project has been very active in building alliances with other Feed the Future Implementing Partners, organizations engaged in policy research and reform, and private sector stakeholders. This has allowed the SERA project to leverage both resources and its leadership

position to guide the policy research activities of other Feed the Future Implementing Partners and organizations and obtain financial support for its policy research. In addition to the capacity building activity of jointly sponsoring the policy seminar series at Sokoine University with iAGRI, SERA has also worked closely with NAFKA to assist them in designing and funding policy research on the regional export opportunities to 2025 (Annex 5). This is a critical part of the analytical work being prepared for the government on food security and export policies. NAFKA will fund this work while SERA will provide the intellectual leadership to direct the research.

Both the processing and nutrition components of Feed the Future Initiative have funding and staff for policy research and are engaged in discussions with SERA on how best to accomplish their research objectives. Collaboration on joint research activities can benefit both the SERA work program and the policy reform agenda. Two areas of possible collaboration are to reform policies to require fortification of imported refined palm oil and development of a research project to quantify the relationships between improvements in health and nutrition indicators, such as stunting and malnourishment, and the economic and policy environment that accounted for improvements in these indicators during the past decade. SERA would provide intellectual leadership while the Feed the Future Implementing partners working on processing and nutrition would provide funding and staff for these research and policy reform activities.

Alliances were built with other policy groups working on policy reforms and joint activities were undertaken with these groups and the private sector advocating policy reforms. SERA worked closely with the ANSAF Policy Working Group to better understand the Cereals and Other Produce Act of 2009 and engage the government in discussions on the implications of that Act. SERA worked with the East Africa Grains Council to prepare a background paper that was widely circulated and became the foundation of the Policy Working Groups engagement with the government. SERA also began discussions with the Tanzania Association of Seed Traders (TASTA) on how best to support its efforts to reform seed policy and identified key opportunities to support the reform efforts. SERA worked with REPOA to jointly prepare the Concept Note on Food Security, Economic Growth, and Poverty Reduction, that became the basis for the proposed analytical work on food security and export policies presented to the GoT. SERA will collaborate with REPOA to prepare the policy options paper to present to the government once the analytical work is completed

In addition to developing strong alliances within Tanzania, SERA has also actively leveraged its intellectual leadership to cooperate with other U.S. government agencies such as USDA, and research organizations, such as the International Food Policy Research Institute (IFPRI) in Washington, D.C., to utilize their resources to support the Feed the Future Initiative. A scope of

work has been developed jointly with USDA to deepen understanding of food security needs and capacity to meet those needs utilizing funding available for the global Feed the Future Initiative. This activity will be supported by the SERA team and is expected to lead to new tools to evaluate the food security needs and direct national resources more effectively to meet those needs in Tanzania. IFPRI has also agreed to undertake research to quantify the trade-offs between economic growth, food security, and poverty in Tanzania using their computable general economic (CGE) model. Funding will be jointly provided from the global Feed the Future Initiative and SERA team will provide guidance on the policies issues and local conditions essential to the success of such research.

### **3. Cross-Cutting Issues**

Gender, poverty alleviation, economic growth, and equity are cross-cutting issues that all Feed the Future Implementing Partners are concerned with and the SERA project is working to improve the national agricultural policy environment to address these issues. Since most maize farmers are women, helping the government to identify better policies to address food security will result in more equitable treatment of maize farmers and will have an important gender dimension. Maize farmers currently bear a disproportionate burden in the national efforts to ensure food security despite the high incidence of poverty among small maize farmers. Improved national policies should increase maize prices during years of regional food crop shortages and provide a more predictable policy environment for producers to expand production and invest in the agricultural sector. Farmers in remote rural areas will not be strongly affected by national policy reforms because they are often outside the reach of the private sector. These farmers will require special programs to lift them out of poverty and SERA has begun to examine the global experience in dealing with such farmers.

Other SERA policy reform activities will also have an impact on these cross-cutting issues, including efforts to improving seed policies which will increase the supply of high quality seeds available to farmers and reduce seed prices. The collateral registry system will allow SMEs better access to credit and that will reduce post-harvest handling and processing costs resulting in higher prices for farmers. Increasing economic growth by encouraging greater participation in regional food crop markets will alleviate rural poverty and provide greater employment opportunities for rural people both in their local communities and in urban areas. At the local levels, better targeting of food aid assistance will help to ensure that the assistance goes to the most needy and SERA is working to better understand food security needs at the district level to deliver required assistance in a timely and efficient manner.

#### **4. Stakeholders' Participation**

The SERA project has involved stakeholders in many aspects of its work activities, but closer involvement with stakeholders is desirable. Agricultural producers and consumers are the ultimate stakeholders and closer ties to both groups would enable better understanding of policy issues, allow better targeting of communications and advocacy programs, and focus capacity building. Since SERA is primarily engaged in national policy reforms most of our initial efforts have been directed at government, policy research and reform advocates, and organizations that represent producer groups or industry associations. These stakeholder involvements have included: working with REPOA on food security and export policies, working with the EAGC and the ANSAF Policy Working Group on the analysis and policy discussions on the CERALS and Other Product Act of 2009, working with the Bank of Tanzania on the collateral registry, and working with TASTA on seed policy reforms. SERA has also had discussions with other organizations about policy issues. These include regular consultations with AGRA about policy issues and USAID COMPETE on regional trade issues. In the future, it would be beneficial to forge closer ties with stakeholders and stakeholder groups and this should be possible as the policy reform agenda extends to the regional and district levels.

#### **5. Challenges and Constraints**

Data quality and timeliness are major constraints to policy research and efforts to address food security concerns. Apparent inconsistencies among data collected by different organizations for different purposes raise serious doubts about the quality of the data. For example, per capita consumption of the basic food staple, maize, in mainland Tanzania is reported to be declining while economic and demographic data such as per capita income and population have been growing rapidly for more than a decade. That is possible if consumption of other food staples, such as rice or wheat, increased to offset the decline in maize, but that does not appear to be the case. Measure of nutritional well-being such as levels of malnutrition and stunting have also declined which is more consistent with rising per capita staple food consumption than declining consumption. Those disparities raise doubts about the quality of production data since that is the basis on which consumption is estimated. Timeliness of data for food security policy decisions is also an area that needs improvement. If timely data is not available on food shortages, it is difficult for the government to utilize its resources effectively to alleviate food insecurity on both the mainland and Zanzibar.

Institutional capacity is also a constraint to policy analysis and reform as the best government officials are overworked and many lower level staff are not well trained to undertake policy analysis or support reform efforts. This limits the number of effective counterparts and makes it more difficult to obtaining timely meetings and feedback on important issues. A similar

situations is observed among faculty at Sokoine University where the best faculty are in constant demand for consulting which limits their time for policy research or engagement with government policy makers. Even among the research institutes, it appears that staff are almost always fully committed and unable to provide timely feedback on policy research and the policy reform agenda.

## **6. Management and Staffing**

Nicodemus Marcus joined the SERA team as the communications officer in mid-December and will be responsible for the communications and advocacy strategy, stakeholder analysis, development of the SERA web site and design of the SERA Logo. He has extensive experience in communications in Tanzania and comes to SERA following a four year assignment as communications specialist at the World Bank. He will work closely with the SAGCOT communications team and the Feed the Future communications team in Tanzania.

Marialyce Mutchler will join the SERA team in January as deputy chief of party and capacity building specialist. She most recently served as principal associate at Weidemann Associates, Inc. where she directed the operations of the company regarding new business, human resource allocation, and financial management of project portfolios. She was chief of party/program manager for the USAID funded Business Growth Initiative (BGI), a project that supported best practices in the design and delivery of enterprise development projects. In that capacity, she was responsible for all technical and management aspects of BGI including ensuring quality on all project deliverables and reporting, managing partners and core staff.

Management of the SERA project has been by the chief of party, Don Mitchell, since full implementation in September 2011. Bill Kedrock, the Booz Allen program manager, visited Tanzania to review operations and office procedures in late-November and early-December and will continue to oversee the management of SERA from his office at Booz Allen headquarters. RoseMarie LeongSon is the project assistant at Booz Allen headquarters in Virginia. Mary Kabatange is the office manager for SERA in Tanzania. In the future, Marialyce Mutchler will share some of the management responsibilities with the chief of party.

## **7. Planned Activities**

The next two quarters (January-March) and (April-June) of 2012 will be extremely busy for the SERA project as the policy work on food security, economic growth and poverty is completed and discussed with the government. The policy options paper to be jointly prepared with REPOA following completion of this work will also be delivered in mid-May or early-June and presented to the parliamentary committee or full parliament as requested by the government. Other activities including the continued development of the collateral registry system and

reforms of seed policy will remain priorities. The communications stakeholder analysis will be undertaken and a communications and advocacy strategy developed. The development of a SERA website in collaboration with the team developing the Feed the Future website will also be a priority activity. The SERA capacity building activities will continue to focus on the agricultural policy seminar series at Sokoine University, but will now expand to other areas with the addition of a capacity building specialist. A capacity building strategy will need to be developed to direct the limited resources of SERA to best use. Follow up activities on Zanzibar will be directed at more in-depth understand of the food security and agricultural policy issues.

## 8. Financial Summary

	SERA Year 1 - Q3			Quarterly Total	Cumulative Total
	Oct-11	Nov-11	Dec-11		
Labor Costs	\$29,760	\$34,515	\$104,130	\$168,405	\$311,401
Other Direct Costs	\$26,278	\$25,821	\$66,474	\$118,573	\$150,612
Total Costs plus Fee	\$56,038	\$60,336	\$170,603	\$286,978	\$462,013
Project Cumulative	\$231,074	\$291,410	\$462,013		

## ANNEXES

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### **ANNEX 1: FOOD SECURITY, ECONOMIC GROWTH AND POVERTY REDUCTION<sup>1</sup>**

The Government of Tanzania identified improving food security as a key long term development objective of its 2005-2010 National Strategy for Growth and Poverty Reduction (MKUKUTA),<sup>i</sup> and the soon-to-be finalized Tanzania Food Security and Investment Plan (TAFSIP) represents the implementation plan towards achieving long term food security, agricultural growth and poverty reduction. Food security, economic growth and poverty reduction are intertwined, with economic growth contributing to poverty reduction and poverty reduction contributing to improved food security. Poverty remains high in Tanzania, despite rapid real GDP growth (7% per year during 1999-2009),<sup>ii</sup> and poverty remains especially high in rural areas where 38% of households live below the basic needs poverty line compared to 16% in Dar es Salaam and 25% in other urban areas.<sup>iii</sup> According to the *Poverty and Human Development Report 2009*<sup>iv</sup> poverty in Tanzania is anchored in the widespread reliance on small-scale agriculture with approximately 75% of the population depending on under-developed smallholder primary agricultural production. This is reflected in the larger share of the rural population (24%) reporting that they often had a problem meeting their household food needs during the previous year compared to 15% of urban households according to the *Tanzania Demographic and Health Survey 2010*.<sup>v</sup> Thus, the challenge in meeting the food security needs of Tanzania is to provide food security for the poorest and most vulnerable populations without jeopardizing the economic growth potential that can reduce poverty. Agricultural growth is especially important to reducing poverty because poverty is concentrated in rural areas and the poor often depend on agriculture as their main source of income.

#### **Objective**

The objective of this concept note is to propose a program of work to be undertaken jointly by the SERA Project of USAID's Feed the Future Initiative, REPOA, and others to improve food security, reduce poverty and increase economic growth through increased food crop exports. As part of this program of work, the economic growth impacts of existing policies would be examined and their impact on poverty estimated. The economic growth potential of increased food crop exports to neighbouring countries would also be examined in a study of regional food markets and grain trade. Alternative approaches to food security would be considered and best practices from the region identified. A review of food security in Tanzania would be undertaken and a needs assessment used to identify potential efficiency gains and data requirements. The program of work is expected to take approximately one year and lead to a report to the

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<sup>1</sup> Prepared by the Booz Allen Hamilton SERA team of USAID's Feed the Future Initiative in collaboration with REPOA. October 10, 2011.

government from SERA and REPOA on alternative food security programs and their impact on economic growth and poverty reduction.

### **Food Security**

Food security has many definitions, but probably the one most often used resulted from The World Food Summit of 1996<sup>vi</sup> which concluded that *“food security exists when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food to meet their dietary needs and food preferences for an active and healthy life.”* This definition points to four dimensions of food security: availability, access, utilization, and stability.<sup>vii</sup> Availability means that there are sufficient quantities of food, through production or imports, of appropriate quality; access means that individuals have adequate resources for acquiring appropriate food for a nutritious diet; utilization means that individuals can reach a state of nutritional well-being where all physiological needs are met through adequate diet, clean water, sanitation, and health care; and stability means that a population, household, or individual must have access to adequate food at all times to be food secure. USAID’s Feed the Future initiative is a broad-based five year program, in collaboration with other donors, to increase food security in Tanzania by addressing the dimensions of food security and working to improve food production, agricultural productivity, infrastructure, policies, and nutrition. Feed the Future works with the Agricultural Working Group to leverage the various support mechanisms and expertise of donors in Tanzania, in order to be more efficient and responsive in support of the agricultural growth strategies of the Government of Tanzania. The SERA project is part of the Feed the Future Initiative and focuses on improving agricultural policies by rigorous facts-based analysis of key policy issues.

### **Exports, Economic Growth and Poverty**

Export led growth has been the path out of poverty for many countries, such as China, and the link between export growth and general economic growth is well established from both cross country and country specific research.<sup>viii</sup> The analysis shows that trade openness increases the growth of income and output, and there are strong links between overall economic growth and poverty reduction<sup>ix</sup> especially when the growth comes from the agricultural sector.<sup>x</sup> Tanzania is well placed to benefit from food crop exports because the East Africa region is food deficit and Tanzania has abundant land and a favourable climate to increase food crop production and exports. According to some estimates, Tanzania uses only one-quarter of its arable land for crop production. While the land not used for crop production is often used for a range of livelihood activities, some of it can be more intensively used to increase food crop production to both increase exports and increase domestic food supplies.

### **Political Dimensions of Food Security**

Food security is a complex issue and it has several political dimensions. The regional dimensions of food security are Tanzania's commitment to free trade within the East Africa Community (EAC) and its desire to contribute to food security within the region. The benefits of free trade in food crops within the EAC have been well established<sup>xi</sup> and would result in increased trade, lower price volatility, and greater food security in the region. However, the regional dimensions of food security are often overshadowed by the national and local dimensions. The Government of Tanzania took the short-term measure of imposing an export ban on maize in early July, 2011. That decision was taken in an effort to protect the citizens of Tanzania, particularly the most vulnerable, from the possibility that Tanzanian maize would be exported to other parts of East Africa at the expense of national food security. Tanzania also pledged to sell food crops directly to East African nations that were suffering from food shortages, in order to support those who have been most affected by drought and famine in the region. The Government of Tanzania is currently undertaking a vulnerability assessment on the food situation, which was to be completed by the end of September. If the assessment shows that there are adequate food stocks in the country, the Government has indicated that the export ban may be lifted. Until a more effective alternative policy instrument that meets its national political needs is available, these policies will likely continue.

The local dimensions of food security in food deficit areas often clash with the needs of producers and their political leaders in surplus producing areas. Local authorities in food deficit areas are obligated to ensure the food security of their population through their own actions or by relying on the actions of the national government. If the local authorities have confidence that the national government can and will provide emergency food supplies during periods of shortage, then they will be more willing to allow exports of food crops from their region. However if they lack such confidence, they may continue to ban food crop exports. Not all local authorities and politicians favour export bans and those from surplus producing areas want access to export markets as was demonstrated when twenty legislators from both political parties opposed the recent export ban in parliament.<sup>xii</sup> The political dimensions often dictate the policy action and a food security program will need to balance these various political dimensions if it is to be effective and sustainable.

### **Markets Prices and Growth**

Markets forces are essential to guide an economy to produce to meet consumer demand and policies that distort market forces and prices often lead to inefficiencies, lower economic growth, and inequities. For example, a maize export restriction reduces incentives for production and reduces exports of maize. That results in reduced economic growth in both the

agricultural sector and the broader economy. The agricultural sector is directly affected because the crop that is subject to export restrictions must then be sold in the local economy for lower prices. The general economy is affected because farmers purchase less inputs for use in production in future years and require less transport, storage and other services for the current harvest. They also purchase fewer consumer goods because they have lower incomes. Market distortions also lead to inequities when some benefit and others are harmed. In the case of a crop export restriction, the crop prices is reduced which harms the farmers that produce and sell the crop but it helps the consumers who buy the crop or buy the products made from the crop. Thus, the export restriction has the effect of transferring income from farmers to consumers. Traders and processors may also benefit from the export restriction at the expense of farmers and consumers and this could occur because the purchase prices of the crop bought from the farmers decline more than the sale price of the crop sold to the consumer. This could leave the traders and processors with increased profits because of the export restriction. A number of studies have reached that conclusion<sup>xiii xiv</sup> Therefore, the export restriction may benefit the consumers less than it harms producers.

Over the longer term, market distortions such as a maize export restriction can reduce Tanzania's ability to become a regular supplier of food crops to the region. This can occur because Tanzania's maize production grows more slowly than it would have without the export restriction and because neighbouring countries may not accept Tanzania as a reliable exporter and therefore develop their own production as an alternative. This would often need to be done at higher prices than imports from Tanzania which has abundant cropland and favourable climate for maize production. Other countries may also emerge as regular exporters in response to the higher prices in regional markets because of the export restrictions. An additional longer term impact of an export restriction is to reduce incentives for investing in public-private partnerships such as the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) that focuses on commercializing agriculture within the corridor. The SAGCOT initiative was born of the deliberations of the World Economic Forum on Africa in May, 2010 in Dar es Salaam and has strong government commitment.<sup>xv</sup>

### **Focus on Food Security**

Food security is a complex issue as already noted. The four dimensions of food security contained in the World Food Summit declaration of 1996 include increasing availability of food through improved incentives to farmers and improved infrastructure, ensuring access to food by providing safety nets to the poorest and most vulnerable, ensuring the utilization of food through adequate diets and food fortification to improve nutrition, and enhanced stability by reducing price volatility, increasing storage, and reducing post-harvest losses. The USAID's Feed the Future Initiative is working to support improvements in many of these dimensions of food

security. A work program to strengthen understanding of these various dimensions could help Tanzania to obtain the right balance between food security, economic growth, and poverty reductions. The SERA project of USAID's Feed the Future initiative and REPOA are available to support the Tanzanian government's efforts to improve food security in partnership with other organizations and institutions. The following specific studies could be undertaken to provide the knowledge to help design a food security program tailored to the needs of Tanzania. These studies would allow the Government to evaluate alternatives carefully before resources are committed or policies changed in order to avoid waste or sacrifice growth. Ultimately, a careful balancing of measures for trade, production, and poverty reduction are required.

### **Work Program**

The work program would be developed with the government, but could include the following activities. The final decision on consultants and organizations to conduct the analysis would be undertaken jointly between SERA, REPOA, and the Government.

### **Impacts of Current Policies**

In order to design better policies to address food security, economic growth and poverty reductions it is necessary to understand the impacts of current policies. This requires analysis that examines the impact on producers, consumers, and the overall economy of maize export restrictions in a comprehensive framework. This has been done for other policies in Tanzania by the International Food Policy Research (IFPRI) based in Washington using their Computable General Equilibrium (CGE) Model for Tanzania. SERA and REPOA would work with IFPRI to provide the necessary data and ensure the appropriate market linkages are included in the model. The output would be a report that estimates the impact of current policies on economic growth, poverty, and food security. Such estimates could then be used as a basis for evaluating other policies.

### **Potential Growth of Regional Food Crops Markets**

The East Africa regional food crops market may require large imports in the future because of rapid population and income growth, and the limited ability of many countries (especially Kenya) to increase food crop production as rapidly as demand. However, the magnitude of the growth potential needs to be better understood and this would be the focus of a study of regional demand and supply over the next decade. Such estimates could be used to better understand the potential economic benefit to Tanzania of expanding production to meet this demand, as well as the poverty reduction impacts and the food security impacts.

### **Assessing Food Security Needs and Capacity**

In additions to examining the impacts of current policies and the potential growth of the food crops market in Eastern Africa, it would also be important to assess the food security needs of Tanzania and the capacity to meet these needs. This would include a review of programs to identify and respond to food insecurity, including data quality and timeliness for monitoring food insecurity, management and use of the Strategic Grain Reserve to provide emergency food aid where needed, and the magnitude of emergency food aid required. This assessment would allow resources to be targeted to areas of the food security program requiring the greatest assistance to order for Tanzania to meet its food security objectives.

### **Developing a Food Security Options Paper**

Once the impacts of the current policies are quantified, the regional export market potential is assessed, and the food security needs and capacity of Tanzania are examined, a food security options paper could be designed that balances food security, economic growth, and poverty reductions. This would be done in a report to the Government prepared jointly by SERA and REPOA that benefits from the analysis undertaken and considerations of the best practices in the region to develop a food security program for Tanzania.

### **Timing of Studies**

The studies on the impact of current policies, potential of the regional export market and assessment of food security needs and capacity could be done concurrently. Once the results of these studies are available, a final report on food security, economic growth and poverty reduction in Tanzania could be prepared by SERA and REPOA.

## **ANNEX 2: REVIEW OF THE CEREALS AND OTHER PRODUCE ACT OF 2009<sup>2</sup>**

The Cereals and Other Produce Act of 2009<sup>xvi</sup> authorizes the Government to engage in commercial activities and regulate all aspects of cereals and other produce (including inputs, production, marketing, storage, processing, and trading). The Act creates the Cereals and Other Produce Board and authorizes it to engage in any commercial activity involving cereals and other produce<sup>xvii</sup> and it creates the Cereals and Other Produce Regulatory Authority and empowers it to regulate all aspects of the cereals and other produce industries.<sup>xviii</sup> The Act raises many concerns about the role and capacity of the Government, the business environment for the private sector, and the impact on smallholders. The authorization for the Government to both engage in commercial activities and regulate the same activities is a clear conflict of interest. The Act is not consistent with the Government's stated recognition of the private sector as the engine of growth in the development of the agricultural sector,<sup>xix</sup> and it is not consistent with the current efforts of the Government to commercialize agriculture by attracting investments to support Kilimo Kwanza and the Southern Agricultural Growth Corridor (SAGCOT). The Act would authorize the Government to supply inputs and purchase crops from farmers—activities that Governments have historically not done well and which have often resulted in delayed input deliveries and delayed crop payments to smallholders. It would re-introduce Government controls on the movement of cereals and other produce within the country, and introduce new restrictions on farmer's access to credit. The Act would prevent the development of a successful commodity exchange, and undermine the warehouse receipts system. It would have large budgetary implications, if fully implemented, and it duplicates authority granted to other institutions such as the Tanzania Bureau of Standards, the Tanzania Warehouse Licensing Board, and the Tanzania Food and Drug Authority. The Act is a threat to private property and investments, by providing for Government confiscation of private property if provisions of the Act are violated, and it interferes with the conduct of private sector activities in their legitimate business dealings.

### **Provisions of the Cereals and Other Produce Act of 2009xx**

THE CEREALS AND OTHER PRODUCE ACT, No. 19 of 2009 was enacted by Parliament of the United Republic of Tanzania on 20 November 2009. It provided for the establishment of the Cereals and Other Produce Board of Tanzania, whose main function "shall be to carry out commercial activities and such other activities as are necessary, advantageous or proper for the development of the cereals and other produce industry" (page 4). The Act also established the Cereals and Other Produce Regulatory Authority with the main function "to carry out regulatory

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<sup>2</sup> Prepared by SERA and EAGC for the Policy Working Group.

activities and other matters which are necessary, advantageous or proper for the benefit of the cereals and other produce industry” (page 19). The Act applies to Mainland Tanzania.

The Act gives the Board authority to facilitate agricultural research, extension, input services, promotion, disseminate information, promote technological advancements, and provide assistance to farmers Co-operatives or Organizations. The Board also is empowered to perform any commercial function associated with cereals and other produce, including purchasing and selling, importing or exporting, processing, warehousing, cleaning, drying, weighing, grading, and packaging and any other commercial function approved by the Minister responsible for Agriculture. The Act provides for the establishment of a Zonal Council in each agricultural zone and the Council has the power to regulate its own procedures in the proper conduct of its business.

The Act grants the Regulatory Authority the power to develop and enforce standards for processing and marketing, ensure fair competition, set and monitor indicative prices, collect and disseminate information, license persons engaged in marketing or processing of cereals and their by-products, regulate cultivation, marketing, processing, exporting, importing and storage of cereals and other produce. In addition, the Authority has the power to register growers, dealers, premises, and inspect facilities and collect information. The Authority has the power to issue import and export permits for cereals and other produce, and regulate or control the collection, movement, storage, sale, purchase, transportation, marketing, processing, distribution, importation, exportations, disposal and supply of cereals and other produce. The Authority is empowered to perform any other functions as required under the Act.

### **Specific Provisions of The Cereals and Other Produce Act of 2009**

The main functions of the Cereals and Other Produce Board (PART II, page 4-5, para 6-7):

**6.-(1)** The main functions of the Board shall be to carry out commercial activities and such other activities as are necessary, advantageous or proper for the development of the cereals and other produce industry.

(2) The Board may provide facilitation of -

- (a) agricultural research on cereals and other produce;
- (b) extension services to growers and other dealers of cereals and other produce;
- (c) input services, including fertilizers and agrochemicals;
- (d) promotion of production, marketing, processing and storage of cereals and other produce;
- (e) the dissemination of information or data relating to cereals and other produce;
- (f) the promotion of technological advancement in cereals and other produce; and
- (g) the provision of assistance in the formation of farmers Co-operatives or Organisations.

**7.-(1)** The Board shall, subject to the provisions of this Act and any other written law, perform any commercial function or hold interest in any undertaking or project associated with cereals and other produce under this Act.

(2) The commercial functions referred to under subsection (1) shall include to-

- (a) purchase and sell cereals and other produce at a competitive price;
- (b) import or export cereals and other produce;
- (c) process cereals and other produce;
- (d) provide warehousing services for cereals and other produce;
- (e) provide grain and other produce, cleaning, drying, weighing, grading and packaging services according to market standards; and (f) perform any other commercial functions approved by the Minister for the development of trade in cereals and other produce.

The main functions of the Cereals and Other Produce Regulatory Authority (PART II, page 18, para 4).

**4.-(1)** The main functions of the Authority shall be to carry out regulatory activities and other matters which are necessary, advantageous or proper for the benefit of the cereals and other produce industry.

(2) Without prejudice to the generality of subsection (1), the regulatory functions of the Authority shall include to-

- (a) develop and enforce sustainable agronomical standards for product, processing and marketing of cereals and other produce;
- (b) ensure fair competition, fair trade, and to set and monitor indicative prices as established by market forces and other matters related thereto;
- (c) collect, refine, maintain, or disseminate information or data relating to the cereals and other produce;
- (d) license persons engaged in the marketing processing of cereals or other produces and their by-products;
- (e) make regulations for cultivation, marketing, processing importation, exportation and storage of the cereals and other produce;
- (f) register grower, dealers, and premise relating to cereals and other produce;
- (g) inspect or cause to be inspected the farms, grains, premises and other facilities for the cereals and other produce;
- (h) issue import and export permits for the cereals and other produce;
- (i) regulate or to control the collection, movement, storage, sale, purchase, transportation, marketing, processing, distribution, importation, exportation, disposal and supply of cereal and other produces;
- (j) establish a system under which cereals and other produce trades shall register and report, for statistical purposes, information on the stocks handled or held by them;

(k) advise the Minister on the proper production of cereals and other produce in relation to the needs of Tanzania and the extent to which control over the exportation and importation of cereals and other produces is desirable or necessary; and (1) perform any other functions as may be require under this Act.

(3) In fulfilling its functions, the Board shall comply with general or specific directions which the Minister may give.

Funding of the Cereals and Other Produce Board (Part IV, page 9, para 17).

**17.** The funds and resources of the Board shall consist of-

- (a) such sums of money as may be appropriated by Parliament;
- (b) any money raised by way of loans, donations or grants from, within and outside Tanzania;
- (c) any loan or subsidy granted to the Board by the Government or any other person;
- (d) any money derived from commercial activities; and
- (e) such sums of money or property which may become payable to or vested in the Board under this Act or any other written law or in respect of any matter incidental to the carrying out of its functions.

Restrictions on credit and other facilitation to farmers (Part III, page 26, para 16).

**16.-(1)** A registered farmer may, for the purposes of facilitating farming activities, enter into contract for farming with a financier, buyer, processor, investor or banker.

(2) The contract for farming entered under subsection (1) shall be in the prescribed standard form and shall contain:

- (a) name and address of the registered farmer;
- (b) name and address of the financier;
- (c) obligations of the parties;
- (d) type or kind of facilitation to be granted or loaned to the farmer;
- (e) terms and conditions imposed on the farmer; and
- (f) such other information as may be necessary for the purpose of such contract.

(3) A contract for farming entered to under subsection (1) shall, before being signed, be approved by the Authority.

(4) A financier, buyer, processor, investor or banker shall not facilitate a registered farmer in any manner if that farmer does not have a contract of farming as required under this section.

(5) A person who contravenes this section commits an offence and shall on conviction be liable to a fine of not less than two million shillings but not exceeding five million shillings or to imprisonment for a term of not less than six months but not exceeding two years or to both

Forfeiture of Property (Part VII, page 36, para 36)

**36.-(1)** Where any court convicts any person of an offence under this Act or under any subsidiary legislation made under it, may order in addition to any penalty imposed, the

forfeiture by the Government of the property in respect of which the offence has been committed.

(2) Any property forfeited under this section shall be delivered to the Government and shall vest in the Authority free of any mortgage, charge, lien or other encumbrance.

(3) The Minister' shall have the power to determine the procedures for disposal of anything forfeited to the Government under sub-section (2).

### **ANNEX 3: ZANZIBAR AGRICULTURAL POLICY REVIEW<sup>3</sup>**

The fact finding mission was conducted for two days of December 22<sup>nd</sup> and 23<sup>rd</sup>, 2011 in Zanzibar through meetings and telephone interviews. The APA met the following:

- a) Ms Mansura Kassim, Director of Food Security Department
- b) Mr. Makame Mbarak Adurahman, Chief Planning Officer
- c) Mr. Nassor Mkarafuu , Planning Officer
- d) Mr. Khatib J. Khatib, Kizimbani Agricultural Research Institute
- e) Mr. Rashid

I would like to thank Mr. Juma Akil and Nassor Mkarafuu for the effort made to organize the meeting.

### **DISCUSSIONS**

#### **1. Food Security Policy**

Zanzibar has a Food Security and Nutrition Policy (FSN) and Food Security and Nutrition Program (FSNP) of April 2008. The two documents are comprehensively linking food security and nutrition concerns to poverty reduction and growth. The Policy is focused on three areas of (i) Boosting food production- 80% of rice is imported (ii) Availability i.e. enabling consumers to increase purchasing power and accessibility to food and (iii) Use pattern – diversifying from solely dependence on rice consumption. The Zanzibar FSNP is a 10 years plan of actions designated to be implemented in two five years phases. The first phase is coming to end in 2012.

Overall, the FSNP has four components stated as (I) Community interventions for FSN improvement (II) Enhancement of nutrition security and food shocks impact mitigation (III) Enabling environment for implementation of FSN interventions and (IV) Program management and coordination.

#### **Implementation:**

Phase one envisaged building of institutions that will oversee implementation right down from *Shehia* (village) to the national level. With regard to the implementation of FSN program, the program has not being implemented to its full context. So far they have managed only to work on component four of management and coordination by establishing institutions responsible to oversee the implementation of FSN interventions at national, district and *shehia* levels. In addition, capacity building activities for district and *shehia* levels institutions have been

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<sup>3</sup> Alex Mkindi, Agriculture Policy Advisor, SERA.

undertaken with a major aim of build the capacity to plan, implement and monitor FSN interventions at sub-national levels. Up to now, the Food Security and Nutrition Council has not been inaugurated which would then be followed by inauguration of the District Management Teams and the *Shehia* Food Security and Nutrition Committees.

Food quality is by law the responsibility of Food and Drug Board which works independently from the Ministry of Agriculture. The responsibility of the ministry with regard to nutrition is only on sensitization and education intervention. Stunting and underweight is significant ranging from 13 – 20% in some areas.

On the availability, at national level the insecurity is from the fact that almost 80% of rice requirement is imported. At the household level availability is affected by the low purchase power and price parity between urban and peri-urban. Price is regulated by the Ministry of Trade and there are no interventions from the ministry of Agriculture.

## **Monitoring**

The Department of Food Security and Nutrition is using the Food Balance Sheet - also used as an Early Warning System tool to monitor food security. There is a concern on the quality of data that feeds to the system. Yields data is estimated by extension officers, and sent to the respective District Officers for consolidation and forwarding to the ministry. At the ministerial level, the data from districts is consolidated and sent to the Office of Chief Government Statistician (OCGS) for vetting and release<sup>4</sup>. In many cases data forwarded to OCGS is different from the one released and therefore Food Security department has to wait for data from OCGS before making assessment of food situation in the country.

Data collection system is not harmonized at field level<sup>5</sup>. Each extension officer uses his/her own methodology of computing estimates ultimately resulting to questionable totaled estimates at both district and ministerial level. Yet, there is no system of verification even when large variations are detected. Without harmonized system of data collection, and with lack of means for verification, the Food Security and Nutrition Department forecasts cannot be said to be reflecting the food situation in Zanzibar.

## **2. Input**

There is a new seed policy in perspective but nothing is yet in print. The ministry is taking administrative interventions inculcated in the Agriculture Sector Policy. Even though the policy strategy is very specific on the reduction of subsidies on fertilizers, chemicals and seeds to

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<sup>4</sup> Only data which is vetted by OCGS can be used in government plans.

<sup>5</sup> FAO had done capacity building years back but it seems the system is not being followed.

encourage private sector participation, the government continues with administrative interventions through subsidies on inputs. For example, on fertilizer, UREA is sold at Tshs 16,000/50kg bag as opposed to market price of Tshs 32,000. Seeds are also subsidized at 70% level with reason put forward that the use of seeds is very low and quality rice seeds in rice are not available. Only 6% of smallholder farmers use quality seeds. Seeds are produced by public research institutes and some is brought from the mainland. There are no private sector players in seed industry.

### **3. Land Use**

Zanzibar has an area of 66,500 acres that can be used for rice farming. Out of those, 21,300 acres are suitable for irrigation farming and the remaining 45,200 acres are used for upland rice farming<sup>6</sup>. Up to now the area with irrigation infrastructure is 1,750 acres, equivalent to 8.0 per cent only of the total area suitable for that type of farming.

Zanzibar has an area of 8,521 hectares, equivalent to 21,302 acres that is suitable for irrigation farming. Currently the area under irrigation is 700 hectares, equivalent to 1,750 acres which is 8.0 per cent only. Out of 19,552 acres, it is only 200 acres that have been provided with bands and the remaining area 19,352 continues to be used for low land rain fed rice cultivation. The challenges includes high costs of constructing infrastructures, lack of experts, high dependence on electricity which is very expensive, high costs for rehabilitating wells and their pumps due to poor technology, oldness of irrigation infrastructures and lack of appropriate implements for developing land.

Given the situation explained above, the Ministry of Agriculture has submitted an ambitious Rice Development Program proposal to the Revolutionary Council so as to address the challenges in the coming five years.

The total funding for the five year program is estimated to be USD 21.05 million.

### **4. The Agricultural Sector Policy**

The current policy dates back to 2002. It was prepared with the assistance of FAO. While the policy document is comprehensive, there is a sense that the policy is now outdated due to change of economic environment under which the sector is operating. There has been continued reforms to promote private sector involvement in agriculture which makes it necessary for the policy review.

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<sup>6</sup> Irrigation Master Plan (2004).

It was not possible to establish the major macro reforms and their impact in agriculture. However, it was reported that major importers of rice are private companies and that Zanzibar has not attracted major private sector investors in rice. It was not possible to meet with Ministry of Trade to establish competitiveness of importation process. However, records shows in 2010, two companies Bombay Bazaar and Yasser Provision Store received tax exemption to import 11,600 tons of rice and wheat flour during shortage; see [www.ippmedia.com/frontend/index.php?l=20376](http://www.ippmedia.com/frontend/index.php?l=20376)

The public has implemented major investment in irrigation schemes as well as other development projects in agriculture.

## **5. Next Steps**

The discussions showed that Zanzibar needs immediate assistance in two areas.

- a) Review of the system for computing the Food Balance Sheet including data quality and timeliness for monitoring food insecurity. The Director of FSN pointed this as a critical area where Zanzibar needs technical assistance from SERA. Currently she is not confident with the quality of data originating from the extension officers which is the basis for food situation forecasts. In addition, she would like to see a harmonized system for data collection and forecasts that is transparent and verifiable.
- b) The second area is the review of the Agriculture Policy. The policy which is coming to the tenth year is now outdated and needs to be reviewed to reflect the current macroeconomic environment.

## **6. Documentation**

Hard copies of:

- a) Zanzibar Food Security and Nutrition Policy – April 2008
- b) Zanzibar Food Security and Nutrition Program – April 2008
- c) Zanzibar Food Balance Sheet Report FY 2007
- d) Agricultural Sector Policy – 2002

## **ANNEX 4: SECURED FINANCIAL TANSACTIONS TRIP REPORT<sup>7</sup>**

### **Introduction**

The second trip under the renewed secured transaction activity under the SERA project of Booz Allen took place between November 16 and December 2, 2011. The main objective of the trip was to continue the work on the activity towards an action plan and to re-establish the contact with the local counterparties, in particular to have official meetings with the BoT representatives.

In parallel to that, the trip intended to allow modifications of the simulator planned for Tanzania based on local practice in local registries.

Finally, in parallel to the work on re-establishing the contacts with local counterparties and on adjustments of the simulator, the trip meant to allow further work with local advisors on the legal reform.

The trip included meetings with BoT, local legal consultants, visits to registries in both Tanzania Mainland and Zanzibar, and visits to private sector stakeholders.

All objectives were accomplished and the project has now both clear instructions how and which local officials have to be brought on board (upon instructions of BoT), adjustments of the simulator on inclusions of e-contracts in electronic registrations were made and bankruptcy and company laws were added to the list of legislations that the working group will have to deal with once it restart its work.

This report continues with the structure of providing information on progress on the three main components of the reform<sup>3</sup>

### **1. The Legislation – The first pillar**

The work on the legal reform of the project involved two components. First, the important meeting with the BoT provided a good spring board to accelerate the work on the legal reform through full cooperation not only with the BoT but also with the Tanzanian Government. Legislative reform will have to go through the various ministries before it goes to parliament and therefore approaching the government at this point has benefits with respect to the speed of the reform.

The BoT meeting which was conducted upon the request of USAID was fruitful in this respect. It included a request from the BoT to involve the Ministry of Finance in the legal reform and

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<sup>7</sup> Yair Baranes, November 16-December 2, 2011.

potentially in the working group. It was agreed that the project will approach the MoF and subsequently the working group will resume its work on completion of the proposed reform. The next step will be for the project to approach the MoF and get it on board, reporting to the BoT and resuming the work on the legal reform.

In addition to the meeting with the BoT, the bankruptcy legislation was examined in terms of priority provisions as well as the company act. In meetings with the local legal consultant it was determined that these two pieces of legislation need to be examined with the working group as part of the overall related legislative reform. This task will be done when the working group resumes its work.<sup>4</sup>

## **2. The Future Registry of Tanzania**

In terms of the work on the registry, there were two main activities. First, the Tanzania Revenue Authority and the Vehicle Registry in Tanzania Mainland as well as the Land Registry in Zanzibar were visited and processes of registrations and examination of registration documents was conducted. The purpose here was to determine if tax liens can use the future pledge registry and if vehicles should be included in the list of properties that are subject to the future pledge registry. Additionally, in Zanzibar it was necessary to determine if the registry is ready for the reform.

The conclusions were as follows:

With respect to tax liens, conceptually the tax department can utilize the pledge registry. However, more meetings will have to be conducted with tax officials to agree on the priorities of tax liens when registered and when not as well as on the procedure of registration. Of course, capacity building will also have to be conducted at the authority but this will come in next phase of the reform.

Vehicles will not be likely to be included in the future electronic registry before full understanding and agreement by local counterparties. The reason is that during the visit it was obvious that the public relies on the current registry and any change will require massive public awareness campaign to avoid confusion. Additionally, the registry functions relatively well although it uses significant amount of paper work.

The reform in Zanzibar will take much longer than that was expected. This was also determined in the previous trip as a result there is no change in the 5 recommendations to continue the reform in Tanzania Mainland on the establishment of modern pledge system.

The meetings also facilitated adjustments to the simulator to perfect it to the needs of Tanzania. The main change included providing the possibility to attach digital documents (contracts, tax liens) to the electronic registration.<sup>6</sup>

### **3. Building Local Capacity**

The purpose of the second trip was not increasing local capacity. However some work on awareness was conducted. A visit to a medium factory was conducted and talks with a new credit fund were also conducted. Both represent private sector potential borrower and potential financial institution that can rely on movable property. It was clear that collateral is critical for both sides and it was also clear that with the high interest rate charged for credit there is need for the reform. The meetings with the Bora factory management revealed that borrowers refrain from taking credit because of the high interest rate and lenders refrain from granting it because of the high risk of not being able to recover the collateral.

The discussion about the future system was important and created interest. It was agreed as well that the efficiency of the judiciary and the enforcement agencies play a vital role in credit decision making and currently their operation presents a barrier to access to finance. This information will be important during the third phase of the project capacity building.<sup>7</sup>

### **4. Action Plan Phase 1 – Legal Reform – working group**

This proposed action plan will have to be adjusted based on consultations with the local counterparties. It includes the activities necessary to bring about the legislative proposed bill to be completed so to be submitted to the government.

1. Letter to MoF – the project will submit the letter to MoF (by December 9, 2011).
2. Report to BoT – following reply from MoF, the project will coordinate with the BoT the schedule for the working group first meeting (by December 22, 2011).
3. Action Plan - Consider and Approve Action Plan as provided in First Report.
4. First Meeting of Working Group – (early to mid-January 2012)
  - a) Overview of proposed law and related legislation
  - b) Presentation of Simulated registry
  - c) Presentation of current status of the reform – first draft and setting up deadline to submit members’ comments.
5. Second Meeting Working Group - (early to mid-February 2012)
  - a) Examination of proposed changes by working group
  - b) Incorporation of changes agreed upon
  - c) Presentation - second draft & setting up deadline for members’ comments.
6. Final Meeting Working Group – Final Draft (same trip as #4, mid to late-February 2012)
  - a) Examination of proposed changes by working group

- b) Incorporation of changes agreed upon
- c) Presentation of final draft.
- d) Assisting to submit proposed final draft to the MoF.

Next phases upon action plan (first report) will be discussed during this period.

## **5. Next Steps**

1. Letter to MoF - The next step will be for the project to approach the MoF and get it on board, reporting to the BoT and resuming the work on the legal reform. At the request of BoT the project will submit a letter likely through the Prime Minister Office to get the MoF on board.
2. Action Plan – following the first step and in accordance with what we will hear from the MoF, an action plan will have to be completed. At this point however, a preliminary action plan was provided for the first part of the activity.
3. Next Trip – it is expected that following the first two steps the project will request to convene the first meeting of the working group and present the legal reform as may need to be changed (see above, action plan).

## **ANNEX 5: TOR FOR A STUDY OF EAST AFRICA’S REGIONAL FOOD CROPS TRADE**

Tanzania may have the potential to become a significant exporter of food crops, especially maize, to the East Africa region and the Horn of Africa<sup>8</sup> because of its large and relatively underutilized natural resource base and the growing import demand of bordering and neighboring countries. Kenya is currently the largest importer in the region, with average maize imports of 530,000 tons during 2007-2011, but rapid population and income growth and limited land for expanding crop production may cause imports to rise in other countries in the future. While Tanzania has a transportation advantage for supplying the Kenyan market, it will still need to compete with other exporters in the East Africa region, such as Uganda, and countries in Southern Africa such as Malawi, Zambia, Zimbabwe and South Africa. If Tanzania is to reach its export potential, it will need to focus on expanding production and pursuing policies that encourage exports rather than restricting exports as has been the case in recent years. This shift in policy will need to be driven by a better understanding of both the magnitude of the potential import demand in the region and the competitiveness of Tanzania in food crop production and exports.

The objective of the proposed study is to estimate the potential for growth in annual regional trade in food crops within East Africa and the Horn of Africa and the competitiveness of Tanzania to export to those markets through 2025. The proposed study would have three components:

1. A commodity-based analysis of the demand and supply of staple foods in Tanzania and potential trading partners in order to ascertain what potential exports would be and how the regional pattern of annual trade might evolve over the period to 2025 if policy distortions were removed.
2. Undertake a domestic resource cost (DRC) analysis of actual and potential exports from Tanzania by examining specific value chains from production to final market. At each stage in the value chain, as well as for the entire value chain, the specific product, zone, technique, and economic actors would be defined and the financial and economic profitability calculated.
3. Based on the results from components 1 and 2, a model would be constructed that would link the most important trading partners. This model would then be used to simulate the impact of drought on domestic and world market prices and other exogenous variables including trade flows, and financial and economic profitability. The impact of risk associated

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<sup>8</sup> The East Africa Region includes Kenya, Tanzania, Uganda, Rwanda and Burundi, and the Horn of Africa includes Djibouti, Eritrea, Ethiopia, South Sudan and Somalia.

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with fluctuations in prices and trade flows resulting from export bans would be examined and the impact of reducing this risk estimated on production.

The study would be undertaken during January-April 2012, with a preliminary report due by May 15<sup>th</sup>, and a final report due by June 15<sup>th</sup>.

## ENDNOTES:

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- <sup>i</sup> United Republic of Tanzania, National Strategy for Growth and Reduction of Poverty, Vice President's Office, June 2005.
- <sup>ii</sup> World Bank, Tanzania at a Glance, February, 2011.
- <sup>iii</sup> United Republic of Tanzania, Household Budget Survey 2007, National Bureau of Statistics 2009.
- <sup>iv</sup> United Republic of Tanzania, Poverty and Human Development Report 2009, Ministry of Finance and Economic Affairs, December 2009.
- <sup>v</sup> United Republic of Tanzania, Tanzania Demographic and Health Survey 2010, National Bureau of Statistics, Dar es Salaam, Tanzania, April 2011.
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