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MINISTRY OF AGRICULTURE, FOOD SECURITY AND COOPERATIVES



Agricultural Sector Review and Public Expenditure Review for 2007/08

(DRAFT REPORT)

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ABBREVIATIONS AND ACRONYMS

AGITF	Agricultural Input Trust Fund
ASDP	Agricultural Sector Development Programme
ASDS	Agricultural Sector Development Strategy
ASLMs	Agricultural Sector Lead Ministries
ASR	Agriculture Sector Review
CARMATEC	Centre for Agricultural Mechanization and Rural Technology
CFAA	Country Financial Accountability Assessment
CFC	Common Fund for Commodities
CRMP	Cooperative Reform and Modernization Program
DADG	District Agriculture Development Grant
DADPs	District Agricultural Development Plans
DALDOs	District Agriculture and Livestock Development Officers
DDPs	District Development Plans
DIDF	District Irrigation Development Fund
DPP	Department of Policy and Planning
FASWOG	Food and Agriculture Working Group
FY	Financial Year
GBS	General Budget Support
GDP	Gross Domestic Product
GoT	Government of Tanzania
HBS	Household Budget Survey
IPM	Integrated Pest Management
LGAs	Local Government Authorities
LGCDG	Local Government Capital Development Grant
LGMD	Local Governments Monitoring Database
MAFC	Ministry of Agriculture, Food Security and Cooperatives
MDAs	Ministries, Departments and Agencies
MLD	Ministry of Livestock Development
MIF	Micro finance Institution
MITM	Ministry of Industry, Trade and Marketing
MKUKUTA	Mkakati wa Kukuza Uchumi na Kuondoa Umaskini Tanzania
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
MTPs	Medium Term Plans
NAIC	National Artificial Insemination Centre
NARCO	National Ranching Company
NBS	National Bureau of Statistics
NGOs	Non Governmental Organizations

NSGRP	**National Strategy for growth and Reduction of Poverty**
PAF	**Performance Assessment Framework**
PER	**Public Expenditure Review**
PFMRP	**Public Financial Management Reform Program**
PMO-RALG	**Prime Minister's Office-Regional Administration and Local Governments**
PRBS	**Poverty Reduction Budget Support**
PRS	**Poverty Reduction Strategy**
PRSP	**Poverty Reduction Strategy Paper**
RADPs	**Regional Agricultural Development Plans**
RDPs	**Regional Development Plans**
SBAS	**Strategic Budget Allocation System**
SMEs	**Small and Medium Enterprises**
SMU	**Sector Monitoring and assessment Units**
SNA	**System of National Accounts**
SWAP	**Sector Wide Approach**
TADC	**Tanzania Agribusiness Development Center**
TDV 2025	**Tanzania Development Vision-2025**
TIC	**Tanzania investment Centre**
TMTP	**The Tanzania Mini-Tiger Plan**
TWG	**Thematic Working Group**
URT	**United Republic of Tanzania**

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I: BACKGROUND: RATIONALE FOR ASR, PER AND APPROACH

Rationale for Agricultural Sector Review (ASR) and Public Expenditure Review (PER)

1. An Agricultural Sector Review (ASR) is a sectoral instrument that is carried out once after every five years. The last comprehensive ASR was carried out in 2006. The broad objective of the 2006 ASR was to establish a consensus among stakeholders on the evaluation of recent performance, key issues and priority options in the development of the agricultural sector in Tanzania. Specifically, the review was intended to identify and analyze key trends, success factors, and challenges, identify, evaluate, propose critical strategic and policy options to improve the performance of the sector, identify and evaluate future core public spending priorities and reforms in the sector, agree on a framework for reviewing the agricultural sector, including ASDS and ASDP reviews, assess the adequacy and shortcomings of policy making and dialogue among stakeholders in the sector and propose improvements, and provide inputs into the GBS review in October 2006 and the 2007/08 budget planning. This review was particularly important given the new policy directions and thrust engendered by the NSGRP/MKUKUTA (June 2005) and the ASDS (October 2001) that have changed the perspectives for agricultural development in the country. This year's ASR mainly focused on progress made in the implementation of the 2006 ASR recommendations, as well as evaluating agricultural sector and its sub sector's performance since 2006/07, the first year of implementation of ASDP.

2. On the other hand, the annual Public Expenditure Review (PER) process, which was introduced in 1997, serves several purposes. First it informs the government budget process, in particular the preparation of the Medium Term Expenditure Framework (MTEF) and budget guidelines; secondly, it analyses the composition of government spending, its consistency with policy and the effectiveness of programmes; thirdly, it supports the development of public expenditure management systems; fourthly, it provides a mechanism for external transparency and a forum for coordination with donors regarding policy and expenditure priorities; lastly, it provides a forum for more stakeholder involvement in the budget process (CFAA, 2001, PER 2003). It is therefore an important, government-led instrument that embraces the whole budget process because it informs resource projections, and, eventually, preparation of the budget guidelines.

3. The PER process, which encompasses both national and sectoral levels has essentially two stages, both of which are important in the budget process; the first stage, usually undertaken in September to December, informs the preparation of the comprehensive budget guidelines, including the resource envelope and allocations. These findings are used to update sector MTEFs and donor financing plans. The second stage, undertaken in November to May, entails an evaluation of performance during the previous year and identification of issues and priorities for system reform. The two stages culminate in a consultative meeting in May, with discussions focusing on macro-economic issues, external evaluation and the cross-cutting MTEF. The MTEF in this case is a linking mechanism, not only for the forecasting of revenues and expenditures, but also as the operational plan that include implementation details and outputs that enable it to provide the basis for revenue/expenditure estimates and the foundation of the accountability/performance relationships between line MDAs and such central agencies as the Ministry of Planning, Economy, and Empowerment (MPEE), and, President's Office, Public Service Management, and the Ministry of Finance (MoF)

4. At the same time, the Sector PERs are a key mechanism for ensuring alignment of sector budgets with the NSGRP and sector policies/strategies and programmes. The sector PERs are conducted annually as part of the overall budget process to enhance its quality and to provide a forum for stakeholder involvement at the sector level (PER 2003). The agricultural sector is one of the sectors that have integrated PER instrument into the budget process, hence this assignment. Both the ASR and the PER complement each other and are undertaken to provide important inputs to the ASDP in order to measure the contribution of agriculture to national growth and poverty reduction objectives as provided in the Tanzania Development Vision 2025 (TDV 2025) and the NSGRP. They also help to guide resource allocation in the sector.

Objectives of the assignment

5. The objective of the current ASR/PER review is to assess the agricultural sector performance and public expenditure performance in the sector. More specifically the review will:

- examine and review the implementation status of 2006/07 ASR and PER recommendations,
- assess sectoral and sub-sectoral performance since last year, and
- examine the planning, public expenditure and financial management in the agricultural sector

Approach

6. This review relied primarily on desk work. A number of documents that appear in the appendix informed the study. The study was undertaken in a participatory manner involving continuous consultations with senior members of ASLMs, and workshops drawing representatives from the Government, private sector, Non-Governmental Organizations and development partners. More specifically, the study benefited considerably from the Reference Group meetings and the stakeholder workshop that was held in Bagamoyo on 5-6 November 2007. Throughout the study period, the team benefited from the continuous support of the five members from the ASLMs. The Terms of Reference (TORs) for the study are found in appendix 1 of this report.

II. POLICY FRAMEWORK FOR AGRICULTURE -MKUKUTA, ASDS

7. There is now a consensus that agricultural growth is necessary if poverty reduction is to be meaningful. World Development Report, 2008 provides that "As an economic activity –agriculture can be a source of growth for the national economy, a provider of investment opportunities for the private sector, a prime driver of agricultural related activities and the rural non-farm economy" This is so in Tanzania, especially given that about 80 percent of her people live in the rural areas and depend on agriculture for their livelihood. Agriculture plays an important role in Tanzania. It provides livelihood to more than 70 percent of the population, meaning that more than 70 percent are employed in the sector. The sector is the main pillar to food security especially in the rural areas. It accounts for more than 40 percent of GDP in the economy, and provides strong inter-sectoral linkages with non-farm sectors, both backward and forward linkages. Such multipliers provide an important catalytic effect to economic development. In terms of Tanzania's ability to participate effectively in the new global economy, agriculture becomes the lead sector that gives the country a comparative advantage if effectively promoted and diversified. Agricultural development therefore remains a key to the country's economic and social development, at least in the foreseeable future.

8. In recognition of the above, today investments in agriculture and hence implementation of agricultural policies and programs in the country are informed by two strategic policy frameworks. These are the **National Strategy for Growth and Reduction of Poverty** (NSGRP/ **MKUKUTA**) and the

Agricultural Sector Development Strategy (ASDS). Other policies include the recently formulated **National Livestock Policy, 2006, and the Agricultural Marketing Policy which is being finalized.** The 2006 ASR provided a review of the NSGRP, ASDS and other agriculture related policies with a view to providing a basis for assessing the relevance and consistency of the existing numerous agriculture-related policies. The review notes that a plethora of agriculture-related policies, which are not necessarily consistent with one another and are not fully in tune with NSGRP and the ASDS exists. While we share this concern, the present ASR/PER study undertake to describe these policies with a view to assessing the extent to which investments in the sector are consistent with these planning frameworks. We therefore mainly focus on the two strategic blue prints, the NSGRP and ASDS that underpin current reforms in agriculture.

9. The NSGRP has identified poverty as largely a rural phenomenon, and that the poor are concentrated in subsistence agriculture. The strategy has therefore singled out agriculture as one of the priority sectors for achieving poverty reduction and economic growth objectives, within which investment programmes such as DADP, should be prepared. **The NSGRP,** which is a five year national strategic blue print **(2005/06 to 2009/10)** is a second national organizing framework for putting the focus on growth and poverty reduction high on the country's development agenda It is informed by the aspirations of Tanzania's Development Vision (2025) for high and shared growth, high quality livelihood, peace, stability and unity, a strong and competitive economy, good governance, and a well educated and learning society. The NSGRP builds on PRSP (2000/01-02/03), the PRS review, the Medium Term Plan (MTPs) for Growth and Poverty Reduction and the Mini-Tiger Plan 2020 (TMTP2020) that emphasize the growth momentum to fast-track the targets of Vision 2025 (NSGRP, 2005).

10. The NSGRP has identified increases in factor productivity with a focus on technological change with particular attention on rural/agricultural productivity and its associated linkages with industry as one of the important sources of growth. In particular, within the strategy of promoting sustainable and broad based growth (one amongst the strategies/goals of NSGRP) increasing productivity and profitability of agriculture is top of the agenda.

11. Three major cluster outcomes are identified under the NSGRP strategic framework (see **Box 1**)

Box 1: Major clusters and broad outcome and broad goals of cluster 1

1. Growth and reduction of income poverty: poverty is categorized in terms of income poverty and non-income poverty
Broad Outcome: broad based and equitable growth is achieved and sustained
Broad goals under this cluster are:
Ensuring sound economic management Promoting sustainable and broad based growth Improving food availability and accessibility Reducing income poverty of both men and women in rural areas Reducing income poverty of both men and women in urban areas Provision of reliable and affordable energy to consumers
2. Improvement of Quality of Life and Social wellbeing 3. Governance and accountability

12. Operational targets within the first cluster of NSGRP that are relevant to agriculture are contained in **box 2**

Box 2: Operational targets within cluster 1 relevant to agriculture

- Increased agricultural growth from 5% in 2002/2003 to 10% by 2010;
- Increased growth rate for livestock sub sector from 2.7% in 2000/2001 to 9% by 2010;
- Increased food crops production from 9 million tons in 2003/04 to 12 million tons in 2010;
- Maintained Strategic Grain Reserve of at least 4 months of national food requirement;
- Reduced proportion of rural food poor (men and women) from 27% in 2000/01 to 14% by 2010
- Increased productivity and profitability both within and outside agriculture sector
- Secured and facilitated marketing of agricultural products;

13. The NSGRP has spelt out a number of strategies for achieving the above operational targets. These are presented in **box 3**.

Box 3: Agricultural Strategies for achieving the operational targets shown above

- Increase number of irrigation schemes and development of more efficient use of water schemes;
- Increase area under irrigation and promote water use efficiency in irrigation schemes and encourage utilization of low cost technologies;
- Promote rainwater harvesting, incorporating small, medium and strategic large scale dams and reservoirs;
- Increase productivity in existing agricultural activities through adoption of and investment in more productive technological packages in agriculture (farming and husbandry);
- Increase training and awareness creation on safe utilization and storage of agro-chemicals (including agriculture and livestock inputs; e.g., cattle dips) and the use of integrated pest management, eco-agricultural techniques and use of traditional knowledge;
- Improve human resources capacity and efficiency in agricultural services delivery;
- Strengthen capacity for timely control of crop pests and disease outbreaks, in particular *Quelea quelea,* armyworm, locusts, rodents and trans-boundary crop and animal diseases, promote integrated pest management (IPM);
- Improve and increase access to support services with particular focus on research and extension meeting the needs
- Research, identify and promote food storage of farmers, fishermen, foresters and livestock keepers, and increase communication and collaboration in delivery of extension services;
- Promote efficient use of rangeland and empowerment of pastoral institutions and allocation in delivery of extension services.
- Promote programs that increase income generating opportunities for women and men in the rural areas through promoting local small-scale industries, non-traditional products and traditional crafts;
- Promote pastoralism as a sustainable livelihood system;
- Construct more water charcos, improve access and quality of veterinary services, and promote dairy and leather industries (SMEs);
- Ensure improved access to reliable water supply for livestock development through promotion of small scale rainwater harvesting;
- Improve access to inputs by subsistence farmers through targeted inputs subsidy to selected food crops and increasing accessibility to micro-

finance credit;

- Research, identify and promote food storage technologies /facilities and enhance agro-processing as well as environmentally friendly farming technologies and practices, especially for rural areas;
- Improve stock management and monitoring of food situation;
- Undertake a review of the maize supply chain, management and monitoring of emergency of food supplies, including further clarification of regulation and means of enhancing trade;
- Encourage production of crops with high returns;
- Increase access to mechanization and use of appropriate technologies, including rural energy services that reduce drudgery; and
- Increase access to reliable water as a resource for economic production with the aim of increasing the contribution of water in GDP and ensure sustainable management of water catchments areas and maintenance of forest cover in crucial highland catchments areas.

14. The Agricultural Sector Development Strategy (ASDS) (2001). The preparation of the ASDS in 2001 was the first step in the formulation of an Agricultural Sector Development Programme (ASDP) that will form the basis of GoT budget allocations and negotiations with international development partners on their future support. The vision of the ASDS is to have an agricultural sector that by year 2025 is *"modernized, commercial, highly productive, utilizes natural resources in an overall sustainable manner and acts as an effective basis for inter sectoral linkages"***.** It is recognized that this will require transformation of the current subsistence-dominated production systems into commercial and profitable systems, hence have an agricultural sector that can contribute to growth and therefore able to reduce poverty. The goals, operational targets and strategies are consistent with MKUKUTA primarily because the ASDS served as one of the inputs in the preparation of MKUKUTA.

15. The private sector is envisaged to lead the modernization and commercialization by investing in research, extension, and marketing, while local government authorities (LGASs) will implement, co-ordinate and monitor ASDS implementation at district level. The following are the major components of the ASDS:

- *Strengthening of the Institutional Framework:* Includes the clarification and strengthening of government's facilitating and regulatory roles. A

training fund will be established to build capacity of central ministries, LGAs, stakeholders' organization and co-operatives

- *Agricultural research*: Privatization of the cash crop research and institutionalization of client-oriented research will be accelerated. GoT will change and improve the management of the National Research Fund. Funding of research will be shared among central government, LGAs, commodity boards and the private sector.

- *Agricultural Extension Services*: LGAs who are responsible for extension services will be using a number of approaches. With matching grants from a National Extension Fund, LGAs will contract private enterprises, NGOs and Sokoine University of Agriculture to provide services where this is commercially feasible. In contract farming/out grower schemes, LGAs may cost-share the provision of services. In other areas, where user payment is not an option, government will continue to deliver and finance the services.

- *Facilitating Investment:* LGAs in collaboration with the Bank of Tanzania, MCM and private sector agencies will promote a gradual establishment of a variety of Micro Finance Institutions (MFIs) on a demand basis. It is recognized that the establishment of viable MFIs will be agonizingly slow and, at times, risky and uncertain, but there is virtually no alternative. In addition, Government will through various incentives, promote contract farming and outgrower schemes where farmers will be ensured inputs, advice and markets.

- *Markets for Inputs and Outputs:* It is planned to expand the Input Voucher System, used for some years by the coffee and tobacco industries, to other traditional export crops. To promote agribusiness and its linkage with small holders it is proposed to establish a Tanzania Agribusiness Development Centre (TADC) that will provide technical assistance on demand to private agribusiness enterprises. Government ownership and control of the commodity boards will be transferred to stakeholders. More importantly, however is the need to formulate an Agricultural Marketing Policy, which will guide the operations of agricultural marketing systems in Tanzania, ensuring coherence and avoid costly actions by various market participants.

- *Irrigation and Water Management:* The Ministry of Agriculture Food Security and Cooperatives (MAFC) will prepare a National Irrigation Master Plan incorporating the principles of integrated soil and water management, emphasizing the use of low-cost approaches.

- *Rural Infrastructure:* Priority will be given to the transport needs of high potential districts. A demand-driven approach will be applied and District Rural Infrastructure Development Funds will be established with central government support to provide grants to match local community efforts.

- *Fiscal Burden/Incentives:* Efforts will be made to rationalize the taxation regime where currently tax, levies and fees on agriculture number about 55 and charges go to 50 percent of the farm-gate price.

16. Other agriculture related policies are presented in Box 4 below.

Box 4: **Other agriculture related policies**

- The **National Livestock Policy** was recently **(2006**) formulated to inform current specific reforms in the livestock sub sector. The overall objective of the National Livestock Policy is to develop a competitive and more efficient livestock industry that contributes to the improvement of the well being of the people whose principal occupation and livelihood is based on livestock. It is informed by a number of policies including the NSGRP, ASDS, The National Trade Policy, Agricultural and Livestock Policy, 1997, and others**.** It is basically intended to update the Agricultural and Livestock Policy of 1997 in as far as livestock development is concerned.
- **A National Micro-Finance Policy (2000).** The policy is aimed at creating a supportive macroeconomic setting and a regulatory environment that allows sound financial institutions offering micro-finance services to emerge. The policy which is also aimed at promoting best practices in the area, covers provision of financial services to households, small holder farmers and small and medium enterprises in rural area as well as in the urban sector that are engaged in all types of legal economic activities.
- **The Strategic Trade Policy (2002-2007**) main objective is to promote a diversified and competitive export sector, enhance efficient domestic production so as to achieve a long term current account balance and consequently stimulate higher rates of growth and development. Encouragement of value addition on primary exports is one of the specific objectives of the policy. The policy takes cognizance of the need to transform agriculture and the need to promote competitive agro-

processing industrial sector as the foundation for trade development.

- **The Cooperative Development Policy (2002**) recognizes the important role of cooperatives in agricultural marketing. The Policy address the macro economic changes brought about by globalization, and liberalization forces as well as gender and environmental issues and the position of the marginalized groups such as women, youths and the disabled in the main stream of economic development. The objectives of the Cooperative Development Policy, 2002 include:
    - i) To encourage the establishment and continuous operation of member owned and member-controlled cooperatives;
    - ii) To encourage the establishment of economically strong cooperatives that are capable of operating as viable independent business entities;
    - iii) To support the establishment of viable cooperative financial institutions;
    - iv) To recognize and support small producer initiatives with the view of transforming them into future economically strong cooperatives;
    - v) To protect cooperatives business operations against unfair competition from private traders.

A programme to implement the Cooperative Development Policy, 2002 has been formulated Cooperative Reform and Modernization Programme (CRMP), April 2005 . The CRMP focuses on the following specific objectives:-

1. Foster emergence of appropriate organizational structures of the cooperatives movement with primary societies being a strong base of such structures, and facilitate growth of other forms of cooperatives;
2. Promote emergence of good governance in cooperatives i.e. leadership and management which is capable of managing cooperatives in business like manner while being accountable to members;
3. Promote membership empowerment through provision of appropriate education, knowledge and skills;
4. Promote economic viability and sustainability of cooperatives through focused assessment, encouragement of joint ventures, and adaptation of corporate and other planning tool;
5. Support modernization and or establishment of SACCOs, Cooperative banks to widen scope of financial products and services, and address the problems of indebtedness of cooperatives;
6. Build capacity of cooperatives support institutions to enable them to fulfill their mandates and thereby contribute to the process of transforming the cooperatives; and
7. Facilitate mainstreaming of key cross-cutting issues and linkages into the envisaged cooperatives transformation.

Agricultural and Livestock Policy, 1997 A comprehensive official statement of agricultural policy is contained in Agricultural and Livestock Policy, 1997, which is currently under review**.** The **Policy** commits itself to promote the agricultural and

livestock activities that are performed by both small farmers and livestock keepers and priority is given to resource-based enterprises particularly activities that add value to agricultural production.

The salient features of this can be summarized as follows:

i) liberalization of all agricultural markets and removal of state monopolies in export and import of agricultural goods and produce;

ii) withdrawal of Government from agricultural production projects;

iii) abandoning the objective of national food self sufficiency in favour of the objectives of food security at the national and household levels;

iv) reliance on the private sector (comprising smallholders, commercial farmers and pastoralists) for all agricultural production;

v) decentralization of agricultural extension to become the administrative and implementation responsibility of District Councils;

vi) integration of agricultural research with agricultural extension at the district level;

vii) the adoption of a new land policy to improve security of tenure and allocation of land; and

viii) government continued responsibility for industry regulation and assistance through commodity crop marketing boards.

An Agricultural Marketing Policy is currently being finalized. It is important that sectoral policies such as this one and the livestock policy should complement the ASDS and should in general, therefore, be compatible with the overall agricultural strategy. **This is something that warrant a follow up in subsequent ASR/PER.**

III. AGRICULTURAL SECTOR/SUB SECTOR PERFORMANCE

17. This chapter assesses the performance of agricultural sector for the period 2001-2006. It builds on the 2006 ASR. Like the 2006 ASR it also attempts to assess elements of the sector which would be expected to accelerate the development of the sector, and eventually identify strategic issues and challenges for future intervention. Consistent with the ASR 2006, performance in agriculture is assessed using some specific indicators which are in line with MKUKUTA/ASDS operational targets. These include:

- Macroeconomic indicators such as GDP growth, inflation rates, which provide a favourable/unfavourable environment for growth and poverty reduction, rate of export growth, and external trade balance

- Macroeconomic indicators related to agriculture such as Contribution of Agricultural sector to GDP, Agricultural sector growth rates, contribution of the sector to foreign Exchange earnings, rate of increase of agricultural exports, growth rate and share of non traditional agricultural exports in total agricultural exports (horticulture, edible vegetables, oil seeds, cereals, cocoa, raw hides and skins etc) contribution of the sector to income poverty reduction
- Specific Sector indicators such as producer incentives (prices, profits, taxes and subsidies), Farm productivity (Yields and labour productivity), rate of expansion of irrigation, rate of mechanization increase, rate of agricultural production diversification, agricultural export diversification, rate of private sector investment in agriculture, etc
- Public expenditure Allocation to agriculture

18. As noted by ASR 2006, specific data on agricultural performance is plagued by problems of data unavailability, inconsistency and unreliability. We do not want to repeat it here but suffice it to say that problem of reliable data collection in the country is a real one, and something needs to be done to improve the situation. Since most of the data originate at village level, there is need to sensitize them as well as LGAs on the need for accuracy and importance of data and statistics. **Training on data collection, processing and its utilization for their planning purpose for LGAs should be included in technical capacity building programs.**

As for national statistics, the problem of data inconsistency makes data comparison a difficult task. Depending on sources, some annual data is presented in a calendar or financial year and this alone is more often a source of inconsistency.

Macroeconomic Indicators Analysis: 2001-2006

19. Economic Performance and inflation: This section reviews the economic situation in the country since the last ASR with a view to providing a context within which the agricultural sector and sub sectors has operated. Generally, Tanzania continued to enjoy strong macroeconomic performance, after sustained economic reforms. Nevertheless, in the recent past (the year 2006), the economy has experienced a number of economic drawbacks. These include drought in the last quarter of 2005, which adversely affected crop production, livestock development and hydropower generation, as well as shocks related to rising oil

prices in the world market. This led to a slow down on GDP growth. The National Bureau of Statistics (NBS) has recently revised national accounts data covering Tanzania mainland, which has led to two data series (see details of revision of national accounts in **Box 5).** Despite this revision GDP data has not changed very significantly. After the revision, the real GDP is estimated to have grown by 6.7 percent in 2006, down from 7.4 percent recorded in 2005, but above the Government's target of 5.9 for 2006. In the old series, real GDP was estimated at 6.2 percent in 2006 down from 6.7 percent in 2005. In both cases the GDP growth rate has slowed down due to the factors described above. The slow down on GDP growth occurred in all economic sectors with an exception of transport and communication, financial intermediation and trade and repairs.

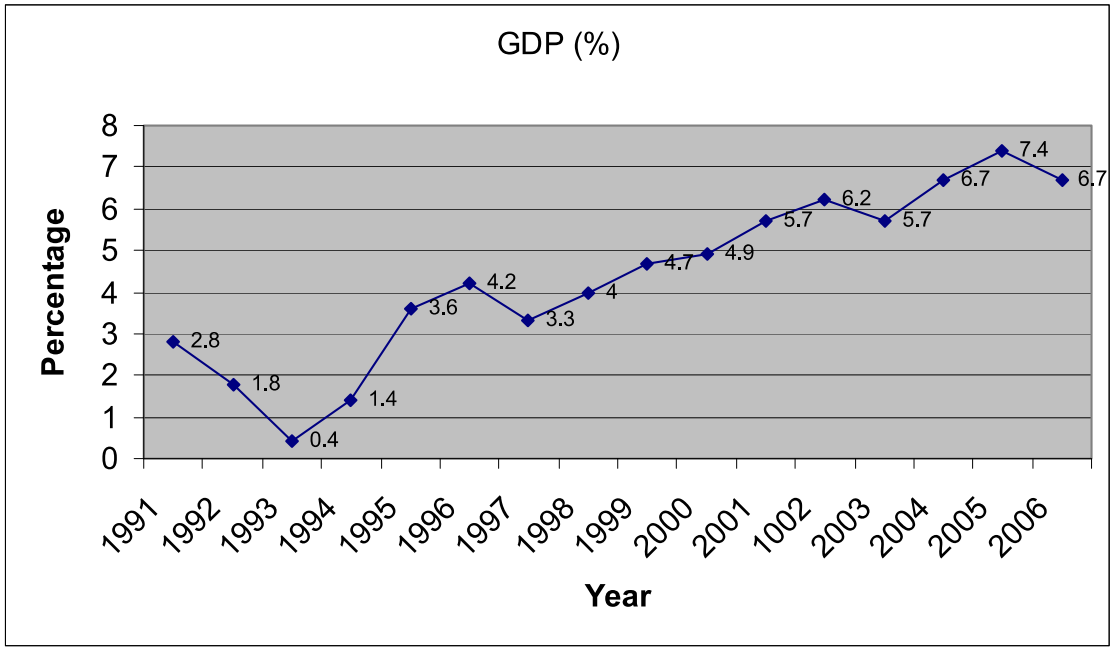


Figure1: GDP growth rates (BOT reports and NBS, various)

20. Inflation developments have shown a rising trend since January 2006, due to the above-mentioned inflationary pressures. Average annual inflation for the year until August 2007 was 6.9 percent, the highest being recorded in July 2007 at 9 percent and the lowest at 5 percent recorded in May 2007 (beginning 2006 inflation was 5.4 %, annual inflation by May 2006 was 7.7%). These rates were above the Government's target inflation rate of 5 percent by end June 2007. The main triggers during most of the half of 2007 were high and rising world oil prices as well as remnants of drought of 2005 and its related effects. The increase of inflation in July was mainly on account of food inflation which was a result of the impact of new taxes on oil products on transportation as well as formal and

informal cross border trade on food crops. Despite the above external pressures, the annual inflation was maintained at a single digit throughout the year 2006 and the first half of 2007.

21. **In the external sector** a worsening current account balance was recorded. The continued deficit was mainly due to increased demand for imports mainly in energy sector related imports to address the increasing demand and prices of the energy. The external sector performance has therefore remained vulnerable to exogenous factors such as terms of trade shocks and supply related constraints, including weather related effects (drought). Official reserves stood at USD 2,680.8 million by the end of August 2007 from USD 2,311.9 million recorded in the corresponding period last year. The level of reserves was enough to cover 5.4 months of imports of goods and services. The recent appreciation of the shilling against foreign currencies is bound to promote imports rather than exports, a trend that may provide a disincentive to farmers relying on commodity exports.

22. Credit to the private sector grew at an annual average rate of 33.6 percent, firming up to an average of 39.4 percent in the first ten months of 2006/07

Box 5: Details *on Change of National Accounts*

In September, 2007, the National Bureau of Statistics announced the new set of the national accounts estimates for Tanzania mainland. The new data series were revised to ensure international data comparability in accordance with the United nations System of national Accounts 1993 (SNA 1993) utilizing recently collected (2000/01) Household Survey, Integrated labour Force Survey of 2002/03, Agricultural Survey, FDI Survey and 2002 population Census. The revision also aimed at reflecting recent developments in economic activities in the country. The base year for GDP is 2001 as opposed to 1992 and some major differences between the two series include the following:

- *Valuation of output and value added. In 2001 series, valuation and value added is at basic prices (value cost plus production taxes) instead of factor cost. Accordingly data series on market prices using 2001 base year have been generated from 1998 to 2006*
- *Share or contribution to total GDP has changed.*
- *Trend of GDP growth rate in the two series is almost the same but the levels are different.*

Contribution of Agriculture to GDP and its Growth Rate

23. Contribution of agriculture to GDP and its growth rate. Despite the many exogenous shocks the share of agriculture in GDP remains higher than any other sector in the country. During 2006 the sector contributed 44.7 percent (25.4% in the new data series) of total GDP compared to 45.6 percent (26.1 percent in the new series) in 2005. The changes in the share composition between the old and the new series data is mainly because of reclassification of activities, eg, fishing has been removed from agriculture and it is now measured separately. Also there has been revision of crop prices. This large share of agriculture is followed by trade, hotels and restaurants (17.5%), financial and business services (9.5%), manufacturing (9.2%), public administration and other services (6.9%), construction (5.8%), mining and Quarrying (3.8%) (see Table 1). The share of agriculture to GDP could be higher if the spillover effects of agricultural growth are taken into consideration. The 2006 ASR estimates that the agricultural sector's "contribution with spillover effects" during 2005 increases by approximately 20 percentage points to 60 percent of aggregate GDP. The spillover effects are derived from production forward and backward linkages and consumption multipliers. Examples of such spillover effects are found in value adding activities such as agro-processing, the activities of which are captured under manufacturing or transport sectors. Other examples of spill over effects are consumption effects of agricultural produce which may be counted in other sectors such as trade, hotels and restaurants, etc

Table 1: Tanzania: Annual Growth Rates of GDP by Sector (using old data series)

Economic Activity	2004		2005		2006	
	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution
Agriculture	5.8	46.3	5.1	45.6	4.1	44.7
Mining and Quarrying	15.4	3.2	15.7	3.5	16.4	3.8
Manufacturing	8.6	8.8	9.0	9.0	8.6	9.2
Electricity and water	4.5	1.6	5.1	1.6	-1.8	1.4
Construction	10.8	5.6	10.3	5.6	10.0	5.8
Trade. Hotels and restaurants	7.8	16.9	8.2	17.2	8.4	17.5
Transport and Communications	6.0	5.4	6.4	5.4	7.5	5.4
Financial and Business services	4.4	9.7	5.3	9.6	5.5	9.5
Public administration and Other Services	4.3	7.1	5.1	7.0	5.1	6.9
Less Financial Services indirectly measured	4.1	-4.5	4.9	-4.7	5.6	-4.4
Total GDP	6.7	100.0	7.4*	100.0	6.7*	100.0

Source: BOT and Various reports

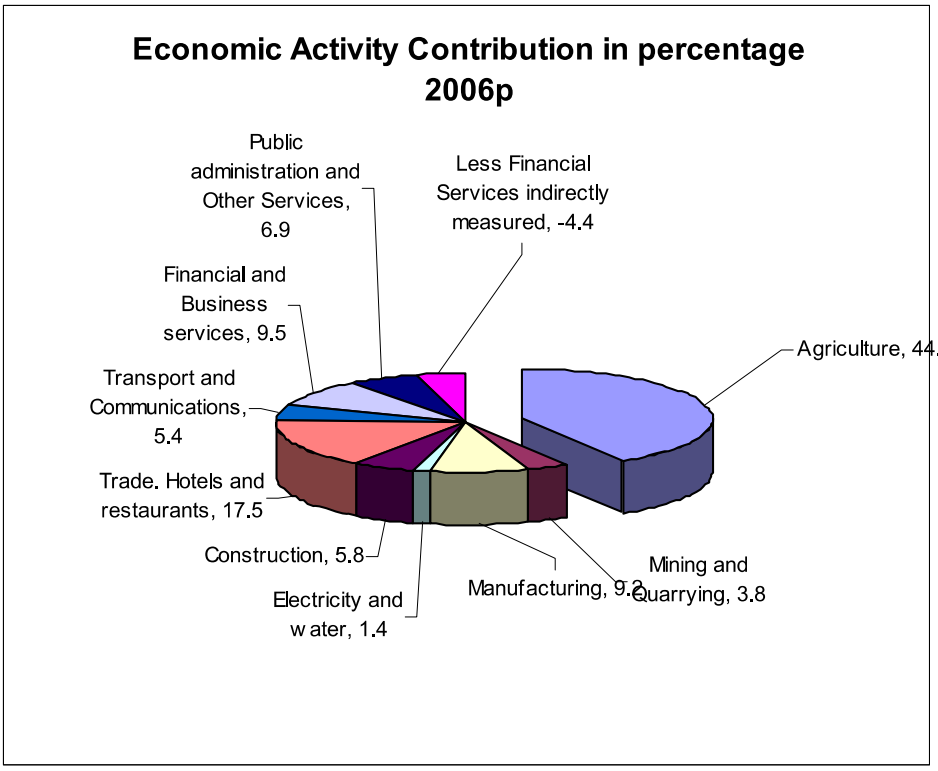


Fig. 2 Economic Activity Contribution to GDP 2006 (Various sources)

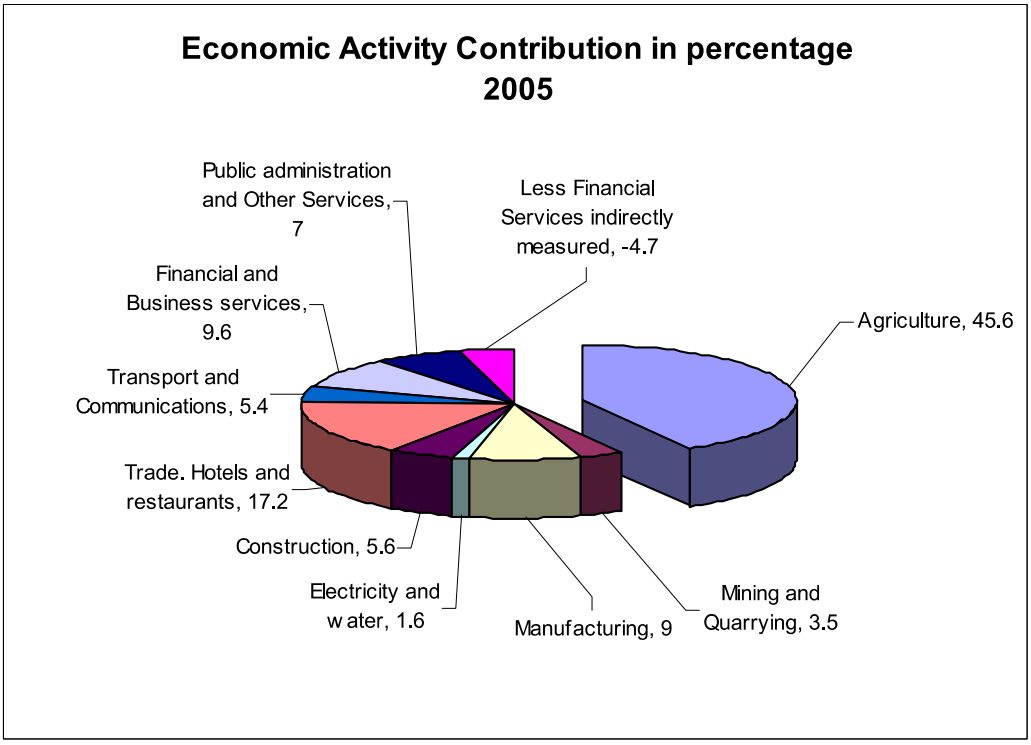


Fig. 3 Economic Activity Contribution to GDP 2005 (Various sources)

Table 2: Agricultural Sector Performance 2001-2006

	2001	2002	2003	2004	2005	2006
GDP	5.8	6.2	5.7	6.7	7.4*	6.7*
Real Agric. growth (%)	5.5	5.0	4.0	5.8	5.1	4.1
Share of Agric. in GDP (%)	45.0	44.7	44.7	46.3	45.6	44.7

Source: BOT and NBS reports (various)

* GDP rates revised by NBS in 2007

24. Agricultural Sector growth has been mixed in the past six years, partly reflecting the vulnerability of sector to external shocks. During 2006, the sector grew by only 4.1 percent compared to 5.1 in the previous year. When fishing is removed from agriculture, the growth rate for 2006 becomes 3.8 percent compared to 4.3 in 2005. Growth sectors included the mining, transport and communications, Trade, Hotels and restaurants and to some extent financial and business services. On average the agricultural sector has been growing at an average rate of 5 percent over the last six years or 4.5 percent using the revised GDP rates. This growth is below the average GDP growth rate of 6 percent (7% revised GDP rates) during the same period, but above the annual population growth rate of 2.9 percent, which implies a positive income growth. Growth wise the agricultural sector has significant influence on the GDP growth rate. Given that the sector contributes about 1/3 of the GDP (using revised figures), and given that the GDP grew at an average rate of 7 percent, the agricultural sector accounted for 2.3 percent, which is quite significant. If agricultural spill over effects are considered the sector has significant impact on the growth of the whole economy.

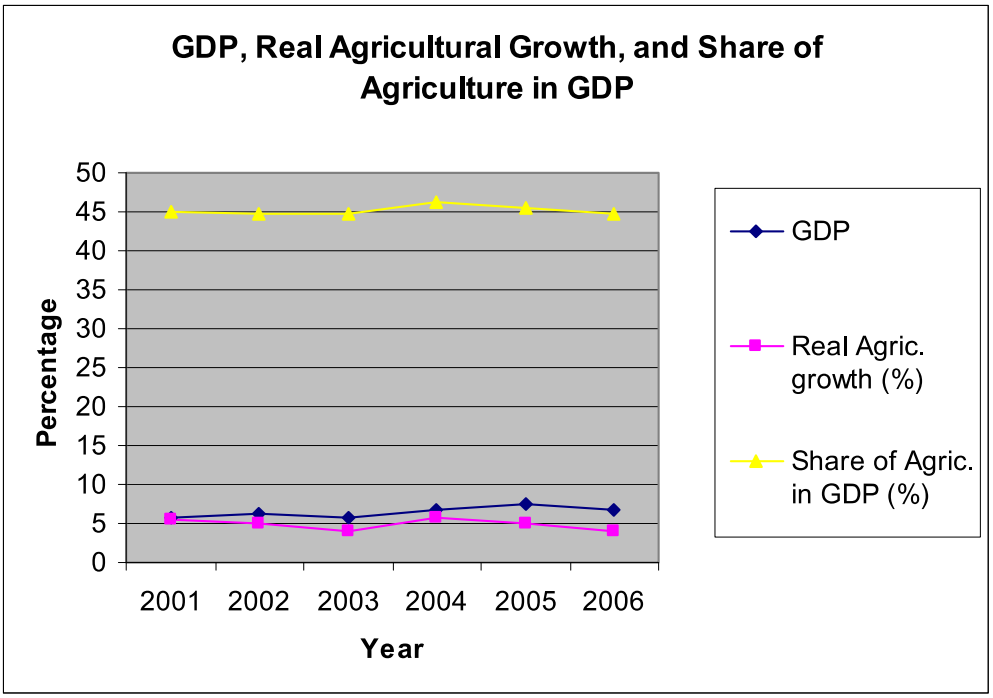


Fig. 4 GDP, real agriculture growth and share of Agriculture in GDP (source: BOT, The Economic Survey, 2006)

25. Nevertheless, the MKUKUTA targets for agricultural growth are probably higher than its current performance. In MKUKUTA the relevant target for agriculture is for the sector to grow from 5 percent in 2002/2003 to 10 percent by 2010, and for livestock the target is for the sub-sector to grow from 2.7 percent in 2000/2001 to 9 percent by 2010. The sector must grow at 10 percent if it has to have a significant impact on poverty reduction and food security. **There is therefore a great need to scale up the current transformation in the sector in order to stimulate further growth and poverty reduction**. One of the major setbacks is the heavy reliance on hand hoe in a rain fed agricultural system which utilize sub-optimal factors of production especially improved production technologies i.e. seeds, fertilizer, livestock breeds, farm machinery and power pesticides etc.

Contribution of the Agriculture to Foreign Exchange Earnings

26. The traditional position of agriculture as the primary earner of foreign exchange has recently been overtaken by other sectors such as tourism and mining. The share of agriculture in the export sector has been declining year after year, although its value in real terms has been on the increase (see table 3). Travel (mainly tourism) and gold when put together have become the dominant export

categories, accounting for about 50 percent of total exports of goods and services. During 2005/06 Tanzania exported goods and services worth UD$ 3,092.6 million, an increase of 8.8 percent from the level recorded during the previous year. Traditional agricultural and manufactured exports accounted for 12 percent and 6 percent, respectively of total exports of goods and services. As for exports of goods, gold remained the dominant export category, accounting for 39.7 percent, while manufactured exports accounted for 10.4 percent. The share of traditional agricultural exports to total goods exports was 20.5 percent down from 57.6 percent in 1995/96. Amongst the traditional exports, cotton was the major export crop accounting for 33.4 percent during 2005/06, followed by tobacco (22.3%), cashews (17.5%), coffee (17.0%), tea (5.3%), vegetables and oil seeds (3.2%), cloves (2.7%) and sisal (1.8%). For Tanzania to get out of the vicious circle of poverty, there is great need to encourage export of manufactured goods, especially, agribusiness product exports.

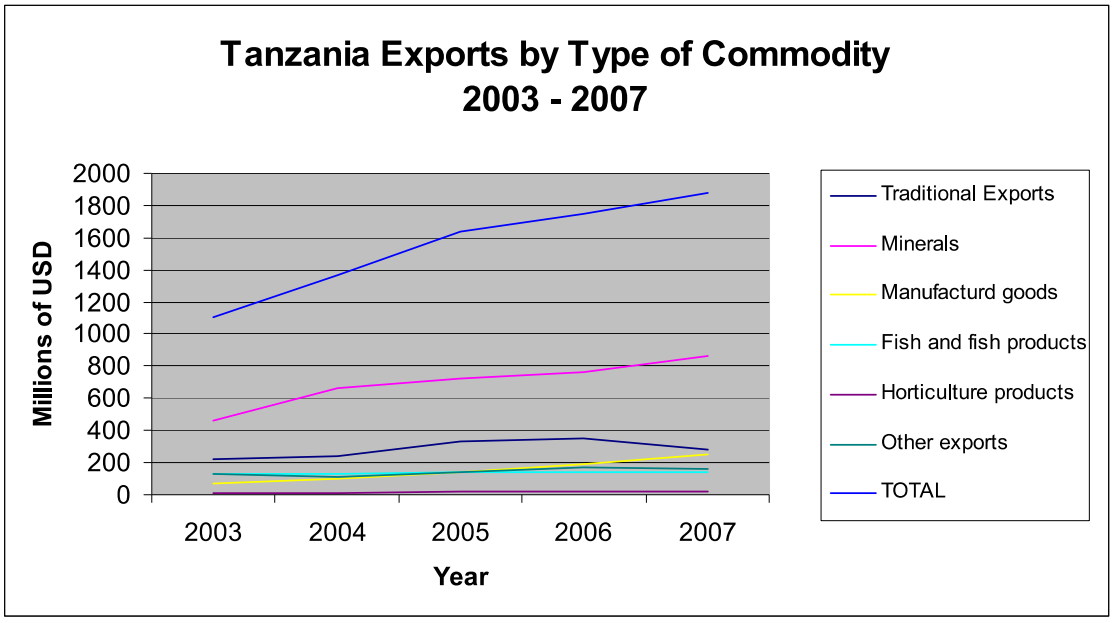


Fig. 5: Tanzania Exports by Type of Commodity 2003-2007 (source: various)

Table 3: Contribution of Selected Items to Total Exports of Goods and Services (In Million US$ (2003-2006)

Goods/Services	2003	2004	2005	2006
Travel	640	689.6	806.5	854.0
Gold	386.9	583.1	668.9	688.9
Traditional agric. exports	221.6	220.5	327.3	356.3
Manufactured exports	71.0	94.2	129.7	181.4

Table 4: Contribution of Selected Items to Total Exports of Goods (%)

Export good	**%**
Gold	39.7
Manufactured goods	10.4
Re-Exports	8.1
Fish and fish products	7.9
Other Non-Traditional products	7.0
Cotton	6.9
Tobacco	4.6
Cashew nuts	3.6
Coffee	3.5
Vegetable and oil seeds	3.2
Other minerals	3.2
Other Traditional products	2.0

Source: BOT quarterly reports, 2006/2007

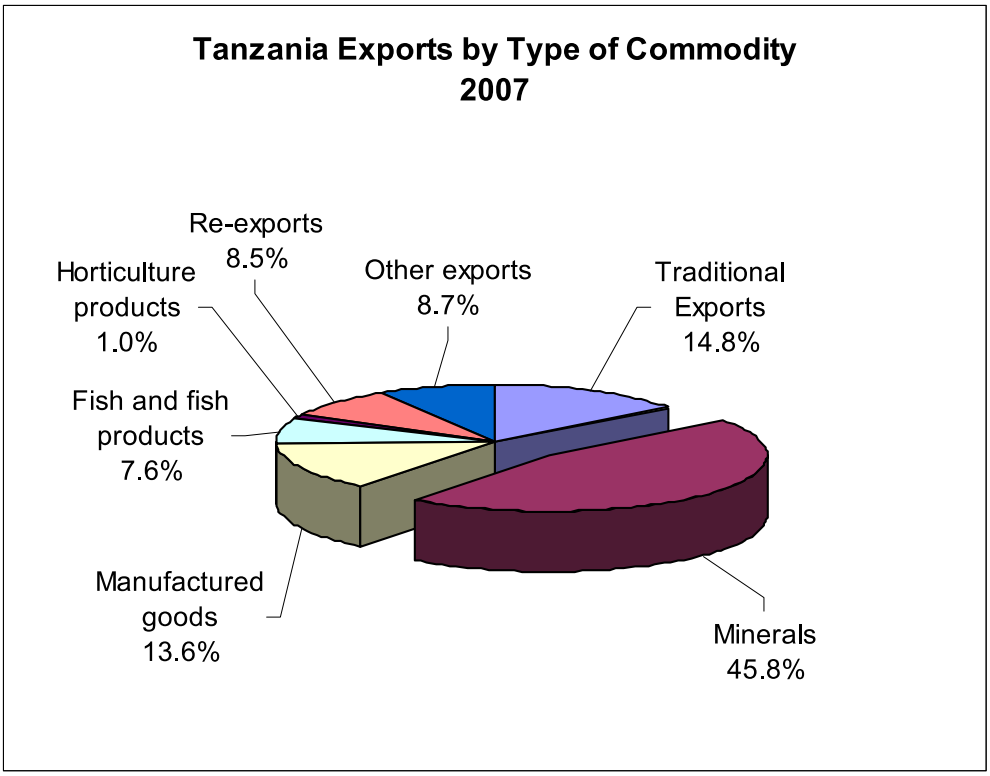


Fig. 6: Tanzania Exports by Type of Commodity 2007 (source: BOT reports)

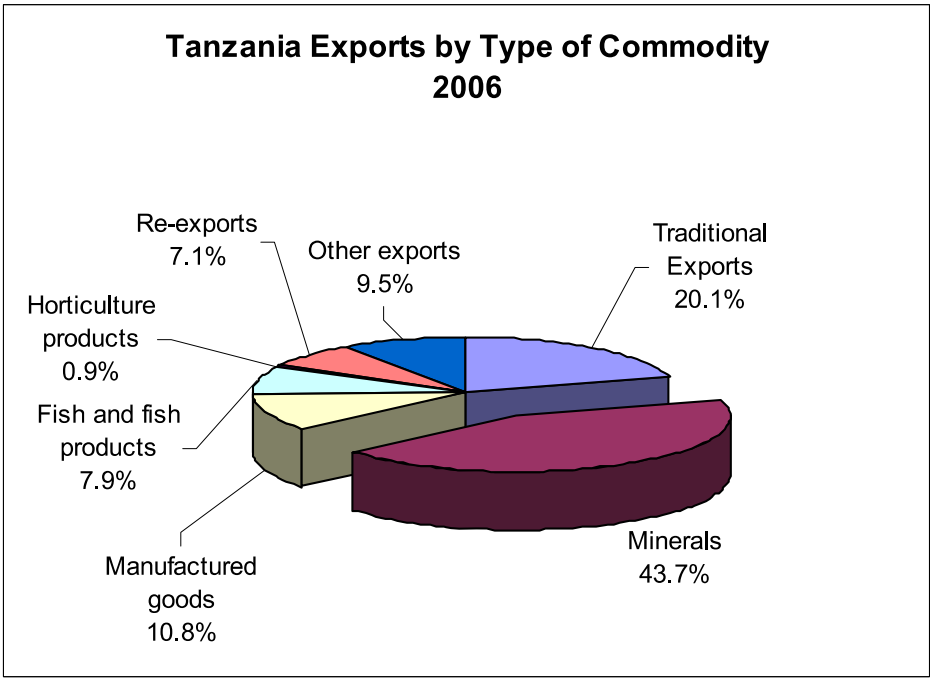


Fig. 7: Tanzania Exports by Type of Commodity 2006 (source: BOT reports)

27. On the other hand, agricultural related imports have been increasing, with food imports taking the largest share (80% in 2005). Food and food stuffs imports increased from USD 179.9 million in 2005 to USD 251.3 million in 2006 representing an increase of about 40 percent. This is mainly due to drought that hit the country in 2005. Major food imports are wheat, rice and dairy products. Fertilizer imports have also increased significantly since the year 2003, from USD 26.6 million to USD 66.8 million worth of imports in the year 2006/07, partly as a result of reintroduction of fertilizer subsidy. Figure 3 below clearly shows that fertilizer imports has increased significantly since the subsidy program started in the year 2003/04. In quantity terms fertilizer imports increased from 119,387.5 tons in 2003 to 179,654.9 tons in 2004 and, to 216,408.8 tons in 2005.

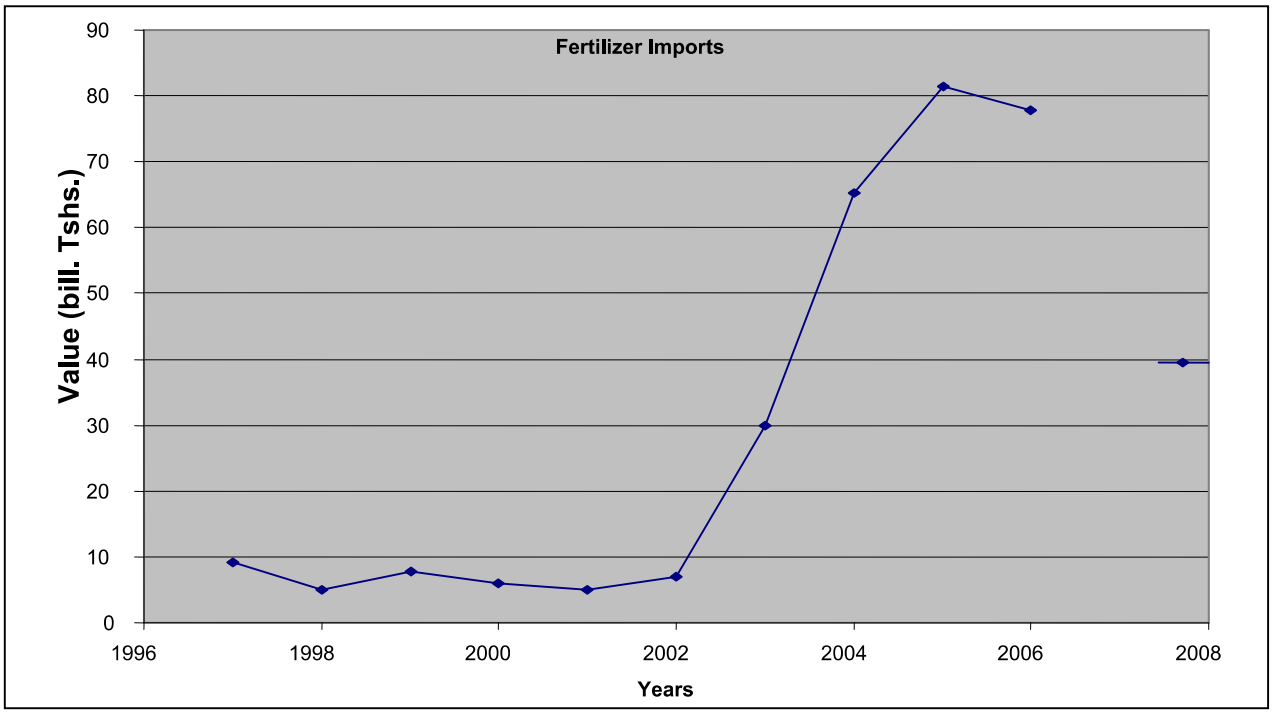


Fig. 8: Fertilizer Imports (BOT, various reports)

Agricultural Production and Productivity

28. The performance of the crop sub sector is mixed. Since 1985 the six main food crops (maize, rice, sorghum, millets, wheat and legumes) have grown at 3.5% per year, while export crops have grown at 5.4%. Changes in productivity show a

stagnant trend. The decline for most major commodity and food crops is largely on account of yield decline and given that most food crops are still produced for subsistence. Poverty remains one of the major factors for low input utilization such as fertilizer with some places hardly reaching average of 10 kg per ha. This is considerably low when compared this with application levels in other countries; 100kg/ ha for South Asia, 135 kg/ha for East and South-East Asia, 73 kg/ha for Latin America, and 206 kg/ha for the industrial countries. The major reasons given for not using fertilizer included the high fertilizer prices, non availability lack of know how, and negative farmer perception on use of inorganic fertilizer.

29. The Government re-introduced fertilizer subsidy program in 2003/2004 for Southern Highlands regions of Iringa, Mbeya, Ruvuma and Rukwa, which constitute the main grain growing areas. Compared to other regions, they have more reliable rains even in drought. TShs. 2 billion worth of subsidy in the form of fertilizer transportation was allocated for 4 Southern Regions in 2003/2004. During 2004/05 the program was extended to all regions and TShs. 7.244 billion was allocated for the purpose. The program continued in 2005/06 and Tshs 7.846 billion was allocated. In the year 20006/2007, the Government has allocated about TShs.19 billion for both fertilizer and seeds subsidy. In the current financial year 2007/08, the Government has allocated TShs.19.5 billion for fertilizer, improved seeds and chemicals for plants.

30. According to a study on the impact of the fertilizer transport subsidy, as well as data obtained from MAFC, the impact of the subsidy on crop productivity has had mixed results. Changes in food crop productivity have not been encouraging as shown in table 5 below. Average food crop productivity in the past 6 years (2001/02-2006/07) was 1.73, which is very low. Good management and optimal fertilizer use should yield 3.5-4.0 tonnes per ha (MAFC). Nevertheless, there has been regional variability in the outcome. Cross region comparison reveal that, while food crop productivity remained stagnant over the years in regions such as Morogoro and Kigoma, the response in the Southern Highlands was more encouraging. For example, while in Morogoro region maize productivity was at an average of 1.8 tonnes/ha (2002/03-2005/6), in Kigoma region the same fluctuated between 1.5/ha in 2001/02, 1.7/ha in 2003, 1.4 in 2004, and 1.3 in 2005. In Songea rural district, maize productivity was at an average of 2.5 between 2002/03 and 2005/06, reflecting greater impact in the Southern highlands zone than in Morogoro and Kigoma (MAFC, Fertilizer subsidy study, 2007).

Table 5: Total Food Crop productivity: 2001/02-2006/07

Year	Hectares	Tonnes	Productivity
2001/02	8,344,210	15,985,860	1.91
2002/03	7,994,377	13,064,563	1.63
2003/04	8,242,550	16,486,279	2.0
2004/05	7,994,377	13,064,563	1.63
2005/06	7,554,366	10,728,270	1.42
2006/07	10,237,881	18,275,872	1.79

Source: MAFC-2007

31. The fertilizer `subsidy study further revealed that, except for the Southern Highlands regions, subsidized fertilizer has had higher impact on commodity crops productivity than food crop productivity, especially sugar cane in Morogoro region, and coffee production in Kigoma region.

32. During 2006/07, the crop sub sector grew at a rate of 4.0 percent compared to a rate of 5.2 percent in 2005/06. Food crops production grew at a slower rate than cash crops. The aggregate food crops production increased from 10.95 million tons in 2005/06 to 11.02 million tons in year 2006/2007, **representing an increase of 0.6 percent**. The charts below show trends of production for major food and cash crops. Late and prolonged rainfall experienced during the period under review affected food production in the country leading to mass production in some areas and total loss to others. **On average the country is food secure. This makes the country to be food self sufficient by 109 percent.**

33. Production of major commodity crops such as tobacco, tea, cotton, cashew nuts and sisal have increased at rates between 11 to 42 percents as shown in table 6. For instance:

- Tea production increased from 30,000 tons in 2005/2006 to 34,446 tons in 2006/2007, an increase of 14.8 percent
- Cashew nuts production increased from 77,158 tons in 2005/2006 to 92,232 tons in 2006/2007, an increase of 19.5 percent
- Tobacco production increased from 56,463 tons in 2005/2006 to 65,299 tons in 2006/2007, an increase of 15.7 percent.
- Sisal production increased from 27,794 tons in 2005/2006 to 30,934 tons in 2006/2007 an increase of 11.3 percent.
- Coffee production increased from 34,334 tons in 2005/06 to 48,869 tons, representing an increase of 42.3 percent.

Table 6: Production of major commodity crops: 2005/2006-2006/2007 (tonnes/bales)

Commodity	2005/2006	2006/2007	%Change
Tea	30,000	34,446	14.8
Cashew nuts	77,158	92,232	19.5
Tobacco	56,463	65,299	15.7
Sisal	27,794	30,934	11.3
Coffee	34,334	48,869	42.3
Cotton (bales)	376,591	130,585	-65.3
Pyrethrum	2,800	1,500	-46.4
Sugar	263,317	192,535	-26.9
Rice	999,900	783,775	-27.6

34. Noticeable also from table 6 is the declining trends in the production of some crops such as cotton, pyrethrum, rice and sugar for various reasons but the major ones being unfavorable weather conditions and inadequate supply of agricultural inputs;

- Cotton production declined from 376,591 tons in 2005/2006 to 130,585 tons in 2006/2007 representing a decrease of 65.3 percent;
- Pyrethrum production declined from 2,800 tons in 2005/2006 to 1,500 tons in 2006/2007 representing a decrease of 46.4 percent;
- Sugar production declined from 263,317 tons in 2005/2006 to 192,535 tons in 2006/2007 representing a decrease of 26.9 percent
- Rice production decreased from 999,900 tons in 2004/05 to 783,775 tons in 2005/06 due to late onset of rainfall; and
- National grain reserve has declined its grain stocks from a total of 156,486.2 tons in 2005/2006 to 128,668 tons in 2006/2007, representing a decrease of 17.7 percent.

In terms of diversification, both production of food and commodity crops sub sectors are well diversified as shown in the tables on food and commodity crops presented in the appendix and the graphs below.

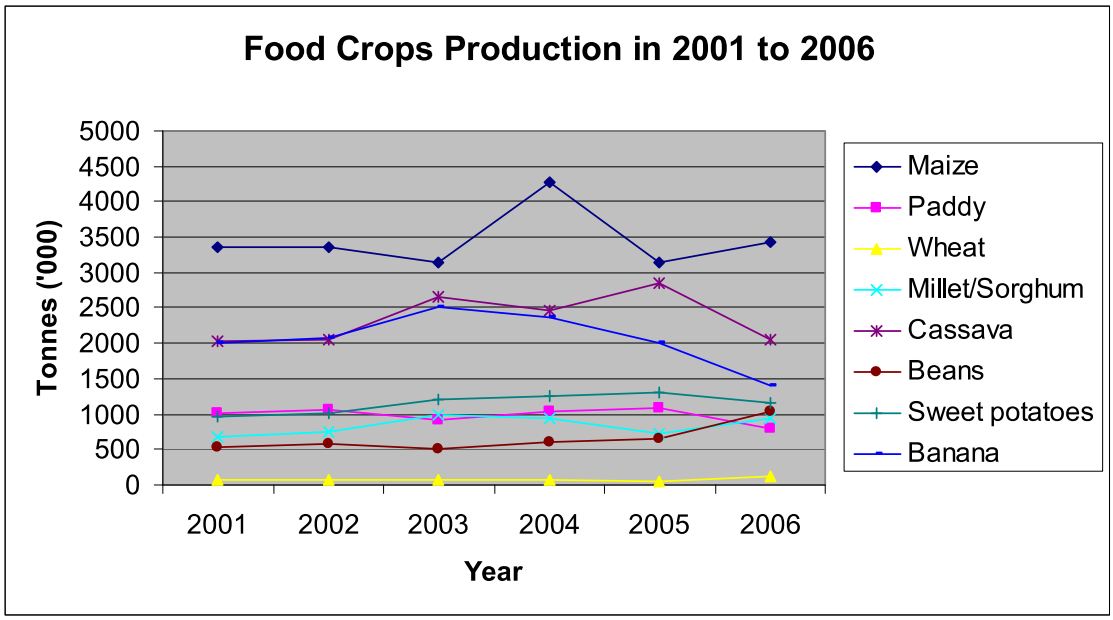


Fig. 9: Food Crop Production in 2001 to 2006 (Source: BOT reports, various)

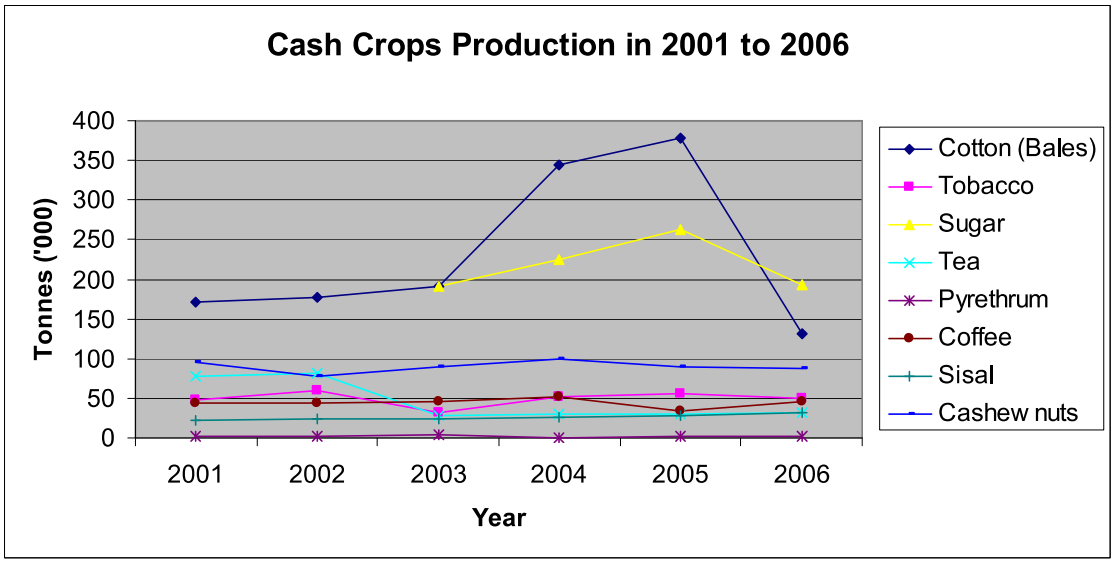
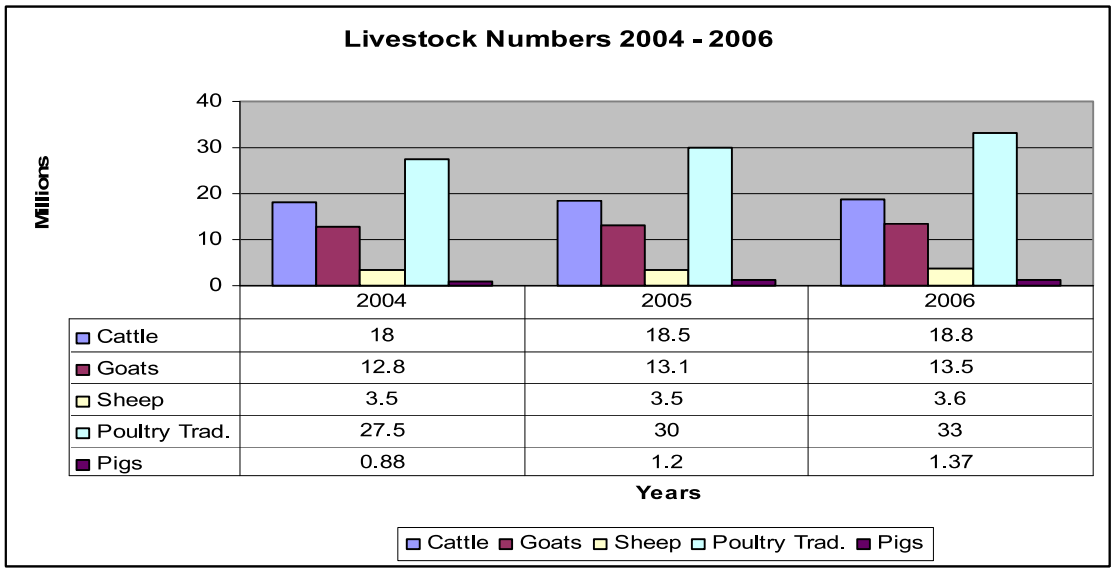


Fig. 10: Commodity Crops Production in 2001 to 2006 (Source: BOT reports, various)

Livestock production

35. Tanzania is the leading country in the SADC Region, having large number of livestock units followed by South Africa, Zimbabwe, Namibia, Angola, Botswana

and Zambia. It ranks third in Africa after Sudan (31 million) and Ethiopia (30 million). During the year 2006/2007 estimates show that the livestock population amounts to 18.8 million cattle, 13.5 million goats, 3.6 million sheep, 1.37 pigs, 33 million indigenous poultry and 20 million commercial poultry among other species. Total livestock numbers from 2004/05 – 2006/07 are shown in Figure 11



	2004	2005	2006
Cattle	18	18.5	18.8
Goats	12.8	13.1	13.5
Sheep	3.5	3.5	3.6
Poultry Trad.	27.5	30	33
Pigs	0.88	1.2	1.37

Fig. 11: Total Livestock Numbers (Heads) 2004 – 2006
Source: MLD

36. Of the 88.6 million hectares of land resource 60 million hectares are rangelands suitable for livestock grazing. The rangelands have a capacity to carry a total of 20 million livestock units. Presently only 17 million Livestock Units are kept.

37. The MKUKUTA target for livestock is for the sub-sector to grow from 2.7 percent in 2000/2001 to 9 percent by 2010. But, during the period under review, the livestock industry growth rate stands at 4.3%. This is still very low.

38. The Livestock sub sector contributed 5.9 percent to total GDP and grew at a rate of 4.2 percent during 2006, in comparison to 4.0 percent for the crop sub sector during the same period.

Out of the Livestock share of GDP of 5.9 percent, 40% comes from beef, 30% from Dairy and the remaining 30% from small stock (shoats, pigs, poultry and game animals) production (figure 12)

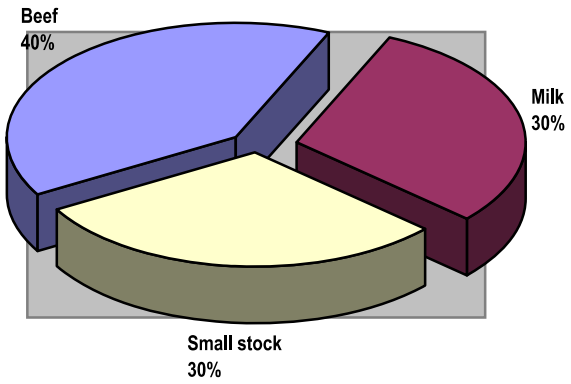


Fig. 12: Share of Livestock and Products to Livestock GDP 2005

Production of Livestock Products

39. Livestock products include meat, eggs, milk and hides and skins. Rapid growth was recorded in eggs, and hides and skins production.

Milk

40. The main source of milk production in Tanzania is from cattle. Total milk production has increased from 1.41 billion litres in 2005/2006 to 1.42 billion litres in 2006/2007, representing an **increase of 0.7 percent**. Out of 1.4 billion litres produced, the traditional sector contributed 67% and the commercial sector 33%. Milk Production has not kept pace with population growth. **The per capita consumption of milk is estimated to have decreased from 40 litres (2005/06) to 39 litres (2006/07)**. Great variations do exist between urban and rural areas with higher consumption levels in urban areas. There is therefore great need to upscale efforts in this area. During the period 2006/07 efforts taken by Government to improve milk production include those described below:

41. The Government in collaboration with Non Governmental Organisation (NGOs) such as Heifer Project Tanzania (HPT) and Southern Highlands Livestock Development Association (SHILDA), distributed a total of 6,721 heifers. Out of those, 1,516 were sourced from Government Farms and National Ranches. Also, a total of 1,202 dairy goats were distributed by NGOs to whom.

Distribution of dairy cattle and goats was done though Heifer/Goat In - trust Scheme. The nation demand of heifer is currently estimated at about 8,000 per year.

42. Increased semen production by 14.2 percent from 51,230 doses in 2005/2006 to 58,500 in 2006/2007 resulting from the rehabilitation of the National Artificial Insemination Centre – NAIC, Usa River Arusha. Also, the numbers of inseminated cattle rose from 46,530 in 2005/2006 to 50,500 in 2006/2007 which is an increase of 8.5 percent. Furthermore, 70 experts from various councils were trained on the provision of A.I Services.

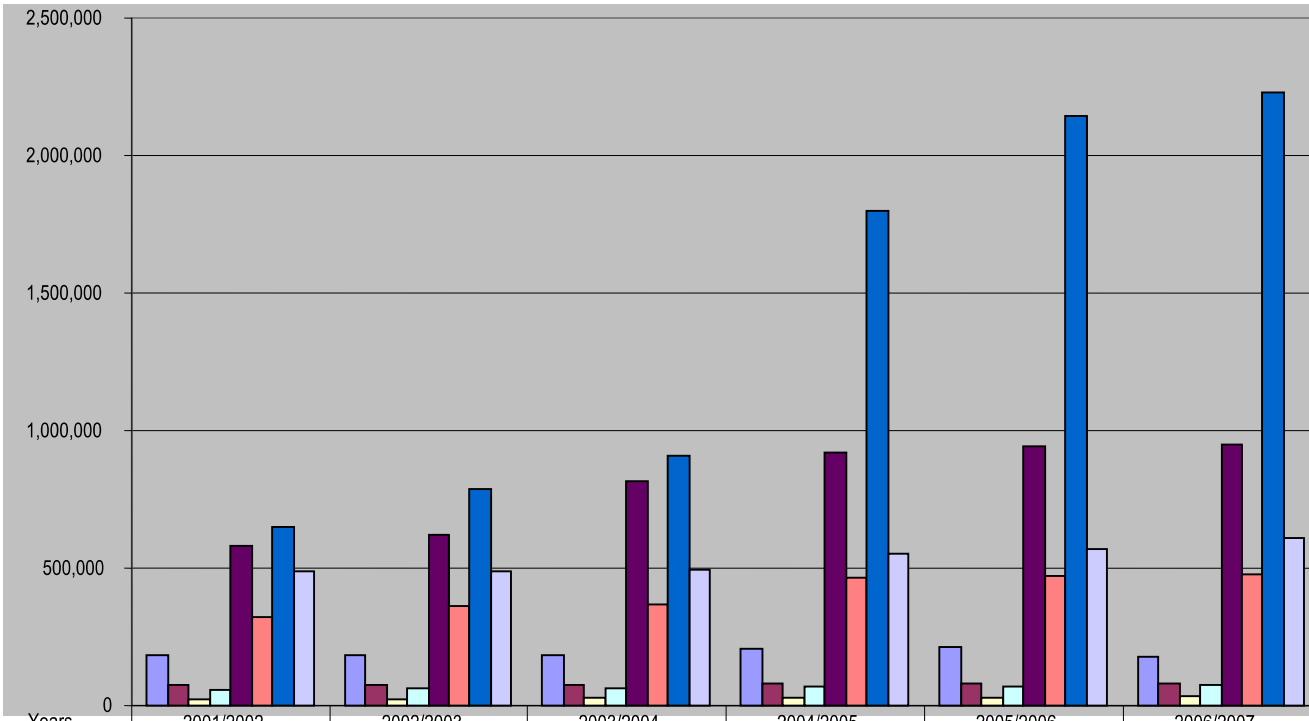
Meat

43. The government aims at increasing exports of meat instead of live animals. Nevertheless, production of meat decreased by 9.3 percent from 388,294 tonnes in 2005/2006 to 370,566 tonnes in 2006/2007 on account of Rift Valley Fever disease. Out of this, 180,629 tonnes is beef, 80,936 is bacon/mutton, 31,721 is pork and 77,280 chicken.

44. Similarly, in order to meet market standards, the Government is promoting private investment in feedlots. Hence, during 2006/07, improvement of meat production continued through fattening programme (feedlot) in various farms including Glienshils Ranch and Mtibwa Feedlot (Morogoro), Sumbawanga Agricultural and Animal Feeds Industries (SAAFI), Manyara and Mzeri ranches and small livestock keepers in Mara, Mwanza and Shinyanga regions. Approximately 26,400 cattle were fattened through such initiatives.

45. Meat production activities have also been developed NARCO where by a total of 9,553 cattle worth Tshs 1.8 billions shillings were sold. Also, a total of 950 cattle worth Tshs 166 million shillings were bought by NARCO from livestock keepers around the ranches.

46. After dividing the 294,188 hectors of NARCO ranches into 125 small ranches with an area of between 2,000 and 4,000 hectors, the exercise of offering title deed to small ranches has been initiated. Already up to December 2007, offering of title deed has been completed to Mzeri, Misenyi, Kitengule and Mkata ranches. Some of the investors in NARCO ranches have invested and already there is over 25,000 cattle.



Years	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Meat (Tons)	182,000	182,500	184,000	204,520	210,370	180,629
Gotas and Sheep meat (Tons)	74,000	74,500	75,800	78,093	78,579	80,936
Pig meat (Tons)	21,000	23,000	26,000	27,000	29,925	31,721
Poultry meat (Tons)	55,000	61,500	63,000	68,896	69,420	77,280
Milk-tradition (Litres ('000)	578,000	620,700	813,700	920,000	941,815	946,524
Milk - Commercial (Litres ('000	322,500	359,800	366,300	466,400	470,971	475,681
Eggs (000)	650,000	790,000	910,000	1,800,000	2,145,000	2,230,800
Animal Feeds (Tons)	490,000	491,000	492,000	550,000	569,000	606,566

Fig. 13: Production of Livestock Products 2001/2002 - 2006/2007 and projections for 2007/2008- *Source: Ministry of Livestock Development*

Livestock and Livestock Products Imports and Exports

47. Commensurate with the low contribution of livestock sub sector (5.9%) to total GDP, its share in total exports is also very low. In 2006/2007, the nation earned a total of 17.3 billion Tshs from the exports of livestock and livestock products, representing only 0.75 percent. In spite of such exports, there was an importation of livestock and livestock products with a value of 6.4 billions Tshs.

48. Out of the total livestock exported, a total of 2,542 cattle and 1,852 goats with a value of TShs 1.03 billion were sold to Comoro, Kuwait, Arab countries (Dubai), Oman and Burundi compared to 1,706 cattle and 800 goats with a valued Tshs 675.9 million which was sold in 2005/2006. Furthermore, 92 tonnes of goat, sheep and cattle meat worth of Tshs.352 million were exported in 2006/2007 compared to 6.8 tonnes which were sold in 2005/2006, representing a significant increase. Nevertheless, as with crops, there is a lot of cross border informal trade in livestock and livestock products. **There is great need for Government to monitor and quantify this trade in order to engender improvement in such trade on the policy agenda**. It is estimated that approximately 300,000 heads of cattle cross border into neighboring countries informally annually.

Poultry

49. While a total of 28.7 million Day Old Chicks were produced compared to 26.8 million which were produced during FY 2005/2006, about 782,550 chicks were imported in FY 2006/07 compared to 2.1 million which were imported the previous year. Moreover, 3.1 million eggs for hatching were imported in 2006/2007 compared to 8.4 million of 2005/2006. The decline in number of imported chicks and eggs was contributed by prevention as a result of Bird flu threat. Eggs production increased from 2.15 billion in 2005/2006 to 2.23 billion in 2006/2007 which is equivalent to **4** percent increase.

Hides and Skins

50. Hides and skins, which are raw material for the leather industry, have continued to be major source of foreign currency among other livestock product. In 2006/2007, a total of 1.98 million hides pieces, 1.52 million goat skins and 1.2 million sheep skins worth of 8.7 billion Tshs were collected. Furthermore, a total of 1.7 million hides pieces, 1.05 million of goat skins and 925,530 million pieces of sheep skins worth of 16.2 billion were exported compared to 7.5 billion revenue of 2005/2006. The increase is contributed by improved quality of skins produced and exportation of semi processed hides and skins. 85 percent of the hides and skins are exported in raw form and the remaining 15% in semi processed or finished form.

51. In order to improve quality of hides and skins, the ministry has trained 441 butchers, flayers and experts from Dar es Salaam, Mwanza, Mbeya, Shinyanga, Dodoma and Arusha. Moreover, 80 hides/skins and meat inspectors from 16

districts councils in 6 regions were also trained under Common Fund for Commodities (CFC). Due to training and motivation, there is a significant increase in recovery rate as from 50 to 75 percent and the quality also has been increased as follows; Grade I from 10 to 25 percent and grade II from 30 to 35 percent. Moreover, grade III has declined from 45 to 35 percent and grade IV from 15 to 5 percent.

52. The Livestock Development Fund which began in year 2003/2004 which was developed from collection of 20% export levy, until June 2007 has collected 4.1 billion Tanzanian shillings. The Fund will start formally financing implementation of the Hides and Skins Development Strategy.

Pasture Seed and Animal Feeds

53. Langwira and Vikuge Pasture Seed Farms have been strengthened. A total of 26 tons of improved pasture seeds and 306,000 bales of hay have been produced out of which 90,000 bales and 15 kgs of improved pasture seeds were produced by private sector.

Production of animal feeds has increased by 8.5% from 559,000 tons to 606,566 tons in 2006/07. Currently, the average annual demand stands at 650,000 tons indicating a shortage of about 45,000 tons.

Agricultural Marketing and Cooperatives

54. During 2006/07 the Ministry of Industry Trade and Marketing finalized preparation of the Agricultural Marketing Policy (AMP) that is geared towards strengthening agricultural marketing system in the country. In the same vein, the Ministry, in collaboration with other ASLMs, through the ASDP and the Agricultural Marketing Systems Development Programme (AMSDP) continued to promote competitiveness in the marketing system, private sector participation, producer groups, domestic and foreign market linkage, capacity building in marketing, and production of quality products. As a result, market information centres have increased from 75 in 2005/07 to 96 in 2006/07. Prices of agricultural products are advertised weekly in the media including the radio and newspapers, and cellular phones. The Government is currently preparing monitoring and evaluation systems. However, the geographical coverage of AMSDP implementation is limited. Therefore, inadequacy of competitiveness in marketing of agricultural commodities remains a challenge.

55. To address the problem of commodity price fluctuation the Government has finalized preparation of guidelines on implementation of the law on Warehouse Receipt System. During 2007/08 the Government expects to establish the Tanzania Warehouse Licensing Board. The Warehouse Receipt System initiative is already operational in cotton, coffee, rice and maize. Preparations are underway to include cashew nuts in such a scheme. It is expected that this system will increase competition and hence good prices to farmers. Also the Government through the Board of External Trade (BET) continued promoting participation of entrepreneurs in trade fairs abroad.

56. During 2006/07, the Government (through MAFC), in collaboration with various stakeholders continued to implement Cooperatives Reforms and Modernization Programme (CRMP), and more specifically, strengthening of leadership in primary cooperatives in Mbeya, Rukwa, Ruvuma, Mtwara, Lindi, Dar es salaam and Morogoro as well as regional cooperatives. Furthermore, the Government in collaboration with various stakeholders sensitized and mobilized people to establish cooperatives. As a result a total of 1,441 new Savings and Credit Cooperative Societies (SACCOS) were formed during this period.

Agricultural Sector Contribution to Income Poverty Reduction and Food Security

57. The 2006 ASR noted that agriculture has had only marginal impact on rural poverty. This is clearly corroborated by the incidence of low crop production, especially food production during the year 2006. As alluded to earlier in this review, during 2006/07, the crop sub sector grew at a rate of 4.0 percent compared to a rate of 5.2 percent in 2005/06. Food crops production grew at a slower rate than commodity crops. Aggregate food crops production increased marginally from 10.95 million tons in 2005/06 to 11.02 million tons in year 2006/2007, representing an increase of only 0.6 percent. In terms of food sufficiency, however, this volume is assessed as being sufficient. During 2006/07, Tanzania was self food sufficient by 109 percent, compared to 88 percent in 2003/04 and 103 percent in 2004/05 and 2005/06. Nevertheless, geographical variations exist. The MKUKUTA Status monitoring report (2006) revealed that by January 2006, the proportion of districts reported to have food shortages was 65 percent (77 districts), compared to only 29 percent (34 districts) reported in August 2005 (URT Ministry of Planning, Economy and Empowerment, Dec.2006). The trend on districts reporting food shortages has been fluctuating from 13 districts in 2002/03 to 41 districts in 2004/05 and in 2005/06 as shown in

table 7 below. The indicators however do not take into account consumers' capacity to purchase food for their requirements. It is expected that the Household Budget Survey (HBS) of 2007 will provide more poverty indicators.

58. In terms of poverty incidence the urban population is reported to have benefited more from the economic growth than their rural counterparts. The 2006 ASR report a relatively greater improvement in Dar es Salaam whose population is only 7.4 of the total population.

Table 7: Food Availability Indicators

Indicator	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Food self sufficiency ratio	94	102	88	103	103	109
Proportion of districts reported to have food shortages (no)	15	13	62	41	41	

Source: URT- Ministry of Planning, Economy and Empowerment, Dec.2006, and MAFC

Mechanization

59. As reported earlier, one of the primary reason for low agricultural productivity in the country is the heavy reliance on hand hoe in a rain-fed agricultural system that utilizes sub optimal labour, land and productivity enhancing technology, i.e seeds, fertilizer, livestock breeds, mechanization tools, chemicals etc. The MKUKUTA as well as the ASDS clearly acknowledges the need to improve the trend of agricultural mechanization and intensification of use of existing land resource as a strategy that will go a long way to improve agricultural production and productivity hence contributing to growth and poverty reduction. Therefore mechanization, land intensification, and irrigation rates should indicate the extent to which this goal is being achieved. In recognition of the limited resource base at small holder household level, and in order to enhance the speed of mechanization and land resource optimization, the Government has had a number of strategies, including the formation of the Agricultural Inputs Trust Fund (AGITF) in 1994, and the re-introduction of fertilizer/input subsidy in 2003/04. The impact of these interventions has been assessed during the year 2006/07, and is reported elsewhere in this study.

60. The importance of mechanization is well acknowledged. It enhances the human capacity which increases production and productivity through timely planting, weeding, harvesting, storage, and other post-harvest handling. Use of draught animals, power tillers and tractors will allow farmers to address labour peak requirements in farm operations.

61. The study on the impact of AGITF (MAFC, 2006) reports on the status of tractor and implements available in Tanzania, and indicates that the country had about 7,200 tractors in operation by June 2006. Importation of new tractors has ranged between 250 and 373 during the period 2001 and 2005. This is too low when it is compared with the actual needs of between 1000 and 1500 new tractors for normal requirement. This shows that the level of mechanical power use in the agricultural sector is still very low. In 2002, almost 98 percent of smallholder farmers used the hand hoe technology for land preparation and weeding (ASR 2006). The situation is compounded by the uneven geographical distribution of the operational tractors, with more tractors concentrated in Morogoro (1156), Arusha (961), Kilimanjaro (861), and Manyara (808). The rate of tractor importation has remained stagnant in the past five years (2001-2005) indicating a low utilization rate. Tanzania has abundant land and mechanization will enable the country to expand the land under agriculture. **Mechanization therefore remains a strategic issue that should be addressed under the ASDP if agricultural production is to be boosted. The major constraint in this area remains affordability of such technology by farmers given the low resource base.** Tractor prices have risen from just under TShs 0.5 million in 1994 to over TShs 45 million in 2006, which makes it extremely prohibitive for a small holder farmer.

Table 8: Sales/Importation of Tractors, 2001-2005

Year	2001	2002	2003	2004	2005
No. of tractors	375	274	246	272	356

Source: MAFC,2006

62. In an effort to promote utilization of farm implements the Government, during the financial year 2006/07, offered practical training to 3,675 farmers. Also in collaboration with CARMATEC the Government piloted the use of tractors from India (EUROPAD) and China (PHOTON, CATC and KAMA) and were found to be suitable. A study on the impact of AGITF on agricultural production was undertaken. AGITF has been facilitating importation of agricultural inputs, including farm implements, through a loan fund. AGITF is fully funded by

MAFC through the MTEF. **There is however need to assess utilization of tractors viz a viz draught animal and its impact on production and profitability**. **This could be undertaken under the planned agricultural sample census.**

Irrigation

63. In a country that is highly dependent on rain fed agriculture and given the many shocks that result from frequent drought, irrigation expansion is extremely important. Irrigation in this case reduces dependence on rainfall and enhances productivity of the land. Expansion of smallholder land under irrigation is one of the strategies under MKUKUTA and ASDS. According to the Agricultural Sample Survey of 2002/03, only 3 percent of total smallholder area was under irrigation. Less than 5 percent of farming households use irrigation. Fruits, vegetables, sugar cane, maize and paddy are the most common in irrigated land. The country boasts of 29.4 million hectares of land suitable for irrigation. Therefore expansion of irrigated area will go a long way to improve agricultural production and productivity.

64. As irrigation is high on the policy agenda, the Government has in the past year (2006/07) implemented a number of irrigation schemes as reported in the Minister's (MAFC) budget speech for 2007/08, and ASDP reports. The Government was able to expand the irrigated area by 9,557 hectares against a planned area of 10,000 hectares. The government also through irrigation zones made preliminary feasibility studies for 62 schemes covering 110,675 hectares, and 4 charco dams capable of irrigating 820 hectares. These are Ulyanyama (Sikonge), 500 hectares, Mawemairo (Babati) 100 hactares, Idodoma (Mpwapwa) 100 hectares and Kisangwa (Bunda) 80 hectares. 2 charcos dams with a capacity to irrigate 470 hectares (Qash (Babati)- 270 ha and Mangisa (Mbulu)-200 ha) were constructed. The Government also through the Participatory Irrigation Development Project (PIDP) implemented 7 irrigation schemes to cover 1,551 hectares.

65. Furthermore, the Government through DADPs constructed and rehabilitated 25 irrigation schemes (4,121 hectares), and 32 schemes, respectively. It also constructed and rehabilitated 36 and 23 charco dams, respectively.

66. **While these efforts are encouraging, the Government still needs to scale up activities in this area, given that future agricultural transformation and**

diversification plans will depend very much on irrigation. It is also time for the Government to update information on total smallholder area under irrigation as opposed to total cultivatable land. While this information is important, it is also equally important to assess the utilization of the irrigation schemes as a proxy measure of farmer profitability, especially given the problem of water in some rural areas. Such assessment could be included in the planned agricultural sample census survey.

In the medium term, the Government should consider establishing industrial parks in irrigation to allow private sector to rent developed irrigation farms. Establishment of micro dams for irrigation should be the way forward. There is also need to consider irrigation schemes using ground water, especially in areas suitable for production of high value crops such as flowers, fruits, vegetables and spices.

Rate of Diversification in Agricultural Production and Export

67. The ASDS has identified non-traditional and agro-processing as important growth sectors that must be promoted for growth and poverty reduction. Agricultural diversification is thus critical for ASDS implementation. While, the food and cash crop sub sectors in the country are generally quite diversified as shown earlier in this report, most traditional cash crops have exhibited either a stagnant or a declining trend, mainly due to depressed world prices and supply side constraints. This trend has encouraged the emergence of new export crops such as horticultural exports. These have been expanding in recent years. Exports of Horticultural products, though insignificant, in terms of their share, have been expanding since 2003. Total horticultural exports were USD 13.2 million in 2003, or 1.2 percent of total goods exports. The same grew from 15.3 million USD in 2006 to USD 18.2 million in 2007 representing an increase of close to 20 percent. Similarly fish and fish products exports have increased from USD 128.1 million in 2003 to USD 143.8 million in 2007. Manufactured goods registered an increase of 36 percent from USD 187.8 million in 2006 to USD 254.9 million in 2007. "Other exports" category, that include grains and fruits, decreased from USD 166.7 million in 2006 to USD 164 million in 2007 mainly due to decrease in volumes exported.

Table 9: Composition of Export Goods, 2003-2007 (million USD)

	2003	2004	2005	2006	2007
Traditional Exports	222.5	241.4	328.9	351.8	277.5
Minerals	458.1	661	728.1	763.5	862.1
Manufactured goods	74.6	98.1	138.9	187.8	254.9
Fish and fish products	128.1	125.9	143.8	137.6	143.8
Horticulture products	13.2	13.7	18.1	15.3	18.2
Re-exports	80.7	121.9	136.2	124	160.1
Other exports*	131.4	108.1	145.4	166.7	164
TOTAL	1108.6	1370.1	1639.4	1746.7	1880.6

Source: MAFC

*other exports include grains, fruit, spices etc

68. In terms of production, fresh vegetables, flowers and fruit production reveal a growing trend as shown in table 10 below. Only a small proportion (4%) of the fruit and vegetable production is processed. About 50 percent is consumed raw and the remaining 46 percent is lost or damaged due to inadequate agro-processing facilities and efficient marketing infrastructure. Production of spices and cut flowers has also had an upward trend as shown in the table below. A few vegetable and cut flower exporters dominate the market, relying mainly on established linkages with importers in the consuming countries. In the case of vegetables two exporters dominate the industry, relying on farmers contracted under the out-grower schemes. The main vegetable exports comprise of green beans and "Asian vegetables" There is an attempt to expand the range of vegetables exported, which should lead to increased production and exports. Cut-flower production is also another success story. Production increased from 3,474 MT in 2000/01 to 6,720 MT in 2004/05, representing an increase of 51 percent**. It is very likely that existing statistics underestimate the volume of trade in these new emerging sectors, because data collection in non traditional exports and production is not regular and current**. There is still more emphasis on data collection related to traditional products. **ASLMs should therefore scale up efforts to establish data collection capabilities in non traditional production and exports. This intervention requires immediate action, which could possibly be included within the current budget.**

Table 10: Horticulture and Floriculture Production,1998/99-2004/05 (MT)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Fruits	540,124	407,275	532,860	732,827	1,179,491	1,191,286
Vegetables	549,348	533,341	549,180	466,165	775,798	783,556
Spices	920	840	1,090	736	9,068	9,159
Flowers	3,828	3,474	4,890	3,967	1,180	6,720

Source: MAFC

69. There is currently also a growing trend in diversification within traditional exports. Organic farming and specialty products are currently in high demand and are being promoted through small scale out-grower schemes given the lack of experience in such crops. There is currently inorganic farming in coffee, cashew nuts, cotton and in some non traditional crops. **This is a trend that must be captured in the data collection recommended above.**

There is a lot going on in organic agriculture in Tanzania such as:

- The volume of production have considerably increased;
- Organic stakeholders are now organized under their umbrella organization- TOAM;
- There is a local certification body hence reduction in certification costs;
- Organic standards for Tanzania, Kenya and Uganda have been developed and harmonized to an East African Organic Standards; and
- A unified logo for organic products has been registered and is in use.

Producer Incentives (credit access by farmers, subsidy, taxation, research and development, etc)

70. Prices play a big role in promoting supply side response. More specifically, both input and output prices are major determinants of supply response by farmers. Small holders normally respond to changes in prices by investing more or less labour, land, and capital. This section attempts to review factors that affect output and input prices, and the way the Government is strategizing to boost agricultural supply response and productivity.

In the case of export crops, the producer's share in export value of a given crop is one of the measures of supply response. It should be noted that one of the major

motivation for the reforms in agricultural marketing was to raise the price paid to farmers by reversing their declining share of the export price, and cut the delays in payments to farmers. The marketing liberalization was able to temporarily reverse the declining trend in the share of producer's price in the total export value of most commodity crops. For example in the case of coffee, this share rose from 60 percent in 1985/86-1993/94 to 73 percent in 1994/95/-1998/99 for Arabica coffee, and from 56 percent in 1985/86-1993/94 to 69 percent in 1994/95/-1998/99 for robusta coffee. According to the 2006 ASR, producers of export crops received less than 70 percent throughout 2001-2005.While producers of cashews, cotton, and tobacco received above 50 percent of export values, the others, especially producers of tea, coffee and pyrethrum received one third of their respective export values (ASR 2006). This declining share has great impact on small holder investment in the production of the respective crops. The situation is worse in the case of fluctuating/ plummeting export prices as can be observed in the case of coffee (Box 6)

Box 6: Effect of Declining Producer Prices on Coffee Production

Following the fall in the world coffee price in the early 2000s, most coffee farms were either destroyed by cutting coffee trees, or left unattended. For example, the current yield of coffee farmers in Kagera region is about 320 kg per hectare. This is a very low output compared to the normal coffee production of 1500-3000 kg per hectare. As for Arabica coffee, yield has fallen from 270 kg per hectare parchment in the 1970s to 170 kg per hectare parchment currently (Piper, 2007).

Efforts, for example, by Kilimanjaro regional authorities to revive coffee production in the region have met with disappointment. Coffee revival campaign in the Kilimanjaro region started 10 years ago. Among the efforts made was the replacement of old coffee trees with new high yielding and disease resistant seedlings. The campaign to replace old trees has now spread throughout the country, but the response is still low.

Apart from the quantity, the quality of coffee produced in Tanzania has been declining. This is commonly blamed on declining input utilization. Another major reason that has been suggested is the change in buying practices. Before liberalisation, there was an incentive to deliver higher quality produce. The cooperatives paid to farmers in installments. The last installment depended on quality - bigger beans with a lower defect count fetched a higher price. After liberalisation, in practice, only one price is paid by private traders for any parchment/dry cherry bought at the primary level. Most coffee is now bought by the private traders Thus there is little direct incentive for farmers to deliver better-quality coffee (Daviron and Ponte, 2005) Daviron Benoit an and Stefano Ponte (2005). *The Coffee Paradox*. Zed Press, London

71. The situation is further compounded by the fact that in many products (eg cashew nuts) the market is dominated by buyers who are known to exhibit monopsony tendencies. The other problem is inadequate local processing capacity in the country. There are now examples of models pioneered by business minded NGOs such as TechnoServe. TechnoServe, which is currently involved in coffee in Kilimanjaro and in South Western parts of the country, has developed a business group model, which it also tries to apply in cashew cultivation. It has picked up some groups of "progressive" farmers in several villages. For these farmers TechnoServe arranges supply of inputs and the guaranteed sale of their production. In coffee it has embarked on niche marketing abroad on behalf of these groups. As a result, the share of respective producer's price in the export price has increased from 43 percent in 2003 (Southern Highlands) to more than 70 percent (Piper 2007). The major problem is that the scheme works on the strength of heavy intervention by TechnoServe, and the challenge is whether it can be sustained and replicated so that most if not all the farmers would be embraced by it. So far the number of beneficiaries is very small.

72. The long term solution would be to move up in the value chain by increasing processing of the crops inside Tanzania. Increased agro processing would stimulate domestic demand of agricultural produce in a more a sustainable way and hence more sustainable benefits to the individual farmers and Tanzanian national economy in general. The macro economic advantages of processing, both in terms of value added and job creation, have indeed been clear for a long time and there have been many attempts to raise the processing capacity in Tanzania. The success of these efforts is however yet to be seen.

73. Taxation is another factor that increase transaction costs and hence reduces farmer produce incomes and if there are too many taxes it may stifle production. Many of the taxes are charged at the local level. In the recent past the central Government has removed many nuisance taxes at local level to promote production at that level and national level (Crop Board) levies. A recent study on impact of tax reforms on agriculture has identified a list of taxes paid by small holder farmers. These include withholding tax on interest (10%), education levy, primary society levy, union levy, apex levy and council levy. These appear to be too much for the small holder farmer who is not earning much. Elsewhere this has created a disincentive in production especially in current situation in which the more you produce the more you pay.

74. To address the issue of low farmer producer prices, which in the previous review was found to be as low as 52 percent of export prices, the Government has in the past year undertaken a number of reforms, including rationalization of Crop Boards. All levies by the Crop Boards have been abolished, and these boards are now funded under the respective Ministry's MTEF. A study on tax reform has been undertaken and yet to be implemented. Warehousing receipts system has been adopted in some crops such as coffee, cotton paddy. The model is being promoted in other crops such as cashew-nut in Mtwara.

74a. Similarly, in response to declining agricultural productivity, mostly attributed to declining use of fertilizer, the Government is committed to raise crop production and productivity through fertilizer use intensification and ensure better balance of plant nutrients (A World Bank Report of 2005 estimated that only 15 percent of the all farmers use fertilizer). In pursuit of this objective the Government decided to subsidize fertilizer cost to farmers as the prices had gone up almost beyond the reach of most farmers, especially after liberalization of importation and distribution of fertilizer in the country. The aim was to reduce price of fertilizer and increasing the rate of application from the current 7 kg/ha to 15 g/ ha by year 2010.

75. Despite some implementation problems that were identified by a special study on the impact of transport fertilizer subsidy, the subsidy has so far enhanced agricultural production of food crops especially maize production, which has increased from 2,321,951 tons during 2002/2003 to 3,288,015 tons in 2004/2005.The study noted that fertilizer imports have increased as a result of the subsidy, which means increased use of inorganic fertilizer by farmers. The impact of the same is however rather mixed.

76. A study on the impact of AGITF on production has noted that the fund is not enough to make a desired impact in the area of mechanization. For example during the current year 2007/08 the fund has been allocated Tshs 3.5 billion. This amount is inadequate to make any significant impact. Long term financing in agriculture is still unavailable in Tanzania. The government needs to create a conducive environment for this to emerge.

Growth of private sector investment in agriculture

77. The vision of the ASDS (2001) is to have an agricultural sector that by year 2025 is *"modernized, commercial, highly productive and profitable, utilizes natural*

resources in an overall sustainable manner and acts as an effective basis for inter sectoral linkages". It is recognized that this vision requires transformation of the current subsistence-dominated production systems into commercial and profitable systems, hence have an agricultural sector that can contribute to growth and therefore able to reduce poverty. Considering that the agricultural sector is basically a private business, the ASDS emphasizes the enhancement of the role of the private sector which is critical to its operationalization. It is clear that the Government sees commercial farming and agro-processing industries as agriculture's growth poles, and hence strategies to promote investment in these areas are indispensable. Promotion of a favourable environment for these activities to thrive is necessary.

78. While at the policy/strategy level, commercial farming (in which private investment play an important role) is indeed well recognized, at implementation level things are a bit slow. The limited investment in medium and large scale investment in agriculture significantly explains the low productivity and growth of the country's rural sector (World Bank, 2005).

79. With regards to public and private sector investment in the agriculture sector, there is not a clear demarcation as to the respective sub sectors. However, the sector as a whole indicates contrasting performance between public and private investments whereby the latter shows lowered investment and the former increased investment in 2006/07 as compared to 2005/06. Data from the Tanzania Investment Centre (TIC) show that the number of agricultural and livestock projects registered by the Centre was higher in 2005 (A total of 37 projects) than in any other year during the last five years. In 2006, the Centre registered 34 projects compared to only 24 this current year 2007. Value wise, 2006 recorded the highest investment (US$ 532.72 million compared to only US$ 119.72 in 2007), and job creation (20,253 employees compared to 17,852 employees in 2007). The trend for 2007 is therefore not very impressive (see figure 14 & table 11).

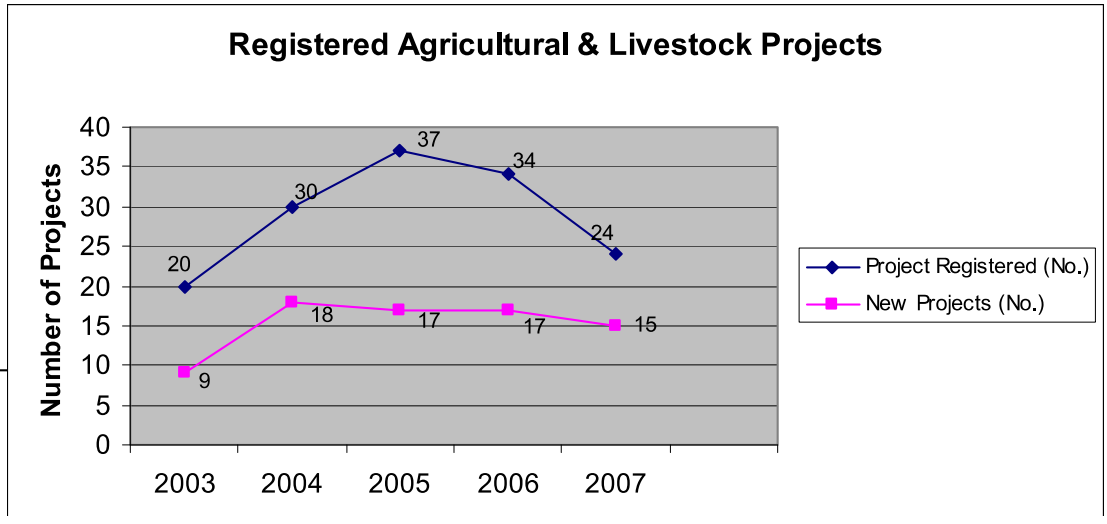


Figure 14 Registered Agricultural & Livestock Projects (Source of data: TIC)

79. When it comes to public investment, however, there has been an increased investment trend as the share of the agricultural sector in total government budget has been on the rise for three consecutive years. The share was 5.78 percent in 2005/06, 6.1 percent in 2006/07 and 6.21 percent in 2007/08.

Table 11: Registered Agricultural & Livestock Projects

Description/year	2003	2004	2005	2006	2007	Total
Project Registered (No.)	20	30	37	34	24	145
New Projects (No.)	9	18	17	17	15	76
Expected Projects for rehabilitation (No.)	11	12	20	17	9	69
Local Projects (No.)	8	12	13	13	7	53
Foreign Projects (No.)	10	8	13	9	11	51
Joint venture (No.)	2	10	11	12	6	41
Total Employed (No.)	5,581	11,352	18,689	20,253	17,852	73,727
Total Investment (TShs. Million)	53,858	78,841	512,402	639,264	**	1,284,365
Total Investment (US$ Million)	51.29	**	465.82	532..72	119.72	1,170

Note: ** No figures available; Source: Tanzania Investment Centre

80. In terms of total foreign direct investment, Tanzania has been able to attract an increasing flow of investment, as a result of an improved investment climate. Through the BEST programme and the incentive framework Tanzania is becoming an attractive investment target. In the current incentive framework, agriculture, livestock and export processing zones are targeted as lead Sectors where investors can import goods associated with the investment at 0 percent duty. As a result, total FDI's inflows stood at US$ 6,028.8 million by end of 2005, making the country one of Africa's leading target investment destinations (FAO, July 2007). Despite this increased foreign investment, TIC reports show that agriculture's share is low. Most FDI has been directed at mining, quarrying activities and tourism. According to the FAO report, this low FDI's in agriculture is attributed to low performance and weak institutional arrangements in the sector. That, agriculture in Tanzania is dominated by small-holders (in the scale of 0.25 to 3 hectares in the rural areas) with low levels of productivity, as well as low education and experience and insufficient access to credit and inputs. **There is need for Government to scale up efforts to promote out grower/contract farming through relevant incentive packages, and guidelines. Promotion of farmer groups/associations should also be scaled up to support such initiatives.** Such organized farming is already found in sugar cane, tobacco, sisal

barley, and milk. Farmers in these schemes enjoy assured markets for their produce and the supply of inputs on credit basis as well as training and extension services. At the same time, the buyers/processors benefit from assured source of supply of produce/raw materials with improved quality and quantity. **To be able to promote these schemes the MAFC, MLD and MITM should follow up with TIC on a much more regular basis than at current in order to monitor and establish investment trends in the sector**. It is also important that the Government undertakes to organize the demand side by promoting and building capacity and the capability of farmer associations. The Agricultural Council of Tanzania has proposed establishment of an Agricultural Business Development Fund, to be led by the private sector. Such a Fund could finance capacity building of farmer organizations and commodity associations, support technical and management capacity building of SMEs in agriculture, which provide a bridge to bankable projects. On-going projects like the PASS based in Morogoro, the Agricultural Council of Tanzania and MVIWATA could take a centre role in such an initiative.

81. As part of the privatization programme, the government has privatized a number of ranches and farms. The major objective of the privatization programme is to promote private business, increase investment and improve farmer incomes. **It is important at this stage to monitor the impact of such programmes viz a viz the targeted objectives.**

IV. ISSUES RAISED IN THE PREVIOUS ASR AND PER - 2006

82. As PER is an activity performed every year, it has become traditional to begin from the previous PER recommendations and assess the extent of implementation in the year under review. It needs to be noted that the prior to the more recent PER of 2006, the last time PER was conducted was in 2003/04 meaning that two intervening years went without PERs: 2004/05, 2005/06. The 2006 PER made recommendations in the following areas: sector budget allocation; intra-sectoral allocations, planning, budget execution and implementation capacity; operational efficiency; monitoring, evaluation, accountability and fiduciary matters. A number of issues and recommendations were also raised in the 2006 ASR. The Government has addressed most of the recommendations as shown in Table 12:

Table 12: Summary of emerging issues, recommendations in ASR 2006

Issues	recommendations	Action taken
Low Producer prices as low as 52% of export values Local taxes take away 10% of crop production	Improve producer incentives Crop board reform Comprehensive intervention for farmers	Crop boards have been rationalized and all levies have been abolished. A study on tax reform has been undertaken and yet to be adopted by the Government Input Subsidy operation Warehousing receipts system adopted in some crops
New sources of growth	Promote crop diversification- vegetables, fruits, oilseeds, spices Promote direct linkage between farmer/groups and markets(upscale contract farming/outgrower schemes Promote public private partnership Promote intensification in agricultural production	The 2007/08 budget has taken on board activities to promote non traditional crops, small stocks Contract farming is widely promoted e.g. wheat farms in Arusha, animal feedlotting Contract farming study has been conducted. Its recommendations are yet be adopted by the Government Research and extension services have been emphasized in the current budget Government to recruit 2500 annually for the next four years A study on Plant Breeders Rights implementation in Tanzania for the introduction of improved plant varieties for the horticultural sector has been conducted and its recommendation have been adopted by the Government.

		As a result Tanzania is in a process of joining UPOV A study on inputs availability by particular pesticides for horticultural products has been conducted and its recommendations are being used in the on going policy review and in updating the Plant Protection Legislation of 1997 Also a study on training needs in the horticultural sector has been conducted and specific recommendation on appropriate training providers (on horticultural production, processing, handling and marketing) have been identified. Likewise recommendations to improve horticultural training at Sokoine University of Agriculture and HORTI- Tengeru have been made for Government consideration. A Project designed to assist horticultural producers to use Kilimanjaro International Airport instead of channeling their produce though Nairobi has been initiated in collaboration with USAID
Depressed Farm productivity/yield	Improve intervention to farmers by introducing	Interventions reflected in current budget

	or developing improved seeds of major crops through outsourcing area based `research Promote agro-mechanization Develop irrigation infrastructure Increase better access to micro-finance	Efforts to strengthen rural SACCOS are being taken Construction and Rehabilitation of irrigation infrastructure given priority in this years budget Farmer education is a major ongoing activity
Agricultural marketing	Promote contract farming, agro processing Formulate a policy on PPP in Agriculture	As above Agro-processing is promoted through MAFC and MLD budget through training
Investment climate (Incentives)	Reduce unnecessary regulations Better access to micro finance	The agric working group under the Tanzania national Business Council is working on required incentive schemes for making agriculture vibrant and competitive

As regards the PER 2006, the issues that motivated the recommendations under each broad are summarized hereunder.

Sector budget allocation

Overall budget allocation to the sector is small in relation to the sector's contribution to the national economy to create required impact to agriculture and economic growth:

- More budget allocation goes to recurrent budget than the development budget. Government allocation to development budget continues to be low.
- Allocations to the Cooperatives and Marketing are still inadequate
- Local governments (district councils) received inadequate budget allocations especially OC
- Local government's (district councils) allocation of own sources to agricultural sector were insignificant.

Intra-sectoral allocations

- LGA needs are not aligned with the ASDP priorities
- Difficulties exist in aligning and consolidation of local needs/priorities from lower level government (villages) upwards- from wards to Districts; DADPS into DDPs. DADPs into RADPs and RADPs into RDPs.
- Disbursement of funds still remain a problem
- Weak institutional arrangements to handle fiscal transfers to LGAs.
- Significant deviations in approved budgets by parliament and proposals submitted by RCC and LGAs undermines the value of consultative bottom up approach
- Numerous accounting and reporting obligations arising from numerous requirements at the Centre
- Capacity for LGAs to plan and use increased levels of funds in the agriculture sector is low

Operational efficiency

- Need for increasing efficiency gains in the use of scarce resources

Monitoring, evaluation, accountability and fiduciary matters

- Problems of capacity at the sector monitoring and impact assessment to spearhead the function and capacity problems Regional and LGA levels in terms of inadequate staffing, lack of technical guidance and lower skills in planning
- Weak coordination and reporting arrangements between ASLMS, Regions and LGAs
- Multiplicity of reporting systems: LGMD and Plan rep.
- Inadequate resources for the M& E at regional and LGA levels
- Poor procurement practices signaling problems of accountability

Review of Implementation of Recommendations

83. Although the most recent PER report came out in November, 2006 and was preceded by the Agricultural Sector Review released in October of same year, Government (or ASLMs) has made progress in implementing some of the recommendations made in these reports during the FY 2006/07 as well as planning to continue addressing them during the FY 2007/08. With respect to PER, progress made in implementing these recommendations are given in Table 13. The Table shows that progress has been made in the area of budgetary allocation to the agricultural sector where increase in the allocation has been effected by upping allocation to 6.21% of total government expenditure from 5.8% in 2005/06. This means that government is gradually working toward

achieving the ASDP target of allocating 10% of government expenditure to agricultural sector. Government has also made progress or is addressing recommendations made in the previous PER with regard to intra-sectoral allocations, planning and budget execution and capacity issues as well as monitoring and evaluation. While the PER 2006 recommended suspension of recruitment efforts for one or two years until staff requirements have been fully determined in view of the policy of decentralization, government is going ahead with the recruitment efforts targeting to recruit 2500 village level extension officers.

Table 13: Summary of recommendations from 2006/07 PER and implementation

Key recommendations	Implementation
1. Sector budget allocation	
Government to gradually increase resources allocations to the sector to reach 10 percent of the total government budget allocations over the next five years.	Government has been increasing allocation to the agricultural sector from 5.78% in 2005/06 to 6.21% in 2007/08. Government is therefore gradually addressing the need to increase budgetary allocations in line with the Maputo Declaration of 2001.
2. Intra-sectoral allocations, planning and budget execution and capacity issues	
Review the exiting formula for budget allocation to LGAs in the agricultural sector to reflect disparities in agricultural development and production capacity	The formula for allocating grants to Districts Councils is being reviewed by preparing ToR to be used by the Consultant.
DADPs timeframe be aligned with that of ASDP; they cover 7 year period and address district development strategies	The DADPs planning and implementation has been reviewed and training modules prepared. Training workshop to members of RS, DFT, and WFT started in November, 2007

Develop capacity to develop sound MTEFs/SBAS submissions that address ASDP priorities. This capacity should also address needs of MAFC to handle SWAP and decentralized implementation of ASDP.	At national level, ASLMs have formulated 6 thematic working groups to facilitate implementation of ASDP planned activities for FY 2007/08 and identify priorities for FY 2008/09. The working groups include: Irrigation TWG, Marketing and Private sector Development TWG, Monitoring and Evaluation TWG, Food Security TWG, Agricultural Services TWG and Planning and Implementation TWG
Capacity building for LGAs should be undertaken targeting project management and technical service	Capacity building workshops will be done to all LGAs with effect from Mid November, 2007
Design and commission studies to assist in examining the efficiency with which funds are used, incidence of benefits of services and programmes and extent to which the poor are benefiting.	TOR for the studies has been prepared awaiting for procurement to be finalized
3. Operational capacity	
Suspend the recruitment of staff for 1 or 2 years to facilitate a review of staff requirements in view decentralization policy	Another capacity building study including skills gaps analysis is planned to be undertaken by June 2008. 2500 village extension staff are in the process of being recruited
Undertake studies to: examine skill gaps and remedial strategies, assess the most cost-effective way of utilizing available staff exploit public-private partnerships in service delivery.	
Rationalize ongoing capacity building initiatives being undertaken by MAFC and PMO-RALG to leverage resource.	The prepared integrated work plan and budget is a step forward in achieving rationalization (effective use) of the ASLMs resources.
Minimize the deviation in the release of cash to promote predictability and	The possibility of having 6 months or one year disbursements into the ASDP

proper planning and management of investments	holding and yearly commitments Development Partners during the planning stage dialogue are the measures in place to be used to minimize late disbursement
4. Monitoring, evaluation, reporting; Accountability and fiduciary issues	
Rationalization and simplification of reporting arrangements	ASLMs have agreed on the process of mainstreaming all ongoing projects into the ASDP framework.
Utilization of reports generated from existing systems to motivate their use	Monitoring and evaluation system has been developed and preparation of operational manual or guideline is in progress.
Design and phases out the implementation of information management systems to assist in collecting, analyzing and retrieving data to support decision-making.	
Enhancing institutional capacity to facilitate realistic reporting.	A monitoring framework among the ASLMs has been established.
There is need by ASLMs to strengthen systems to reduced fiduciary risks.	Progress has been made in strengthening systems at ASLMs including training of Accounts and auditing personnel and recruitment of additional staff.

Source: URT-MAFC: Agricultural sector Public Expenditure Review, 2006, Implementation report for ASR 2006/07 and PER -2006

Assessment of the 2007/08 ASLMs MTEFs

84. MTEFs have emerged as strong tools for linking policy, planning and budgets especially in environments in which resources are limited. A key characteristic of fully functioning MTEFs include a medium term fiscal framework, estimates of the future of costs of existing policies and sector strategies setting out sector and sub-sector priorities for future spending (ODI, 2005). As part of PER, medium term expenditure framework (MTEF) 2007/08 was reviewed to assess the following:

- The extent to which they have responded to the priority areas that were suggested for costing in the 2006 PER.
- On whether they offer useful estimates of future costs of existing policies.

In terms of responding to the priority areas suggested for costing in the previous PER, the results of the assessment indicate that most of the priority areas recommended in the previous PER-2006 have been costed and budgeted for in the FY 2007/08 MTEF. This implies that strategic targeting is being achieved. However, budgetary allocations on some areas are a cause of concern. Detailed results of the assessment are given in Table 14.

Table 14: PER 2006 priority and Response in the 2007/08 MTEF

Sub-sector	Priority areas recommended for costing	2007/08 MTEF response
Crops	Promote post-harvest management techniques in the rural households	
	Increase investments in potential irrigation areas	Costed and allocated funds in the 2007/08 MTEF
Cooperatives	Promote and sustain community based Savings and Credit Schemes	Costed and funds allocated in the MTEF 2007/08
	Increase access to rural micro financial services for subsistence farmers	
Livestock	Promote and develop pastoralism as a sustainable livelihood system	Broadly addressed in the MTEF
	Improve water to reliable water supplies for livestock development	MLD is encouraging LGAs to include construction of Chaco dams in the DADPs in line with decentralization policy.
	Support establishment of National Livestock Development Fund	This fund has been established and is operational
	Strengthen pasture seed farms	Costed and funds allocated in the MTEF 2007/08
	Support construction and rehabilitation of livestock marketing infrastructure	

	Promote and support establishment of Livestock Breeders Associations	Livestock Breeding Act is being prepared which will provide for establishment of the breeder associations
	Strengthen important distribution systems and use of livestock inputs	Costed and funds allocated in the MTEF 2007/08
Marketing	Invest in market infrastructure and widen access to markets within the country	Costed and funds allocated in the MTEF 2007/08.
	Provide training support in marketing skills for rural population	
	Strengthen agriculture market research and intelligence	
	Promote strong producers and traders organizations	
	Promote agro-processing and up-grading in agricultural commodity markets	
	Monitor and evaluate performance of the agricultural markets, marketing and trade system	

Source: PER, 2006, ASLMS MTEF FY 2007/08

85. Global information provided in the MTEF 2007/08 were analyzed to determine if MTEF projections do provide in advance useful estimates of future costs of existing policies. The analysis shows that current year estimates are closely related to actual expenditures in the prior year than to estimates for the future outer years. For example, in the case of MAFC, the approved estimates for FY 2006/07 were much closer to the actual expenditure in FY 2004/05 – actually only higher by 2%. Thus projected increases of 8.5% (FY 2007/08), 13.8% (FY 2008/09) and 4.7% (FY2009/10) may not be realistic. This could suggest that there are challenges in the planning and costing of plans which further call for capacity building in planning and costing of budgets at the ASLM level. This also suggests that activities are being pushed further into the future.

It is stated in the MAFC's MTEF for FY 2007/08 that most donors failed to honor their obligations according to agreed estimates in FY 2006/07. In addition it is also stated that a budget cut of 11 billion was effected, coupled with delayed disbursements posed a threat to the attainment of the FY 2006/07 targets. This frequent change of goals posts during implementation seriously undermined planning and needs to be addressed. The magnitude of this problem is shown in the next section under development partner's adherence to the financial commitments they make.

Agricultural Sector Budget performances

National Allocation to Agriculture Sector – National MTEF

86. The extent to which agriculture is accorded importance can be discerned from the amount of total national budget that is allocated to the sector. Figure 15 shows that there has been an increasing trend over the last five years beginning with a national allocation to agriculture of 2.9% in FY 2003/04 to 6.21% in FY 2007/08, translating into an average annual allocation of 4.8%. While may be considered as being still small, relative to contribution of the sector, the increasing trend is worth noting.

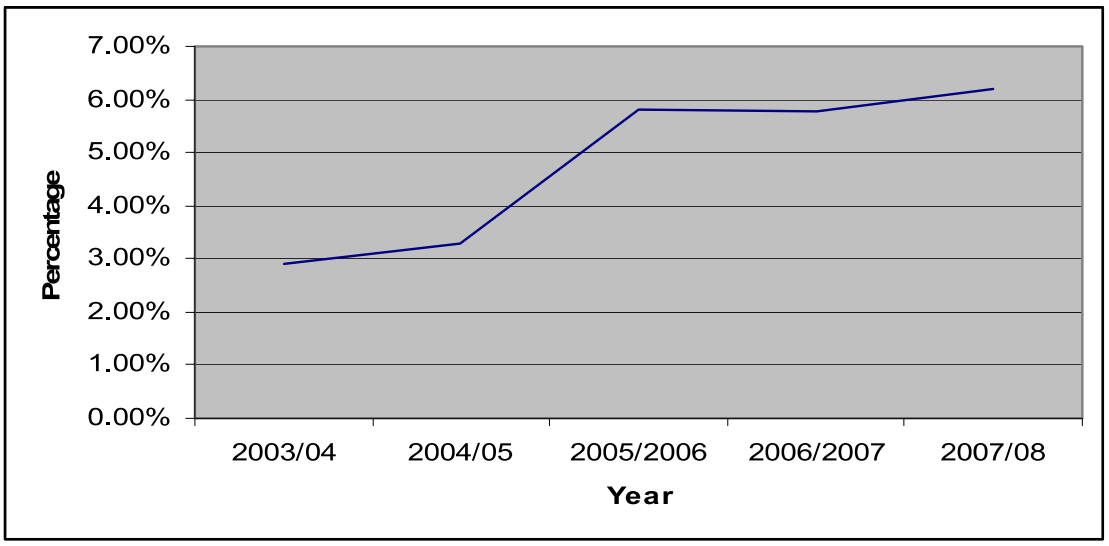


Fig. 15: Trends in budgetary allocations to the agricultural sector 2003/4-2007/08
Source: Internal reports MAFSC, 2007 and PER 2006

87. The increasing allocation to agriculture reflects government's efforts to allocate more resources to this key sector in line with the Maputo declaration as well as appreciation of the key role the sector plays in the economy. The trend

also shows that government is working on recommendations made in the previous PERs (2002/03, 2003/04) which called for increased budgetary allocation to the sector. However, to reach the target of the Maputo Declaration of 10%, further efforts are needed.

Budgeted Expenditure for the Agriculture sector

88. Figure 16 shows an increasing trend in the budgeted expenditure by ASLMs over the recent five years. The figure shows that overall there is a general increase in budgetary allocations to each of the ASLMs including PMO-RALG (LGAs). Noticeably MAFC remains the ministry with the largest allocation compared to the other ministries and reflects its central position in the sector. The growing allocation to PMO-RALG reflects increased allocations for DADPs implementation.

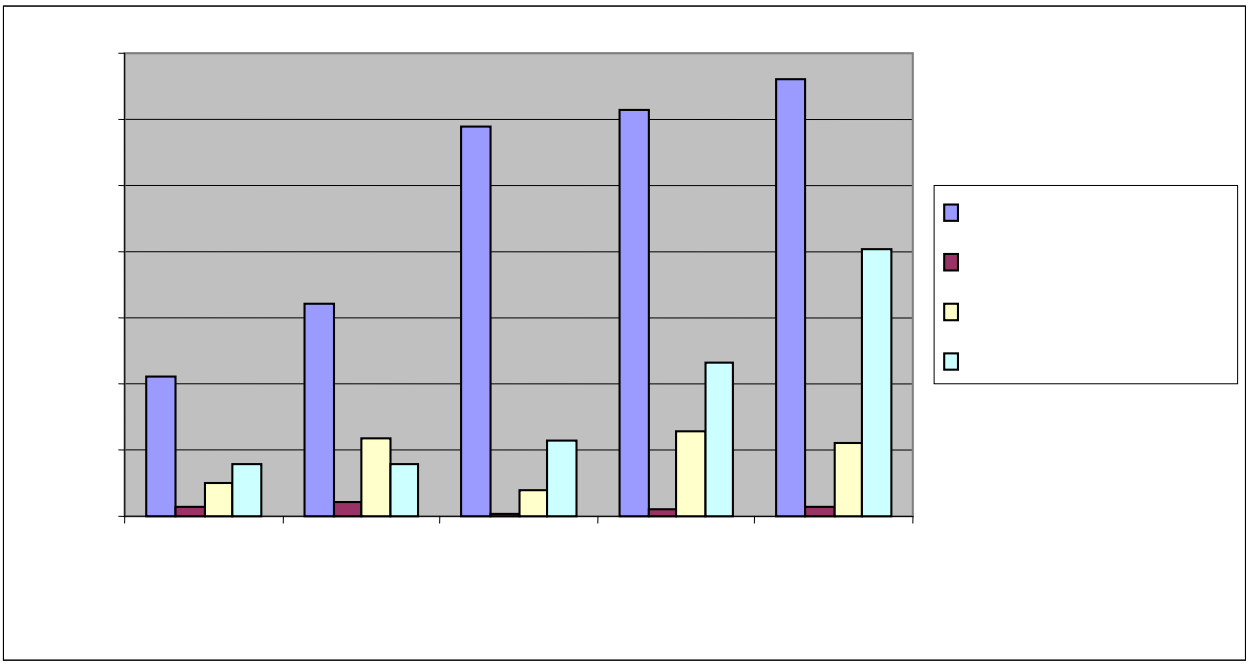


Figure 16: Budgetary allocations to ASLMS from 2003/04- 2007/08

Source: ASLMs records and PMO-RALG Medium Term Plans and Budgets Guidelines for LGAS for 2007/08 to 2009/10

Table 15 further explains in percentage terms the significance of the budgetary allocations to individual ASLMs. The overall picture is that MAFC has been having the largest budget over the last five years as its allocations averaged 63.2% per year over that period. MAFC together with MWLD (livestock) and later MLD make up over 70% of the sector budget. The PMO-RALG budget

refers to that used at LGA level. On the other hand, MCM/MITM (marketing) received 4% of the sector budget in FY 2003/04 and 2004/05 and 1% in more recent years. This implies that only a very small fraction of the country's sector budget goes into marketing the agricultural products and this reflects the attention given to this function. It is doubtful whether this is indeed adequate in an increasingly competitive world.

Table 15: Comparison of Budgetary Allocations Among the ASLMs

	2003/04	2004/05	2005/06	2006/07	2007/08
MAFC	60%	59%	79%	62%	56%
MCM/MITM (Marketing)	4%	4%	1%	1%	1%
MWLD (livestock)/MLD	14%	22%	5%	13%	9%
PMO-RALG	23%	15%	15%	24%	34%
Total	100%	100%	100%	100%	100%

Source: Computations based on figure 14.

Allocations between Central and Local Governments

89. Budgetary allocations between central and local governments are provided in Table 16. The Table shows that there have been fluctuations in the amounts of funds allocated to local government authorities over the last five years, ranging between 15-33% of the total allocation to the sector. This means the policy of decentralization by devolution in terms of the amount of resources being devolved to LGAs to enable LGAs deliver services in the sector is being progressed. Significant progress was made in the FY 2006/07 as allocations almost doubled from 15% in 2005/06 to 24% in FY 2006/7 and reached 34% in FY 2007/8. This reflects increasing funding to support District Agricultural Development Plans (DADPs). Further discussion on DADPs implementation is provided separately in this document.

Table 16: Allocation Between Centre and Local Governments

	2003/04	2004/05	2005/2006	2006/2007	2007/08
Total sector budget in TSh Billions	81.4	105.3	150.718	197.92	237.217
Central Ministries (ASLMs)	65.4	89.6	128.018	151.32	156.787
LGA	16	15.7	22.7	46.6	80.43
% of Centre	81%	85%	85%	76%	66%
% of LGA	19%	15%	15%	24%	34%
	100%	100%	100%	100%	100%

Source: ASLMs records and PMO-RALG Medium Term Plans and Budgets Guidelines for LGAs for 2007/08 to 2009/10

Further analysis of ASLMs budget

90. One of the traditional approaches to analysis of public expenditure has been the attempt to distinguish development and recurrent expenditures. The aim being to draw attention to the amount of national resources being allocated to long-term development projects and those allocated to the running of daily operations of units. Table 17 provides this picture over the last five years.

Table 17: Sector Budget composition and trends

Budget	**2003/04**	**2004/05**	**2005/2006**	**2006/2007**	**2007/08**
Development	34.1	32.48	65.694	57.607	142.55
Recurrent	29.8	42.356	60.224	93.713	94.667
Total	**63.9**	**74.836**	**125.918**	**151.32**	**237.217**
Percentage					
Development	53%	43%	52%	38%	60%
Recurrent	47%	57%	48%	62%	40%
	100%	100%	100%	100%	100%

Source: ASLMs Records

Figure 17 illustrates that there have been ups and downs developments for both recurrent and development. For example recurrent budget moved from 47% of the ASLMs budget in FY 2003/04 to reach 62% in FY 2006/07. Development budget on the other hand moved from 53% in FY 2003/04 to a low of 38% in FY 2006/07 and up again to 60% in FY 2007/08. Significant allocations to recurrent in FY 2006/07 reflect the elevation of the division of livestock development to a full ministry and transfer of cooperatives division to MAFC from the then Ministry of Cooperatives and Marketing (MCM).

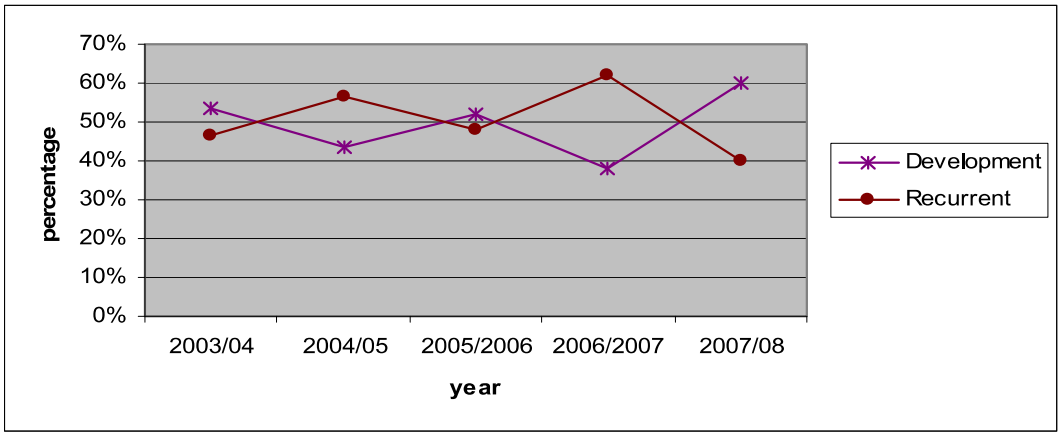


Figure 17 trends in ASLMs budgets

Development Budget: Domestic (local) vs. foreign funding

91. Table 18 provides information regarding the composition of development budget in terms of local versus foreign funding. Foreign funding continues to dominate development budget; moving from 80% in FY 2003/04 fell to 77% in FY 2004/05 and peaking up at 88% during the FY 2007/08.

Table 18. Composition of development budget

	2003/04	2004/05	2005/2006	2006/2007	2007/08
Local	6.9	7.6	9.187	10	8.224
Foreign	27.2	24.882	56.507	45.714	61.652
	34.1	32.482	65.694	55.714	69.876
Percentage					
% of local	20%	23%	14%	18%	12%
% of foreign	80%	77%	86%	82%	88%
	100%	100%	100%	100%	100%

The results in Table 19 are consistent with the general situation at national level. The Controller and Auditor General pointed out in the 2005/06 audit report that a large part of domestic revenues tend to be allocated to recurrent budget and less to development budget. Table 19 indicates that over the three years: 2003/04-2005/06, actual domestic revenue used for development expenditure has averaged 12% while foreign funding over the same period of time averaged 88%.

Table 19: Allocation of domestic revenues (bn Tshs)

	2003/04	2004/05	2005/06
Development expenditure	140.53	287.70	253.60
Recurrent expenditure	1,378.80	1,553.30	1,974.70
	1,519.33	1,841.00	2,228.30
Percentage			
Development expenditure	9%	16%	11%
Recurrent expenditure	91%	84%	89%

Source: CAG report 2005/06

Further, CAG reports for FY2003/04-2005/06 reveals that part of recurrent expenditure is financed using foreign funding.

92. The reliance on foreign funding for development activities is so significant it needs to be noted especially considering recent claims that upholding commitments by development partners has become a problem. This becomes critical when one considers the levels of disbursements given in Table 19 (a).

More was disbursed in FY 2003/04 than was approved. In subsequent years, the situation deteriorated in terms of donor disbursements and in FY 2005/06 more than 60 percent of the promised money for MAFC (then MAFS), MCM and MLD was not disbursed. Some improvement was experienced in FY 2006/07.

Table 20 (a) Actual disbursements of development funds

Total Disbursements				
	2003/04	**2004/05**	**2005/2006**	**2006/2007**
Budget	36.12	36.00	65.69	57.61
Actual disbursement	39.58	27.78	24.454	48.757
Difference	(3.46)	8.22	41.24	8.85
Difference as % of Budget	-10%	23%	63%	15%

A close look at the disbursement issue and using MAFC, for this ministry alone which has a significant development budget, more was disbursed than was approved in the FY 2003/04. However, disbursements began to worsen the followed year. The situation was worst in FY 2005/06 during which more that 50% of the pledges were not made good. Clearly this had significant negative effect in the ministry's ability to achieve set targets. There is need to develop a better understanding of factor behind this fall in upholding commitments and take appropriate action.

Table 20 (b). Adherence to commitments by DP- MAFC

	2003/04	2004/05	2005/06	2006/07
Approved budget	25.1	22.7	56.1	37.5
Actual disbursement	25.52	17.8	23.5	22.2
difference: budget-actual	-0.42	4.9	32.6	15.3
difference as % of budget	-2%	22%	58%	41%

Source: Appropriation books- MAFC

93. While the distinction between foreign and local funding for development has been used for sometime now, the relevance of this distinction may be questionable in the context of general budget support particularly at sector level. This is because once funds from both government and development partners are put into the general basket, they loose identity and subsequent allocations can be meaningfully linked to funding sources. However, the distinction may still be useful at overall/national level.

Analysis of recurrent: PE Vs OC: MAFC alone

94. Based on data obtained from MAFC Table 21 shows the allocation of the recurrent budget between personnel emoluments and other charges. It shows that a large part of recurrent budget is spent on other charges, which is meant for running the ministry, 25 institutions under it and meeting commitments to international organizations such as FAO, IFAD, etc.

Table 21. Analysis of MAFC recurrent budget

	2003/04	2004/05	2005/06	2006/07	2007/08
PE	3.6	4.5	5.3	11	11.3
OC	7.1	30.4	49.3	66.3	60.06
Total	**10.7**	**34.9**	**54.6**	**77.3**	**71.36**
Percentage					
PE	34%	13%	10%	14%	16%
OC	66%	87%	90%	86%	84%
	100%	100%	100%	100%	100%

Source: URT, Volume II estimates of Public expenditure consolidated funds services- submitted to the National Assembly

Detailed analysis of the MAFC recurrent budget indicate that for the FY 2007/08 out of the 71.36 billion Tshs. budgeted, 21.9 billion will go to 25 different research and training institutes as well as crop boards (all these generally referred to as internal commitments) to meet their recurrent and development budgets, and 1.5 billion to external commitments. Effectively this leaves MAFC with only Tshs. 48.2 billion for its operations. It can be debated whether this is sufficient for effective delivery of services all year round. Further, the Tshs 21.9 billion allocated to the 25 internal organizations imply that each will receive less than Tshs 1 billion. Again whether this allocation is adequate for institutions expected to support a key sector as agriculture needs to be debated. Key among these institutions are the Crop Boards including Coffee, Cashew, Tea, Cotton, Sisal, Pyrethrum and Tobacco commanding about 45 percent of the agricultural GDP (using the old data series).

V. PLANNING AND EXECUTION OF AGRICULTURE SECTOR BUDGET

Implementation of ASDP at national Level

95. As stated under the sector review section, the implementation of ASDP at national level aims to support: reform of agricultural services, primarily research

and extension; improvement in the overall sector policy framework; preparatory work and investment in national irrigation projects through public-private partnerships; stimulation of market development; and improvement of food security and sector co-ordination. The sub-components are: (i) agricultural services; (ii) irrigation development; (iii) market development; (iv) food security; and (v) co-ordination, monitoring and evaluation. However, ASDP has been harmonized with recent policy instruments: MKUKUTA

96. According to the 2006 PER, the Public Financial Management Reform Program (PFMRP), is aimed at promoting resource allocation and efficient use of public funds to attain the objectives and targets articulated in the MKUKUTA. Under the MKUKUTA, effective collaboration in the form of inter-sectoral linkages as well as cooperation with a wide range of stakeholders to achieve targets is emphasized. To this end and linking with ASDP, FASWG was set up as an institutional arrangement to bring together the ASLMs and development partners, civil society and private sector to monitor the implementation of ASDP. However, this arrangement was found to be ineffective and there are concerns regarding the effectiveness of the ASDP secretariat.

97. Recent developments as regards strategic direction is that reference group comprising of government officials from ASLMs and other ministries (e.g MOF), development partners, civil society organizations and private sector has been formed. Currently the Terms of Reference and the manner the group will operate are being worked out.

98. In terms of planning and budgeting, the second Joint Implementation Review (2007) noted that progress has been made on improvements in this area for ASDP over the past year. Key improvements have been the production of an integrated action plan and cash flow that extracts ASDP financed activities from within the MTEF and shows them by division and by thematic area.

99. Government has adopted a medium term planning and budgeting approach which is supported by a strategic budget allocation system (SBAS). This system is meant to promote strategic allocation of resources to priority areas under the MKUKUTA and align them with ASDP. SBAS also helps to draw attention to issues of efficiency and effectiveness in resource allocation to various objectives and facilitates attainment of the targets indicated in the ASDP. SBAS as tool is credited for its role in facilitating the linking of policy to resources allocation through budgeting within the sector over the medium term. However, challenges exist that work against the realization of the anticipated benefits of

employing the MTEF and SBAS as a tool. The PER 2006 classified these challenges as:

- Inadequate capacity in planning and budgeting at all levels;
- Failure by prior PERs to highlight critical budget policy related issues to be addressed and inability to encourage debate on measures to be taken. Consequently, SBAS and MTEF submissions provide neither issues nor guidance required to guide cabinet decision making; and
- Unpredictability of both ceilings and or donor disbursement providing no incentive to strategic and realistic and budgeting under MTEF.

100. The challenges being experienced in applying the MTEF approach which is supposed to be supported by SBAS require attention. Late disbursement of funds continues to be bog down smooth implementation of ASDP activities and is an issues that needs to be debated and addressed.

101. Improvement in coordination at national level was suggested in the first JIR and 2006 PER. To this end, Thematic Working Groups (TWG) have been formed to address the coordination challenge. The TWGs submit the action plan to the Planning and Implementation Group who creates an integrated work plan. It is their responsibility to ensure implementation of the integrated work plan. The chairs of the TWGs must commit to support the implementation of the integrated work plan. According to the second JIR other efforts to improve ASDP coordination have also been made but effective coordination and clarity of roles and relationship of ASDP Secretariat, DPP-MAFC, other ASLMs DPPs and TWGs remain as one of key challenges in ASDP implementation.

ASDP implementation at LGA level

102. Government policy of decentralization by devolution (d-by-d) which began to be implemented around the year 2000 involves the transfer of functions and resources to lower tiers of the government has had implications for the development of agriculture sector. Local component of ASDP supports improvements in Local Government Authority capacity to plan, support and co-ordinate agricultural services and investments in a more efficient, participatory and sustainable manner. The component has three sub-components aligned with the local level block grant system of the Government of Tanzania:

- Local agricultural investments;
- Local agricultural services; and
- Local agricultural capacity building and reform.

103. The local component also provides for financing advisory services, training, and infrastructure, including small scale[1] irrigation development at district level. DADPs is the agreed mechanism through which the local ASDP component is implemented. DADP guidelines were issued in November 2005 to guide the implementation of DADPs at various stages: Planning, implementation, monitoring and evaluation. With regard to irrigation, the component will pilot through the District Irrigation Development Fund (DIDF) the competitive funding mechanisms proposed to provide supplemental support for small scale local level irrigation, including the establishment of appropriate identification, screening and ranking mechanisms.

104. The funding of DADPs depends on the assessment that has been introduced to assess the LGAs performance in various aspects. Assessment criteria are summarized in Table 22. It needs to be noted that a council will first have to qualify for Local Government Capital Development Grant (LGCDG) as a pre-condition for qualifying for DADP funds. Criteria for qualifying for capital development funds are provided in the appendix.

Table 22: District Agriculture Development Grant (enhanced ASDP: DADG, AEBG and A-CBG assessment criteria

a) Council Management	**Council qualifies for CDG**	**Primary**
	Position of DALDO filled	**Secondary**
b) Council Agricultural Development Plan Status	Council has a DADP	**Primary**
c) Agricultural Services Reform	**Evidence of a commitments to reform of agricultural extension services**	**Secondary**

Source: LGA Assessment manual, 2006

105. As part of these reforms, LGAs are allocated funds for recurrent expenditure using transparent and agreed formula. Included in the assessment are: number of villages (80%), rainfall index (10), and number of rural population (10). DADG, A-EBG and A-CBG also use the same formula. Problems related to current DADP in terms of arrangements have been documented in the PER 2006. However, as stated earlier, plans are afoot to review this formula during the FY 2007/08.

[1] Small scale irrigation is viewed as schemes of up to 500 hectares, as per the Government's National Irrigation Master Plan Document, Chapter 7, para. 7.4.3.

Quality of District Agricultural Development Plans (DADP)

106. District Agricultural Development Plans are means by which ASDP is implemented at local government level. For the FY 2006/07, the government and development partners has allocated TShs 14.2 billion as grants to local government authorities for implementation of DADPs, a significant increase from 4.8 billion in FY 2005/06. Allocations went further to reach 58.8 billion in FY 2007/08; an increase of over 300% over the previous FY. These grants are summarized in Table 23. The Table shows that the Basic DADG and its top up make up more that 64% of the grants meant for development in the agricultural sector for FY 2006/07 but declined to around 43% in FY 2007/08. Also noticeable from Table 23 is the sharp increase in allocations to the Top-up DADG and top up A_CBG. These sharp increases reflect incentivisation of the LGAs to improve performance. That is the top ups are available to those LGAs that meet the minimum conditions.

Table 23: District Agricultural grants in FY 2006/07 and FY 2007/08

	2006/07		Planned 2007/08	
Type of Grant	**TShs**	**% of total**	**TShs**	**% of total**
Basic- DADG	4,705,200,000	33.20%	4,715,305,000.00	8.02%
Top-DADG	4,448,358,000	31.39%	20,464,000,000.00	34.81%
Basic-A-CBG	2,480,682,000	17.50%	7,079,265,000.00	12.04%
Top-up A-CBG	812,520,000	5.73%	10,187,235,000.00	17.33%
Enhanced A-Ext. Block Grant	1,561,773,352	11.02%	8,953,000,000.00	15.23%
District Irrigation Development Fund (DIDF)	164,856,000	1.16%	7,386,225,000.00	12.56%
	14,173,389,352	100.00%	58,785,030,000.00	100.00%

Source: DADP annual implementation and own computation

107. PMO-RALG is responsible for coordinating the implementation of the local level component of ASDP through DADPs. In this regard it among other things reviews and consolidates the DADP implementation progress reports as well as facilitating disbursement of DADP funds. A progress report covering the first three quarters of FY 2006/07 indicates that:

- 121 LGAs had submitted their progress reports which were then reviewed and consolidated by PMO-RALG and forwarded to ASLM
- PMO-RALG facilitated disbursement of ASDP grants: basic and top-up DADG and CBG, Extension Block Grants and District Irrigation Development Fund the total of which amounted to TShs 14,011,491,996
- PMO-RALG participated in various activities related to implementation of ASDP including preparation of ASDP M & E framework and initiatives to raise awareness on ASDP

108 The physical and financial performance on DADPs shows the majority of investments made were in the construction of new facilities constituting 39% of the all the DADPs expenditures for the year 2006/07 followed by planning and training.

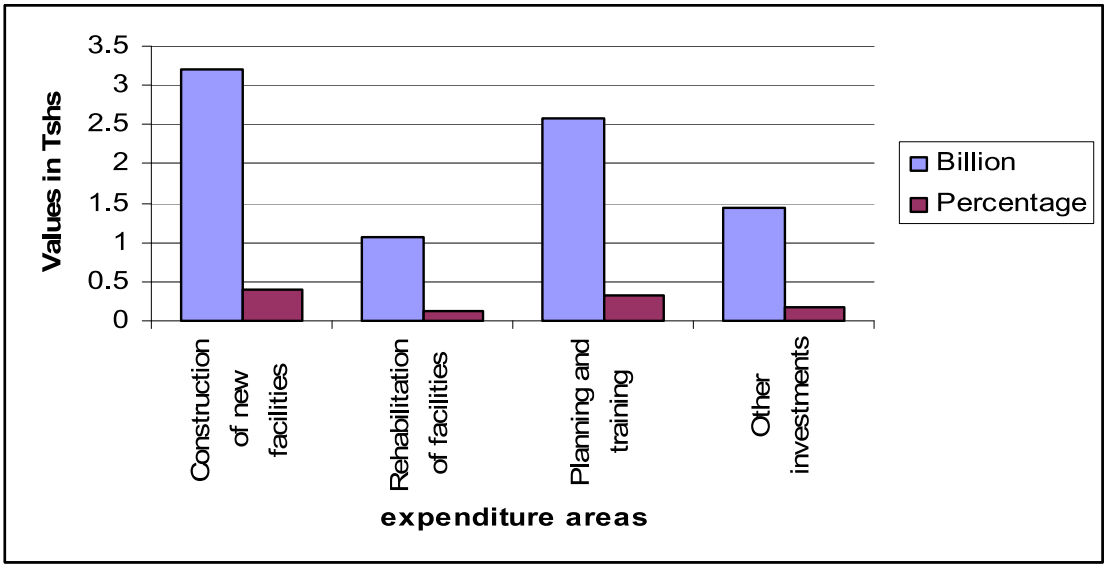


Figure 18: DADP Expenditure areas in LGAs
Source: ASLMs records

109. DADPs implementation progress reports consolidated by PMO-RALG show that there have been some progress in the planning process as shown by the clearly defined activities. This suggests the capacity building initiative to improve the planning skills may be paying off. Despite this, there is a number of issues that are emerging

- The cost of some activities undertaken has not been reported in the progress report submitted to PMO-RALG. For example, the training of 120 and 1145 members of District Facilitation Team (DFT) and Ward Facilitation Team (WFT) respectively has not been reported. It is unclear whether this was a problem at consolidation or of reporting from LGAs. In addition, the cost of some activities appeared too low to be meaningful. For example, it was reported that crop breeding in 19 LGAs cost Shs 120,862 which is about TShs 6,361 per LGA.
- There are inconsistencies in the financial figures reported. The consolidated reports states that government and donors allocated Tsh 14,177,911,000 as a grant, but when adding up the different grants gives 14,173,389,352 as shown in Table 22 above, translating into a difference of Tsh 4,521,648. Similarly the amount claimed to have been spent up to June 2007 is Tsh **11,927,697,000** but addition of amounts spent on different broad areas gives a total of Tshs 8,320,838,132. It is unclear whether it is because of first point – unreported cost or not that the difference of Tsh 3,606,858,868. The picture is further confused by the revelation that PMO-RALG facilitated disbursement to LGA of Tsh 14,011,491,996 by March

2007. This failure to agree figures could be an indication of a more serious problem in financial management and inability to adequately monitor expenditures, which translates into fiduciary risks.

- Lack of clarity on the monitoring and evaluation of DADPs. From the report used, it is not clear whether PMO-RALG which is stated to be involved in supervising the implementation of ASDP implementation at the local government level is indeed undertaken monitoring and evaluation of the DADPs implementation. If PMO-RALG is responsible for DADP monitoring and evaluation it begs the question whether it has the required capacity in terms of skills and personnel. Further, what are the implications of PMO-RALG doing M & E of DADPS in view of the existence of a whole ministry responsible for agriculture? This is an issue that requires to be addressed because it is large sums of resources that will be involved in the implementation of ASDP at local government level (75% of ASDP budget)
- Not all local authorities submitted their DADP implementation plans in time.
- There are still vague activities in some LGA reports. For example, an activity defined as '*ASDP policy declaration by Full Council and stakeholders*' and cost Tshs 16,852,000. Vaguely defined activities in the plans point to weak planning skills.
- Internal reports from ASLM indicate that majority of DADPs addressed 'hardware' or infrastructure and less on 'software'. This could be reflective of the urgency of the needs citizens feel about more strongly or a problem in facilitation of the planning processes. Environment concerns are also reportedly not addressed in the DADP plans. Also internal assessments of the DADPs do note that a large number of the interventions are too thinly spread to be of significance in addressing poverty. Again this is a problem of planning but could also reflect challenges faced in resource-constrained situations and potentially the pressure to distribute whatever little is available in order to remain politically balanced. In either case, the need to be more strategic in resource allocation emerges as a critical issue calling in turn for better planning.
- It was observed in the consolidated plans that funds for implementing activities are in some cases being sent to Ward committees, or other committees. The issue in this type of situations is about to do the projects well and the manner in which these projects are being monitored and evaluated. But also how is reporting on these types of funds being handled?

- It was noted during the assessment of the consolidated DADP reports that training of extension workers using DADP funds included long-term term training in diploma level courses (9 staff), First degree level (16 staff) and Postgraduate level (3 staff). It needs to be clarified whether DADP grants are available for long-term training courses such as these.
- Assessing the DADPs the potential overlap between the investments financed using the Capital Development Grant (CDG) under the LGCDGS and DADG appears to be real and even reporting might be distorted- in sense same investment can be reported under CDG and DADG unless care is exercised in isolating these investments.
- Problems identified in the progress reported by PMO-RALG include:
    - Lack of uniformity in the manner LGAs report on DADPs implementation;
    - Under-reporting of activities as some LGAs reported only those activities funded under agricultural disbursed funds- DAD grants;
    - Untimely information to LGAs on the oncoming DADP funds as a result of using the Development Account. Officials responsible for agricultural sector (DALDOs) were informed of fund availability. This observation points to communication problems either with the centre but also within the LGAs themselves;
    - Increased transaction cost of follow up with RAS and DEDs; and
    - Delays in disbursement of funds by the centre affected the implementation of activities at the local level as well as reporting.

110. The JIR (2007) reports lack of strategic planning at LGA level. That is although district strategic plans exist, the preparation of DADPs did not take into account the existence of district strategies. The involvement of the private sector in the planning processes has also been reported as being very limited. The review also points out that one of the challenges as regard extension services include the lack of capacity by Ward and Villages Executive Officers to provide extension services. This is a moot question. VEO is the executive officer at village level. His/her role is therefore administrative and asking for him or her to have technical skills required may be asking for too much. As clarified at the stakeholder workshop held early November, 2007, the roles of the village agriculture extension officer (VAEO) and the VEO need to be separated and that extension services is the domain of the VAEO.

Planning, monitoring and evaluation at village level

111. Recent studies by a Nongovernmental organization in Meatu District Council –Shinyanga reveal that there is a number of challenges encountered at various stages of DADP implementation at the local government level. The DADP planning guidelines require that agricultural planning to be performed following the government approved participatory planning methodology of O & OD. This means if this methodology is followed, the process would start from the community level where villages would then have their agricultural plans. Visits to the village did not find any village agricultural plans. This raises the question whether planning was done in participatory manner.

112. Indeed, the second JIR (2007) confirms that adequate participatory and strategic planning is not in place. It further states that: O & OD has not been rolled out in many LGAs; no evidence that DADPs are based on O & OD or PRA. These findings could have significant implications for the attainment of ASDP and MKUKUTA goals or even achieving the higher visions of TDV 2025. Lack of proper planning and monitoring at a level where most of the ASDP interventions (75%) are being implemented could defeat the whole purpose of ASDP and MKUKUTA.

Monitoring, Evaluation and Reporting

112. The 2006 PER noted that development of the poverty monitoring system (PMS) for tracking progress in the implementation of NSGRP had not yielded satisfactory results. PERs conducted prior to the 2006 one did stress the urgency to improve the monitoring of the outputs and evaluation of the outcomes and impact of ASDP. Consequently the 2006 PER identified constraints to the efficiency and efficacy of the institutional reforms designed for output better reporting and found the following:

- Inadequate tracking of outputs and results of implementation of ASDP attributed to the existence of and/or poor quality of progress reports from the various levels of monitoring
- Existence of regular periodic budget reports implementation reports (by MOF) that contained aggregated data on expenditure and of lack regular and reliable information on actual agencies expenditures and progress on attainment of MTEF annual output and results of ASLMs
- Limited use of detailed MTEF progress reports produced by ASLMs and other levels of government. Failure to use existing reports acts as a disincentive for agencies to prepare quality reports and coordinate the

reporting desired. Additionally, weak coordination and reporting arrangements between ASLMs, Regions and Councils (LGAs) frustrates the provision of timely and reliable reports. Lack of feedback from the users of reported information tended made those who prepared the report know whether the information they provided was useful. However, it was noted during the review of the FY 2006/07 DADP progress reports that PMO-RALG had to make more than necessary efforts to obtain reports on DADPS implementation. This suggests that indeed the lack of feedback on the usefulness of information to those who prepare report is beginning to de-motivate/discourage them to prepare reports.

- Failure to use the results of the past PERs to effectively guide on either strategic allocation of resources; rationalization of the budget to enhance efficiency and effectiveness in the sector.
- Inadequate reporting on both expenditures and performance from local governments.
- Inadequate capacity of the existing sector monitoring and impact assessment units (SMU) under the Department of Policy and Planning (DPP) in MAFC to implement the function effectively. Limited budgetary allocation further contributed to this weakening of the Unit.
- Capacity problems at Regional and LGA levels constituted a huge challenge to the effectiveness and efficiency of M & E function. These were in terms of inadequate staff at regional level to provide sufficient technical guidance and backstopping. At the LGA level, inadequate skills and planning, monitoring and reporting were also pointed out.
- The existence of parallel routine data systems which included the Local Government Monitoring Database – supported by PMO-RALG launched in 2002 and the reporting requirements under Plan rep and the specific obligations from ASLMs tended to undermine the value of reporting.
- Absence of clear guidance on budgeting for M & E function results into inadequate resources for both the function at LGA level and backstopping by the Regions.

VI. ACCOUNTABILITY AND FIDUCIARY MATTERS

Central Government- ASLM level

114. The Controller and Auditor General Reports are important, as they have always been reference points to assess accountability and fiduciary issues/risks in public entities. The audit opinion offered by the CAG counts in as far as the

message about accountability and fiduciary risks is concerned. The significance of the type of audit is: it states how well/poorly financial resources have been utilized in an entity considering the requirements existing financial regulations and other relevant laws such as, Public Finance Act, 2001 (amended in 2004) and Procurement Act, 2004. An unqualified opinion implies resources have been generally used in accordance with policies and legal framework and hence in tune with good governance practices. On the other hand an adverse opinion implies that financial resources were used not in line with policies and legal framework and therefore points to underlying poor governance practices.

115. The type of audit opinions received by ASLMs in the last two years- FY 2004/05 and 2005/06 are given in Table 24. From the Table, two ministries responsible for spearheading development in agriculture received unqualified audit opinions while the other two received qualified opinions.

Table 24: Summary of audit opinion and previous audit queries in ASLMs

Vote	Ministry	Type of opinion		Number of previous audit queries	
		2004/05	2005/06	2004/05	2005/06
43	MAFC	Qualified	Unqualified	29	None
44	MITM	N/A	Qualified	N/A	NA
56	PMO-RALG	Qualified	Unqualified		None
99	MLD	N/A	Qualified	N/A	NA

Source: Controller and Auditor General Report for the FY ended June 2006, March, 2007, PER 2006, Reports from ASLMs, 2007

116. Table 24 above shows that while MAFC moved from a poor position in FY 2004/05 during which a qualified opinion was offered, it made efforts to address all previous queries that were still outstanding by 2004/05 and met required conditions to achieve an unqualified opinion in FY 2005/06. A sharp decline in audit queries from 52 raised at the end of FY 2004/05 to 3 re-issued by June 2007 point to significant improvements in the internal control systems to stay within regulations and accounting conventions. This indicates improving accountability within the ministry. The situation in the case of MITM seems to have worsened in FY 2005/06 considering it received an unqualified opinion in FY 2004/05.

Reasons that led to the issuance of qualified opinion for MITM and MLD are given in Table 25. It needs to be noted that these two ministries were established or re-organized half-way through the FY 2005/06. Before MITM was established in 2006, the marketing department was part of the ministry of cooperatives and

marketing. Issues of livestock development were handled under the ministry of water and livestock development; the livestock department was elevated into a full ministry in FY 2005/06. This means these type of audit opinion these obtained by these ministries may reflect the challenges associated with adjustments caused by the said changes rather violation of principles underlying financial management.

Table 25. Reasons for qualified opinion for MITM and MLD

Ministry	Type of opinion	Reasons for
MITM	Qualified	*Limitation of the scope of audit*: 19 audit queries and one management letter were outstanding; improperly vouched expenditure amounting to Tshs 162,639,910. *Disagreement on best practice on record keeping and non-compliance with laws and regulations:* • unaccounted for remittance at London Trading were - Tshs 517,800,000; • uncollected revenue- Tshs 167,912,467; • irregular procurement of goods – Tsh 32,183,600 • stores not accounted for in stores ledgers – Tsh 28,629,300 The current status is that most of these queries have been addressed and closed except the uncollected revenue which is the Attorney General chambers which is ongoing
MLD	Qualified	*Limitation of the scope of audit*: • Staff establishment of the ministry was still not known • Expenditure not supported with warrant of funds was Tshs 279,838,610 • Non-submission of accounts other than appropriation account • Unvoiced expenditure –TShs 66,790,486

Source: Controller and Auditor General Report, 2007

117. In terms of financial risk, 0.2% of the total funds was at risk as result of various loss exposures. Again in terms of assessing trends, this is a major improvement from that of 10% the year 2004/2005. Table 26 provides a summary of risk exposures among the ASLMs.

Table 26: Assessment of Financial risk among the ASLMs for FY 2004/05 and FY2005/06

Ministry	2004/05			2005/06		
	Risk Exposure Tshs	Released Tshs	Risk rate (%)	Risk Exposure Tshs	Released Tshs	Risk rate (%)
MAFC	5,901,082,975	55,224,786,859	10.7	268,482,000	97,397,724,944.90	0.2
MCM	2,866,789,137	12,004,252,400	23.9			
MITM				Nil	14,902,239,713	Nil
MWLD	10,304,549,042	114,648,668,733	8.9			
MLD						

Source: PER 2006, internal reports from ASLMs

118. While MLD received a qualified opinion (Table 24) it is at the sametime reported that it has zero financial risk (Table 26). However, consultation with relevant ministry staff revealed that the unqualified opinion was largely motivated by a transaction relating to unaccounted for remittance at the London Trading Centre (Tshs 517,800,000). When proper accounting for this transaction was completed, the opinion had already been issued. It was reported that no government's funds were exposed to any risk.

119. Internal reports from ASLMs indicate that various structures and processes that ensure accountability for use of government funds do exist. These include internal audit committees and internal audit functions. Various steps have been taken to strength finance and internal offices in ASLMs including recruitment of additional staff as well as training. In particular, training on financial management and procurement has also been conducted. This is particularly relevant in the light of the 2006 PER which pointed out procurement as an area which needed attention among ASLMs.

Accountability at LGA (Higher Level Government)

120. While attention was paid at the issues of accountability and fiduciary issues at ASLM levels and this continues to be important, it is also important to appreciate the importance of the same issues at local government level. Although ASLMs (except PMO-RALG) may not be directly involved in the financial accountability processes and related fiduciary matters in LGAs, it is still relevant to keep the broader picture of accountability in mind because funds to be used to implement DADPs are channeled through the LGAs, and LGAs are indeed responsible for implementing and reporting on DADPs implementation. Table 27 provides a summary of the audit opinions released recently by the Controller and Auditor General with respect to LGAs.

Table 27: Audit Opinions issued to LGAs in FY 2004/05 and 2005/06

	Unqualified		Qualified		Adverse		Total	
	04/05	05/06	04/05	05/06	04/05	05/06	040/5	05/06
City Council	-	1	2	2	-	1	2	4
Municipal Council	4	4	8	10	-	1	12	15
Town Council	4	4	6	5	1	-	11	9
District Councils	54	44	35	50	3	2	92	96
Total	62	53	51	67	4	4	117	124
Percent	53	43	44	54	3	3	100	100

Source: Adapted from the CAG Report of Financial statements of local government authorities for the financial year ended 30th June, 2006.

121. Table 27 reveals that on the whole financial accountability, an important aspect of governance appears to be encouraging and taking root in local government authorities. The number of unqualified opinions that have been issued over time is on the increase. For example in 2001 only 10% of LGAs received unqualified opinion and increased to 17%, 37% and 53% in 2002, 2003 and 2004/05 in that order (PHDR draft report, 2007). While developments in the FY 2005/06 in comparison with FY 2004/05 warrant serious attention, the broader picture suggests that noticeable improvements have taken place. The situation is however, much less encouraging as one goes to lower level governments.

Accountability at village level (lower level government)

122. Poor or absence of record keeping on financial issues are chronic problems at ward and village levels. This problem has also been reported in 2005/06 PEFAR and various studies e.g. those sponsored by REPOA. In addition DADP guidelines are not followed in the preparation of reports at the village and District level. This lack of records makes tracking of funds impossible. There is also the problem that village level government and communities do not have knowledge of what to do with remaining balances after a particular project has been fully implemented. This is an area that requires attention because lack of proper record keeping undermines transparency and accountability, creates opportunities for abuse of public funds. Village government cannot account to their community and to higher levels of government. This means the broader issues of governance and accountability at village level are undermined.

123. It was also observed that in some districts transfer of funds from the DED to the DADPs special account is often delayed, and also information on availability

of funds is not readily available. For example in Morogoro DC (FY 2006/07) it took 11 months to know that the A- EBG allocation was lying in a bank. These findings point to weak financial management at the Council level and suggest that the risk involved in the handling of these funds could actually be large. This is a serious situation and could potentially result into loss of funds hence not achieving the ASDP and MKUKUTA targets. Greater attention is called for on these issues.

Overall comment on financial accountability

124. Overall, while efforts are still needed to ensure financial accountability continues to take root, it is important to note that notable progress has been made at central and local government levels (HLG) by strengthening systems required to ensure that financial resources are better handled and utilized for the intended purposes. For example, audit committees have been established at ASLM level and regional and local government levels. However, their effectiveness needs to be improved. Recommendations by the Controller and Auditor General to review membership of the audit committees to allow for more external membership of the committee needs to be seriously considered by ASLMs. This would strengthen the committee in giving the Accounting Officers unbiased advice.

125. Progress needs to be made at village level (LLG) in terms of strengthening the financial systems at that level to ensure that financial resources can be properly administered. Various studies have shown that capacity issues remains a serious challenge at that level both in terms of physical infrastructure and human resources.

SUMMARY OF THE SECTOR PERFORMANCE AND PUBLIC EXPENDITURE REVIEWS

126. Highlights of the foregoing analysis of agricultural sector performance and public expenditure reviews are as follows:

- The share of agriculture in GDP remains higher than any other sector in the country (44.7%) followed by trade, hotels, and restaurants (17.5%), financial and business services (9.5%), manufacturing (9.2%), public administration and other services (6.9%), construction (5.8%), mining and quarrying (3.8%).

- Considering the spill over effects of the sector, agriculture's share in GDP is estimated at 60 percent.
- Agriculture's growth has been mixed in the past six years, partly reflecting the sector's vulnerability to external shocks. During 2006, the sector grew by only 4.1 percent (3.8 % when fishing is excluded) compared to 5.1 percent in the previous year, 2005. This is far below the average GDP growth rate of 6 percent (7% revised GDP rates). Nevertheless, given that it contributes about a third of the GDP, and given GDP growth rate of 7 percent, this sector accounted for 2.3 percent of this growth rate.
- Although the sector's annual growth rates have been lower than that of the GDP, they have been higher than the annual population growth rate of 2.9%.
- The sector's growth is well below MKUKUTA's target of 10 percent by the year 2010.
- The share of agriculture in the export sector has been declining year after year. Travel (mainly tourism) and gold have become the dominant export categories, accounting for about 50 percent of total exports of goods and services. Traditional agricultural accounted for 12 of total exports of goods and services. As for exports of goods, gold remained the dominant export category, accounting for 39.7 percent. The share of traditional agricultural exports to total goods exports was 20.5 percent down from 57.6 percent in 1995/96.
- On the other hand, agricultural related imports have been increasing, with food imports taking the largest share (80% in 2005). Food and food stuffs imports increased from USD 179.9 million in 2005 to USD 251.3 million in 2006 representing an increase of about 40 percent. This is mainly due to drought that hit the country in 2005. Major food imports are wheat, rice and dairy products.
- Fertilizer imports have also increased significantly since the year 2003, from USD 26.6 million to USD 66.8 million worth of imports in the year 2006/07, partly as a result of reintroduction of fertilizer subsidy. In quantity terms fertilizer imports increased from 119,387.5 tons in 2003 to 179,654.9 tons in 2004, to 216,408.8 tons in 2005.
- The performance of the crop sub sector is mixed. Since 1985 the six main food crops (maize, rice, sorghum, millet, wheat and legumes) have grown at 3.5% per year, while export crops have grown at 5.4%. During 2006/07, the crop sector grew at a rate of 4.0 percent compared to a rate of 5.2 percent in 2005/06.

- Aggregate food crop production increased from 10.95 million tons in 2005/06 to 11.02 million tons in 2006/07, representing a 0.6 percent increase.
- Changes in productivity show a stagnant trend. The decline for most major cash and food crops is largely on account of yield decline and given that most food crops are still produced for subsistence. Poverty remains one of the major factors for low input utilization with some places hardly reaching average of 10 kg per ha of arable land. This is too low when you compare this with the application levels in other countries; 100kg/ ha for South Asia, 135 kg/ha for East and South-East Asia, 73 kg/ha for Latin America, and 206 kg/ha for the industrial countries. The major reasons given for not using fertilizer included the high fertilizer prices, lack of know how, non availability and negative farmer perception on use of inorganic fertilizer (that chemical fertilizer destroys soil fertility).

- According to a study on the impact of the fertilizer transport subsidy, as well as data obtained from MAFC, the impact of the subsidy on crop productivity has had mixed results. Changes in food crop productivity have not been encouraging. Average food crop productivity in the past 6 years (2001/02-2006/07) was 1.73, which is very low. Good management and optimal fertilizer use should yield 3.5-4.0 tonnes per ha (MAFC). Nevertheless, there has been regional variability in the outcome. For example, while in Morogoro region maize productivity was at an average of 1.8 tonnes/ha (2002/03-2005/6), in Kigoma region the same fluctuated between 1.5/ha in 2001/02, 1.7/ha in 2003, 1.4 in 2004, and 1.3 in 2005. In Songea rural district, maize productivity was at an average of 2.5 tones per ha between 2002/03 and 2005/06, reflecting greater impact in the Southern highlands zone than in Morogoro and Kigoma (MAFC, Fertilizer subsidy study, 2007).
- Performance of the livestock sector has also been mixed. The MKUKUTA target for livestock is for the sub-sector to grow from 2.7 percent in 2000/2001 to 9 percent by 2010. But, during the period under review, the livestock industry growth rate stands at 4.3%. This is still very low. It contributed 5.9 percent to total GDP.

- Out of the Livestock share of GDP of 5.9 percent, 40% comes from beef, 30% from Dairy and the remaining 30% from small stock (shoats, pigs, poultry and game animals) production.

- Commensurate with the low contribution of livestock sub sector (5.9%) to total GDP, its share in total exports is also very low. In 2006/2007, the nation earned a total of 17.3 billion Tshs from the exports of livestock and livestock products, representing only 0.75 percent. In spite of such exports, there was an importation of livestock and livestock products with a value of 6.4 billions Tshs.

- In terms of food sufficiency, the nation is considered self sufficient. During 2006/07, Tanzania was self food sufficient by 109 percent, compared to 88 percent in 2003/04 and 103 percent in 2004/05 and 2005/06. There are however geographical variations by January 2006, 77 districts reported food shortages compared with 41 districts in 2004/05 and in 2005/06.
- Mechanization and irrigation rates are still low.
- The crop sector is sufficiently diversified although the production is still low.
- Horticultural exports experienced an upward trend. The private sector is playing a major role in this sub sector. Private-public sector partnerships need to be encouraged to sustain the good results and create trust.
- Private Investment in agriculture, both local and foreign, is not encouraging, especially during 2007.
- Long term financing in agriculture is still a problem.
- The proportion of Budget allocation to agriculture has increased, although not commensurate with its share in the economy.
- There are still planning problems at local (DADP) level engendered primarily by low capacity at regional and local Government levels.
- Financial management has greatly improved, at both central and local Government (HLG) levels. The trend of number of audit queries has declined. Fiduciary risks have decreased.

VII: CHALLENGES, AND PRIORITY AREAS FOR 2008/09 BUDGET

127. The above foregoing Agricultural and Public expenditure reviews point to a number of priority interventions that should be given focus and increase in budget allocations during the fiscal year 2008/09. These priority areas and challenges are listed under Table 28 below.

Table 28: Challenges and priority interventions For The Fiscal Year 2008/09

Supply-side Constraints/Challenges	Sub-Sector	Priority interventions
Low irrigation and mechanization rates	Crop	• Enhance sustainable irrigation and mechanization services. Increase investment in irrigation infrastructure/services through local level funding (though DADPs) and national level.
Productivity of irrigation schemes and mechanization	Crop	• A study on utilization and productivity of existing schemes should be undertaken • Update information on total small holder area under irrigation as opposed to total cultivatable land • Such studies could be done as separate studies or as part of the planned agricultural sample census survey
Inadequate efforts to attract and lure innovative commercial agricultural investments	Crop/livestock/marketing	• Promote commodity value chains through formation of producer organizations/contract farming/out grower schemes to enhance commercial agricultural farming • Build capacity and capability of farmer and commodity groups to promote their effective participation private investment.
Agricultural diversification/horticultural products	Crop	• Promote Private-Public sector partnerships in horticulture to sustain the current good results and create trust through proper incentives • Work towards the formation of Horticultural Development Council
Low processing capacity.	Crop/livestock/marketing	• Improve agricultural production and value chains through

		promotion of agro-processing and value addition • Promote feedlots in livestock
Poor agricultural production and marketing information	Crop/Livestock/marketing	• Enhance agricultural information and marketing services • MIS for livestock
Weak research infrastructure	Crop/Livestock	• Enhance demand driven research, extension and training services
Poor producer incentives	Crop/livestock/marketing	• Promote rural finance and credit services through for example credit guarantee schemes for agricultural investments • Create a conducive environment for long term financing
Inadequate public-private sector linkage	Crop/livestock/marketing	• Promote public private partnership in investment and delivery of agricultural services
Low producer incentives	Crop/Livestock	• Enhance productivity through agricultural intensification. Promote use of agricultural inputs. Introduce Voucher scheme for inputs • Enhance Livestock Disease management capacity • Education on modern livestock farming to farmers
Quality of DADPs is still very low due inadequate participatory and strategic planning process (DADP planning process started after O&OD rural process) as well as low capacity at regional and local Government levels	PMO-RALG/Crop/livestock/marketing	• Need to improve Capacity building in planning, costing, MTEF, strategic planning, M&E at the regional and LGA levels through training of RS, DFT, and WFT in these areas. • Facilitation of the agricultural planning rural processes • Strengthen the capacity of RS office for their expected role of

		reviewing and guiding LGAs in the DADPs preparation and implementation.
Lack of competitive markets for commodities	Crop/Livestock/Marketing/PMO-RALG	• Enhance competitive markets through improved market information, rural infrastructure (roads and markets)
Poor agricultural extension services	Crop/Livestock	• Facilitation of the extension staff to be able to provide extension services. • Recruitment of extension officers to ensure that each village has such service.
Household Food security is still a challenge especially in drought-prone districts	Crop/Livestock	• Promote production and consumption of drought-resistant crops
Financial management systems at lower level government need to be improved	PMO-RALG	• Capacity building for VEOs and village chairpersons • Provision of infrastructure to facilitate transparency and effective financial management: offices, and working tools
Cross border trade	Crop/Livestock/Marketing	• Undertake studies on cross border trade in respect of both crop and livestock to monitor and quantify such trade. This should engender improvement in such trade on the policy agenda

LIST OF KEY DOCUMENTS REVIEWED

1. MTEF2005/06 and 2007/08 for ASLMs
2. URT "Poverty Reduction Strategy 1and2" [NSGRP]]
3. URT "Agriculture Sector Development Strategy(ASDS)";
4. URT "Agriculture Sector Development Programme"
5. MAFC "Agriculture Sector and Public Expenditure Reviews_2002/03,2003/04,and 2006/07"
6. URT "Government Planning and Budget Guidelines-2002/03,2004/05,2005/06,2006/07and 2007/08"
7. MAFC "DADP Guidelines"
8. Reports on Streamlining of On-going Agriculture Project and Programs in the Context of ASDS-2001
9. PRBS Annual Review/PRSC 3 pre-appraisal November,2004 Joint Annual Review
10. Tanzania Rural Investment Climate Assessment (NBS/PMO-RALG/WB,2007)
11. Controller and Auditor General Audit Reports
12. PEFAR report (2007)-Public Expenditure and Financial Accountability Review
13. Tax Reform in Agriculture
14. The effectiveness of Fertilizer Transport Subsidies in Agricultural production
15. The impact assessment of operations of the Agricultural inputs Trust Fund
16. Review Operation and Management of the Strategic Grain Reserve
17. URT (2007)"Status Report 2006:progress towards the goals for growth, social well-being and governance in Tanzania", Ministry of Planning, Economy and Empowerment, Dec. 2006
18. Bank of Tanzania (2006) Annual Report 2005/06
19. Bank of Tanzania (2007) Monetary Policy Statement for the year 2007/08
20. Bank of Tanzania, Monthly Economic Reviews (August, July, June, May, April, March, February, January)
21. Daviron Benoit and Stefano Ponte (2005). *The Coffee Paradox*. Zed Press, London
22. Piper, Tim (2007). *Choosing Between Strategies: Adapting Industry Approaches to specific Value Chain Analysis Using three Comparative Commodities*. Discussion paper presented at Small Enterprise Workshop 2007 by, 11-12 January 2007, TechnoServe
23. URT (2007) Minister's Budget Speech-Ministry of Agriculture Food Security and Cooperatives
24. URT (2007) Minister's Budget Speech-Ministry of Livestock Development

25. URT (2007) Minister's Budget Speech-Ministry of Industry Trade and Marketing
26. URT National Sample Census of Agriculture 2002/2003 Small Holder
27. URT National report on District Integrated Agriculture Survey 1998/99'
28. URT (DEC 2006) National Livestock policy
29. URT (1997) National Agricultural and Livestock Policy
30. World Bank (2005) "Tanzania: Sharing and sustaining Economic Growth", draft Country Economic memorandum and Poverty assessment, July 2005, Poverty Reduction and economic management Unit 2, Africa region, World bank, Washington DC

APPENDICES

Table A1: Food Crops ('000' tonnes)

Food Crops						
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Maize	3348	3348	3129	4286	3131	3423.025
Paddy	1010	1069	921	1030	1077	805.067
Wheat	65	67	72	66	44	109.531
Millet/Sorghum	688	757	986	937	721	941.536
Cassava	2017	2058	2656	2470	2851	2052.767
Beans	527	574	517	603	650	1049.919
Sweet potatoes	958	1025	1197	1245	1300	1169.151
Banana	2007	2067	2501	2376	2007	1396.354
Total	**10620**	**10965**	**11979**	**13013**	**11781**	**10947.350**

Source: BOT/MAFC

Table A-2

Commodity Crops('000' tonnes)						
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Cotton (Bales)	171	178.1	190.15	344.21	378	130.57
Tobacco	48	59	32.69	51.97	56	50.62
Sugar			190.12	223.89	263.3	192.5
Tea	78	81	28.03	30.26	30	31.35
Pyrethrum	1	1	3	0.9	2.5	2.046
Coffee	43	44	46.21	51.97	34.33	45.53
Sisal	22	23	23.64	26.8	27.79	30.85
Cashew nuts	95	78	90	100	90.39	88.21
Total	**458**	**464.1**	**603.84**	**830**	**871.48**	**460.880**

Source: BOT/MAFC

Table A3:Composition of export goods, 2003-2007

	2003	2004	2005	2006	2007
Traditional Exports	222.5	241.4	328.9	351.8	277.5
Minerals	458.1	661	728.1	763.5	862.1
Manufactured goods	74.6	98.1	138.9	187.8	254.9
Fish and fish products	128.1	125.9	143.8	137.6	143.8
Horticulture products	13.2	13.7	18.1	15.3	18.2
Re-exports	80.7	121.9	136.2	124	160.1
Other exports	131.4	108.1	145.4	166.7	164
TOTAL	1108.6	1370.1	1639.4	1746.7	1880.6

TableA4: Summary of the guidelines for assessing minimum conditions for various discretionary grants: LGCDG, A-CBG, DADG, A-EBG,

Discretionary CDG		
Functional area	**Indicators of MC**	Level
a) Financial management	Position of DED and DT substantively filled	**Secondary**
	Final accounts for the previous FY produced as per sec 45(4) LGA Act submitted for audit	**Primary**
	The council did not receive an adverse audit report for the last audited Accounts	**Primary**
	No confirmed financial management irregularities reported either by Internal or external auditors in the past 12 months	**Primary**
	Bank reconciliation statements for all accounts prepared within 15 days of previous month	**Secondary**
	Internal audit in place and functional provided under sec 45 (1) of the LG Act 1982 and LAFM 1997 orders 12-16. (at least 4 internal audit reports prepared during the previous 12 months)	**Primary**
	Regular production of financial reports. All quarterly reports during the previous 12 months presented to council and copied to PMO-RALG through RS	**Primary**
b) Fiscal capacity	Sufficient funds available to meet co-funding obligation. Minimum 5% of the CDG	**Secondary**
c) Planning and Budgeting	Development plan approved by council on time	**Primary though OK if approved by time of assessment**
	Budget process adhered to the provisions of the LG Act and Planning and Budgeting guidelines	**Primary though OK if approved by time of assessment**
d) Procurement	• Legally constituted Tender Board • National procurement guidelines and manuals available	**Primary**
e) Council functional processes	• Regular meetings of the council – at least one meeting held every 3 months • Minutes of the council meetings recorded on permanent record	**Primary**
f) Project	• Annual and quarterly work	**Primary**

implementation, monitoring and evaluation capacity	plans available • Progress report on project implementation available	
Discretionary A-CBG		
a) Capacity building	Capacity building plan in place	**Secondary**
	Reports on the utilization of CBG submitted on timely basis (to apply from year two of receipt of CBG)	**Primary**
District Agriculture Development Grant (enhanced ASDP: DADG, A-EBGand A-CBG		
a) Council Management	Council qualifies for LGCDG	**Primary**
	Position of DALDO filled	**Secondary**
b) Council Agricultural Development Plan Status	Council has a DADP	**Primary**
c) Agricultural Services Reform	Evidence of a commitment to reform of agricultural extension services	**Secondary**

Table A2- agriculture and livestock infrastructure

	Quantity	Amount in Tshs
Construction - irrigation scheme	25	439,710,000
construction - charcoal dams	36	638,941,000
construction- extension staff houses	2	12,169,000
construction - water resource centre	3	21,764,000
construction- abattoirs	40	206,400,000
construction- veterinary centers	10	73,241,000
construction of deep tanks	22	156,104,000
construction - storage facilities	93	1,387,851,000
construction market facilities	37	1,245,270
road (28..5 kms) and bridge (6) construction		263,207,000
Total- construction of new facilities		**3,200,632,270**
Rehabilitation- irrigation schemes	32	432,095,000
rehabilitation- Charco dams	23	123,423,000
Rehabilitation-Oxenization centre - 11, purchase 70 oxen, 3 power tillers, and 119 ox plough, weeder and rice	various	144,002,000

paddlers		
rehabilitation offices	14	87,858,000
rehabilitation dip tanks	78	274,635,000
Total- rehabilitation of facilities		**1,062,013,000**
Purchased and installed irrigation machine	25	28,873,000
Sub-total		**4,291,518,270**
2- DADP preparation in district (various levels)		924,195,000
3- crop production: training of farmers	12,494	1,617,232,000
4- private sector- training and other support	318	39,491,000
Total planning and training		**2,580,918,000**
Other investments		
Transport facilities- m/vehicles, m/cycle/bicycle	various	173,587,000
Training extension works- various courses		453,012,000
working equipment- computers and p/copiers/gear		821,682,000
Training to DFT, WFT -on VADP and DADPs	120, 1145	0
crop breeding and improvement	19 LGAs	120,862
Total other investments		**1,448,401,862**
		8,320,838,132

TERMS OF REFERENCE FOR AGRICULTURAL SECTOR REVIEW AND PUBLIC EXPENDITURE REVIEW FOR 2007/08

1.0 Background

1.1 Agriculture is the foundation of Tanzania economy. It accounts for about 46 percent of the 30 percent of foreign exchange earnings. The rural population accounts for almost 80 percent of the total population and the sector employs about 90and 78 percent of rural women and men respectively. The agricultural sector has a strong influence on Tanzania s overall economics performance, directly though its share in overall GDP, and indirectly through backward and forward linkages to non –farm activities, generation of surplus saving and foreign exchange earnings. Available national data shows improved sector performance with an increase of the five years moving average agricultural GDP growth rate from about 3.3 percent during the period of 1991-2000 to 4.1 in 2006. However, sustained sector growth of 5 percent or more is needed in order to generate significant in per capital incomes.

1.2 The Agriculture Sector Review (ASR) and Public Expenditure review (PER) are important inputs to the Agricultural Sector Development Programme (ASDP), and help to measure the contribution of agriculture to national growth and poverty objectives in the Tanzania Development vision 2025 (TDV2025) and the National Strategy for Growth and Reduction of poverty (NSGRP).The also help in meeting requirements for General Budget Support (GBS) under Poverty Reduction Budget Support (PRBS).

1.3 The ASR and PER compliments one another in achieving sector activities objectives. The last ASR and PER were carried out as separate in 2006.Recommendation from the review indicate the need to conduct the 2007/08 reviews in an integrated manner. It was further recommended that the forthcoming review should be more focused on specific theme. However, since the ASR is usually conducted once after every 5 years, then this years review will focus more on issues related to PER and progress made in implementation of the last ASR recommendations.

2.0 Justification

2.1 The review will proved information on the agricultural sector performance and successes on Agricultural sector Development Strategy (ASDS) and NSGRP goals, taking into account of ASDP and Performance Assessment Framework (PAF) indicators. Essentially, it will assist in improving the strategic focus of agricultural policies and public expenditures.

3.0 Objective of the review

3.1 The general objective of the 2007/08 ASR and PER is to assess the agricultural sector performance and public expenditure performance in the sector.

4.0. Tasks for the Individual Consultant

The Individual Consultant will perform the following major tasks:

(i) Review and examine the implementation status of the 2006/07 ASR and PER recommendations;-(expected number of days for the assignment is 2 days)

(ii) Assess sectoral and sub-sectoral performance since last year with particular emphasis on public and private sector investment (crop, livestock, marketing sub-sectors and policy and regulatory framework); (expected number of days for the assignment is 5 days)

(iii) Examine planning, public expenditure and financial management in the agricultural sector, specifically:

a) national level requirement
b) Budget execution, accountability and fiduciary matters-(expected number of days for the assignment is 10 days)
c) Assess the quality of District Agricultural Development Plans in relation to rural poverty reduction and food security objectives (expected number of days for the assignment is 5 days)

iv) based on the assessment above and special studies done in year 2006/07, make recommendations on:

a) the sector priorities
b) public expenditure requirement
c) Policy interventions and
d) Private sector performance

-(expected number of days for the assignment is 7 days)

5.0 Methodology

The individual consultant will concentrate on secondary data sources and analytical reviews undertaken during the year. The methodology should include a workplan for performing the assignment, which should indicate allocation of tasks among individuals to be deployed for the assignment and the time to complete each of the task.

6.0 Responsibility of the Client

The Client will provide the following:-

- All relevant documentation, data and information regarding the execution of the assignment
- Arrange for reference group meetings with ASLMs
- Avail seven (7) full time technical personnel from ASLMs to assist in the execution of the assignment.
- Facilitate conduction of stakeholders' workshop to discuss the report
- Assist in any matter arising that is within the capacity of the client to respond

7.0 Responsibility of the Consultant

- Adhere to the terms of reference
- Produce high quality report that will provide solutions to problems and challenges facing the sector
- Build capacity of ASLMs to conduct future ASR/PERs.
- Finish the assignment within the set timeframe