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**Tanzania SERA:
Enabling Policy Environment for Agriculture Sector Growth
Contract No. 621-C-00-11-00003-00**

Annual Report 2011

for the Partial Year from April – September 30, 2011

October 31, 2011

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ACRONYMS AND ABBREVIATIONS

ACT Agricultural Council of Tanzania

ANSAF Agricultural Non State Actors Forum

BTO Back-to-Office

COP Chief of Party

EAC East Africa Community

EAGC East Africa Grains Council

FAO Food and Agriculture Program of United Nations

FtF Feed the Future

GoT Government of the Republic of Tanzania

MAFC Ministry of Agriculture, Food Security and Cooperatives

MBS Market Based Solutions FtF Implementing Partner

NAFAKA FtF Implementing Partner for Grains Value Chain

NBS National Bureau of Statistics

NFRA National Food Reserve Agency

P.S. Permanent Secretary

RATIN Regional Agricultural Trade Intelligence Network

REPOA Research on Poverty Alleviation

SAGCOT Southern Agricultural Growth Corridor of Tanzania

ANNUAL REPORT

Introduction¹

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

The vision for this project is twofold: to improve the policy and regulatory environment for agriculture growth and to build a group of public sector institutions, advocacy organizations, and individuals capable of performing rigorous policy analysis in support of evidence-based advocacy and policy reform. At the conclusion of the project, we expect USAID will leave behind sustainable capacity within

the GoT to initiate, develop, and utilize evidence-based research in policy decisions and implementation, empowering local research and private sector advocacy groups to more effectively use analysis and strategic communications to lobby for change, and building national partnerships that create consensus around agriculture policy and monitor the impacts of policy. The SERA project will focus all activities around priorities identified in collaboration with the Southern Agriculture Growth Corridor of Tanzania (SAGCOT) initiative.

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

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

The SERA project has three major components:

1. Policy Research and Reform: Improve agricultural policies to support food security and agricultural productivity in Tanzania with focus primarily on policies affecting investments in the SAGCOT region.
2. Individual and Institutional Capacity Building: Build local institutional and individual capacity to do agricultural policy research and implement policy reform and regulation.

¹ Note: While the SERA project has not completed a full year as of October 31 (SERA was countersigned by the USAID RCO on April 7, 2011), USAID requested an Annual Report ending with the U.S. Government's fiscal year, September 30, 2011. As a result, this report covers a period of six months only. The Year 2 Annual Report will cover the period October 2011 – September 2011.

3. Advocacy, Communications and Alliances: Strengthen advocacy and communications for policy reforms and build alliances with partners to work toward these objectives.

Implementation Progress

The Tanzania SERA project contract was signed between Booz Allen Hamilton as implementing partner and USAID's Feed the Future Initiative (FtF) in April 2011. Donald Mitchell was selected by Booz Allen Hamilton and approved by USAID to be the Chief of Party (COP). The first activity was for the COP to attend the Implementing Partners Meeting in Kilombero from May 22-27, 2011. Project Manager, Nate Kline, travelled from Booz Allen Hamilton's headquarters (HQ) in Virginia to attend the meeting. The COP undertook familiarization activities and initial meetings during June and assembled the Tanzania SERA team for a day-long work planning meeting on June 27. The Tanzania SERA team included Alex Mkindi (Senior Policy Advisor), Jack Meena (Communications Specialist), and Mary Kabatanga (Office Manager). The Booz Allen Hamilton local partner on the SERA project, Diligent Consulting, was represented by Andy Temu (CEO) and Rose Mushi (Office Manager). Emily Friedberg, Deputy Chief of Party/Institutional Capacity Building Advisor travelled from Booz Allen Hamilton's HQ to attend the meeting. The USAID COTR, Kevin McCowan, also attended.

The team undertook a number of activities to familiarize themselves with issues and meet with key partners and stakeholders during July and August, and Yair Baranes, the consultant working on Secured Transactions, spent two weeks in September re-starting the work following the original effort begun under Booz Allen Hamilton's BizClir project in 2010. Jack Meena departed the project in mid-September in favor of a position at a government ministry and will need to be replaced. Both Emily Friedberg and Nate Kline left Booz Allen Hamilton over the summer. We are in the process of identifying a replacement for Emily and Nate was replaced by Violane Konar-Leacy working from HQ. The Tanzania SERA team was temporarily located in the Coco Plaza Building from July to September in offices leased from TechnoServe while negotiating for permanent space in the Peninsula Building immediately adjacent. The SERA team moved to the new offices in October.

Substantial progress has been made on the policy research and reform component of SERA, while less progress has been made on the capacity building and advocacy/communications/alliances. The policy research and reform work has focused on four policy areas and will continue to do so for the next fiscal year. These areas include food security, trade policy, credit, and inputs. Food security and trade policy are closely linked and the SERA team has prepared a Concept Note that has been presented to the P.S. in the Prime Minister's Office and the P.S. in the Ministry of Agriculture, Food Security and Cooperatives. The Concept Note has also been circulated within the donor community for comments. The Concept Note proposes a program of work to evaluate the economic costs of current trade policies, evaluate the potential for food crop exports within the region, and evaluate the food security situation in Tanzania

and evaluate the capacity to meet the needs. If the program of work is endorsed by the GoT, this will be a major work activity in the coming fiscal year. In addition to this activity, work has begun on the Secured Financial Transactions legal framework and registry, which would make moveable assets more easily accepted as loan collateral and make credit for SMEs lower cost and more readily available. The initial visit by the consultant in September was favourably received and the SERA project is waiting to meet with the Governor of the Bank of Tanzania to formally launch the work. The final focus of the policy research and reform agenda is on inputs, especially seeds, and this work is advancing satisfactorily and has included discussions with stakeholders, donors, and GoT.

The Capacity Building Component of the SERA project was to be led by Emily Friedberg, the deputy COP, and her departure from Booz Allen Hamilton and SERA in July has slowed implementation of that activity. Nevertheless, some progress has been made. A new Deputy COP has been identified and will be proposed to USAID later this year. If approved, she will join the Tanzania SERA team in January 2012 to focus on this activity. A seminar series has been proposed for Sokoine University to be jointly sponsored by SERA and iAGRA to build agricultural policy research capacity and provide research on important policy issues. A policy research intern has also been identified and will be considered for a position in the next fiscal year.

The advocacy/communications/alliances component of the SERA project was also affected by staff departure when Jack Meena departed in August. A new Communications Officer will be recruited and brought onto the Tanzania SERA team in the first quarter of the next fiscal year. Despite this departure, a number of alliances and working relationships have been developed and SERA is working collaboratively with ACT, ANSAF, agra-alliance, and REPOA to jointly conduct policy research and advocate for policy change.

Annual Highlights

Work Plan for October 2011 – September 2012 Completed – The work plan for the fiscal year beginning October 1, 2011 was completed and submitted to USAID in September. The work plan details initiatives in three areas: policy analysis and reform, communications, and capacity building. The policy analysis and reform identified seven policy areas of focus to be taken up over the next several years and four of these are to be taken up in the first fiscal year. The first year activities will focus on food security, trade policy, credit and inputs. Substantial work has been completed on all of these focus topics (for example, a concept note has been prepared on food security, the secured transactions work has been restarted, and a proposed value chain analysis on seeds have been prepared), but much remains to be done before the analytical case can be effectively made to the GoT for policy reform. The remaining topics (land policy, business environment, improving markets, and nutrition) will be taken up as resources are available and opportunities to engage the GoT arise. The SERA team will familiarize themselves with the

issues in these focus topics in the interim. The communications strategy was being developed by local consultant Jack Meena with support from the SERA team. The activity will be taken up again in October when an international expert will work with the SERA team and identify a local candidate to develop and implement the communications strategy for SERA and work with the FtF and SAGCOT communications team. The capacity building activity has been concentrated on improving research capacity, but will broaden to include other topics once the capacity building expert joins the team in January.

Seed Industry Stakeholders Meeting. A Seed Industry Stakeholders meeting was held in Arusha on June 3rd and attended by Donald Mitchell and is reported on in Annex 1. The Minister of Agriculture, Food Security and Cooperatives (MAFC) chaired this Stakeholders' Meeting and stressed his commitment to developing a local seed industry capable of producing 60,000 tons of improved seeds by 2015 compared with less than 10,000 tons being produced in recent years. The Minister pledged to work to remove constraints to the expansion of the local seed industry and many of those constraints were discussed by stakeholders at the workshop. However, the Minister's commitment to developing a local seed industry raises concerns that imported seeds from neighboring countries will continue to face bureaucratic constraints that will hamper the supply of quality seeds in Tanzania. While the SERA project will support policy changes that increase the production of high quality seeds, it will not support restricting imports of quality seeds from neighboring countries. Follow up meetings were held with key partners working on seed policy reform, especially in the World Bank, and the possibility of funding a value chain analysis on the maize seed industry was discussed.

Cereals Sector Working Group Meeting. A working group meeting of stakeholders involved in the cereals sector was held on June 10th at the Protea Hotel in Dar and attended by Donald Mitchell. The meeting heard of ongoing work on the value chain for maize and rice from consulting firm, Match Maker, and of the activities of the Cereals and Other Produce Board (COPB). The COPB was established by Cabinet Paper No. 40 of 2008 and authorized to engage in commercial activities. This raised concerns of the stakeholders present that it would compete with the private sector marketing, processing and trading activities. The FAO Southern Highlands Food Security project leader, Michael Winklmaier, agreed to work with interested stakeholders to prepare a response to the Policy Working Group to raise concerns and suggest other activities that would address the concerns of government that smallholders located in remote areas are unable to sell their cereals because traders were not available in their area. A follow up meeting was held with the East Africa Grains Council to learn of their activities and capacity to address such concerns.

Export Ban Analysis – The GoT announced an export ban on food crops in early July and the SERA team immediately began to monitor maize prices in the Dar es Salaam Tandale maize market to determine the impact on wholesale prices. This led to two important conclusions, first that maize prices declined temporarily but quickly returned to the levels prior to the export ban and secondly, that the weekly data

provided by the Ministry of Agriculture did not accurately reflect these changes. This was followed by a trip to Arusha by Don Mitchell and Alex Mkindi from August 3-5 to interview farmers, traders, processors and exporters on the effects of the export ban and these interviews showed that the impact of the ban was much larger than in the Dar market, with farm-gate maize prices falling by approximately 25% and not recovering quickly as was the case in Dar es Salaam. The interviews also showed that the export ban did not stop exports and resulted in illegal exports and bribing of government officials and police. This information contributed to a better understanding of the food security issue and the realization that the export ban was ineffective, but used primarily because it was the only policy instrument available to government. The Back-to-Office report is attached as Annex 2 and details the information learned and tentative policy conclusions. The trip also resulted in useful information and improved understanding on the seed and agri-chemical markets.

Food Security – In response to the knowledge gained from the monitoring of maize prices in Dar es Salaam and interviews with stakeholders in Arusha, a one-page proposal for a Comprehensive Food Security Program was prepared by the COP (Annex 3) as a way to engage the GoT on the need for an alternative to the export ban. This was discussed by the senior management of FtF with P.S. Lyimo in the Prime Minister’s Office and met with a favourable response and a request for a more complete Concept Note. A Draft Concept Note was prepared by the SERA team and discussed with key partners including the World Bank and research group REPOA. Comments were incorporated and a second draft was prepared and is attached as Annex 4. The SERA team is now prepared to work with REPOA to complete a program of work to evaluate the impact of existing policies, estimate the potential market for maize exports in the region, evaluate the food security need and capacity for delivering, and propose alternative policies to deal with food security.

Data Quality Analysis – The SERA team undertook several analyses to check maize price and quantity data to determine its usefulness in evaluating the food security need and current situation. The first check was to compare maize prices obtained from traders in the Dar es Salaam Tandale market with prices collected by the Ministry of Agriculture. The prices obtained from the GoT showed large variability and no clear trend while the maize price data collected from Tandale traders showed less variability, a clear trend, and price movements that appear more consistent with the impacts of the export ban. The second analysis was to compare maize consumption data from the GoT with estimates derived from household surveys and simulation exercises based on macroeconomic and demographic data. Based on this analysis, maize consumption data from the GoT appears to substantially underestimate actual consumption (and by implication production since the balance sheet approach is used to estimate consumption from production, stocks and trade). Household consumption surveys and simulated estimates suggest that consumption and production probably grew at 4% per annum compared to the 1.4% per annum rate estimated by the GoT. The final check was to compare maize wholesale prices

obtained from a maize processor in Arusha with price data obtained from the East Africa Grains Council and these two sources were very similar and appear reliable. The analysis of maize prices and consumption and data is included as Annex 5.

Secured Transactions Financing Reform – Improving access to credit is a high priority for economic growth and the commercialization of the agricultural sector, and the Secured Transaction activity is directed at improving the use of moveable assets, such as machinery or vehicles, as collateral. The Secured Transactions activity, when fully implemented, will allow lenders to register their claim to collateral used to secure loans. The activity has three pillars, the legislation that allows the secured financing to operate within the larger legal framework, the registry that will be a secure record of lenders claims against collateral, and capacity building to increase awareness and encourage use of Secured Transaction Financing. The activity was started under the umbrella activity BizClir funded by USAID and implemented by Booz Allen Hamilton in 2010 but was halted in early 2011. The primary consultant, Yair Baranes, who did the initial work on the activity, was brought back from September 2-19, under SERA to gauge interest in continuing the work and to further explore the parallel activity being undertaken in Zanzibar. The conclusion of the consultant’s visit was that there is substantial interest among the working group formed in the Bank of Tanzania to restart the work and that the separate system being developed for Zanzibar has not progressed and will not be operational in the near term. It was decided by the consultant and SERA team to continue the work on the activity without including Zanzibar. However, it would still be possible for Zanzibar to join the system being developed for the mainland if they chose to at a later stage. Following the departure of the consultant, a letter was drafted by the SERA team and consultant to the Governor of the Bank of Tanzania and sent under the name of the Mission Director of USAID in Tanzania requesting a meeting to introduce the Secured Transactions Financing Reform and answer questions about its benefit and operation. The SERA team is waiting for a response from the Governor of the Bank of Tanzania. The consultant’s trip report is attached as Annex 6.

Developing Partnerships – The SERA team has met with a number of groups to build relationships and partnerships to analyze agricultural policies and advocate for policy changes. These groups include ACT, agra-alliance, East Africa Grains Council, the Policy Working Group, REPOA, and World Bank. These organizations have similar policy objectives to SERA and provide leverage to the advocacy for policy reform. The SERA team is prepared to work with all of these groups to further efforts for policy reform and working relationships have been established with several. The Policy Working Group is focusing on broad agricultural policy reform, but initially it seeks to engage the GoT on the export ban and the Cereals and Other Produce Board. SERA is supporting this effort with analysis and is prepared to provide limited resources to accomplish critical elements to further the policy reform effort. SERA was also requested by the GoT to work with REPOA to develop the Concept Note on Food Security and is doing so. SERA is also working with other implementing partners of FtF to leverage resources and coordinate

activities. These activities include co-sponsoring a policy research seminar series with iAgra at Sokoine University, and collaborating with NAFKA on a regional study of the potential demand for maize in East Africa. SERA is also monitoring efforts by the Market Based Solutions (MBS) implementing partner of FtF to support passage and implementation of legislations to establish standards and mandates on food fortification to improve nutrition.

Policy Seminar Series at Sokoine University – As part of its capacity building activity, SERA intends to co-sponsor a research seminar series at Sokoine University with iAgra which is the FtF implementing partner focusing on education and research. The SERA COP visited Sokoine University on September 23 to meet with David Kraybill the COP of iAgra and several faculty members of the department of agricultural economics to discuss the seminar series. Don Mitchell and David Kraybill also met with the Director of Research and Post-Graduate Studies, Professor Muhikambebe, to inform him of the interest in sponsoring a research seminar series and ask for his support. Professor Muhikambebe welcomed the activity. The next step will be to formally request University support and then meet with interested faculty to discuss launching the seminar series. In addition to the seminar series SERA is also interested in sponsoring interns in agricultural policy and other areas as part of its capacity building activity and a promising candidate was identified.

Activities

- Don Mitchell and Nate Kline attended the FtF Implementing Partners Meeting in Kilombero from May 23-27.
- Don Mitchell attended the Seed Industry Stakeholders Meeting in Arusha on June 3.
- Alex Mkindi interviewed maize traders about prices in the Tandale market in Dar es Salaam beginning in July.
- Don Mitchell and Alex Mkindi interviewed farmers, food crops traders, processors, and exporters in Arusha August 3-5.
- Alex Mkindi attended the Kilombero Rice Partnership meeting on August 9-11.
- Don Mitchell, Alex Mkindi, and Jack Meena attended the Feed the Future Implementing Partners Meeting in Zanzibar, August 14-16.
- Don Mitchell and Kevin McCowan attended the East Africa Grain Council Meeting on Regional Food Balances in Arusha on September 1-2.
- Yair Baranes visited Tanzania from September 2-19 to restart work on the Secured Transactions registry and legal system.
- Don Mitchell prepared a one-page proposal for a Comprehensive Food Security Program for Tanzania on August 17 to discuss with GoT.
- Don Mitchell and SERA team prepared the draft Concept Note on Food Security on September 22.

- Don Mitchell visited Sokoine University on September 23 to discuss the seminar series to be jointly sponsored by SERA and iAgra in the department of agricultural economics.

Challenges and Constraints

The departure of key staff has slowed progress on capacity building, advocacy and communications.

The SERA project has not yet finalized the Monitoring and Evaluation Plan, but is working with the Mitchell Group to select meaningful and measurable indicators and complete the Performance Management Plan. We expect to have a final draft to USAID by end November 2011.

Planned Activities for Next Fiscal Year

The work plan for the fiscal year starting October 1, 2011 has been separately submitted to USAID FtF. It identifies four high priority policy areas for reform as well as a number of policy reform activities that will be taken up on a lower priority as opportunities to engage the GoT arise and resources permit. The four priority areas for policy reform are food security, trade policy, credit, and inputs policy. Other policy reform activities to be taken up as opportunities arise and resources permit include land policy, improving markets, improving the business environment, and nutrition. The designation of high and low priority policy reforms is based on the urgency of the policy reform to successful investments in SAGCOT, indications that the GoT is willing to consider policy reforms in these areas, and the limits of SERA resources which require focusing on certain activities. In future years, SERA plans to place high priority on these other policy areas. Capacity building, communications and advocacy work will receive a high priority in the fiscal year beginning October 1, 2011 when a communications officer and a capacity building expert will join the team to lead these activities. Work in these important areas have been slowed by personnel changes and the focus on policy reforms in the initial months of SERA implementation.

Financial Summary

Tanzania SERA Accruals April-September 2011

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Total
Booz Allen Labor	\$ -	\$ 1,870.93	\$ 3,545.03	\$ 15,660.82	\$ 12,560.86	\$ 1,548.75	\$ 35,186.39
Consultant Labor	\$ -	\$ -	\$ -	\$ 44,137.95	\$ 26,582.02	\$ 27,092.06	\$ 97,812.03
ODCs	\$ -	\$ -	\$ 14,425.47	\$ 13,797.12	\$ 11,299.41	\$ 27,189.69	\$ 66,711.68
Indirects	\$ -	\$ 3,078.78	\$ 5,833.64	\$ 26,823.23	\$ 125.33	\$ 2,627.79	\$ 38,488.77
Fee	\$ -	\$ 395.13	\$ 748.69	\$ 4,265.67	\$ 4,720.24	\$ 2,820.35	\$ 12,950.08
Total	\$ -	\$ 5,344.84	\$ 24,552.83	\$ 104,684.79	\$ 55,287.86	\$ 61,278.64	\$ 251,148.95

Cumulative \$ - \$ 5,344.84 \$ 29,897.67 \$ 134,582.46 \$ 189,870.31 **\$ 251,148.95**

Accruals includes expenses incurred and billed and expenses incurred and not yet billed, through Sept '11.

ANNEXES

Annex 1: Seed Industry Stakeholders' Workshop² Arusha June 3, 2011, Back-to-Office Report

A workshop of approximately 50 private sector seed industry stakeholders and a large representation from the Ministry of Agriculture and Cooperatives (MoA) was held in Arusha on June 3rd. The workshop was opened by Minister Jumanne Mugeshe and participants from the Ministry included the Permanent Secretary, Mohamed Muya, the Director of Crop Development, Geoffrey Kirenga, and the head of the Seed Unit, Munga Lumbadia. The private sector was well represented, including by Bob Shuma, the Executive Director of the Tanzania Seed Trade Association (TASTA), and by the Managing Directors of two of the largest seed companies in Tanzania, SEEDCO and PANNAR. Other organizations and companies represented included: AGRA, AVRDC, ASA, ICRISAT, NMB, and WFP, as well as a number of plant breeders and traders.

The Minister opened the workshop by discussing the importance of the seed industry and his commitment to removing obstacles to its development. He said that he wants to complete executive orders to "liberalize production and marketing of seeds," and he came to listen to the important issues from the industry stakeholders. He stated that the objective of the workshop was to determine how, in the next five years, to get more seeds into the market and how they can be produced in Tanzania. While he is committed to increasing domestic seed production, he did not suggest that imports would be restricted as a way of supporting the domestic industry. By 2015, he said he hopes to encourage the private sector to produce 60,000 tons of quality seeds per year compared with the 2,000-6,000 tons per year currently being produced. The current legislation, the Seed Act of 2003 and the Seed Regulations of 2006, will be amended by executive order rather than replaced by new legislation in order to quickly implement policy changes.

Prospects for seed policy reforms appear good because of the commitment of the Minister to reforms and the recognized importance of high quality seeds to the entire Kilimo Kwanza effort. Based on the workshop, the main obstacles to expansion of the seed industry in Tanzania could be removed or greatly reduced by the four potential policy reforms presented in the remainder of this note. Other policy issues important to the long-term growth of the industry were not the focus of the workshop and will need to be addressed at a later time. These include: i) how to produce better seed varieties through increased funding for research or reform of existing research institutions, and ii) the need to strengthen plant protection laws and intellectual property rights in order to encourage greater involvement of international firms. Nevertheless, many important issues were discussed and they provide a very useful starting point for seed policy reforms, including:

1. Shortage of breeder and foundation seeds. The government parastatal, the Agricultural Seed Agency (ASA), is solely responsible for producing breeder seeds and foundation seeds. Breeder seeds are produced from seed varieties approved for use in Tanzania and are used to produce foundation seeds for sale to private seed companies who multiply them for sale to farmers as certified seeds. The ASA is

² Prepared by Don Mitchell, Booz Allen Hamilton, Chief-of-Party SERA project of USAID's Feed the Future program.

not able to produce sufficient quantities of breeder or foundation seeds, and this limits the supply of seeds that can be produced by the private seed companies. This bottleneck also limits the entrance of new seed companies into the industry because existing companies are given priority for receiving the limited quantities of foundation seeds available.

Potential policy reform: The government could license qualified private seed companies to produce foundation seeds for sale to commercial seed companies. This would allow ASA to focus on production of breeder seeds and increase their supplies. The ASA or other appropriate authorities in the Ministry of Agriculture could approve qualified firms to produce foundation seeds and inspect production procedures and produced seeds before sale to private seed companies.

2. Lack of certification of seeds for exports. The export of seeds to neighboring countries usually requires testing and certification of seeds by an accredited organization, such as the International Seed Testing Association (ISTA). Tanzania is not current with its dues to that organization and, therefore, it is unable to certify seeds for export. Without such certification, seed companies cannot export to most countries in the region, and that limits incentives for investment in production facilities. While such exports may not currently be an important market for Tanzanian seed companies, they could become important in the future, and that could influence current investment decisions. The private sector has offered to pay the ISTA dues, but this is not allowed under current regulations. The Minister told participants at the workshop that he is committed to paying the \$15,000 per year dues and any arrears. The testing equipment and laboratories required for seed certification are reported to be available in Tanzania.

Potential policy reform: The government should pay its dues and arrears to the ISTA from its budget or modify regulations to allow the private sector seed companies to collect monies from its members to pay ISTA dues. The costs of obtaining any required additional testing equipment and operating the testing lab should be determined, and paid by fees collected from individual seed companies applying for certification of seeds for export.

3. Lengthy procedures for releasing new varieties. Approval for releasing a new seed variety can take as long as 10 years according to plant breeders attending the workshop. This follows lengthy research to develop a new variety which means that 20 plus years can be required to develop and release a new seed variety. The procedure for releasing a new seed variety once it has been developed by a plant breeder requires 2-3 years for multi-location trials in Tanzania, 2 years of on-farm trials in Tanzania, 2 seasons of testing in national performance trials by the Tanzania Official Seed Certification Institute (TOSCI), testing of the new variety for Distinctiveness, Uniformity and Stability (DUS), and approval by the National Performance Trials Committee (NPT) and the Variety Release Committee. Once these tests are completed and approval given, the approved seed is provided to the ASA for production of breeder and foundation seeds. Neighboring countries, such as Kenya and South Africa, have a more streamlined process and only require that a seed be approved for Distinctiveness, Uniformity and Stability, and plant breeders attending the workshop argued that the same requirement should be used for releasing new varieties in Tanzania. This streamlined procedure would have the added advantage of allowing quicker

release of varieties already involved in the approval process and thereby quickly improve the quality of seeds available in Tanzania.

Potential policy reform: Allow new seed varieties to be approved based only on DUS approval.

4. High taxes and fees on seed production and sales. The seed companies and traders complain of high taxes and fees that limit profitability and incentives for seed production and sales. A complete list of such taxes and fees was not available, but the partial list presented at the workshop was sufficient to make a strong case that taxes and fees are reducing incentives for seed production and need to be reduced. These fees include: district crop cesses of 3-5% charged at each district border, 18% VAT on seed sales despite VAT exemption on other agricultural goods, 18% VAT on imported packaging materials, and high inspection fees. Local crop cesses of 3-5% are collected on the value of transported seeds at road blocks in each district. Seeds transported through several districts may be charged the fee several times. Seed sales to farmers are charged 18% VAT by the Tanzania Revenue Authority (TRA) despite agricultural goods being exempted from VAT. TRA has ruled that seeds are not agricultural goods for consumption and, therefore, do not qualify for the exemption on agricultural goods. Imported packaging materials for seeds are charged the 18% VAT and the industry feels that is unfair. Inspections are required before seeds can be sold and the fees for such inspections are reported by the industry to be excessive and beyond those required to perform the inspection services.

Potential policy reform: Local crop cesses should only be paid once and in the district where seeds are produced. When paid, the district government should be required to provide documentation that the crop cess has been paid and other districts should be required to respect the document and not charge an additional crop cess. The 18% VAT charged on seed sales is due to TRA's interpretation of Ministry of Finance (MoF) regulations and either TRA should be advised not to charge the VAT or the MoF regulations should be amended to clarify that the tax does not apply to seed sales. The 18% VAT on imported packaging material could be waived as an incentive to the seed industry at the discretion of the MoF and MoA. Inspection fees should be only those necessary to cover the government's cost of providing the service and should not be used as a revenue collection scheme.

Other Issues. In addition to the priority policy issues and potential reforms noted, there were other important issues discussed at the workshop. Among these, the current farm input voucher scheme operated by the government and funded by the World Bank and GoT has depleted its funds and is no longer redeeming vouchers. This has caused banks to stop paying input suppliers for vouchers and agro-dealers to stop accepting vouchers from farmers as partial payment for seed and fertilizers. According to the Executive Director of TASTA, this has broken trust in the input voucher scheme. The Minister said he was working to resolve the issue and hoped to have it resolved in 10 days. TASTA raised other important issues, including: limited land available for expanding seed production, deteriorating quality of breeder seeds because they are not being purified, physical dangers for seed industry workers in some areas due to local unrest and inadequate military and police protection, and the need for subsidies for seed companies to encourage production. These issues were not directly addressed at the workshop, but

resolution of these issues could be important to removing constraints to expanding seed production in Tanzania.

Strengthening the case for policy reforms. With the prospects of policy reforms appearing to be good, it is important to quickly strengthen the case for reforms with strong analytics. This can be done in several ways depending on budgets available.

Value Chain Analysis of the seed industry would be very useful to better understand the incentive structure and costs of seed production and sales. If high taxes and fees are reducing incentives for seed production as the industry argues, then that would strengthen the case for reducing such taxes and fees and ensuring that seed companies are not being charged excessive district cesses. Conversely, if profit margins are high, then other factors could be constraining the growth of seed production such as shortages of foundation seeds or low demand.

Demand Analysis for Seeds would allow the impact of reduced seed prices on farmer seed purchases to be quantified. If the price elasticity of demand for seeds is high, then a strong case can be made that seed prices should be reduced through government policy action because that would significantly increase the demand for seed. Conversely, if demand is very inelastic then other policy measures will need to be used to increase seed demand.

Fast-tracking the Release of New Varieties has been proposed by the plant breeders, and a review of such systems reported to be used in Kenya and South Africa need to be examined and determination made on its suitability for Tanzania. If such procedures have been used successfully in neighboring countries, then they should be considered in Tanzania as a way of clearing the pipeline of new varieties and strengthening both domestic agriculture and seed export potential.

Smallholder Profitability of Using Quality Seeds needs to be quantified to guide extension advise to farmers and policy decisions of government. This could be done by survey of producers in the main maize and rice growing areas, and possibly by examination of research station trials of quality seeds grown under smallholder conditions.

Case for a Value Chain Analysis

Increasing the availability and use of improved seeds is essential to the success of Kilimo Kwanza and a high priority of the Ministry of Agriculture Food Security and Cooperatives (MAFC). It is estimated that only 15 percent of national areas planted to major food crops are sown with improved seeds while the remaining 85 percent are sown with farmer saved or recycled seeds. Maize accounts for 80 percent of the improved seeds sown in Tanzania, with about one-third being improved open pollinated maize varieties (OPVs) which yield about 5 percent more than areas sown to farmer held or recycled seeds and two-thirds being hybrid varieties that increase yields by approximately 30 percent compared to farmer held or recycled seeds. Since maize is the basic staple food crop of Tanzania and accounts for more than half of areas planted to cereal crops, increasing yields through increased use of improved seeds as well

as other high-valued inputs could make a substantial contribution to increasing maize production and domestic food supplies.

The demand for improved maize seeds in Tanzania has increased because of the Government's National Agricultural Input Voucher Scheme (NAIVS) which provides a voucher-based subsidy to increase fertilizer and improved seeds use. The Voucher Scheme is expected to have increased farmer's awareness and adoption of improved seeds and lead to future increases in maize seed demand. Most of the demand for improved maize seeds under the Voucher Scheme was supplied from imported seeds, despite rapid growth of the seed industry in Tanzania since it was liberalized in 1999. There are currently 45 seed companies registered in Tanzania with 24 of those operating in the cereals sector, and their low production relative to demand raises questions about the incentives facing seed production and marketing in Tanzania. If the incentives for local production and marketing are not adequate to encourage the private sector to expand, then it will be difficult for Kilimo Kwanza to succeed and the objectives of the MAFC to be met.

According to private sector seed companies participating in a recent Seed Industry Stakeholders Workshop, the incentives facing seed companies are poor. They cite high taxes and inspection fees as discouraging domestic production and sales of improved seeds, and they argue that the taxes are not being levied in accordance with current laws. Other factors, such as shortages of breed and foundation seed and lack of accreditation for exports to neighboring countries, were also identified as constraints to the expansion of seed industry by the seed companies. A recent survey of bottlenecks affecting maize production and deployment in eastern and southern Africa (Langyintuo, et. Al, 2008), identified other constraints to maize seed production and marketing in Tanzania including: high costs of credit, limited access to germplasm, and technical constraints to production. It is essential to understand the incentives to seed production and marketing in Tanzania. If incentives are low due to high taxes and inspection fees, the government can direct its policy efforts to reducing these taxes and inspection fees. However, if incentives are adequate, then other factors such as shortages of breeder and foundation seeds may be the constraints to expansion of the seed industry in Tanzania.

A value chain analysis should be done for maize seed production and marketing in Tanzania to better understand the incentives facing seed companies and direct government's policy reform efforts to develop a vibrant and responsive maize seed industry. In addition to the increased understanding of the incentives facing maize seed companies, the results of the value chain analysis will also be useful in understanding the incentives facing seed companies producing improved seeds for other crops. This value chain analysis will build upon data and analysis undertaken for the USAID/Tanzania MicroCLIR analysis of constraints facing the maize and rice sectors.

Annex 2: Trip to Arusha to Investigate the Impact of the Export Ban, Aug 3-5, 2011

Alex Mkindi and Donald Mitchell visited Arusha from August 3 -5 to investigate the impacts of the food export ban imposed by the Ministry of Agriculture, Food Security and Cooperatives. The team was assisted by David Tuhoye, a private consultant in Arusha, who arranged the meetings and accompanied the team to many meetings. Information on the impact and effectiveness of the export ban was obtained, and the team also met with representatives of two seed companies and gained a better understanding of the issues of the seed industry and constraints to importing agri-chemicals. Opportunities for capacity building with farmer organizations and the National Food Reserve Agency (NFRA) were also identified. This BTO presents findings and conclusions reached regarding the food export ban, seed industry, agri-chemical markets, role of the Cereals and Other Produce Board, and opportunities for capacity building. The BTO also provides a list of people and companies met during the trip.

Findings and Conclusions on the Food Export Ban

The food export ban imposed by the Tanzanian Ministry of Agriculture, Food Security and Cooperatives on July 1, 2011, was intended to enhance food security, but it has not been very effective in achieving that objective and other policy instruments should be used. Exports of maize and other food crops to Kenya have continued according to traders and millers interviewed in the Arusha area, however, the ban has somewhat reduced the volume of exports because of the increased costs of exporting through alternate routes, the increased costs of bribing officials to allow exports, and the risk of legal action associated with illegal exporting. Efforts to limit such exports are unlikely to be effective because the borders with Kenya and other countries are porous and can be crossed in many places on what are called “panya” (rat) routes. In addition, the food market in Eastern and Southern Africa is a regional market with porous national borders and it unlikely that any country can isolate its food markets from the larger regional market.

The farm gate maize prices in the Arusha area had declined from 520 Tsh/kg before the ban to 420Tsh/Kg by the end of July according to millers and traders in Arusha. A large portion of this decline was directly due to the export ban, but some portion may have also been due to seasonal factors as the harvest has increased. The decline of maize prices in Dar es Salaam has been less, with maize prices quoted at 460-470Tsh/kg in early August at the Tandale market. Consumer prices of maize flour in the Arusha area have declined by a proportionate amount to maize grain according to millers. Since maize exports are continuing, consumer prices may also increase later in the year as domestic food supplies are depleted. The ban has primarily benefited those engaged in illegal exporting, and government officials and police who have accepted bribes to allow illegal exports to cross the border. The ban has

also reduced incentives for farmers to increase production of maize and other food crops in the future and may also have discouraged potential investors in SAGCOT.

The export ban should be lifted and other policy alternatives used to deal with current high food prices while still ensuring adequate incentives to increase production in the future. These policy alternatives could include adding to the Strategic Grain Reserve during the current harvest period for emergency food aid later in the year, and pursuing policies to increase producer incentive and raise productivity. Over the longer term, allowing food crops to trade freely between countries in Eastern and Southern Africa would be beneficial to Tanzanian since it has the potential to be a large and regular supplier of food to the region.

Findings and Conclusions on the Seed Industry

The seed industry in Tanzania has potential for growth for domestic sales and exports because of very desirable climatic conditions in the Arusha area. However, a poor business environment, weak policy compliance, and lack of accreditation by international seed organizations are limiting this growth according to industry officials. Several world-class seed companies produce for export in Arusha, including Rotian Seed Co. which exports bean seeds to Europe and Rijk Zwann which exports cucumber seeds. Neither company sells in the domestic market, partly because seed laws in Tanzania do not protect companies from competitors who multiply and sell their seeds without paying royalties. That discourages research into open pollinated varieties of seeds that can be easily multiplied by competitor companies and sold to farmers. Most companies doing seed research in Tanzania are focusing on hybrids because they cannot be multiplied from sold seeds according to Sjoouke Bruinsma of Rotian Seed Co. Bruinsma has been in the seed industry in Tanzania for many years and he argues that the seed laws are adequate, but government enforcement is weak. He believes that the enforcement of breeder's rights should be turned over to the seed industry association instead of the government. In order for this to work, he says that all seed sellers in Tanzania would need to be required to become members of the association. Then the association could enforce breeder's rights and prevent other companies from taking their seeds without paying royalties. The poor business environment was also identified as a constraint to the seed industry. Banks lend for a maximum of three years which makes capital investments and land purchases difficult. The Meru District Council is also imposing a 3-5 percent crop cess on seed sales, even though the law does not identify seeds as produce covered by the authorization, which further adds to the poor business environment.

Findings and Conclusions on Agri-Chemical Imports

Agri-chemicals (herbicides and pesticides) must be approved by GoT for import and use in Tanzania and that requires three years of testing before approval. Since Tanzania is a small market, it is not cost effective to test most agri-chemicals, and that reduces the competitiveness of seed companies because

they cannot use the most recently released chemicals. According to Sjouke Bruinsma of Rotain Seed Co., the solution is for regional testing and agreement on acceptable agri-chemicals for import and use. It would be beneficial to the agricultural sector because they would have access to some chemicals that would not otherwise be available. This would require Tanzania to accept regional testing.

Findings on the Role of Government and Cereals and Other Produce Board

The role of the government in cereals marketing is a major concern of the private sector because of the creation of the Cereals and Other Produce Board and the Minister of Agriculture, Food Security and Cooperative's recent statements that foreign buyers of maize should negotiate directly with the government in order to purchase maize rather than buying from the private sector. Regarding the Cereals and Other Produce Board, one processor said: "if enforced it would be a monumental disaster that will discourage investment and the formal sector." Another said: "The Cereals and Other Produce Board leaves no place for the private sector in dealing with the outside world." Both processors said they would leave the industry if the government fully implemented the actions authorized by the new Board.

Opportunities for Capacity Building

Two opportunities for capacity building were identified during the trip. They include: 1) the opportunity to work with producer associations in the Arusha area to build awareness of important issues in agriculture and build capacity to advocate for their interests with the government, and 2) the potential to work with the National Food Reserve Agency (NFRA) to build capacity to play a larger role in providing emergency food aid to vulnerable groups since the export ban is not expected to achieve the government's objective of increasing food security.

The National Food Reserve Authority may require capacity building in order to fulfil its responsibilities in an efficient and cost effective way without unduly distorting markets. Traders and millers interviewed in the Arusha area were critical of the NFRA, believing its actions were not transparent and were disruptive to marketing. Sales to the NFRA were said to be unfairly available to certain groups but not to small farmers. Capacity building could be used to improve the operation of the NFRA.

Farmer associations in the Arusha area could also be candidates for capacity building and the team met with the head of the large farmers association in Arusha, Mr. Brown Mathew Oli Suya. He was very receptive to the opportunity to work with the FtF initiative and suggested an initial meeting to explore ways we could support their organization. We would be expected to pay for a meeting hall and provide lunch for participants. Mr. Suya appears to be an ideal candidate to work with because he has previously worked with ACT and has political experience. This is a high priority to follow up in September.

Additional Findings

The impact of the export ban on farm gate prices

Since the border with Kenya can be crossed in many places, illegal exporters are reported to follow the “panya” (rat) routes at night with 7-10 tons trucks loaded with maize or other crops. Kenyan counterparts meet them at the border and transfer the load to another truck on the Kenyan side. If necessary, government officials or police are bribed. In one case cited by several different industry participants interviewed, a District government official has used the opportunity presented by the export ban to raise the toll charged at the main road leading to the border. This has raised the cost of transporting maize from Arusha to Nairobi from 45,000 Tsh/ton to approximately 120,000 Tsh/tons because the toll to pass the road block is 85,000 Tsh/ton. Since that is the only tarmac road to the border, exporters pay the toll. Seasonal factors may have also contributed to price declines later in July as the harvest has increased. Maize producers in other parts of Tanzania were also affected by the export ban, as farm gate prices declined due to increased local supplies.

The export ban has also affected exports of non-strategic crops such as millet and pulses that are not staple food crops in Tanzania and should not be covered by the ban. However, government officials are said to be reluctant to approve exports of any food crop because they are not certain of the coverage of the export ban. This requires exporters to spend more time applying for export permits and waiting for decisions by government officials to allow exports to Kenya or countries further north. Ironically, exports to countries out of the region do not require the same export authorization and flow freely to Europe or the United States. None of the industry participants contacted had seen an official description of the coverage of the export ban, and all had heard of the ban through local media.

Maize farmers interviewed expressed displeasure with the ban and felt that food security should be the responsibility of the government rather than maize producers. In addition to the short-term impacts of lower farm gate prices, a longer term impact of the export ban is to discourage investment in maize production which will reduce future supplies of maize for both the local and foreign market. As said by one processor interviewed, “the government is so focused on food self-sufficiency, that it has lost sight of the opportunity to develop a regular export market in Kenya.” Producers in Malawi and Zambia have benefited by the Tanzanian export ban by transshipping maize to Kenya while Tanzanian farmers are constrained by the ban.

Annex 3: A Comprehensive Food Security Program for Tanzania³

Tanzania needs a Comprehensive Food Security Program to address its food security needs rather than relying on temporary export bans. Such a Program would provide targeted food aid to the poor and most vulnerable populations, while being more efficient, less market distorting, and less costly than the current system. Food crop export bans would no longer be needed, and the full potential of Tanzanian agriculture would be achieved through enhanced market-based incentives to producers. Tanzania would become a regular food crop exporter to the region and that would stimulate farm incomes, reduce rural poverty, and contribute to more rapid economic growth without compromising food security. It would also improve food security in the region.

A Comprehensive Food Security Program for Tanzania would include: 1) an improved information and early warning system to provide timely and accurate measures of food crops production, prices, and stocks in Tanzania and better monitoring of the regional food markets, 2) an optimally sized and located strategic grain reserve and improved systems for managing the strategic reserve to contain storage losses and transport costs, and 3) a system to identify the most vulnerable groups so food aid could be targeted to those groups in an efficient and cost effective way.

A program of work to create a Comprehensive Food Security Program for Tanzania would include the following activities:

Learning from the Best Regional and Global Practices – identify best practice food security programs in the region and globally to see how the lessons from these programs can be used to guide the design of a program for Tanzania. Conduct study tours with key Tanzanian officials to gain first-hand experience of the performance and operational challenges of a Comprehensive Food Security Program.

Improving Data and Information Systems – evaluate Tanzania’s current information and data systems to measure production, stocks, and prices and strengthen those systems as needed through capacity building, training, and closer collaboration with existing programs such as the FAO early warning system and WFP monitoring and emergency relief activities.

Assessing Food Security Needs – determine the magnitude and location of vulnerable populations and food insecure groups from existing household, demographic, and health surveys and supplement with primary data collection as needed. Develop poverty and food security maps to identify food insecure and vulnerable groups.

³ Developed by the Booz Allen Hamilton SERA team of USAID’s FtF initiative, August 17, 2011.

Operating the Strategic Grain Reserve – estimate the optimal size and storage locations of the strategic grain reserve and employ best practices for managing the grain reserve to reduce storage losses and minimize transportation costs. Inventory current private and government storage capacity and estimate the optimal location and size of strategic grain reserves.

Targeting and Delivering Food Assistance to the Poor – develop procedures for targeting the delivery of food assistance to the poor and food insecure, and design programs to provide food aid assistance to those target groups.

Annex 4: Draft Concept Note on Food Security, Economic Growth and Poverty Reduction: Analytics, Options and Way Forward⁴

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

Objective

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

⁴ Prepared by the Booz Allen Hamilton SERA team of USAID's FtF Initiative in collaboration with REPOA.

Food Security

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

Exports, Economic Growth and Poverty

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

Political Dimensions of Food Security

Food security is a complex issue and it has several political dimensions. The regional dimensions of food security are Tanzania’s commitment to free trade within the East Africa Community (EAC) and its desire to contribute to food security within the region. The benefits of free trade in food crops within the EAC

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

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

Markets Prices and Growth

Markets forces are essential to guide an economy to produce to meet consumer demand and policies that distort market forces and prices often lead to inefficiencies, lower economic growth, and inequities. For example, a maize export restriction reduces incentives for production and reduces exports of maize. That results in reduced economic growth in both the agricultural sector and the broader economy. The agricultural sector is directly affected because the crop that is subject to export restrictions must then be sold in the local economy for lower prices. The general economy is affected because farmers purchase less inputs for use in production in future years and require less transport, storage and other services for the current harvest. They also purchase fewer consumer goods because they have lower incomes. Market distortions also lead to inequities when some benefit and others are harmed. In the case of a crop export restriction, the crop prices is reduced which harms the farmers that produce and

sell the crop but it helps the consumers who buy the crop or buy the products made from the crop. Thus, the export restriction has the effect of transferring income from farmers to consumers. Traders and processors may also benefit from the export restriction at the expense of farmers and consumers and this could occur because the purchase prices of the crop bought from the farmers decline more than the sale price of the crop sold to the consumer. This could leave the traders and processors with increased profits because of the export restriction. A number of studies have reached that conclusion. Therefore, the export restriction may benefit the consumers less than it harms producers.

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

Focus on Food Security

Food security is a complex issue as already noted. The four dimensions of food security contained in the World Food Summit declaration of 1996 include increasing availability of food through improved incentives to farmers and improved infrastructure, ensuring access to food by providing safety nets to the poorest and most vulnerable, ensuring the utilization of food through adequate diets and food fortification to improve nutrition, and enhanced stability by reducing price volatility, increasing storage, and reducing post-harvest losses. The USAID's FtF Initiative is working to support improvements in many of these dimensions of food security. A work program to strengthen understanding of these various dimensions could help Tanzania to obtain the right balance between food security, economic growth, and poverty reductions. The SERA project of USAID's FtF initiative and REPOA are available to support the Tanzanian government's efforts to improve food security in partnership with other organizations and institutions. The following specific studies could be undertaken to provide the knowledge to help design a food security program tailored to the needs of Tanzania. These studies would allow the Government to evaluate alternatives carefully before resources are committed or policies changed in order to avoid waste or sacrifice growth. Ultimately, a careful balancing of measures for trade, production, and poverty reduction are required.

Work Program

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

Impacts of Current Policies

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

Potential Growth of Regional Food Crops Markets

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

Assessing Food Security Needs and Capacity

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

Developing a Food Security Options Paper

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

Timing of Studies

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

Annex 5. Maize Data Check⁵

In order to assess the quality of Tanzanian data, maize prices collected by Ministry of Marketing and Cooperatives were compared with those collected by a private miller, and maize consumption data from Ministry of Agriculture, Food Security and Cooperatives (MAFC) was compared with household survey data and simulated consumption based on population and income growth.⁶ The comparisons showed close correspondence between maize price data collected by government and the private miller in Arusha, but weak correspondence between maize consumption data estimated by the government and data from other sources. The implications of these comparisons are that the price data collected by the government seems accurate, but the consumption data for maize does not appear to be accurate and probably does not capture the increase in consumption in recent years. Since the consumption data is derived from production, stocks, and trade data, it is also doubtful that estimates of these variables are accurate either. Further, since the method used to calculate production data using village extensions agents is similar for all crops, it is unlikely that the government estimates of other crop data is accurate.

Maize Price Comparisons

Maize prices for various locations in Tanzania are reported on the Regional Agricultural Trade Intelligence Network (RATIN) of the East Africa Grains Council (EAGC) on their website <http://www.ratin.net> and attributed to the Ministry of Marketing and Cooperatives (Table 1).

Table 1. Monthly Maize Prices (USD/MT), 2011.

Month/Market	Kibaigwa : TZ	Songea : TZ	Mbeya : TZ	Iringa : TZ	Dar es salaam : TZ	Arusha : TZ
Aug 11	-	385	231	214	309	276
Jul 11	247	186	221	311	322	287
Jun 11	240	202	214	216	284	295
May 11	240	219	196	234	352	321
Apr 11	272	228	237	235	289	276
Mar 11	242	174	241	180	239	244
Feb 11	231	178	211	175	231	206
Jan 11	202	180	187	172	225	177

Source: RATIN, East Africa Grains Council (EAGC).

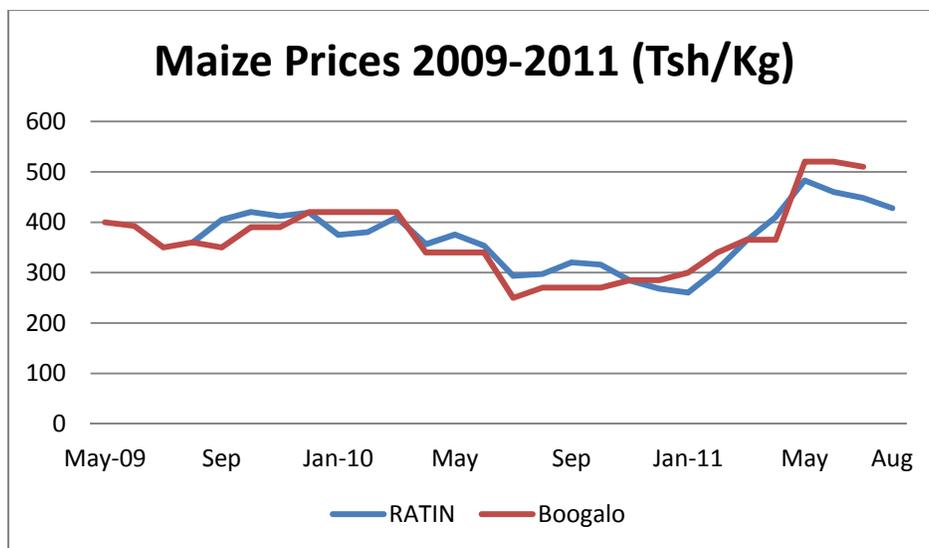
Prices for maize in Arusha from RATIN were compared with actual prices paid by a private maize miller in Arusha (New Boogaloo. Ltd.), and are shown for 2009-2011 (Figure 1). The two price series

⁵ Paper presented at the FtF Implementing Partners Meeting in Zanzibar, August 15-16, 2011.

⁶ Real maize prices should also be used to estimate consumption, but price data was not available at this time and will be added to the analysis when available.

correspond closely and suggest that the government price data for Arusha is accurate. Additional checks of the price data would be useful, if data from private millers in other locations could be obtained.

Figure 1. Comparison of Maize Price in Arusha from Govt. and New Boogaloo Ltd.



Source: RATIN and New Boogaloo Ltd.

Maize Consumption Comparisons

According to the government data, Tanzanian maize consumption increased by 1.43 percent per year during 1990-2009 and per capita maize consumption declined by 1.42 percent per year. The relatively slow growth in total consumption and decline in per capita consumption are not consistent with the reported rapid growth in population (2.89 percent per year) and real per capita GDP (1.93 percent per year) during the same period, and this raises serious doubts about the reliability of the official government data. It also suggests that maize consumption grew much more rapidly than reported by the statistics and is much higher than commonly believed. Yield and area data are probably also underestimated.

Based on population and income growth and the estimated income elasticity of demand for cereals in Tanzania obtained from a recent cross-country study⁷, total maize consumption should have grown by

⁷ The U.S. Department of Agriculture recently estimated food price and income elasticities for 144 countries using data for 2005. The analysis uses a two stage demand model that assumes that consumers first make budget choices over broad categories and then for individual items within these broad categories. The estimates for Tanzania are an income elasticity for cereals of 0.563 and a price elasticity of -.413. These estimates are consistent with other

about 4.0 percent per year instead of 1.43 percent per year as reported in the official statistics,⁸ and per capita consumption should have risen from 103.6 kilograms per person/year in 1990 to 129.1 by 2009 instead of falling to 78.9 as computed from the official statistics. Using the growth of population and income since 1990 to simulate the 2009 maize consumption gives a value that is 64 percent higher than the official government estimates (shown in Figure 2)

A second comparison that can be used to check the reliability of the official maize consumption estimates is to use the Household Survey data from 2001. These data are independently collected from the national maize consumption data and provide estimates of per capita maize flour consumption. This estimate can then be scaled up by the milling margin to obtain national average per capita maize grain consumption and population to obtain national maize consumption. The 2001/02 Household Consumption Survey estimated national average maize flour consumption at 240.7 grams per person per day. Using a milling margin of 0.69⁹ to convert maize flour to maize grain and scaling up by population, give a 2001 national average maize consumption of 4.46 million tons instead of 2.45 tons which is 82 percent higher than the official estimate of maize consumption in 2001. Figure 2 shows the official maize statistics, along with the implied consumption due to population and income growth and the consumption estimated from the 2001/02 Household Survey.

The conclusions from this analysis are that the official government estimates of maize consumption substantially underestimate actual maize consumption and since consumption estimates are derived by a balance sheet approach that uses production, trade and stocks to estimate consumption, these data are also likely to be incorrect. The procedure for estimating area, yield and production of maize and other crops is to have village extension agents observe the 900 or so farmers in villages assigned to him/her and visually estimate these variables.¹⁰ There are no guidelines on how this is to be done and procedures and care with how this is done probably vary.

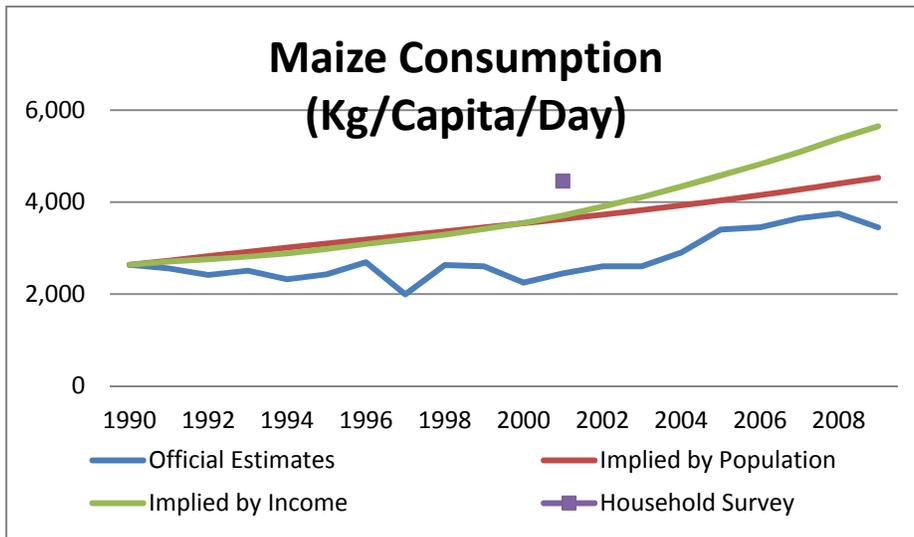
countries with similar income levels and dietary preferences. Source: USDA, ERS, International Food Consumption Patterns, 2005. <http://www.ers.usda.gov/Data/InternationalFoodDemand>.

⁸ Computed from the population growth of 2.89 percent per year plus the per capita GDP growth of 1.93 percent per year multiplied by the income elasticity of demand of 0.563.

⁹ Obtained from the Maize Value Chain analysis prepared for NAFKA by Match Maker Associates as presented on July 26, 2011 at the Sea Cliff Hotel, Dar es Salaam.

¹⁰ Described by officials from MAFC and NBS at the USAID M&E Workshop on July 13, 2011 in Dar es Salaam.

Figure 2. Maize Consumption from Alternative Sources



Annex 6: Tanzania Secured Financing Reform Trip Report September 2-19, 2011

The first trip of the renewed secured transaction activity under the SERA project of Booz Allen Hamilton took place between September 2 and September 19, 2011 when consultant Yair Baranes visited Tanzania. The main objective of the trip was to kick start the activity after it was halted earlier in the year under the previous umbrella activity BizClir. An additional objective was to generate support among some stakeholders who were not fully exposed to the operation and benefits of secured transitions system as they may operate in Tanzania. The trip included meetings with members of the private and public sector in both Tanzania Mainland and Zanzibar, presentations and to some extent planning of further steps and activities. All objectives were accomplished and the project is now ready to work together with stakeholders towards the implementation of the three parts of the system.

The Legislation – The first pillar

The work on the legal framework started under the previous umbrella activity BizClir. Under that activity the main local counterpart was the Central Bank including the banking community. Significant progress was accomplished with respect to the introduction of the new legislation on secured financing to operate within the context of a larger legal framework. However, because of the break of some 8 months some momentum was lost. During the trip it was discovered that the Central Bank was not sure what kind of assistance it would continue to obtain towards submitting the proposed legislation to the Government. Some members of the working group that worked on the legislation left the Central Bank and other members lost contact.

During the trip a working session took place with a lawyer who worked on the previous project. During that session, preliminary revision on the proposed legislation was done and discussions about any new initiative that might have taken place were also conducted. The conclusion was that no new legislation or amendments to relevant legislation were introduced and therefore this part of the activity can move forward immediately. An important meeting took place also with the head of the previous working group to assess the willingness of the Central Bank and the financial institutions to move forward now with the draft legislation. During the meeting it became evident that there is demand to complete the work and that the Central Bank will likely be willing to move fast with the remaining part of the work and submit it to the Government for legislative procedure. It was also clear that the work and the input of the Central Bank should get the blessing of the Governor of the Central Bank first. The project and USAID will work towards re-establishing these relationships in the very near future. In the meanwhile, the project consultant will get ready for renewed work with the working group on the legislation and the amendments to related legislation. While this pillar is essential for the future success of the overall system, some preparatory work should start in parallel with respect to the other two pillars of the reform as described below.

The Future Registry of Tanzania

The model registry was presented in Dar es Salaam (and to some extent in Zanzibar) in several occasions. The purpose of this was to introduce to the project and stakeholders the simplicity of the system and how it can simplify further the process of credit granting and risk assessment. While the presentations were an overview of the entire activity including its three pillars, the illustration of the results of the reform was usually focused on the operation of the registry and the use of it by creditors including private and public, leasing companies and the public at large.

The presentations were also illustration of the benefit of the activity in terms of advancing and facilitating other activities of USAID and of the Tanzanian Government. For example, it was illustrated how the activity can assist to increase secured credit, tax enforcement and collection, increase compliance and performance of borrowers obligations, enforcement agencies and judiciary strengthening, agriculture and warehouse receipts financing, increase government management capacity, reduce corruption and government spending and increase modern technology use in government. Presentations took place in the office in order to increase familiarity of the project local staff as well as at the USAID mission where USAID staff and implementers attended a presentation. The result was overwhelmingly supportive with various ideas that sprang during the presentation as to how the activity can serve other projects of USAID.

It was decided that soon after the legislation starts to move forward, a simulator of the registry will be posted to start as soon as possible the work on this phase of the project. The intention will be to maximize progress at early stages of the projects due to availability of funds and timing in relation to other expected project activities. Preliminary editing to the system was conducted based on some observations and comments obtained during the presentations.

Building Local Capacity

It was clear even during the last BizClir activity that much effort will have to be allocated to the third pillar of the reform – building local capacity. During a visit to Zanzibar it was clear that while there was a great deal of interest in a reform, the current operation of some financial institutions does not appear to be in compliance with the rules of the Central Banks. The transfer of property ownership to the banks in order to secure credit is risky to the banking sector and not practiced in other known jurisdictions. While the banks do not consider on their balance sheets these types of ownership as property of the bank, the banks bear the risk as property owners since they are the property owners in the land registry.

During the meeting it was evident that there is not only need but also demand for secured financing so to avoid such practices while increasing the collateral value in terms of security of credit. While the concept appealed to the audience, the fact that they were not familiar with its components coupled

with the dangerous practice exercised now showed that much of the work will have to focus on building capacity. It was yet again observed that building capacity will have to include work with the public sector. The complaints heard throughout the trip were that the Government's institutions do not provide any support when it comes to collateral and all registry paper files are simply not searchable and cannot be inspected and many times are lost. Therefore, it is expected that the registry staff, although likely to be minimal in numbers will require attention in terms of providing modern customer service and running electronic web-based registry and archives. It is advisable that during the next visit meeting with judges from the commercial courts as well as enforcement offices are conducted to assess further the extent of training opportunities these counterparts should be given.

Next Steps

- In addition to the effort to reformatize the work with the Central Bank, a work plan shall be constructed and agreed upon for the secured financing activity.
- The work plan should include the overall activities and budget with emphasis on significant progress to be made during the next two and a half years.
- The work plan will be the guide for the steps to follow and implementation progress and will be flexible enough to allow all components to be completed.
- It was agreed that an effort will be done for a second visit during October to take place in order to continue renewal efforts to restart the work with local counterparts as well as to complete any discussions on the work plan.