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“Coffee is money, maize is food”¹

Discussing agricultural specialization in Tanzania

¹ Florence Kanza, Haraa, 20060312

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/Natasja Börjeson

1 Abstract

This paper deals with the economic development of Tanzania and especially with the development of the smallholders. My aim is to study whether the Structural Adjustment Programmes have helped to facilitate growth in the agricultural and export-sector and if the reforms implemented through the programmes have made agricultural specialization easier and improved the economic situation for the smallholders.

In this paper, I will discuss that there might be significant limitations in the favours received due to SAP and that the Structural Adjustment Programmes because of this may not be the model for agricultural development as it is claimed by the initiators; the World Bank and the IMF. On the contrary, I present the idea that SAP can be said to have failed in its undertaking and that the reforms might not be suitable for the smallholder sector. I will in the paper argue that SAP has not facilitated an agricultural specialization and that this has much to do with the increase of production costs that the smallholders have been faced with after the reforms. And because of this it could be argued that the Structural Adjustment Programmes might not be an appropriate development strategy for Tanzania, if the country is to achieve growth through specialization. Consequently, there might be reason to believe that the reforms not are overall suitable for the Tanzanian development, considering that a growth within the agricultural smallholder sector is crucial for Tanzania to achieve a long term economic growth.

Keywords: Structural Adjustment Programmes, Tanzania, Smallholder, Specialization,

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3 Introduction

Even when it is obvious that development involves more than only growth, growth is still an imperative condition for development². However you choose to look at it, countries will not cease striving for growth and economic development is thought of as the key that will open the door towards a better life for many people. Today, many countries struggle with achieving an economic growth that is hoped to improve their citizens' standard of living.

Over the past decade, African economies have performed poorly. Economic growth has been slow to nonexistent or even declining and poverty remains widespread. To reverse the economic decline, many sub-Saharan African countries have undertaken economical reforms facilitated by the IMF (International Monetary Fund) and the World Bank, the so called Structural Adjustment Programmes (SAP). By fundamentally restructuring the African economies, these programmes are designed to pave the way for long-term development and prosperity.³ In Tanzania this is said to have started in 1986 after the country giving in to demands from the World Bank and the IMF. The country has during the last two decades gone through major economical reforms, where the economic liberalization implemented is supposed to help the struggling country out of its spiral of declining growth.

The economical restructuring of Tanzania and other African countries has not taken place without spurring an international debate. To this day the Structural Adjustment Programmes are a controversial measure being taken. Whilst the international financial institutions see a sure way of overcoming financial decline, others claim that the promised financial growth has not happened and that there on the contrary is an apparent connection between discouraging economic and social outcomes and the increased prevalence of SAP⁴. Now, 20 years after the implementation the debate is still going strong and the unclear outcome of the programmes have led many to question the efficiency and appropriateness of the economic reforms pursued⁵.

² Hyden G, 1985. *Utveckling utan Genvägar*. Wahlström och Widstrand, Malmö, Sweden. Page 17.

³ The World Bank; http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187511&siteName=WDS&entityID=000178830_98101911304260_20060603

⁴ Sahn D.E, Dorosh, P.A & Younger, S.D. 1997. *Structural Adjustment Reconsidered*. Cambridge University Press, Cambridge. United Kingdom. Page 1.

⁵ Ibid.

3.1 Purpose

I wish to study if the growth of the agricultural sector and the export increase promised by the advocates of Structural Adjustment Programmes seems to have occurred. The reforms were supposed to make agricultural specialization easier in Tanzania and strengthen the country's comparative advantage and I wish to discuss whether there is evidence pointing at this taking place. Considering the issue of specialization I will be looking at a possible specialization towards coffee production.

My focus is principally to look at the country as a whole, but since changes on the household level is a good indicator for development these changes will also be given attention throughout the paper. This will mainly be done in form of a case study conducted in Tanzania. I do not aim at directly questioning the economic theories that SAP is built on. I mean to reason around SAP and discuss if this economic development path is the best way for Tanzania to go in the quest for economic growth. If the reforms appear to have failed in their purpose, how have they failed and why? Consequently, I want to discuss whether the Structural Adjustment Programmes are the model for Tanzanian economic development that is claimed by the initiators⁶.

In my text I will be focusing on reforms in the agricultural sector that were carried out due to SAP. I have chosen this focus because the agricultural sector is the biggest and most important sector in Tanzania, but also to limit the scope of the paper. The situation in the Tanzanian agricultural sector being that it is dominated by smallholders⁷, I will look especially to the effects on this focus group. When discussing specialization and the country's comparative advantage in more detail I will be using the example of coffee production. This because coffee is a cash crop and Tanzania's largest export crop and I therefore find it reasonable that coffee makes a suitable example.

3.2 Hypothesis

My hypothesis is that when achieving growth and a specialization towards coffee, the reforms implemented through SAP might not be overall suitable for poor economies like Tanzania that mostly depend on smallholders.

⁶ Havnevik, K.J. 1993. *Tanzania. The Limits to Development from Above*. Nordiska Afrikainstitutet, Motala. Sweden. Page 314.

⁷ A smallholder holds a piece of land that is smaller than a farm but larger than an allotment, usually under 50 acres (0.2km²). Generally, a smallholding offers its owner a means of achieving self-sufficiency as to the farmer and his/hers family's own needs, which they may be able to supplement by selling surplus produce.
<http://en.wikipedia.org/wiki/Smallholder>

I formulate my hypothesis on prior research on structural adjustment in Tanzania and the assumption that unstable world market prices together with higher production costs makes the agricultural specialization undesirable for smallholders, who therefore diversify their production instead of specializing it. I will try to test the hypothesis through statistics available on the issue, together with a case study where I have interviewed smallholders, government employees and NGO-employees in rural Tanzania. I intend to come back to the basis of my hypothesis further throughout the text.

3.3 Questions at issue

What was the purpose of the Structural Adjustment Programmes? What kind of economical reforms were in question for the agricultural sector? Has economic growth occurred in Tanzania and has there been an increase in agricultural production, especially in the export sector? Does specialization towards coffee seem to have occurred? Has SAP made agricultural specialization easier for the smallholder farmers in Tanzania?

4 Method and sources

When trying to test my hypothesis I will use a deductive approach and my reasoning will proceed from neoclassical trade theory about specialization and comparative advantages. This paper is first and foremost a literature-study and I will mainly be using research on the matter and available statistics. However, I will also discuss empirical evidence received through a case study conducted in Babati and Haraa in northern Tanzania.

4.1 The case study

The most important function of the case-study as a method is to explain the presumed causal links in real-life situations. It might help describe, explore and illustrate situations that are too complex for the survey or the experimental strategies⁸ and through this give the analysis an extra dimension.

The case study presented in this paper was conducted in Babati and Haraa in Northern Tanzania during three weeks in March 2006. The field trip was arranged by the Environment and Development Program at Södertörns University College and was included in a course on the connection between environment and development in the south. This, I believe, made it easier for me to acclimatize when conducting the case study and gave me a great advantage in

⁸ Yin, R.K., 2003, 3rd Edition. *Case Study Research, Design and Methods*. Sage Publications, United States. Page 15.

accessing the community. It also presented me with a well-established contact net, which in its turn made it much easier for me to require results in such a short time.

The focus of the case study lies on the economic development of the coffee farmers of Haraa village. I have carried out interviews with farmers cultivating coffee in Haraa village and it is in this area where my overarching focus has been. But I have also carried out interviews with the chairman of a cooperative society in Haraa, an agricultural field officer at the district council's local agricultural department in Babati and two project officers at the NGO Farm Africa in Babati. The contact with the interviewees was mediated via a local field assistant, a village chairman of Haraa and William Haaly, a Tanzanian sociologist employed by our course leaders. It was done in the way that I would explain which kind of people I would like to interview and the persons helping me would either arrange the meeting for me, or give me suggestions on people that could be of interest for me to interview and also who I could contact in setting up an interview. Most interviews were conducted in Swahili with a field assistant present to translate.

When interviewing smallholders I wanted to interview both male and female farmers. I also tried to get in touch with smallholders that have worked as farmers and cultivated coffee in differentiated periods of time. Where some have done it for a long time, others might only have done so for a short period. This selection was made to enclose an as wide range of interviewees as possible. The result was that I came to interview three men and one woman, and that they had been working as farmers from 1976 as the longest and 1990 as the shortest period of time. Unfortunately the four additional interviewees were also males. But the lack of time and my limitations in knowledge about the community made me decide to not look around further for people to interview.

4.1.1 Semi-structured interviews

To prepare myself for the interviews I started by reading the book *Intervju. Konsten att lyssna och fråga* by Jan Krag Jacobsen⁹. The book deals with interview techniques and gave me an insight in how these can be conducted. The technique I came to use was semi-structured interviews. This because they lay a good frame for the interview and further on opened up for a discussion with the interviewees. When preparing for the interviews I used the framework

⁹ Krag Jacobsen, J. 1993. *Intervju. Konsten att lyssna och fråga*. Studentlitteratur, Lund. Sweden.

presented by Britha Mikkelsen¹⁰ in *Methods for development work and research: a new guide for practitioners*.

I then prepared three sets of questions to be used. The base was the same, but then they were formed in a way that depended on who I was interviewing and which type of questions I wanted to have answered by this person. I tried to ask concrete questions to avoid misunderstandings, but I also tried to formulate them in a way that would open up for interpretations by the interviewees and a general discussion on the topic. I did this by starting many of the questions with words like; what, which, who, when, why and how. Some of these questions can be an opening for wide framing of the issue, since they invite to explanations or they can serve as an introduction to closed questions. Apart from this they are also said to work well for inexperienced interviewers and almost do wonders for their interviews¹¹. Some of the questions prepared had to be changed at location, as it at times became obvious for me that they would not work otherwise. But I never felt that this was a problem.

4.2 Statistics

When reviewing the GDP- and agricultural growth in Tanzania it is important to bear in mind that the statistics are not completely reliable, as often is the case with statistics. The ones I present in the next section should therefore be read with caution. However I have tried to use a wide spectrum of sources as the World Bank, the national Tanzanian Website and FAO (Food and Agriculture Organisation of the United Nations), the problem soon showed to be that they all derive their numbers from the same source, which is the Tanzanian National Bureau of Statistics. So in fact, most numbers I use come from there and I admit to there not being a solution of overcoming the possible bias that may occur in the presentation of the quantitative data.

4.3 Limitations of the references

4.2.1 Interviews

When arranging the interviews I was dependant on the people helping me, since my insight in the community was very limited. And also, the time to arrange the interviews being short, I could only hope that the local field assistant, village chairman of Haraa and William Haaly

¹⁰ Mikkelsen, B. 2005. *Methods for development work and research: a new guide for practitioners*. Sage Publications, New Delhi. India.

¹¹ Krag Jacobssen. Page 103.

would understand what I was after and help me find the right people to interview. In the end I want to say that I was very happy with the result and that I am very thankful for their help.

Then there is the case of the language barrier. English is neither mine nor my interviewee's first language, so there was always the risk of misunderstandings and misinterpretations. When the interviews were conducted in English by me there were times that we did not fully understand each other, but I tried to get around it as much as possible by adjusting the questions until I felt that we understood each other. When the interviews were conducted via a translator there was of course the risk of the same thing happening and further there was also a risk of information-loss. I tried to overcome these uncertainties by discussing with my field assistant to make sure that we had the same understanding about the topic. We also discussed what kind of information could be lost while he was translating and after doing so I was of the opinion that he didn't change or withhold relevant information.

Since the people being interviewed weren't randomly selected, it can be good to bear in mind that they might have been picked out with the knowledge of that they would not "give improper answers". I have no direct reason to believe that this happened, but neither do I have a way of knowing whether this is the case or not. Nor have I instruments to work around this when using the material gathered in the interviews.

All of the interviewees were asked if they wanted to be anonymous and they all declined this, so therefore I see no reason in concealing their names.

4.2.2 Secondary sources

The references consists of literature, research, articles and reports on Tanzania, Tanzanian agriculture, economical development in general, economical development in Africa and Tanzania and neoclassical economic theory. It has been chosen both when discussing with my supervisors and according to my own considerations. I have intentionally not used references questioning the theory-base of the paper, this because of trying to limit the scope.

Internet has also been a valuable source when finding relevant information, especially statistics. There is of course always the need for critical review of information found on the internet, especially concerning statistics. I have tried to avoid uncertainties by using the method of triangulation¹² and well established sources. The websites that I have been using more frequently are the Tanzanian National Website, the National Bureau of Statistics as well

¹² Trying to avoid uncertainties by using three sources that seem to differ in perspective from each other when making the analysis. *The connection between environment and development in the South*, at Södertörn University College, February 2006.

as the website of the United Nations, the World Bank and affiliated links (such as the FAO, the Journal of agrarian change and the OED).

I have also used notes of lectures and seminars while attaining courses at Södertörn University Collage.

5 Theory

To explain the assumptions on growth, comparative advantages and specialization I will be using neoclassical trade theory. I find that I have good reasons to use this theory, since it is one of the pillars that the Structural Adjustment Programmes are built on¹³.

When discussing possible explanations of the outcome of the reforms I will be basing my assumptions on an essay on the question of economic development through SAP by Rune Skarstein in the Journal of Agrarian Change; *Economic Liberalization and Smallholder Productivity in Tanzania. From Promised Success to Real Failure, 1985-1998*¹⁴.

5.1 Neoclassical Trade Theory

The purpose of the reforms initiated through SAP was to help Tanzania specialize in its agricultural sector; the reforms would increase the country's agricultural exports and strengthen their comparative advantage. This means that the country uses its natural advantages, e.g. agricultural production, when trying to achieve specialization. Within trade theory it is assumed that countries production possibilities vary depending on their natural conditions and that this in turn should lead to tendencies to specialize domestic production. For example, where Sweden is said to have an advantage in industrial production, Tanzania's lies in agriculture and therefore it is more profitable for Sweden to specialize in industrial production and for Tanzania in agricultural production and then for the countries to trade. The theory of comparative advantages comes from neoclassical economic trade theory. When there is no comparative advantage between countries, there are no gains from specialization and trade; each country might just as well satisfy its own needs by producing both the commodities that it requires. On the other hand, when a comparative advantage exists, both countries can gain from an increased production and a bigger amount of the total commodities. One of the assumptions in the theory is that more is always better than less and that trade is necessary to attain the gains of specialization. Take the hypothetical example of

¹³ Sahn et al; Page 49.

¹⁴ Skarstein, R. 2005. Economic Liberalization and Smallholder Productivity in Tanzania. From Promised Success to Real Failure, 1985-1998. Journal of Agrarian Change

two countries; Sweden and Tanzania and two goods; iron and coffee. Assume that Swedish efficiency is that a unit of Swedish resources can produce either 100 kg iron or 60 kg coffee, while Tanzanian efficiency can produce either 5 kg of iron or 10 kg coffee. The gain from specialization in this case is resulting from the transfer of 1/10 of one unit of Swedish resources into iron production and one unit of Tanzanian resources into coffee production¹⁵.

See table:

	Iron	Coffee
Sweden	+10	-6
Tanzania	-5	+10
The world	+5	+4

What matters is that the margin of advantage that one country has over the other must differ between commodities. If only one-tenth as many Swedish resources are moved from the coffee sector to the iron sector it will be possible to increase the world production of both iron and coffee. By having Sweden produce more iron and less coffee while Tanzania produces more coffee and less iron. Sweden is said to have a comparative advantage in the production of iron and a comparative disadvantage in the production of coffee¹⁶. The result of specialization becomes that the total amount of goods available on the world market increases. And more is considered better than less. When Sweden has bought the desired share of coffee from Tanzania, there still is a considerable amount left to sell to other countries.

If Tanzania was to specialize in its comparative advantage, which was believed to be agricultural exports, economic growth would occur and a big step towards a positive economical development would be taken. In neoclassical economic trade theory, trade between countries is desirable as it will lead to economic growth and this in turn will have a positive effect on the country's employment, capital stock, level of investment and a development of technology etc. Trade makes it possible for countries to reach bigger markets as it e.g. is more profitable for Sweden to sell its goods on both the domestic market and on the world market than only on its own. Larger markets mean larger profits since you attain more buyers for your goods. Both increased investments and employment are believed to be

¹⁵ Lipsey, R.G. & Steiner, P.O. 1975, 4th Edition. *Economics*. Harper and Row, Publishers, New York. United States. Page 740-

¹⁶ Ibid.

obtained through access to a bigger market, as the increase in profits that come from more goods being sold can make this possible. It is also thought that it through specialized trade will be made possible to make better use of economies of scale, which in turn means lower costs of production and a lower price on goods. From an expansion of the market a situation of competition will arise. More actors on the market is said to lead to lower prices and better quality goods, a result very profitable for the consumers¹⁷.

All of the effects mentioned above are said to in prolongation have a positive effect on a country's economic growth and development¹⁸. The theory of specialization can also be applied on lower levels in society than national levels, for example on village level, where it is seen as advantageous for farmers to grow the crop that is most suitable for them and then trade and compete with other farmers and villages. The result of specialization on village level can be said to have the same effects as on national level; more goods at a lower cost at the same time as increased profits for the farmer.

6 Agriculture and smallholder production in Tanzania

Tanzania relies on its agricultural sector which is seen as the foundation of the Tanzanian economy, in 2004 agriculture contributed to 46 per cent of the country's GDP at current prices.¹⁹ The agricultural sector provides employment opportunities to about 80 percent of the Tanzanians and apart from accounting for about half of the national income it also stands for more than half of the merchandise exports and is a source of food for the population. Food crop production and not a production of cash crops for exports still dominate the agriculture economy. And even though there is a long-going wish of expanding the country's export sector, 85 percent of agricultural production still consists of food crops. Agriculture is believed to continue playing a central role in the Tanzanian economy, both on medium and long term²⁰.

The agriculture in Tanzania is dominated by smallholders. The Agricultural Sample Census of 2002/03 estimates that there are 4.8 million households cultivating about 44 million hectares and that these households mostly consist of family-based labour. Even though crop production is the main activity for about half of these households, up to 70 per cent of them have one or more off-farm incomes. The smallholder agriculture of Tanzania is still far from the technological advance that is possessed by the west. About 70 per cent of the smallholder

¹⁷ *Microeconomics*, at Södertörn University Collage, Spring 2004.

¹⁸ Ibid.

¹⁹ United Republic of Tanzania; [http://www.nbs.go.tz/TZ FIGURES/TZ FIG 2004 JUL 20b.pdf](http://www.nbs.go.tz/TZ%20FIGURES/TZ%20FIG%202004%20JUL%2020b.pdf) 20060722

²⁰ <http://www.tanzania.go.tz/agriculturef.html> 20060604

households cultivate their land by using traditional hand hoes and less than 1 per cent owns a tractor. The agriculture is rain fed and both crops and livestock are still seriously affected by periodical droughts. The use of agricultural inputs to increase crop yields is low. Modern inputs, like fertilizers, pesticides and improved seeds are scarcely used, less than 20 per cent of the smallholders use inputs other than farmyard manure. And this is in turn only used by 26 per cent²¹.

6.1 Recapitulating development and agricultural production stages in Post-Colonial Tanzania

First being a German colony and then a British-administrated trust territory, Tanganyika became independent in 1961. The islands of Zanzibar and Pemba joined in the year of 1964 to form the country Tanzania. The new independent regime faced a large number of difficulties, both internally and externally. At the time most of Tanzanian income came from primary production exports, the country was dependant upon external finance and in addition the terms of trade were falling. To come to terms with the difficulties the country was facing the National Executive Committee of Tanzania's leading party; TANU (The Tanganyika African National Union) and President Julius Nyerere²² adopted the Arusha Declaration in 1967. The declaration stated that TANU would build a socialist society in Tanzania, a development model built on "African socialism"²³ and that Tanzania was to be dedicated to a war on poverty. The Declaration emphasized the policy of self-reliance and this was believed to be the solution to the development problems the country was faced with. In the declaration it was stated that

"It is obvious that in the past we have chosen the wrong weapon for our struggle, because we chose money as our weapon. We are trying to overcome our economic weakness by using the weapons of the economically strong – weapons that we do not possess."²⁴

In order to ensure economic justice it was declared that the state needed effective control of the means of production and the declaration further underlined the dangers of relying and

²¹ The Research and Analysis Working Group. *Poverty and Human Development Report 2005*. Mkuki na Nyota Publishers, Dar es Salaam. Tanzania. Page 83-

²² Born in 1916, Nyerere attended teacher training first at Makerere Collage in Uganda and then at the University of Edinburgh. He returned to Tanzania in 1953, founded the TANU and led the country into independence in a peaceful way. He was and is widely respected in Tanzania. Rist s 127

²³ Rist, G. 2002, 2nd Edition. *The History of Development*. Zed Books Ltd, London. United Kingdom. Page 125-

²⁴ Ibid, Page 127

being dependant on foreign assistance. Rural development and agriculture²⁵ was emphasised to ensure self-sufficiency, and subsistence agriculture in addition to food self-sufficiency was to be stressed²⁶. By implementing this development model Tanzania was moving away from the development path preferred by the international establishment, as it toned down the role of international trade and industrialization to instead advocate a return to the land.²⁷

State intervention in rural production and society during the period that followed was characterised by a major initiative to move people into nucleated villages. This development policy was said to maximize agricultural production and help the peasantry to make better use of the infrastructure in the country, such as health-, water- and education facilities.²⁸ By 1973 the government had increased its control over all economic sectors and the villagisation process was soon to be made compulsory²⁹ and resulted in about 70 per cent of the rural population being resettled over the course of three years.³⁰ The villagisation was accompanied by the increased use of by-laws to regulate agricultural practices. Agricultural marketing also saw major new initiatives by the Tanzanian state, government crop authorities began to establish and the cooperative unions run by farmers were banned. This change meant that the state now had direct control of agricultural marketing and the crop authorities were given sole responsibility for crop purchases, processing and sales.

At first the economic situation in the early post-Arusha period gave little to be concerned about. However, negative signals started to emerge. Growth rates in agriculture and industry started to fall at the end of the 1960 and so did the trade balance. From 1971, Tanzania had to take to massive grain imports and there were shortages in the food supply, industrial inputs and durable consumer goods. The problems with the agricultural stagnation in the 1970s were severe³¹. The country kept increasing its imports while export crop production was declining and Tanzania was far from the production levels which were possible with the existing technologies and available resources³². When the crops marketed through state channels provided little payment for the producers, the growth of the parallel, illegal marketing

²⁵ Havnevik. Page 42.

²⁶ Rist 128.

²⁷ Ibid; Page 131.

²⁸ Havnevik. Page 43-

²⁹ Rist. Page 132.

³⁰ Havnevik. Page 47-

³¹ Ibid; Page 50.

³² United Republic of Tanzania;

[http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20\(1997\).pdf](http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20(1997).pdf) 20060726

accelerated. Moreover, farmers took to diversification, including non-agricultural production, instead of retreating into the subsistence agriculture stressed by the government³³.

However, the introduction of Arusha policies generated sympathy for Tanzania on the global level, with the result of a donor response from e.g. the Nordic countries and the World Bank to name a few. And foreign aid as a share of GDP increased despite Tanzania's wish of becoming self-reliant³⁴. But in spite of the increased foreign assistance, the economic stagnation was accelerating and during the latter half of the 1970s the quantity and quality of health services, water and education started to deteriorate. Parallel to this, erosion of real wages in industry, government services and of farmer's incomes set in.

The factors which led to the Tanzanian crisis were not only internal but also had several external causes. The break-up of the East African Community in 1977 meant that Tanzania had to establish new structures for infrastructure and communication. Investments in these areas contributed strongly to an increase in imports. Further, the doubling of oil prices in 1978/79 added to the import bill. The war against Amin's Uganda, which began in November 1978, caused further disruption in agricultural production and transport services. The war led to a large increase in the import of military equipment and fuel, at the same time as problems of agricultural stagnation were accentuated by bad weather in the early 1980s³⁵.

To round it up, Tanzania's import bill was growing rapidly while not much was being produced and exported. As an attempt to fight the national crisis, Tanzania tried to enter into agreement with the international financial institutions; the World Bank and the IMF. Principally the purpose was to improve the flow of the external resources to the country. This however failed and instead Tanzania was struck by a big decline of external resources. After several failed attempts by the Tanzanian government to get the economy back on its feet, it tried to increase financial support from former sympathetic states, particularly the Nordic countries and the Netherlands. But the answer jointly expressed by the countries in late 1984 was that there would be no expansion without a Tanzanian agreement with the IMF. The door towards external help was closed and foreign aid continued to fall³⁶.

6.2 Structural Adjustment Programmes, from 1986 and onwards

When the Nordic countries rejected an expansion of their assistance without a Tanzanian agreement with the IMF, discussions between Tanzania and the World Bank led Tanzania on

³³ Havnevik. Page 52.

³⁴ Ibid; Page 51-

³⁵ Ibid; Page 56.

³⁶ Ibid; Page 56-

a development path towards economic adjustment that was guided by the international financial institutions. The main purpose was to achieve economic growth in the country, but also to attract foreign investments by creating economic stability through a rolling back of the state and introducing a flexible exchange rate to come to terms with the over valued Tanzanian shilling. A flexible exchange rate was believed to make the Tanzanian exports more attractive on the world market. Since agriculture is the most important economic sector in Tanzania it was seen as of utmost importance to focus on this sector to be able to build a stable economy. Through the reforms the agricultural sector would be able to grow and both subsistence agriculture and exports would increase. The new market adjusted economy would increase producer prices and through these the real income of farmers would increase³⁷.

Because of the length of this paper I will limit myself to only focusing on the first three Structural Adjustment Programmes and the current one. I will also try to not go into detail, but present the main goals of the reforms. I will later in the text present an exposition of the reforms concerning agriculture.

In the beginning the adjustment programmes were strictly economical and didn't focus on social issues. The first one; The Economic Recovery Program (ERP) was prepared in 1985/86, in close cooperation between Tanzanian authorities and the World Bank. ERP was thereafter used as a basis for concluding negotiations with the IMF in August 1986. The major objectives of ERP concerned trade liberalization. The reforms were supposed to increase the output of exports and food crops and restore trade policies, providing Tanzania with a higher income. The price on goods was to be regulated by the market, so during this period the Tanzanian government took to decontrolling the price.³⁸

Both the government and the donors expressed concern about the negative development of social services under the Economic Recovery Programme. The second phase, called the Economic and Social Action Programme (ESAP) specifically aimed to rehabilitate the condition of the social service³⁹ at the same time as to further build on the trade liberalization. This was initiated through the liberalization of foreign investment regulations, the financial sector and agricultural marketing⁴⁰. The next phase of economic adjustment took place in

³⁷ Havnevik. Page 297-

³⁸ Ibid; Page 292-

³⁹ Ibid.

⁴⁰ Gibbon, P. (Ed.). 1995. *Liberalized Development in Tanzania*. Nordiska Afrikainstitutet, Uppsala. Sweden. Page 12-

1993, and was called the Rolling Plan and Forward Budget (RPFB). It mainly addressed a further rolling-back of the Tanzanian state.⁴¹

6.3 Adjustment still to come

During the years, the programmes have moved away from being strictly economical. It is obvious that the UN millennium goals of poverty reduction⁴² have come to be a key factor. The latest of the programmes initiated is the National Strategy for Growth and Reduction of Poverty (NSGRP) and it reaches over the years 2005-2009. The emphasis is not only on the aggregate growth of the economy as a whole, but it also concerns issues on how to ensure that this growth is sustained and equitably shared⁴³.

7 Economical reforms in the agricultural sector

It was said that the economic liberalization would provide a strong stimulus for Tanzanian agriculture, resulting in increased yields, increased labour productivity, rising agricultural production and incomes.⁴⁴ An increase in both food and export crops would make possible an increase in agricultural exports at the same time as decreasing Tanzania's need to import. And through making such a development possible, the step towards economic growth for Tanzania would be taken. I will in the section that follows try to give an insight to which reforms were implemented in the agricultural sector and what they were supposed to achieve.

The economical reforms implemented, were as earlier mentioned, in the frame of Tanzania committing itself to a market-based economy. And it is worth repeating that the government's choice of these instruments was limited and confined to the framework of the new policy. As a result of the reforms, a rolling back of the state was stressed for the benefit of the private sector. From being in almost total control of the country, the government only retained regulatory and public support functions. Instead there has been an opening for private investment in both production and processing. In fact, most of it is now assigned to the private sector⁴⁵. This development has not surprisingly brought about a bigger involvement of

⁴¹ Gibbon. Page 14-

⁴² The millennium development goals were formulated and adopted after the commitments and targets established at the world summits of the 1990s and focus on sustainable development, poverty alleviation and the improvement in the quality of life of the worlds poorest and disadvantaged.
Elliot, L. 2004, 2nd Ed. *The global politics of the environment*. New York University Press, New York. United States. Page 24.

⁴³ *Poverty and human development report 2005*.

⁴⁴ Skarstein. Page 334.

⁴⁵ United Republic of Tanzania;

[http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20\(1997\).pdf](http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20(1997).pdf) 20060726

private actors in the Tanzanian market. For example, before 1994, 75 per cent of the coffee was marketed by cooperatives, 19 per cent by other organisations and 6 per cent by private estates. Four seasons later 67 per cent of the market shares were held by private actors, 26 per cent by cooperatives, 7 per cent by estates and 1 per cent by other governmental organisations⁴⁶.

Another development-factor emphasized by liberalization is the one of competition. Farmers are therefore now free to sell their crops to whomever they choose, hence competition between the parastatals/cooperative system and the private sector has become fully legalised. Similarly, farmers are no longer confined to a single source for their fertilizers and other essential inputs. They now have several channels through which they can obtain them⁴⁷. Deregulation has been at the core of the reforms implemented and has had the result of agricultural subsidies being removed, such as the ones for agricultural appliances like pesticides and fertilisers. Furthermore, the deregulation has led to agricultural input- and output prices being decontrolled⁴⁸. The prices on crops are now set by the market demand and not by the state. The same can be said about the export crops, the price on these are no longer to be set by the Tanzanian government but by the world market-demand.

8 The Tanzanian coffee sector

Coffee is among the traditional export crops of Tanzania⁴⁹ and the country's largest export crop⁵⁰. 95 per cent of the coffee is grown by smallholders and 5 per cent is grown on estates. There are big hopes that an increase of the coffee exports is to attain an income increase for Tanzania. Therefore it is seen as of utmost importance to promote a growth of the production within this sector. This should implicate that the coffee sector ought to be one of the focus in the deregulation process. The industry is however still regulated by the Tanzania Coffee Board⁵¹, with the important distinction that the price on coffee is now set by the market and not the Tanzanian government. Following the liberalization process the input markets have become open to private traders and the private sector has been allowed participation in the marketing

⁴⁶ The World Bank; Findings nr 237.

<http://www.worldbank.org/afr/findings/english/find237.pdf#search=%22findings%20237%20april%202004%20world%20bank%22> 20060722

⁴⁷ United Republic of Tanzania;

[http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20\(1997\).pdf](http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20(1997).pdf) 20060726

⁴⁸ Ibid.

⁴⁹ United Republic of Tanzania; <http://www.agriculture.go.tz/Agr-Industry/Crops-grown-tz.htm> 20060722

⁵⁰ The World Bank; Findings nr 237.

⁵¹ United Republic of Tanzania; <http://www.agriculture.go.tz/Agr-Industry/Crops-grown-tz.htm> 20060722

and processing of coffee⁵². Prices on coffee have been decontrolled and subsidies on agricultural inputs have been removed⁵³ succeeding the deregulation.

9 Results; Growth and specialization in Tanzania, prior to and during SAP

As mentioned earlier throughout the text the Structural Adjustment Programmes aimed at promoting a comparative advantage in Tanzanian agriculture. And an increase in agricultural production with a specialization towards a cash crop production would in the long run raise the country's GDP and increase the export at the same time as lowering Tanzania's need for import. A deregulating of the market was to raise producer prices and thus raise the standard of living for the farmers.

In the following sections, 9.1 and 9.2, I will try to illustrate how the development has taken place (9.1), and then to try and give possible explanations for the outcome of the reforms through a case-study and a discussion on income diversification and risk aversion (9.2).

9.1 Quantitative data

By looking at the development of Tanzania's GDP, agricultural sector, export and import and coffee production, I wish to investigate if an expected specialization towards cash crops and coffee in particular seems to have occurred and how the country's economical development and trade balance have progressed. To try and simplify the comparison and understanding of the statistics, I have *when possible* limited myself to three periods during the twenty years long adjustment period. These years are: 1984-94, 1994-04 and 2004-08. When I present statistics concerning a certain year, I choose 1984, 1994 and 2004. I chose these years because they are enough spread to make the presumable change visible and also because I find a comparison of pre- and post-reform averages informative. Furthermore, I find these years appropriate to use because of the facts that Tanzania and Haraa didn't experience exceptionally good/bad weather during any of them, nor did they export unusually little coffee⁵⁴.

⁵² The World Bank; Findings nr 237.

⁵³ United Republic of Tanzania;

[http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20\(1997\).pdf](http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20(1997).pdf) 20060726

⁵⁴ <http://www.reliefweb.int> 20061211

Skarstein. Page 350.

International Coffee Organisation; <http://www.ico.org/asp/display2.asp> 20061211

Shaushi, A. Farmer of Haraa. 20060311

9.1.1 Economic growth

The financial institutions were well assured that the GDP growth would prove to be positive after the implementation of the reforms. The data presented in the tables below should give a quite reliable indication on how the development has progressed. (Note that the numbers presented in the columns for 2004-08 are estimates.)

Real GDP, average annual growth rate (%) ⁵⁵	1984-1994	1994-04	2004-08
	2.6	5.0	6.7

Real GDP per capita, average annual growth rate (%) ⁵⁶	1984-1994	1994-04	2004-08
	-0.5	2.5	4.9

Tanzania's GDP growth has been impressive, during the last 20 years it has grown in average from 2.6 to 6.7. But the per capita growth has, as shown in the table above, not been as good. During the decade prior to 1984, GDP growth per capita was very low and averaged just below 2 per cent per annum, below population growth⁵⁷. However, the table shows a positive development and considering these numbers it looks like Tanzania might well be on the road towards economic stability and at first glance it could appear that Tanzania and the international financial institutions through the economic reforms have placed Tanzania on the right track.

⁵⁵ The World Bank Group; Tanzania at a glance 20050825 & <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/TANZANIAEXTN/0,,menuPK:287345~pagePK:141132~piPK:141107~theSitePK:258799,00.html> 20060723

⁵⁶ Ibid.

⁵⁷ The World Bank Group; Tanzania at a glance.

9.1.2 Trade

A growth in the agricultural sector would help overcome Tanzania's negative trade balance with imports exceeding exports, by increasing export and decreasing the country's need for imports. The reforms aimed at promoting a development towards a comparative advantage in agriculture. Logically, if the trade advantage is seen to lie in agriculture this should mean that agricultures share of the GDP ought to increase over time. An increase in the sector would make an increase of exports possible at the same time as it would enable an import decrease by producing more of the goods within the country. But as seen in the table below, this is not really happening. Does this mean that the agricultural production is dropping? Not necessarily, it can also imply that other sectors are growing faster, because as we can see in the second of the tables below, agricultural production is in fact growing. (Note however that the numbers presented in the column for 2004 is an estimate.) Whatever the reason for the stagnation of agricultures share of GDP, I would like to say that it points towards the comparative advantage in agriculture not reaching full impact.

Agricultures share of the GDP; % ⁵⁸	1984	1994	2004
	--	45.0	44.8

Agriculture, average annual growth rate (%) ⁵⁹	1984-1994	1994-04	2004-
	--	3.9	5.5

Another negative development in Tanzania achieving a comparative advantage in agriculture is that the agricultural share of exports is decreasing (as seen in the table below). This could indicate that the growth occurring in the agricultural sector doesn't come from an increase in crops produced for exports, but must come from food crops cultivated.

⁵⁸ The World Bank Group; Tanzania at a glance.

⁵⁹ Ibid.

Agricultural share of net exports; % ⁶⁰	1984	1994	1998
	85	67	51

SAP was supposed to trigger exports and at the same time decrease Tanzanian imports. Considering these facts while looking at the tables below another weakness in the development can be spotted. Tanzania imported more than it exported before and during the structural adjustment period.

Total exports, US dollars millions at current prices ⁶¹	1984	1994	2004
	388	486	1208

Total imports, US dollars millions at current prices ⁶²	1984	1994	2004
	856	1344	2425

It is noticeable that Tanzania has exported at a less value that it has imported, however, what could imply a change in the negative trend is the fact that the average annual growth rate for exports is increasing; from 2.9 per cent in the period of 1994-04 to 3.7 per cent in the period 2004-08, while the average annual growth rate for imports is increasing in a slower pace; from 2.1 per cent in 1994-04 to 2.2 per cent in 2004-⁶³

9.1.3 Specialization

A specialization towards export crops is important in order to be able to achieve favourable terms of trade and an economic growth for Tanzania. And since coffee being Tanzania's

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<http://books.google.com/books?id=g4YaV3gXqikC&pg=PA4&lpg=PA4&ots=WE022LXeob&dq=tanzania+agricultural+share+of+exports&sig=r8DbrydmpNv22JbYtg5Df1iBW0I>

Note: Agricultural exports are taken as the six main crop exports: cashew, coffee, cotton, sisal, tea and tobacco.

⁶¹ The World Bank Group; Tanzania at a glance.

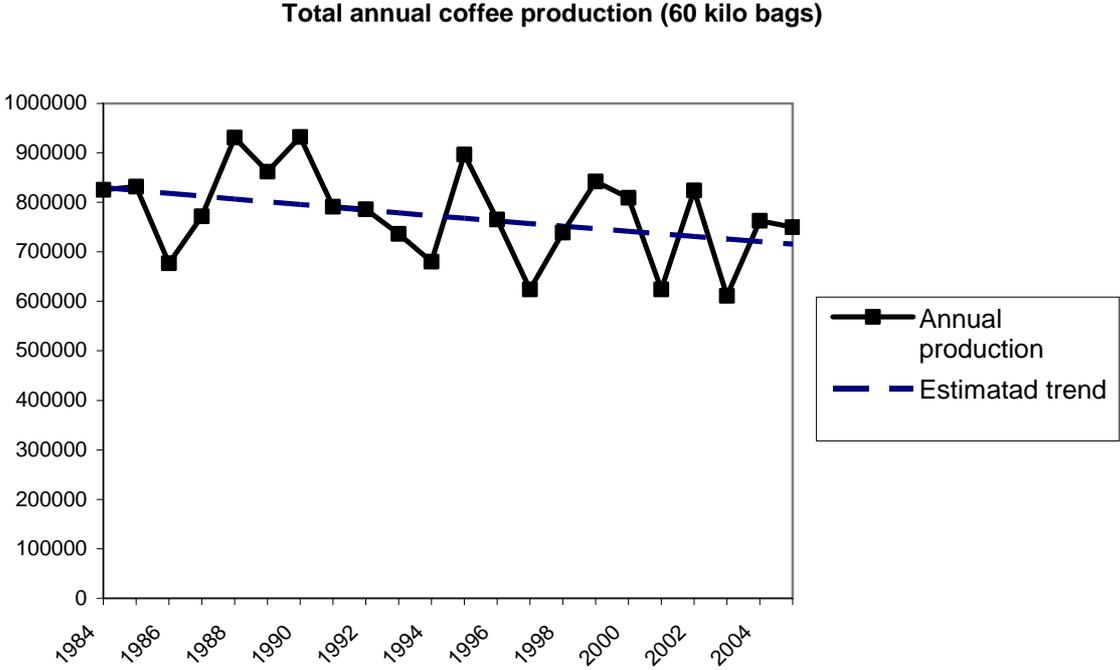
⁶² Ibid.

⁶³ Ibid.

largest export crop⁶⁴, an increase of the coffee production ought to occur in order to be able to obtain this development. Therefore it should be worrying that the growth within the coffee sector is showing a negative trend, see table below. This indicates that a specialization towards coffee not is occurring.

Coffee output, average annual growth rate; % ⁶⁵	1984-94	1995-05	1984-05
	-0.9	-1.0	-0.7

As is shown in the diagram below⁶⁶ the yearly fluctuations have been severe and the overall trend of annual coffee output growth has been slightly negative and the production of coffee seems to be unstable.



The export of coffee from Tanzania shows a similar decline. Which really isn't surprising, a declining share of coffee being produced means a smaller quantity to export. In 1990 the number reached 1019052 in 60 kg bags, but ten years later in 2000 the number was down to 740346 in 60 kg bags, to have fallen even further in 2005 to 694350 in 60 kg bags⁶⁷.

⁶⁴ The World Bank; Findings nr 237.

⁶⁵ International Coffee Organisation; www.ico.org/asp/display1.asp 20040723

⁶⁶ Ibid.

⁶⁷ International Coffee Organisation; <http://www.ico.org/asp/display2.asp> 20060722

There might well be reason to believe that the supply of coffee doesn't only depend on domestic reasons, but also on the world demand for coffee. The price in the table below is for the month of October, this because it is in the middle of the period where the price for coffee is supposed to be at a high because of there being a congestion of the buyers⁶⁸, where an increase in demand for the good raises the price of it. It can be seen that the price has fluctuated much over the past two decades, to drop dramatically during the past ten years.

What is interesting to notice is that the production of coffee has been on decline even through periods of a relatively high price. So the price factor is clearly not enough when trying to explain the development of coffee production.

World price average, In US cents per lb, ICO Indicator prices ⁶⁹	1984	1994	2004
	139	191	65

9.2 Qualitative data

Discussing a practical example is a good complement to quantitative data, since it can provide further substance to the results. In this paper I will do so by presenting a case-study conducted in Tanzania. This example might help illustrate some of the suggested findings of the previous chapter.

9.2.1 The case study of Haraa

The village of Haraa is located in Northern Tanzania in the Babati district. The area is 1038.8 acres and consists of 246 households. There is total of 1173 people; 601 women and 572 men⁷⁰ and the village is dominated by smallholders who cultivate an average of 3.2 acres⁷¹. Crops cultivated in the village are mostly maize, beans, pigeon peas, bananas, corn and fruit trees, crops such as sunflowers, pumpkins, finger-millet and avocado grown as well. Coffee has been grown since 1950 and both Arabica and Robusta are cultivated⁷².

⁶⁸ Kombe, M.R. Farmer of Haraa. 20060311

⁶⁹ International Coffee Organisation; <http://www.ico.org/asp/display10.asp> 20060910

⁷⁰ Statistics from Mlimani Cooperative Society, 2002

⁷¹ Information retrieved from the Mlimani Rural Cooperative Society's office in Haraa 20060311

⁷² Information retrieved during the interviews conducted in Haraa in 200603

The village of Haraa is a good theoretical example when evaluating the effects of SAP, because not only food, but also cash crops are being cultivated in the village. Furthermore, coffee is a crop that has been grown there for a relatively long time and the climate in Haraa is very favourable for cultivating coffee⁷³, which is a crop that demands a very certain kind of climate to thrive. Another factor making Haraa a good theoretical example is that the farmers are considered to be somewhat well off in comparison with other villages in Tanzania. And a somewhat good economy is a pre-requisite for being able to buy the necessary agricultural inputs needed when cultivating coffee. Moreover, the cooperative union in Haraa is well functioning and the smallholders can borrow money if needed. What more is, the cooperative union can hold on to the crops if the market price is considered too low and await a rise before selling the coffee on the world market. The smallholders are through a direct contact with the coffee auction in Moshi somewhat less marginalised and can therefore be considered to be closer to the world market. Theoretically these factors point towards the assumption that if agricultural growth and specialization towards coffee was to appear in Tanzania, this development would surely take place in a village like Haraa. However, if this development fails to come about that might pose some interesting questions for the analysis and it might even indicate some possible weaknesses of the reforms.

Another aspect pointing in the direction that Haraa was suitable for the case-study, was that my field assistant was of the belief that Haraa was a good place for conducting interviews since the inhabitants are well-mannered and answer the questions asked even with the village chairman present during the interviews⁷⁴.

As we are well aware of by now, a specialization in coffee production was to be made easier through SAP. And as we have already established, this ought to have appeared in Haraa, however, neither one of the farmers interviewed was in the position that neither he nor she could specialize their production and grow only one crop. “We cannot eat coffee⁷⁵”, as Mohammed R. Kombe replies to the question if he cultivates any additional crops to coffee. Cultivation of food crops is still more important than that of cash crops. Only one of the smallholders interviewed said that she could survive on farming only (but she still prefers to also keep livestock, then if the farm doesn’t provide she can live off the animals)⁷⁶. The others

⁷³ Sullu, K.I. Agricultural field officer and subject matter specialist on coffee at the District council local agricultural department in Babati. 20060307

⁷⁴ Tluwai, D. Interpreter. Haraa. 20060307

⁷⁵ Kombe.

⁷⁶ Kanza, F. Farmer of Haraa. 20060312

all had to take to some kind of income diversification, mainly keeping livestock, apart from crop cultivation. This is not an exceptional way of production for smallholders; on the contrary diversification is a very common thing. Many farmers can not afford the risk of not selling their coffee and there are many uncertainties and insecurities when cultivating coffee. Therefore, it becomes important to vary the production. When I talked to the chairman of the cooperative society, he said that specialization is not possible for the smallholders when the world market is so unsure. If a smallholder only grew coffee, it would have disastrous consequences if the price went down⁷⁷. During the past fourteen years when the world market price on coffee has been at a high, the farmers have followed all farm practises; like cultivation, spraying, pruning, harvesting, processing the crop and selling in time at the right price. But now that the price has declined the farmers cannot procure necessary input like pesticides and insecticides, which in turn leads to the harvest being small⁷⁸ making specialization very hard. The price on agricultural appliances like pesticides and fertilizers is high now that they no longer are subsidized and many farms that used to cultivate coffee are now bare. “People can not afford the prices of cultivating coffee”, says Ali Shaushi, one of the farmers of Haraa⁷⁹. The cost of production is periodically very high and the farmers suffer losses when demand is low⁸⁰.

According to Faithrest Kimaro, a project officer at the NGO Farm Africa there are no real profits in coffee production today. He is of the opinion that there is no reason for the farmers to reinvest in coffee, even when the resources for it are there. It is better he says⁸¹, to for example, invest in pigs. One of the disadvantages in production of coffee that Kimaro talks about is the high levels of pesticides needed. Generally because of the high price, but people have also realized that pesticides are bad for both their health and land. However, Kimaro has a somewhat positive attitude; saying that if the problems associated with coffee production are solved there could be a future in coffee even for smallholders. Today the favours of specializing the production towards coffee are limited to the large scale farmers. Economies of scale makes it possible for them to lower their costs of production and they can process the coffee themselves which also is profitable⁸². Kimaro is not the only one with the pessimistic view on coffee production. Several of the interviewees, both farmers and others, say that there

⁷⁷ Shayo, U. Chairman of Mlimani cooperative society in Haraa. 20060312

⁷⁸ Sullu.

⁷⁹ Shaushi, A. Farmer of Haraa. 20060311

⁸⁰ Kombe.

⁸¹ Kimaro, F. Project officer at Farm Africa in Babati. 20060313

⁸² Ibid.

is no future in specializing in coffee⁸³. Today, the production of coffee is seen as an extra income for the farmers of Haraa, a way to get money for a day-to-day life⁸⁴.

9.2.2 Income diversification and risk aversion

As we already have established, the attempt to stimulate the agricultural sector and enhance specialization in coffee has not succeeded as was hoped. The development in the agricultural sector still falls under what is needed in order to achieve desired growth and the farmers seem not to be in the position where they can afford to take the risk of specializing their production. In the Journal of Agrarian Change, Rune Skarstein from the Department of Economics at NTNU in Norway addresses the question of economic development through SAP in his essay: *Economic Liberalization and Smallholder Productivity in Tanzania. From Promised Success to Real Failure, 1985-1998*. In the essay he addresses the issue of specialization and claims that,

“Economic liberalization has not spurred Tanzanian smallholders to specialize, improve technology and increase land and labour productivity. By contrast, several studies have shown that, instead of fostering specialization, economic liberalization has increasingly forced the smallholders to seek income diversification outside their holdings in order to reduce risk and secure their livelihood.”⁸⁵

It is worth noticing that Skarstein is not against the concept of specialization per se, but he claims that the way of economic liberalization has been the wrong road to take for Tanzania when trying to stimulate the agricultural sector. He is of the opinion that instead of promoting specialization in agriculture, as its proponents argued, the economic liberalization in Tanzania has led to exactly the opposite⁸⁶. Instead of specializing in a cash crop the smallholders take to crop diversification, “diversifying to cope with shocks, the household sacrifices the gains of specialization in favour of spreading risk over multiple income generating activities”⁸⁷. As we have also seen in the case study of Haraa the smallholders can not afford to take the risks associated with specialization. When cutting the subsidies on agricultural appliances this has had the result of an escalating cost of production, which necessarily leads to a low input use,

⁸³ Shayo.

⁸⁴ Kanza.

⁸⁵ Skarstein. Page 358.

⁸⁶ Ibid; Page 359.

⁸⁷ Collier and Gunning quoted by Skarstein, Page 359.

increased incidence of diseases and lower returns to producers.⁸⁸ The way of production of the smallholder in Tanzania can be characterised by a rudimentary division of labour, with small production units and a low technical level of the households. This together with rising production costs puts limitations on production surplus so the smallholders find themselves in the situation where they produce mainly for their own survival⁸⁹. This being the case it is easy to see why the smallholders still put their main effort in producing food crops, and making the revenue of for example coffee and extra income, as Florence Kanza of Haraa puts it: “coffee is money, maize is food”⁹⁰.

10 Analysis

10.1 Assessing the reforms

The debate around Structural Adjustment Programmes has been intense. The opinions differ on whether or not SAP will actually help Tanzania on its development path towards economic growth or if it just another way for the west to force liberalization upon the country. One thing however is sure, and that is that the programmes affect the country on many different levels and it is impossible for me to try to analyse all the aspects of the development. Even if I am only looking at one aspect of the structural adjustment, the effects and outcomes are intertwined. To recapitulate, I have been looking at how economic growth has progressed in Tanzania after the introduction of SAP, mainly limiting the scope to the agricultural sector, especially the export sector and giving coffee production extra attention. I have looked at the smallholders and how the reforms have affected their possibilities in agricultural performance, particularly if they have changed their way of production towards a specialization in coffee. The reason for choosing coffee was because of it being a cash crop and the most important of Tanzanian export crops and therefore felt very relevant in this context.

Since I will only be discussing the outcomes of SAP considering the reforms in the agricultural sector, this will of course put limitations on the analysis, only giving a very simplified picture. And when simplifying there is always a risk of being categorical and of there being a bias in the conclusions. Please keep this in mind while reading the assessment.

⁸⁸ United Republic of Tanzania;
http://www.agriculture.go.tz/Publications/Agricultural%20and%20Livestock%20Policy%20of%201997.htm#_Toc55896152 20060722

⁸⁹ Hyden. Page 21.

⁹⁰ Kanza.

The implementation of the Structural Adjustment Programmes was started twenty years ago, and some results of the reforms carried out should very well be showing by now. Tanzania is still in the process of change, but I do not find it far fetched to claim that some effects are clearly visible. Shortly put, the final outcome of the reforms is to achieve economic growth. To do this it was seen as necessary to promote and strengthen the comparative advantage in agriculture. A specialization of the sector, together with an increase in agricultural cash crop production as well as an increase in agricultural exports, was said to spark the economic growth Tanzania needed. On household level this would make living of agriculture easier and raise the living standard of smallholders.

Remembering what SAP was implemented to achieve, I believe that when assessing the reforms, the questions that should be answered are:

Agricultural growth:

1. Has there been a rise in agricultural production?
2. Has the output of cash crops increased?
3. Has there been an increase in exports?
4. Can it be said that there has been an agricultural specialization towards cash crops, e.g. coffee?

Improvement of the smallholder situation:

5. Has competition increased and prices on agricultural appliances fallen?
6. Have the incomes received by the farmers increased?
7. Has there been an increase in the living standard of smallholders?

As shown throughout the paper, agricultural production has fluctuated around low levels for both food and cash crops. Similarly, productivity has remained low, especially among the smallholder farmers. Remembering the statistics presented earlier in the text it can be concluded that there has been an overall rise in production. However, the production can still be considered as low and what more is, the agricultural share of GDP is falling. Looking at this development I would like to concur with Skarstein and claim that Tanzania is not succeeding in specializing their production towards agriculture. The country seems to be developing in another direction than towards a comparative advantage in cash crops. Moreover, the agricultural share of the exports is on decline, implicating that the comparative advantage in agriculture is far away. The quantitative data shows another trend in Tanzania having difficulties with achieving an economic development. This is seen in the fact that the

country still imports more than it exports. However, the import is decreasing now that the farmers have been able to produce more food crops.

The rise in agricultural production has been for food crops and if we look at the statistics presented on the output of Tanzania's most important export crop, the situation is that the production of coffee and the exports of the same have declined. This clearly indicating a negative trend in the so hoped for specialization and improved comparative advantage. When competing on the world market, I believe that the development has to go the other way if being able to make a profit on exporting cash crops. The growth that Tanzania has experienced has clearly not come from an increase in cultivation of cash crops and exports.

For smallholders to be able to minimize diversification and to increase specialization, it was important for the price on agricultural appliances to drop. Especially for coffee production, since it is an expensive business. The reforms were supposed to achieve this through an increased competition on the market of such appliances the agricultural sector. But with subsidies being removed, smallholders have found themselves in the situation where they see fertilisers and other inputs, but lack of credit facilities makes it impossible to access these inputs⁹¹.

The reforms need to have a positive effect on the household level for the living standard of the people in the country to rise. Of course, it is not an easy task determining if and why the living standard has improved and whether or not SAP has had an impact. What we can look at is the GDP per capita which in fact has grown considerably indicating that the average living standard has increased. However, GDP per capita says nothing of the distribution of the income increase. So to answer if the living standard of the smallholder has improved we have to look especially at their change in income. A driving force behind the reforms was, as said, the declining share of export prices received by the smallholders. Looking at the example of coffee growers, we see that even though the coffee production might be one of decline the coffee producers now receive a growing share of the export prices. For example, the average producers' share of Arabica export price in the nine seasons prior to the reforms was 60 per cent and in the five seasons following the reform it rose to 73 per cent⁹². An improvement in welfare also comes from a greater consumption of food and an increased availability of consumer goods.⁹³ Though a positive trend, this is not enough when improving the overall

⁹¹ United Republic of Tanzania;
[http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20\(1997\).pdf](http://www.agriculture.go.tz/Publications/Tanzania%20Agricultural%20and%20Livestock%20Policy%20(1997).pdf) 20060726

⁹² The World Bank; Findings nr 237.

⁹³ Gibbon. Page 15.

situation. To earn more money, it is necessary for the farmers to be able to produce bigger quantities of cash crops, like coffee, at high quality. Instead of having to put almost all their effort in food crop production. But as presented by Skarstein and seen in the case-study of Haraa, the smallholders of Tanzania find themselves in the situation where they need to diversify their crop production and produce mainly for their own survival. This being the case it is easy to see why they still put their main effort in producing food crops, making the revenue of coffee an extra income.

10.2 Discussion

The theory might look simple on paper, to specialize agricultural production towards cash crops such as coffee and increasing the country's income by a rise in exports. In reality this has proven itself to be quite a difficult matter. Through committing itself towards a market based economy, Tanzania could be said to embark on the road towards a different kind of self-reliance. Whereas the country earlier had a socialist system and tried to rely on subsistence agriculture for survival and growth, the new approach was instead to focus on trade and an increased export sector. The development in Tanzania rapidly went from socialism too liberalization, two very different approaches on the opposite ends of economic theory. The implementation of SAP was a clear paradigm-shift for the country. It is unrealistic that a complete ideological turnover in a country's politics will run smoothly, and not encounter difficulties. And so seems to have been the case for Tanzanian development.

I have in this paper tried to test the hypothesis that the Structural Adjustment Programmes may not be the model for Tanzanian development and that the reforms implemented through the programmes not are overall suitable for the smallholders. I have throughout the paper shown by quantitative and qualitative data that there has been an improvement in Tanzania's economic growth and also that there has been an increase in the country's agricultural production. Specialization on the other hand, has as shown not materialized and this factor makes a move towards a positive trade balance difficult. After looking at statistics, empirical evidence and assessing the reforms I have come to the conclusion that specialization towards export crops has not taken place. And because of this, I believe that Tanzania is not in position to gain from the benefits that would arise as of the comparative advantage in cash crops. An increase of agricultural exports has obviously not taken place, but there has been an economic growth in the country and the smallholder economic situation seems to have improved.

Discussing the question of absence of specialization and my example of coffee, first let us look at it from the demand side. The world price on coffee has fluctuated severely, in the end making a drastic decline of 200% in a decade; this can indicate that either demand is falling or that the supply exceeds the demand. In either case, when being part of the market economy, the price that farmers receive is set by the market. When the Tanzanian government cannot subsidize their farmers, they will have a hard time surviving on coffee production. As shown, this was the case in Haraa where the farmers considered the price on coffee too unsure for them to specialize in this crop. This leads to a decrease in the supply of cash crops meant for export. As shown both by Skarstein and in the case-study, the smallholders diversify their production instead of specializing. Moreover, Tanzania is at disadvantage when trying to compete with coffee on the world market. The quality cannot compare with the more established coffee producing countries. So I think that is reasonable to assume that the smallholders do not want to increase the production and supply of coffee, because the demand is in many ways too uncertain and the price can drop further.

But as we have seen, coffee production has been on decline even at times of receiving high prices. Of this I draw the conclusion that prices do matter, but it is not the sales price that decides whether or not the smallholders will choose to cultivate or not cultivate a crop. What matters is the production cost, and with the subsidies on agricultural appliances being removed this has led to an increase in costs of production. There was a hope that competition in the market for appliances would lower the prices, but at the time being this has not come about. Coffee is a crop that demands a lot of agricultural inputs in its production and the situation the smallholders find themselves in seems to be that the price on these are too high even when receiving high sales prices. Shedding further light on the dilemma could be that the smallholders in Tanzania are still in a marginalised situation far away from actually being able to influence the market; they are too small scale to take advantage of economies of scale or to process their coffee themselves. The techniques used are unsophisticated and there are very limited resources for the farmers to reinvest in the production. Despite a long tradition of coffee production in Tanzania, the industry can still be considered as infant and the government has no possibilities of protecting it. There might be reason to question whether there can be a future in smallholder production without there being a change of the policies regulating it. When trying to design a regulatory framework that would promote economic growth, the initiators of SAP must have overlooked what risks an unstable market and deregulation imposes on the smallholders. There are implications towards that the neoclassical approach is incomplete. The human factor seems to be overlooked, and the

initiators have not really made a difference between people being rich or poor and what initial production possibilities they possess when imposing an implementation of the reforms in Tanzania. Since smallholders and not big estates dominate the way of production in Tanzania, it is not far-fetched to make the connection that this is an important reason to why a specialization towards cash crops not is taking place in the country.

Returning to my hypothesis, I proposed that when achieving growth the reforms implemented through SAP were not suitable for poor economies that mostly depend on smallholder farmers. I find that there could be a point to my claim since my case study, the statistics and literature on the matter all point to the fact that the specialization towards cash and export crops not is working. The data presented shows that the smallholders still mainly produce for self-sufficiency, in spite of the reforms implemented in Tanzania. Survival comes before producing for exports. I therefore find there being reasons to believe that a production towards a comparative advantage in coffee probably not will occur during this phase in the country's development. The production is too expensive and unsure for the smallholders to take the risk of specializing.

Considering economic growth in total, the picture is brighter. The spiral of negative growth has been overcome; however, the growth is not coming from an increase in the agricultural sector. Nor, do I believe, is it a result of specialization towards cash crops and an increase in exports of the same. To quote Mr C.B. Kavishe, technical adviser at LAMP in Babati; "Development is not a one year business", and this is seen to be very true. The people who through SAP were in the quest of a quick fix for the country's economic development have, or should at least by now, notice that more than rapidly implemented reforms are needed for a long-term positive development.

10.3 Research proposals

The questions raised and discussed throughout the paper point towards that more work can be done if to understand how the policies regulating the smallholder production could be further developed. If Tanzania is to continue on the road towards liberalization and integration in the world-market, there are a number of areas where further research can be interesting. In the following section I will suggest some topics.

1. Agricultural specialization in developing countries; how can this way of production be made preferable for smallholders?
2. The situation of competition in the market for agricultural inputs in developing countries; how can policy's be designed to facilitate competition?
3. Competition in the world market; is Tanzanian coffee a suitable commodity when competing on the world market?

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