Contractual governance in agro-industry institutions in Tanzania
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Chapter 2
Background of agro-industry institutions in Tanzania

2.1 Introduction

The background of the agro-industry institutions of Tanzania includes the early history of agriculture as the occupation of first human activity. Agricultural activities started with the early Bantu who immigrated to Tanzania circa 1,000 BC. The first plantations started circa 800 AC when the Arabs started planting sugarcane and clove in Zanzibar. Between 1981 and 1919, the Germans who ruled Tanzania (by then Tanganyika) intensified farming and developed railways to improve the infrastructure. From 1919 to 1961, the British rule emphasised indigenous involvement in agriculture and introduced cooperative societies. After independence in 1961, the government of Tanzania enhanced the cooperative societies through villagisation policies. In 1982, the government implemented trade liberalisation coupled with privatisation and decentralisation policies.

This chapter has eight sections. Section 2.2 discusses the early history of agriculture. Section 2.3 concerns the design of the cooperatives of the agro-industry. Section 2.4 gives a short summary of the institutional changes towards independence. Section 2.5 discussed the agro-industry institutions after independence. Section 2.6 discusses the cooperatives during the Ujamaa period. Section 2.7 focuses on the agro-industry institutional performance. Section 2.8 provides a summary and conclusion.

2.2 Evolution of the agro-industry institutions

Agriculture is, after hunting and gathering, one of the prime economic occupations of humankind. As Tanzania is the home of humankind, agricultural activities have had an important role in its evolution. It is in Tanzania that the oldest man who ever lived on earth was found in
1959. On 17th, July 1959, Dr. Mary Leakey and her husband Dr. Louis Leakey excavated the skull of that man in Olduvai Gorge, Arusha Tanzania (Kimambo & Temu, 1960). That skull was marked as the ancestor of the original indigenous savannah Bushmen and hunter/gatherers of Tanzania. The Bushmen of Tanzania are the Hadzabe who live near Lake Eyasi. The historical study of Kimambo & Temu (1997) shows that it were the Bantu groups who came from Ethiopia and West Africa with farming skills circa 1,000 BC. They started farming in Tanzania while the Hadzabe remained hunter/gathers. The Bantu possessed ironsmith skills, which they used to make hand hoes used to grow food. Their main occupation was subsistence farming and cattle rearing. Subsistence farming still employs the majority of Tanzanians (Hyden, 1980).

The Arabs, who migrated to Tanzania, circa 800 AD, introduced commercial farming in Zanzibar where they started planting sugarcane and cloves. The commercial farming intensified during the German rule between 1881 and 1919 (Kimambo & Temu, 1997). The Germans encouraged ownership of plantations. In 1892, the German government commissioned Richard Hindorf, an agronomist, to start an agro-industry development project in Tanganyika. He set up sisal, coffee, wild rubber, cotton, and tea plantations. He also encouraged indigenous people to grow these crops. The government supplied good quality seeds (especially cottonseeds) free to the African growers. The term "out-growers" was coined at that time. The Germans would buy the farm produce from the smallholder farmers (SHFs), bundle it together with the produce from the plantations, and export it to Europe. The German built the central railway line from Dar as Salaam to Ujiji-Kigoma (1901-1914) and the railway line from Mombo to Moshi (1899) to facilitate cash crop transportation.

World War I (WW I) left the Germans institutional experimentation immature. In WW I, the British navy put blockades in the Indian Ocean. The country could neither export farm produce nor receive help

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2 The out of Africa theory considers that all human beings evolved from Africa e.g. this explanation is available at the National Geographical Society websites: http://news.nationalgeographic.com/

3 Subsistence farming is a form of self-sufficiency farming in which a farmer grows only enough food to feed his family. In the literature, those who carry out subsistence farming are called peasants. Hyden characterised this kind of farming as a peasantry mode of production.

4 Tanzania in its current form, is the outcome of the union between Tanganyika and Zanzibar. Where Tanganyika is the current Tanzania Mainland and Zanzibar is the island located in the Indian Ocean.

5 The term “out-growers” means those who grow a certain crop to sell to the “planters” who own plantations.
from Germany as the major transport route of farm produce is via the ocean. The blockades cut off the country from the rest of the world, mainly Europe. The British advanced into German territory (Tanganyika, now Tanzania Mainland) and continued steadily until from 1916 the whole country was eventually occupied. This interrupted the economic system and the institutions designed by the Germans. The Tanzanians, who had begun to improve their livelihoods, retreated to their old social-economic systems of subsistence farming.

Under the treaty of Versailles (1919), the British government received a League of Nations mandate to administer the Tanganyika territory (the Tanzania Mainland). In 1923, under Sir Horace Byatt, the first British governor of Tanzania, the British set into force the Land Ordinance (1923) to ensure that the African land rights were secure. The British governor encouraged the indigenous Tanzanians to join in efforts in order to produce cash crops for export. In 1924, the first cooperative society for growing and hulling coffee seeds (beans), the Bukoba Bahaya Union (BBU), started in Kagera (Kimambo & Temu, 1997). In 1925, the Kilimanjaro Native Planters Association (KNPA) started in Kilimanjaro region to organise coffee farmers. Sir Donald Cameron, governor between 1925 and 1931, reorganised the system of native administration and set into force the Native Authority Ordinance (1926). With this, he hoped to build local government administration based on traditional (tribal) authorities. Also in 1926, the British government introduced the Legislative Council, which was to advise the governor.

Sir Donald Cameron convinced the British government to build the railway from Tabora to Mwanza (1928). He requested the British government to allow British settlers to come to Tanzania to establish large plantations. Due to the great economic depression of 1930, the British government did not support new proposals put forth by the governor for further rebuilding Tanganyika’s institutions and infrastructures. There was no way but to start with a policy of self-reliance, based on the production of primary goods for export and the building of new factories in the country instead of relying too much on the British government. In 1934, 31 cotton growers started an association called African Cotton Planters in the Morogoro region.

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6 This is available at the Tanzania National Website: http://www.tanzania.go.tz/history.html
7 This is available at the Tanzania National websites: www.tanzania.go.tz. See also Kimambo & Temu (1997).
8 See http://www.tanzania.go.tz/history.html.
From that moment, colonisation of Tanganyika was not that important anymore to the British government due to the 1930s great depression. The government started to prepare the indigenous people to become independent. In 1945, the first two indigenous people became members of the Legislative Council. In 1947, Tanganyika was placed under United Nations trusteeship, and such trusteeship further diminished British interest in developing Tanganyika. The remaining efforts were directed to the enhancement of cooperative societies, which should make the indigenous people responsible for their own destiny.

### 2.3 Designing the cooperative structure of the agro-industry

Between 1947 and 1959, the British government commissioned David Gordon Hines, an accountant, to establish cooperative societies in Tanzania. During that period, Cooperative Officer’s (CO) posts were introduced in each district in Tanganyika (now, Tanzania Mainland). The COs supported Mr. Gordon Hines to train the members of the cooperative societies on electoral processes concerning the election of their committee members. In addition, the COs trained them in bookkeeping. The COs stimulated the smallholder farmers to commercialise their farms and market their farm produce. The cooperative societies in regions joined to form primary cooperative societies (PCS) per district. Every district, which produced cash crops, constructed factories with the help of the British government. Some cotton ginneries, coffee factories, and tobacco dryers were built at that time (Kimambo & Temu, 1997).

Commercial farming was further intensified to produce raw material for the British industries such as clothes (cotton), tea (tealeaves), sugar (sugarcane), sacks (sisal), cigarette (tobacco), coffee (coffee trees), insecticides (pyrethrum) and nuts (cashew nuts and groundnuts). These crops were produced for export and since then they have been known as cash crops. The crops produced as food for Tanzanians, traded in the domestic market, were called food crops. Such food crops are maize, paddy, wheat, millet, cassava, beans, banana, and sweet potatoes.
2.4 Institutional changes towards independence

In 1954, the Tanganyika National Union (TANU), the political party, started under the Chairmanship of Julius Kambarage Nyerere. TANU was not the only one. Other parties started but did not get enough support; among them were the United Tanganyika Party (UTP), Africa National Congress (ANC), next to several others. In May 1957, the Legislative Council demanded an increase in the number of indigenous representatives from two to five. The governor, Edward Twining, accepted this demand and the members were elected from the constituents of the Northern, Tanga, Eastern, West, and Southern Highland Provinces. In 1958, the new governor, Sir Turnbull was sworn in. In 1960, TANU won seventy out of the seventy-one seats in the new Legislative Assembly and Julius Kambarage Nyerere, was sworn in as the chief minister (i.e. Prime Minister). On December 9, 1961, Tanganyika obtained its independence within the British Commonwealth institutional system. In 1964, Tanganyika and Zanzibar united to form the United Republic of Tanzania (URT) and Nyerere became the first president.

2.5 Designing the Tanzanian institutions after independence

Three years of independence and one year after the Union, the Africanisation policy gave priority to indigenous Tanzanians to occupy high governmental posts, although at the same time only few people were available to hold such posts. Many social service employees (i.e. teachers) had to take over the national, regional and district administration. Others were sent abroad to occupy embassy offices. Kimambo & Temu (1997: 245) argue that those people were the engine of developing entrepreneurship in the local communities. With their move to these high posts, villages and districts were starved of talent. At the same time, it created a new class of “big men”.

In 1963, in the TANU annual meeting, it was decided to merge the activities of the political party together with the central and local

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9 During the colonial era, Tanganyika (the current Tanzania mainland) had four provinces. Currently, Tanzania has 27 regions which are shown in figure 11.
10 “Big men” in this context means people who would like to be employed in respectable jobs, but not doing any dirty work. Nyerere called them “Mangi Meza”, i.e. those who search for white collar jobs.
government in one political party institutional design (Maliyamkono & Bagachwa, 1990). In 1965, TANU implemented the cell system (Kimambo & Temu, 1997). The cell was TANU’s lowest level at which the grassroots communities were organised to carry out self-help projects, e.g. paving rural feeder roads. The cell comprised ten neighbourhood houses and elected its leader democratically (Kiongozi wa Shina). The cell leaders of a village together constituted the Village Development Committees (VDC, see Kimambo & Temu, 1997, p. 253; Mwapachu, 2005). The cells and VDC had a division secretary (Katibu Tarafa) and the district administrators (Area Commissioners). At the regional level, a regional administrator (the Regional Commissioners) was the overall in charge of the regional activities. Each secretary was TANU appointment. With this institutional arrangement, the political party system was taken up in the local government. The same applied to the cooperative society leaders. Any leadership in Tanzania required being a member of TANU.

In 1967, Julius Kambarage Nyerere, after six years of independence, announced in the Arusha Declaration that the development strategy in Tanzania should be based upon the principles of socialism and self-reliance (or “Ujamaa na Kujitegemea”). With the Arusha Declaration, the government nationalised plantations, estates, and food processing businesses (Maliyamkono & Mason, 2006). The government employees were not allowed to start any businesses or to associate themselves with income generating activities. All cash crops value chains in the agro-industry were integrated under government owned companies. In 1973/74, the government relocated about 60% of the people from their native areas to move to Ujamaa villages. Individual farmers saw their farms taken as the land was to be collectively owned and organised (Maliyamkono & Mason, 2006: 251). The intention was to enhance production through the cooperative societies and deliver social services efficiently given that people would live together and share the few available resources. The idea was to collect people who lived in the sparsely populate areas, to bring them to accessible areas in order to provide them with social services, while they continued working together in the African cultural context. Maliyamkono & Mason (2006) argue that the farmers were moved from small-dispersed peasant farms to nucleated settlements in order to be able to train them easily. This policy created more dependence among farmers than before. At the time Tanzania became independent, many did not perceive independence as being responsible for one’s own fate, but being free from so-called “brutality” (Maliyamkono & Mason, 2006).

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11 The cell comprises 10 neighbouring households in the villages.
Brutality in this context means brutal working conditions. Prior to independence, citizens were being forced to build railways and other infrastructure, to pay taxes and receive wages based on output (Manamba). The Ujamaa villages were perceived, as villages where “freedom” was to be found. While, after independence, the Tanzanian government sought to increase productivity, the Wananchi (the citizens) perceived that living in the Ujamaa villages would free them from the “brutality.” Maliyamkono & Mason (2006) argue that the outcome of that perception created more dependence on the government instead of promoting self-reliance among the citizens of Tanzania and the nation as a whole.

On 5th February 1977, TANU united with the Afro-shiraz Party of Zanzibar to form the Revolution Party, or Chama Cha Mapinduzi (CCM) in Swahili, but the one party supremacy continued.

2.6 Cooperative societies institutions during Ujamaa period

The cooperative societies, started under British colonial government, were a pivotal institution for agro-industry development during the Ujamaa village settlements. The Tanzanian government enhanced and emphasised the cooperative societies to become the commercial centres for the agro-industrial farm produce. The government introduced smallholder farmers (SHFs) schemes in which they could produce the agro-industry farm produce and sell that to the factories owned by the government. The Ujamaa policies encouraged each village to set up a place, gulio, or marketplace, where once a week the village members would meet to carry out cash crop transactions.

During the Ujamaa period, TANU devised some institutions that dealt with agro-industry transactions. The government established crop marketing boards and crop authorities at the regional level during the Ujamaa period. These were, and still are today, responsible for governing the specific agro-industry cash crop such as tea, tobacco, or coffee. This entailed the creation of a government monopoly (Thiele, 1986). During the Ujamaa period, all farmers had to sell to the primary cooperative societies (PCSs), not to other private dealers. The PCSs supplied the farm produce to the government owned factories. There was a single market channel for each agro-industry product and the government had the sole responsibility for buying, processing,
exporting, and redistributing primary, secondary, tertiary and final agro-industry products as indicated in figure 1.

*Figure 1 Agro-industry institutions and the governmental structure during the Ujamaa system*

Each division had a primary cooperative society (PCS) of which the members of the cells and villages were automatically members (Paciotti, Hadley, Holmes & Mulder, 2005). The PCS still exist today. All PCSs buy crops from the village members. The PCSs have temporary stores and they sell the crops to the Cooperative union (CU) at the district level. The PCSs were (in some areas still are) the primary assemblers selling the farm produce to the cooperative unions (CUs) at the district level. The CUs owned factories, ginneries, tobacco dryers, etc. The CUs sold the processed farm produce to the regional marketing boards for export. Each region had a specific crop authority and marketing board, such as the Coffee authority in Kagera or Cotton authority in Shinyanga. The role of the Zonal Crop Authority and
Marketing Board was to coordinate and take stock of the activities of the CU’s in each region. At the national level, the umbrella organisation of the crop and marketing boards coordinated the activities of the crop authorities and the marketing boards of the regional zones.

The government through the crop authorities and the Ministry of Agriculture (via government extension officers) subsidised farm inputs on credit. Since the banks were under the government ownership (e.g. Cooperative and Rural Development Banks (CRDB)) the coordination was easy. Through this coordination, the government fixed the prices for farm produce on the local level. The farmer received the final pay after the government had deducted the (subsidised) costs of the farm inputs.

Demise of Ujamaa agro-industry institutions

Using the hand hoe did not give a farmer the time to produce food crops for his family together with the cash crops demanded by the primary cooperatives. At the same time, those who would labour much would receive almost similar social services as those who did not (Hyden, 1980). As there was too much monitoring of the farmers by government, farmers found it difficult to apportion their time to other activities, e.g. growing food crops (Hyden, 1980, 2006). Hyden (1980: 148) argues that the forced transformation of SHFs from his traditional subsistence farming to collective production did not take in the background endowment a farmer had before moving to a Ujamaa village. Hyden cites an example of some Singida villages, of which the people starved to death after having been uprooted from their traditional home villages to live in the new Ujamaa settlements. The SHFs started rigging the system by using fertilisers on their own crops. In 1978, when the economy slowed down, among others because of droughts and the war between Uganda and Tanzania, farmers ran away from the Ujamaa villages and returned to their original areas. The

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12 These zones are the Lake Zone (Kagera, Mwanza, Shinyanga and Musoma regions), Northern Zone (Arusha, Kilimanjaro, Manyara and Tanga regions), Western Zone (Tabora and Kigoma regions), Central Zone (Dodoma and Singida regions), Coast Zone (Dar Es Salaam, Tanga, Morogoro and Coastal regions), Southern Zone (Ruvuma, Mtwara and Lindi regions) and Southern Highland Zone (Mbeya and Rukwa regions).

13 In 1978, Iddi Amin Dada of Uganda overthrew the first Ugandan president, Milton Obote. Nyerere opposed this coupe and led Tanzania into war against Iddi Amin. The economy was devastated because of war and the European countries and USA stopped supporting Tanzania. China and Russia, though, continued to support it. See also Mwapachu (2005).
economic problems of Tanzania had become insurmountable in 1978. The government could not continue to provide free social services to the Ujamaa villages. There was also external pressure attached to the Washington consensus (see below). Privatisation seemed inevitable.

**Cooperative societies after privatisation**

In 1982, the government accepted the Washington Consensus.\textsuperscript{14} After liberalisation, the state-controlled marketing boards were no longer involved in commodity exports (Wilson, 1998). They were transformed into crop boards, primarily responsible for sector policy and regulation and today they still play these roles. Private sector players are now large foreign companies and SHFs. The cooperative unions lost their dominance in the domestic market. The government has remained with the role of choosing the cash crops for farmers in the industries.

*Figure 2 Coffee procurement in the Kilimanjaro Native Cooperative Union*

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\textsuperscript{14} The term Washington Consensus was coined only in 1989. It includes the conditions given by the International Monetary Fund (IMF), the World Bank (WB) and the US Treasury Department to crisis stricken economies. The set of policies was directed to stabilise, privatise and liberalise the developing economies, including Tanzania.
Figure 2 shows that two options are available to the local coffee farmers to access the market of international commodity buyers based on the study that was conducted in Kilimanjaro by the Technical Centre for Agriculture and Rural Cooperation (CTA). CTA is a European Union agricultural developmental think-tank. The SHFs in Kilimanjaro may or may not join the cooperative society. The ones who join the rural cooperative society (PCS) are directly members of the CU (Cooperative Union (CU)). The CU acts as an international export agent for the farmers. If a farmer does not join the PCS, he sells his coffee to a small-scale rural buyer or a trade agent. The trade agent sells coffee to a large-scale trader who sells the coffee at the Moshi Coffee Auction.

The CTA argues that the agro-industry prices in Tanzania are based on international market conditions and the local supply situations. Trade finance is provided by the commercial banking sector. The previously government owned banks, such as the National Bank of Commerce (NBC), the Cooperative and Rural Development Bank (CRDB) and the National Micro Finance Bank (NMB), have been privatised. The government is no longer involved in guaranteeing the debts of PCS members. There is also greater private sector involvement in the marketing of agricultural inputs. However, the role of the PCSs is still vital in the rural areas. Many SHFs continue selling crops through the PCSs and the private companies buy crops via PCSs.

The four case studies, which appear in chapter 5, 6, 7, and 8, exhibit different modes of economic organisation of farming and trading in the trade liberalisation period, but essentially farmers choose between the two selling alternatives as sketched in figure 2 above. Figure 3 below illustrates the areas where the case studies explained in study are located.

The cases that were studied are located in Morogoro, Tabora, and Mbeya regions and the industries involved are sugarcane, tobacco, and tea.

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15 Available at http://www.cta.int/.
Figure 3 gives a map of Tanzania showing the location of the sugarcane, tobacco, and tea industries studied in this thesis. This study involves four agro-industries based in Morogoro (sugarcane, MSEL and KSCL), Tabora (tobacco, AOTL), and Mbeya (tea, TATEPA) regions. Although there are several places in Tanzania where sugarcane, tobacco, and tea are grown, only the studied areas are indicated. The figure shows all 26 regions of Tanzania, comprising 127 districts (not indicated on the map).

**The sugarcane industry**

The sugar industry is one of the biggest large-scale agro-industries in Tanzania. It involves the SHFs as out-growers.\(^16\) The sugarcane industry in Tanzania started in early 1924 when Tanganyika Planters Limited was incorporated in Tanganyika in the Kilimanjaro region.\(^17\) It started to produce sugar in 1936. In a period of twenty years, it increased production from 6,000 tons in 1940/41 to around 20,000 tons of sugarcane in 1960/61 (Ramasubban, 2007).

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\(^{16}\) This follows the German institutional design that included growers and out-growers schemes.

\(^{17}\) The Kilimanjaro region is located near the border between Kenya and Tanzania. This is the region where the Kilimanjaro mountain, the second highest mountain in the world, is located.
Figure 4 shows the trend of sugar production and consumption. Since 1936, the production of sugar for the domestic market has increased significantly. In 1961, Mtibwa Sugar Limited (MSEL) started, followed by Kilombero Sugar Company Limited (KSCL) at Ruhembe (Matango, 2006). By 1976/77, a new factory of Kagera Sugar Limited was opened in the Bukoba district. However, Tanzanians consume more sugar than Tanzanian factories can produce. The sugar regulating body (currently the Tanzania Sugar Board) covers this shortfall by allowing imported sugar on the market (Ramasubban, 2007). Ramasubban (2007:166) shows that Tanzania has been a net importer of sugar in thirteen years in a period of sixteen years between 1964 and 1979. After trade liberalisation in 1982, sugar production has not yet increased enough in order to satisfy domestic demand. The Tanzanian government’s objective in sugar production is to expand sugarcane farms to meet domestic demand for sugar.

Figure 4 shows the sugar production and consumption trend since 1978 to 2007. Remember that the period between 1978 and 1982 was the period of Ujamaa. The period between 1982 and 1998 was a period of transition from Ujamaa to market liberalisation. In the period 1998 and 2007, Kilombero Sugar Company Limited (KSCL) and Mtibwa Estate Limited (MSEL) were already privatised. The graph shows the
production gap between production and consumption. Tanzania cannot yet satisfy domestic demand of sugar.

**The tobacco industry**

In 1950, British WWII veterans started the tobacco industry of Tanzania in the Urambo district in the Tabora region. In 1951, the British Overseas Food Corporation was established to organise tobacco farming including the establishment of cooperative societies. The cooperative societies established tobacco-farming schemes in Tabora. Apart from tobacco, each farm would grow similar areas of maize, groundnuts, and rice each year. In 1950 to 1960, about 500 hectares were planted and the scheme produced between 300-350 tons of tobacco. In 1954, Tanganyika Agriculture Corporation (TAC) took over the schemes as a Tanganyika based company. The major buyers of tobacco were the East African Tobacco Company (EATCo) and the British American Tobacco Company (BAC). TAC established an indigenous tobacco grower scheme. It also offered training to SHFs. In 1958, the SHFs were able to cure their tobacco on their own. The British government provided credit for buying farm inputs. The policy led to a growth in the farms of individual SHFs. After independence in 1961, the British settlers left tobacco growing. The new Village Settlement Commission, which started in 1967, replaced the TAC and the Urambo Cooperative Society (UCS) was created.

Between 1960 and 1970, tobacco spread over the whole region. In 1971/72, the tobacco growers formed what they called the “Tobacco complex.” In 1973/74, about 1/3 of the Tabora region area was producing tobacco by out-growers. Villagisation policy supported all households to grow tobacco. From 1978, the Tobacco Board governed tobacco. The SHFs schemes were emphasised.

The tea industry

According to the data provided by the Tea Board of Tanzania, German Settlers of the Agricultural Research Station at Amani, Tanga introduced tea in Tanzania in 1902. It was grown at Kyimbila in Rungwe District, Mbeya region in 1904. Commercial production began in 1926 and increased considerably after WW II, when the British took over.

Before independence, tea was produced in estates, which were owned by foreigners. The Tanganyika Tea Board established by the British government handled all tea related matters. Smallholder tea farming began after independence in 1961. In 1968, the government initiated a full-fledged program to develop the smallholder tea producers. The Tea Ordinance Act (Cap 291) was amended and the Tanganyika Tea Board was replaced with Tanzania Tea Authority. All aspects of smallholder tea marketing and trade came under the responsibility of the Tanzania Tea Authority (TTA).\(^{18}\)

It is noteworthy that each industry shows a slowdown or stagnation in agricultural output during the period of the Ujamaa system. During the Ujamaa period (between 1967 and 1982) the marketing boards were making losses and had to be subsidised by government, which also provided input subsidies (Maliyamkono & Bagachwa, 1990; Maliyamkono & Mason, 2006). The situation arose partly from inefficiencies in the marketing system as well as from exchange rate

\(^{18}\) See also figure 1 in this chapter.
controls, which limited the revenues generated from commodity exports (Hyden, 2006). The boards therefore found it difficult to match domestic commodity prices with rising inflation (leading to real decline in producer prices) and making it less profitable to produce these crops. The government was also finding it increasingly difficult to cover the high cost of subsidised crop production and marketing (Cooksey, 2003).

*Figure 6 Tea production since 1976-2004*

![Tea production trend from 1976 to 2004](image)


Figure 6 shows the tea production trend from 1976 to 2004. As for other cases, tea production during the Ujamaa period stagnated. After privatisation, the industry started growing.¹⁹

In the Ujamaa system private property rights were abolished. The production mode was the one which Williamson (1985: 217) calls communal-ehm. In which “ehm” are initials used by Williamson to explain the term “every man for himself.” When the government is omnipresent, individuals’ interests are jeopardised. As a result, individuals become opportunistic and satisfy their own interests first instead of maximising the interest of the whole group. This happened with the Ujamaa set up. Ujamaa leaders and employees circumvented the Ujamaa system and maximised their self-interests. The economy dwindled. The government leaders became corrupt, farmers lacked markets as they produced low quality goods. The omnipresence of the government failed to manage the details of each cooperative society.

¹⁹ Other data on export and the amount of the SHFs produced since 1995 to 2004 are taken up in Table 1.
Table 1 shows the industry economic indicators after the Washington consensus. In 1982, the World Bank and the International Monetary Fund (IMF) advised Tanzania to implement the Washington consensus. This required the country to liberalise markets, fiscal discipline, and redirection of public expenditure. Redirecting public expenditure means to direct resources to those areas that offer both high economic returns and the potential to improve income generation, such as primary health care, primary education, and infrastructure. In addition, the Washington Consensus advises tax reform (i.e. lower marginal rates and a broadening of the tax base), interest rate liberalisation, competitive exchange rates (i.e. leave the Tanzanian Shilling’s (TSh) value to float), trade liberalisation, liberalisation of inflows of foreign direct investment, privatisation, deregulation (i.e. abolish barriers to entry and exit) and secure property rights. These conditions have

### Table 1 Sugarcane, tobacco and tea production in Tanzania, in tons

<table>
<thead>
<tr>
<th>Year</th>
<th>95</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
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<tbody>
<tr>
<td><strong>Sugarcane/sugar</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Production of cane x 1,000</td>
<td>1,28</td>
<td>1,37</td>
<td>1,30</td>
<td>0,98</td>
<td>1,27</td>
<td>1,25</td>
<td>1,33</td>
<td>1,62</td>
<td>1,81</td>
<td>2,34</td>
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<tr>
<td>SHFs contribution</td>
<td>370</td>
<td>372</td>
<td>347</td>
<td>176</td>
<td>320</td>
<td>341</td>
<td>284</td>
<td>389</td>
<td>411</td>
<td>670</td>
</tr>
<tr>
<td>SHFs (%)</td>
<td>29</td>
<td>27</td>
<td>27</td>
<td>18</td>
<td>25</td>
<td>27</td>
<td>21</td>
<td>24</td>
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<td>Sugar produced</td>
<td>105</td>
<td>116</td>
<td>116</td>
<td>116</td>
<td>113</td>
<td>136</td>
<td>165</td>
<td>190</td>
<td>223</td>
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<tr>
<td>Consumed</td>
<td>238</td>
<td>268</td>
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<td>271</td>
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<td>142</td>
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<td>290</td>
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changed the monopoly of cooperative societies in Tanzania, but there is still a long way to go to an efficiently governed agro-industry.

Table 1 below shows the overall industry performance based on the data from the Economic Survey, 2008 (URT(a), 2008). The production, consumption, as well as export in each of the three industries are increasing, except for sugar export. The sugar export is not significant in the economy, as the demand for sugar is higher than supply. The sugar that is exported is mainly to the European Union (EU).

According to an EU report, obtained from the SBT, the EU normally set quotas as to how much Tanzania can export to the EU market (URT(g), 2006).

Although the Tanzanian government stimulates the industry to export sugar in order to gain foreign currencies, specific sugar export data is not available from the reports of the Bank of Tanzania and the Economic Survey, due to its insignificant contribution to the export sector.20

2.7 Summary

Chapter 2 gives background information on the agro-industry institutions of Tanzania. The chapter explains the evolution of the agro-industry institutions of Tanzania. The agro-industry institutions of Tanzania have changed over time. They are influenced by the history of Tanzania, which includes the Bantu groups, the Arabs, the colonial period, and the period of independency, including the Tanzanian way of collectivism, Ujamaa. During the Ujamaa period, the villagisation policy forced farmers to start collective farming. During that time, the cooperative societies, established by the British government, were emphasised. The Ujamaa period proved an institutional failure and this led to the implementation of the Washington Consensus. Currently, in agriculture the private sector is in control of the economy. This chapter also summarises the performance of three agro-industry institutions, the sugarcane industry, the tobacco industry, and the tea industry, of

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which four cases are taken. These studies are discussed in the chapters five, six, seven, and eight.