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Enhancing Smallholder Farmers' Market Competitiveness in Tanzania

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Executive Summary

Tanzanian agriculture is dominated by small-scale subsistence farming. Like the entire economy, agriculture is in a transition from being a command to a market-based production system. The transition process started in the mid-1980s as part of the economic adjustment and structural reform programs and policies supported by Tanzania's development partners. Despite some impressive macro-economic achievements resulting from the reform programs, agricultural growth and rural poverty reduction continue to present daunting challenges. Few smallholder producers understand how markets work, and even if they do, they do not have the information they need to participate effectively.

In response to these development issues, the government of Tanzania, in consultation with International Fund for Agricultural Development (IFAD), identified the suboptimal structure and functioning of the agricultural marketing system as a key area for attention. Liberalization policy has removed many of the old certainties but has not yet provided adequate basis for an efficiently functioning alternative. To meet this need, an investment program entitled Agricultural Marketing Systems Development was proposed to remove constraints to effective operation of the agricultural marketing system and to help smallholder producers acquire the tools needed to participate on favorable terms in the open market. The program consists of four components: producer empowerment and market linkages, financial market support services, rural marketing infrastructure, and agricultural marketing policy development.

The producer empowerment and market linkages component was designed to transform agriculture from a subsistence activity to a profitable enterprise in the mindset of smallholder producers by building the management and marketing capacity of these producers and small-scale traders and processors. About 50 percent of all participating producer groups are now well organized, have adopted collective marketing, and can understand which enterprises are profitable. This shift will lead to the commercialization of agriculture. The financial market support services component was created to improve access to financial services for smallholders and small-scale rural traders and processors, and this goal has been achieved among

20 percent of targeted beneficiaries. The rehabilitation of marketing infrastructure, including markets, warehouses, and rural roads, has been 43 percent achieved.

The agricultural marketing policy component was designed to create a conducive policy environment for smallholder farmers to gain access to both domestic and export markets in an organized and sustainable manner, with the help of both financial market support services and infrastructure. Issues that currently impede smallholder farmers' access to markets include a weak legal, regulatory, and institutional framework; poor-quality agricultural products; inadequate entrepreneurial skills; poor facilities for processing agricultural products; poor-quality agricultural marketing infrastructure; and poor access to market information and intelligence.

The program has come up with some policy options designed to facilitate the strategic marketing of agricultural products and ensure fair returns to all stakeholders based on a competitive, efficient, and equitable marketing system. Policy options include harmonizing legislation and regulations to enhance fair and free marketing of food and cash crops; establishing an institutional framework that will improve performance of the agricultural marketing systems based on needs assessments; creating awareness of quality, standards, grades, and governing regulations among agricultural marketing stakeholders; supporting training in entrepreneurial and marketing skills for agricultural marketing stakeholders; promoting primary agro-processing and value-addition chains; strengthening links between local and foreign firms; mobilizing adequate resources for investment in agriculture and development of agricultural marketing infrastructure in rural areas; and strengthening the Agricultural Marketing Information Services (AMISs) to enhance timely, demand-driven collection, analysis, storage, and dissemination of marketing information.

Through the National Strategy for Growth and Reduction of Poverty, Tanzania aims to reduce poverty by transforming the agriculture-based economy into a market-led, competitive, and semi-industrial economy where smallholder farmers dominate the sector. This approach is strongly supported by Tanzania's development partners,

including IFAD and the World Bank. In view of the challenges facing smallholder farmers' agricultural marketing systems, your assignment is to assess the adequacy of the developed policy options in assisting the government of Tanzania to achieve its aim and identify the key policy options for success.

Background

Introduction

Tanzania occupies an area of almost 945,000 square kilometers on the east coast of Africa. It is bounded on the north by Kenya and Uganda, to the south by Mozambique, Malawi, and Zambia, and to the west by Rwanda, Burundi, and the Democratic Republic of Congo. The total population is estimated at almost 35 million, according to the 2002 census. The country is among the poorer countries in Sub-Saharan Africa, with a per capita gross domestic product (GDP) of US\$219 in 2006, and is heavily dependent on agriculture (Rutatola et al. 2006).

The Tanzanian agricultural sector is pivotal to the country's economy and social structure. The rural population accounts for almost 80 percent of the total, and more than 90 percent of female rural employment and 78 percent of male rural employment are in the agricultural sector (World Bank 2000). Smallholder farmers dominate the sector. Most of the 4.4 million farm families in Tanzania are engaged in subsistence cultivation of food crops and in cash cropping. The main subsistence crops, which account for 55 percent of total agricultural output, are maize, sorghum, millet, cassava, rice, plantains, and vegetables. The major smallholder cash crops are coffee, cotton, and cashews. The sector's contribution to both GDP and export earnings has been lethargic and almost static. In the face of rapid population growth, currently estimated at 2.8 percent a year, growth in the sector has been insufficient to pull the majority of the rural population out of poverty.

The government has decided to target an expansion in agricultural production as the key mechanism to reduce the country's poverty. It has elaborated a set of policies and actions designed to achieve the following objectives:

1. increase the variety and marketing of food crops to provide food adequate for all;

2. build up and properly manage a national strategic grain reserve;
3. improve the efficiency of production, marketing, and processing of agricultural commodities;
4. strengthen and expand rural social and economic infrastructure; and
5. coordinate and develop different types of agricultural production on the basis of both maximum efficiency and the perceived interests of producers.

Agricultural Policy Trends

According to Rutashobya (2001), since independence in 1961, Tanzania has experienced four distinct phases of agricultural policy.

From 1961 to 1966 government policy was geared at consolidating the marketing systems it had inherited from the colonial authorities. Agricultural policies focused on support to smallholder farmers through government provision of enhanced services, development of government-owned large farms, and continuation of private commercial farming for exports and foreign exchange.

From 1967 to 1983 policies were oriented toward the broad national objective of self-reliance, and the government assigned itself the roles of manager, entrepreneur, and investor. The main policies applied were abolition of direct taxes on smallholder farmers except the produce cess paid to marketing boards, collectivization of small-scale farmers in harmony with the policy of villagization, heavy subsidization of inputs, and pan-territorial pricing for agricultural produce, to mention a few.

In the initial liberalization period (1983–1993), the government redirected policy toward the objective of developing an egalitarian agricultural community. It aimed at achieving self-sufficiency in food, an improved general standard of living, and greater foreign exchange earnings. A strategic grain reserve was established, and further emphasis was placed on trade policy reform, better management of state-owned enterprises, and initiation of a divestiture program to sell off subsidiary government investments. These changes were accompanied by further liberalization of food and export crop marketing and pricing, removal of crop marketing boards' monopolies, and restructuring or closure of several agricultural parastatals.

After 1994, liberalization continued, characterized by reduced state intervention. Agricultural policy has evolved toward a free-market orientation, coinciding with further macroeconomic reform and government investment in infrastructure. The stated policies were stimulation of growth in the agricultural sector by reversing price distortions, use of the market exchange rate for exports, revitalization of export processing through government divestiture of export-processing industries and an increase in private sector participation, and continued reduction in state participation and control. In addition, the agricultural sector was brought back into the tax base, a change that led to a proliferation of tax charges and levies by government agencies. The most recent comprehensive statement of agricultural policy, published in 1997, had several goals related to agricultural markets:

1. liberalization of all agricultural markets and removal of state monopolies in agricultural trade;
2. withdrawal of government from agricultural production, in favor of the private sector;
3. a focus on regional and household food security;
4. district council responsibility for administration and implementation of agricultural extension; and
5. adoption of a new land policy to improve security of tenure and allocation of land.

Further to the agricultural policy, recently the government of Tanzania developed the Agricultural Sector Development Strategy (ASDS) to stimulate agricultural growth and reduce rural poverty. This strategy focuses on

1. strengthening the institutional framework for managing agricultural development in the country;
2. creating a favorable environment for private sector commercial activities;
3. clarifying the roles of both the public and private sectors in improving support services; and
4. improving the efficiency of input and output marketing in the sector.

Constraints in Agricultural Marketing Systems

Although Tanzania has made progress in liberalizing the agricultural marketing system over the years, significant constraints to the sound functioning of the system still exist. Amani et al. (1987) observed that the constraints reduce the efficiency of the system in two ways:

1. They have a direct impact by increasing the cost of marketing through, for instance, poor transport infrastructure or impediments to the movement of produce.
2. They have an indirect effect by collectively rendering it more difficult for new entrants to participate and thus reducing competition. Complex and inconsistently applied rules, absence of information, and difficulties in gaining financing, among other factors, all constitute barriers to entry, especially for small market players. With competition limited, cartels are easy to form, and the marketing power of smallholder producers is severely compromised.

Field experience has shown that smallholder farmers face a variety of new challenges in coping with the requirements of a free market. Smallholder farmers are poorly prepared to respond to market mechanisms they only partly understand (such as fluctuations in demand and prices) or to meet the demands of traders for specific product quality and quantity. As a result, individual farmers face difficulties in developing coherent and realistic marketing strategies, particularly when faced with a single trader with considerable economic power. The position of smallholder farmers as market participants is further weakened by their pressing need to meet cash needs after harvesting. Smallholder farmers' commercial management capacities are generally rather limited because they have been accustomed over many years to controlled marketing structures for inputs and fixed prices for outputs.

Smallholder farmers in Tanzania operate as individuals. They do not have any bargaining power, and their linkages with markets are tenuous. They also have very little information on markets, including produce price, and cannot access credit to enable them to store their produce and sell out

of season at higher prices. Smallholder families need to be empowered through the formation and strengthening of producer and small trader groups. Not only would such groups help them obtain higher prices for their produce, but they would also enable them to reach service providers who can supply them with the production, credit, and market services they require to diversify and improve their income. The formation of market linkages between smallholder farmer groups and other market chain actors lies at the crux of improving smallholder returns. The formation of these linkages does not occur easily or spontaneously. It takes time.

Poor market infrastructure, particularly rural roads and village access roads, severely impedes smallholders' access to markets and substantially increases transaction costs. Inadequate village-level market and produce storage facilities are restrictive in some locations.

Existing Efforts to Address Agricultural Marketing Constraints

The government of Tanzania, in collaboration with IFAD, the African Development Bank (AfDB), the Irish government, and beneficiaries, formulated the Agricultural Marketing Systems Development Programme (AMSDP) to address the mentioned constraints within the overall framework of the National Strategy for Growth and Reduction of Poverty. The AMSDP, a seven-year program that is being implemented in two phases, was launched in January 2003 with a completion date of December 2009. The program has been designed to integrate smallholder farmers and small-scale traders and producers into the rural market economy and increase returns from agricultural produce and other market-related activities. It has four components:

1. producer empowerment and market linkages;
2. financial market support services;
3. rural marketing infrastructure; and
4. agricultural marketing policy development.

The long-term goal of the AMSDP is to increase the incomes and food security of the rural poor in selected focal areas of the northern zone covering the Arusha, Kilimanjaro, Manyara, and Tanga

regions and the southern zones involving the Iringa, Mbeya, Rukwa, and Ruvuma regions. The program started with 8 districts in 2004 and added 12 districts in the second year. It plans to increase the number of districts to 38 by 2009, covering 30 percent of the entire country.

The first program component—producer empowerment and market linkages—focused on changing the mindset of smallholder producers from perceiving agriculture as a subsistence activity to seeing it as an income-generating activity. Activities under this component have helped to break smallholder farmers' fear of participating in markets. Indeed, transformation of their mindset has been accomplished. About 50 percent of all participating producer groups are now well organized, have taken on collective marketing, and can understand which enterprises are profitable. This change will lead to the commercialization of agriculture. Smallholder producer groups have the ability to do gross margin analysis, record keeping, and financial management.

The financial market support services component was designed to improve access to financial services by smallholders and small-scale rural traders and processors. One of the recorded achievements so far is that about 20 percent of producer groups have started savings and credit cooperative societies (SACCOSs) and operate warehouse receipt systems (WRSs). Funding to SACCOSs has been increased, and the loan terms by SACCOSs for producers have improved. Farm-gate prices for crops that are stored have almost doubled.

The activities of the rural marketing infrastructure component, like any other component, were implemented based on beneficiary demand and driven by the private sector. These activities gave priority to rural access or feeder roads that link marketplaces to productive areas in the districts. The selections were mostly in keeping with district development plans, which start from the village level to ensure transparency and the relevancy of the targeted groups. To date, 13 rural feeder roads have been rehabilitated, totaling 290 kilometers—43 percent of the earmarked 675 kilometers of roads. Rehabilitation of warehouses has been 40 percent achieved, and that of markets, 45 percent.

The marketing policy development component was aimed at creating a policy environment that would allow all market actors at both the local and national level to gain access to domestic and export markets. Despite notable achievements in the first three components, there are still some policy issues to be resolved to enable smooth functioning of the agricultural marketing sector. Thus, those issues were highlighted and options were sought.

Policy Issues

The existing agricultural policy setting has given rise to a number of policy issues.

The Legal and Regulatory Framework

There is a need for simplification of business licensing, registration, and import/export procedures, as well as improvement of commercial dispute resolution. Enforcement of local taxes has been inconsistent, creating unfair competition. Furthermore, some stakeholders in the public and private sectors are not aware of existing laws and regulations and their implications and thus do not comply. Consequently, there have been few incentives for innovation in terms of input supply, credit mechanisms, and contract farming. This lack of compliance has also led to a lack of cohesion in the agricultural marketing subsector and the existence of a large number of informal traders in agricultural marketing.

The Institutional Framework

Since the inception of the policy favoring a liberalized marketing system, key institutions involved in agricultural marketing have included agricultural sector lead ministries, commodity boards, producers, traders, processors, marketing associations, financial institutions, civil society organizations, and other service providers. Despite good government intentions, the public institutions involved in agricultural marketing have a number of shortcomings:

1. weak harmonization and poor coordination among the reformed institutions;
2. weak institutional capacities in terms of staffing and technical and managerial skills among government ministries, departments, and agencies; and,

3. difficulty shifting mindsets from a control economy to a market-led economy.

The private sector in Tanzania is evolving to undertake commercial and business activities that were previously run by government institutions. The commercialization of agriculture requires proactive private sector institutions that are able to seize emerging opportunities and address associated risks in local, regional, and world markets. It will require the participation of small- and large-scale farmers, farmers' groups and associations, processors, traders, transporters, cooperative societies, non-governmental organizations (NGOs), and civil societies. The government is determined to create an enabling environment to facilitate effective private sector participation in agricultural marketing activities. Nonetheless, the private sector institutions are faced with the challenges of poor representation of key stakeholders in agriculture fora and various committees; weak capacity in policy advocacy and lobbying; poor leadership and weak management capacity; inability to foster marketing groups and associations; and inadequate technical and financial resources.

Agricultural Products Quality and Standards

Agricultural production is characterized by poor adherence to product standards and grades and inadequate postharvest management. In addition, Tanzanian farmers' difficulty in adhering to food hygiene and sanitary and phytosanitary requirements adversely affects the exporting and marketing of agricultural products. Product quality inspection is weak at the buying posts, where some market actors violate standard units of measurement and grades. To address these shortcomings, the government has several ongoing interventions, including establishing crop and animal disease-free zones, packaging services with identification and traceability systems, and establishing accreditation systems.

Entrepreneurial and Marketing Skills

Smallholder farmers are characterized by inadequate levels of entrepreneurial skills and inability to cope with market dynamics. Many smallholder farmers keep producing the crops they have traditionally produced and continue searching for markets for these products even when the market requires

improved or entirely different products. Farmers usually turn to marketing concerns only later, when the output has already been produced. Entrepreneurial and marketing skills are also inadequate among other actors, including traders and processors. Developing entrepreneurial and marketing skills among these various actors will lead to an improvement in agricultural marketing. The government and the private sector are the key players in enhancing agribusiness skills among the various actors in agricultural marketing.

Processing of Agricultural Products

Tanzania continues to produce mainly agricultural raw material, not only for cash crops targeting external markets, but also for food products targeting domestic markets. Value addition is still underdeveloped. Domestic demand for agro-processed products, particularly food products, however, is increasing both in rural and in urban areas. The emergence of supermarkets and fast food outlets is by itself an indication of the changing patterns of consumption of agroprocessed products. Domestic market actors have not been able to take advantage of these emerging marketing opportunities. Thus, among other things, research on and promotion of value addition in the areas of processing, packaging, handling, and storage using appropriate technologies can have a significant impact on how well actors exploit emerging market opportunities. Value addition chains can effectively link smallholder producers with traders, processors, retailers, and consumers.

Agricultural Marketing Infrastructure

Marketing infrastructure in the country is generally poor and inadequate for the development of efficient agricultural marketing systems. It fails to effectively connect production and consumption areas, thus increasing marketing costs. In areas with potential for greater agricultural production, rural road networks are not developed and maintained and rural markets are inadequate and lack necessary facilities. The lack of adequate storage facilities, agroprocessing plants and industries, reliable transport infrastructure, and equipment exacerbates wastage of perishable agricultural products such as fruits and vegetables.

Agricultural Marketing Information and Intelligence

Currently, Tanzania is faced with weak and inadequate market linkages among key stakeholders, including farmers, processors, consumers, exporters, and importers. These weak links cause a mismatch between the supply chain and market demands. As a result, smallholder farmers, unlike large-scale producers, are supply oriented and slow in adapting to changes in market demands. Agricultural marketing research and intelligence are important for informing farmers and traders about the products and market segments that will be most profitable and hence are important tools for marketing linkages. Research and intelligence are currently, however, weak and inadequate.

Stakeholders

The AMSDP recognizes that for development to be sustainable, it must enhance the capacity of smallholder producer groups to initiate action to improve their own situation. Consequently, the producer empowerment component deals with attitude change before embarking on marketing activities. The key stakeholders consist of smallholder farmers, producer groups, and grassroots institutions, as well as small-scale trader and processor groups operating in rural areas. Other stakeholders include the government of Tanzania, IFAD, the AfDB, the Irish government, and the private sector.

Smallholder Farmers

Smallholder farmers, whose average cropped area does not exceed two hectares, are the program's prime target group. These farmers are expected to benefit directly from improved access to markets on better terms. The rest of the rural population, however, will also benefit from improved rural market support infrastructure, better access to information, and their own efforts based on what they see and learn regarding changes made by smallholder farmers.

Small-Scale Trader and Processor Groups

Groups of small-scale traders and processors engage mainly in agribusiness operations working in local trading centers. In their trading, processing, and transporting activities, these groups handle significant amounts of agricultural produce. Their activities contribute to an improved market

environment for the local small-scale producers and entrepreneurs.

The Government of Tanzania

The government of Tanzania formulated the AMSDP to address the agricultural marketing system inefficiencies within the overall framework of the National Strategy for Growth and Reduction of Poverty. AMSDP pioneered the approach of implementing a government program through NGOs and private companies. This is in line with the government's strategy of promoting private sector-led growth.

Development Partners

Development partners include the donor community—that is, IFAD (the major donor), AfDB, and the Irish government—and the private sector. IFAD's Strategic Framework for 2002–2006, entitled “Enabling the Rural Poor to Overcome Their Poverty,” lists increasing the access of poor rural people to financial services and markets as one of its three major thrusts. This priority is reflected in IFAD's Regional Strategy for East and Southern Africa (March 2002), which includes promoting efficient and equitable market linkages and developing rural financial systems as two of its four strategic thrusts within the region. The strategic framework calls for supporting these thrusts or objectives by generating catalytic impact through field operations as well as policy dialog and advocacy on behalf of the rural poor.

The AMSDP has a public-private partnership (PPP) arrangement. The AMSDP has applied a portion of its funds to eligible private sector actors, here called partner agencies (PAs), to facilitate its implementation. One such PA is the Traditional Irrigation and Environmental Development Organization (TIP). Responsibilities of PAs include

1. improving the organizational capacity of the target groups (groups should ideally comprise 20–30 members from the same village or community to ensure familiarity, cohesion, trust, and confidence);
2. analyzing and defining the actual purpose of each set of groups;
3. helping groups achieve legal status or personality to allow them to, for example, enter into legal relationships, open bank

accounts, or take out loans (legal registration of the groups, however, is not necessary);

4. identifying the participating smallholders and small-scale traders based on the criteria and proposals describing the planned activity;
5. communicating the local groups' training requirements to the Program Coordination Unit (PCU), together with group-based proposals or applications for producer group associations;
6. training field officers of partner agencies in participatory techniques, group dynamics, governance, and report writing; and
7. facilitating field officers' attendance of “training of trainers” courses to build their skills in reaching audiences, before commencing group-strengthening activities.

Policy Options

The development of an efficient, effective, and equitable agricultural marketing system is a prerequisite for fostering market-oriented agriculture's contribution to income generation and poverty reduction. Pursuant to this goal, the AMSDP, in collaboration with other key stakeholders, has formulated agricultural marketing policy options.

Legal and Regulatory Framework

The objective of the legal and regulatory framework is to enhance the competitiveness of the food and cash-crop marketing systems. The policy options include

1. enacting legislation and regulations governing the marketing of food and cash crops;
2. harmonizing legislation and regulations to enhance fair and free marketing of food and cash crops; and
3. reviewing and rationalizing existing legislation and regulations, as well as enforcement mechanisms governing food and cash-crop marketing, to enhance efficiency, transparency, coherence, competition, and compliance.

Institutional Framework

The objective of the public and private institutional framework is to enhance efficient performance of the agricultural marketing system. The policy options include

1. establishing an institutional framework that will improve performance of the agricultural marketing systems based on needs assessments;
2. reforming commodity boards to make them accountable to industry stakeholders;
3. strengthening public-private partnership dialog in the agribusiness development agenda; and
4. facilitating the development of private sector capacity to participate more effectively in the process of better regulation through public-private partnerships and improved advocacy.

Agricultural Product Quality and Standards

The objective is to enhance the quality and standards of agricultural products produced and marketed. The policy options include

1. improving the capacities of agricultural marketing actors to meet local, regional, and international standards;
2. creating awareness about quality, standards, grades, and governing regulations among agricultural marketing stakeholders;
3. encouraging stakeholders to use designated buying posts for agroproducts;
4. promoting product quality and enforcement of grades and standards; and
5. collaborating with other partner states to develop and harmonize local, regional, and international standards.

Entrepreneurial and Marketing Skills

The objective is to enhance the entrepreneurial and marketing skills of agricultural marketing actors. The policy options include

1. supporting training in entrepreneurial and marketing skills for agricultural marketing stakeholders;

2. promoting private sector participation in the training of marketing actors in entrepreneurial and marketing skills; and
3. promoting and strengthening entrepreneurial and marketing skills in vocational training centers, colleges, and other relevant learning institutions.

Processing of the Agricultural Products

The objective is to enhance value addition to agricultural products and marketing. The policy options include

1. promoting and strengthening primary agroprocessing and value addition chains and linking them with both local and foreign firms;
2. promoting investment in research and development (R&D) on production, processing, storage, packaging, and handling technologies;
3. promoting domestic consumption of locally processed agricultural products;
4. reviewing and strengthening the legal framework governing agroprocessing activities; and
5. facilitating the promotion of locally processed agricultural products in local, regional, and international markets.

Agricultural Marketing Infrastructure

The objective is to improve and develop agricultural marketing infrastructure. The policy options include

1. mobilizing adequate resources for investment and development of agricultural marketing infrastructure in rural areas;
2. creating an enabling and conducive environment for private sector involvement in developing and expanding agricultural marketing infrastructure, including storage, processing, telecommunications, marketing centers, and roads;
3. promoting community participation in the development, implementation, operation, and maintenance of agricultural marketing infrastructure.

Agricultural Marketing Information and Intelligence

The objective is to enhance high-quality and timely agricultural marketing information services to facilitate marketing functions. The policy options include

1. strengthening the Agricultural Marketing Information Services (AMISs) to enhance timely, demand-driven collection, analysis, storage, and dissemination of marketing information;
2. promoting and strengthening public-private partnerships in undertaking marketing research and information systems for both agricultural inputs and outputs; and
3. promoting the use of information and communication technologies in collection, analysis, storage, and dissemination of data and information.

Assignment

Through the National Strategy for Growth and Reduction of Poverty, Tanzania aims to reduce poverty by transforming its agriculture-based economy into a market-led, competitive, and semi-industrial economy where smallholder farmers dominate the sector. This goal is strongly supported by Tanzania's development partners, including IFAD and the World Bank. In view of the challenges facing smallholder farmers' agricultural marketing systems, assess the adequacy of the developed policy options in assisting the government of Tanzania to achieve its aim, and identify the key policy options for success.

Additional Readings

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