



**Africa
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The investment and business environment for export horticulture in northern Tanzania

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Background Paper

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1.0 Background and introduction

Cut rose exports from Tanzania to the Netherlands began in 1989. Since then, chrysanthemums and other flowers, cuttings, seeds, fruit and vegetables have joined the list of produce air freighted to Europe through Kilimanjaro, Nairobi and Dar es Salaam airports. Compared to neighbouring Kenya, Tanzania is a relative newcomer to export horticulture, with exports worth an estimated USD 146 million in 2008,¹ compared to USD 1.12 billion in Kenya.² In recent years, Ethiopia has also become an important exporter of cut flowers.³

Favourable climate, soils and proximity to main roads and international airports make Arusha and Kilimanjaro regions the main producers of flowers and vegetables for export. The great majority of Tanzania Horticulture Association (TAHA) members are located in the Arusha-Moshi area. Other regions, including Tanga, Iringa and Morogoro, have the potential to develop export horticulture.

Export horticulture consists of cut flowers (mostly roses and chrysanthemums), cuttings for transplanting in Europe (mostly in Holland), seed production, and fresh vegetables, fruit and spices. Some fruit and vegetables are grown for Dar es Salaam and other urban and tourist markets and there is some processing (for example, tomato sauce). Cut flowers, cuttings and seeds are produced by a handful of mainly Dutch companies while fruit and vegetables are produced largely on individual farms and by small growers through contract arrangements involving farmers' groups set up with the support of foreign aid.

This report focuses on the commercial flower, cuttings and seed companies ('export horticulture').⁴ There are fifteen or so companies growing flowers,

¹ UN Comtrade (<http://comtrade.un.org>). Different sources give very different figures, suggesting a definitional problem. TAHA (2008a:2) reports total horticulture exports of USD 67 million in 2004 and 140 million in 2007. UN Comtrade gives USD 45 million and 89 million for the same years.

² The Kenyan horticulture sector has enjoyed a generally supportive IBE for three decades, and the flower and vegetable export industries benefit from linkages with local suppliers of seeds, fertiliser, pesticides and technical advice. Kenyan farmers export fruit and vegetables directly to Europe. Roses and other cut flowers dominate Kenyan exports in value terms whereas fruit and vegetables are the main generators of employment. Horticulture employs up to two million Kenyans directly, 80 percent of them 'small farmers'. Horticulture overtook tourism as Kenya's top foreign exchange earner in 2007. In 2008, Kenyan flower exports were worth over KShs 43 billion, or nearly two-thirds of all horticultural exports (KShs 70.3 billion). 91,000 tonnes of flowers were exported in 2007 and 93,000 tonnes in 2008. Rapid floriculture growth during the last decade has raised questions about the sustainability of the industry in terms of its social and environmental impact.

Sources: Food and Water Watch and the Council of Canadians (n.d.). 'Lake Naivasha: withering under the assault of international flower vendors', accessed 25/12/09; Njoka and Reuters 2008; Kenya Flower Council and Fresh Produce Exporters' Association websites, accessed 25 December 2009.

³ Maina 2006.

⁴ The main horticulture export companies in the Arusha-Moshi area are the following. Tengeru Flowers, Arusha Blooms, Mt Meru Flowers, Tanzania Flowers, Kiliflora and Hortanzia all export cut roses, Dutch Farms exports lisianthus, Dekker Bruins Tanzania exports

flower cuttings and seeds for export. In addition, five companies export vegetables, vegetable seeds, and fruit.⁵ The report does not deal with smallholder horticulture, except where there are synergies between the two parts of the industry, concerning airfreight, for example.

The European flower industry is dominated by Dutch companies and breeding technology, coupled with (originally) Israeli hydroponic (drip feed) techniques. Most African floriculture (including Tanzanian) products are sold on the daily Dutch auction ('the clock'), though this is changing, as described below.

Dutch nationals and horticulture companies were the first to enter the Tanzanian market. In the early years of the horticulture industry (late eighties, early nineties) the few companies involved were producing rose varieties that were less in demand than roses from elsewhere, with larger heads. The introduction of new varieties gave the industry a boost, particularly after the turn of the century.

2.0 Methodology

The APPP analytical framework employed is described in some detail in our general overviews of the investment and business environment (IBE) in Tanzania and the state and rent-seeking.⁶ APPP distinguishes between the investment and the business climates: the former influences the decision to invest and reinvest, the latter defines profitability. In practice, there are overlaps between the two 'climates'.⁷ For example, the nature of the formal tax regime in place may act as a strong incentive or disincentive to investors, while tax administration practices and changes in tax rates over time will influence profitability. If the tax regime becomes anti-business, or stifled by opportunistic rent-seeking, this will feed back into the investment climate via the impact on short-term profitability.

The main conclusions from our previous studies are: (1) Tanzania is poorly provided with social and economic infrastructure and other public goods that

chrysanthemums, and Fides Tanzania export various cuttings. Tengeru Flowers and Arusha Blooms are owned by Tanzanians. Kiliflora, Dekker Bruins and Tanzania Flowers belong to the Bruins family. The manager of Hortanzia recently joined up with Arusha Blooms to resuscitate the company. Mount Meru Flowers, Tanzania Flowers and Tengeru flowers are considering a merger to achieve economies of scale and cut managerial costs. Fides Tanzania is a branch of a Dutch company whose major shareholder is a large Japanese brewery.

⁵ Interviewee D, 25/06/10. There may be other exporters who are not members of TAHA.

⁶ 'Tanzanian investment and business environments', draft, 2009; 'The Tanzanian state, rent-seeking and the provision of public goods', Draft 2009.

⁷ If we extend the climatological analogy, the investment climate represents the general weather patterns obtaining in a given locality, including normal seasonal variations in temperature and rainfall. The business climate is the actual weather pattern observed, including atypical storms and dry or hot periods. The global credit crisis starting in 2008 would be an unforeseen storm with negative consequences on profitability. If the one-off storm becomes a more regular event, it will affect the investment climate. We might argue that the analogy is likely to become the reality under conditions of global warming and increasingly unpredictable future (and turbulent) weather patterns (see 'water rights' below and Hanson 2009, Chapter 11).

attract investment; (2) the contemporary IBE places serious formal and informal obstacles in the way of potential investors; and (3) these two general findings reflect the practice of rent-seeking and looting of public resources by diverse networks of state and private-sector actors.

Nevertheless, foreign investment reached record levels prior to the global credit crisis of 2008-09, driven primarily by investments in gold mining and other minerals, and tourism, suggesting that investment was attracted by factors other than the quality of the IBE. We are concerned to identify these factors for export horticulture and to see whether they neutralise the negative factors mentioned above.

This study consists of a literature review, web trawls, and semi-structured interviews with key industry stakeholders in the Arusha-Moshi area in December 2009, and a brief second round of follow-up interviews in June 2010. The study builds on ethnographic work undertaken by Kelsall et al. in 2004-05 and is based on Terms of Reference drawn up in September 2009.⁸

The conceptual framework elaborated for general and sectoral analysis by the African Power and Politics Programme (APPP) examines the degree of centralisation of rent-seeking, the level of political inclusion, competition and fragmentation, and the degree of bureaucratic/technocratic independence from politics.⁹ We examine the relevance of these three sets of underlying issues by addressing the following research questions.

3.0 Research questions

Our research questions concern access to land and water rights, other determinants of investment in horticulture, and the factors influencing profitability.

1. What formal and informal processes influence the acquisition of land and water rights in the horticulture industry?

Acquiring and retaining land and water rights are the main preconditions for investors in export horticulture, both foreign and national. Tanzanian land and water rights regimes have undergone numerous dramatic changes since colonial times, leading to widespread conflicts. Resolving property rights disputes is complicated by poor land survey, title registration, record keeping and judicial performance at all levels. Chronic conflict and low state capacity make it likely that informal factors will influence acquisition and retention of property rights. These issues are dealt with in **section 4**.

2. What encourages foreign and local investment in horticulture?

⁸ We do not attempt to quantify costs or returns on investment with any degree of precision. For the most part, we depend on respondents' subjective assessments of the extent to which different factors influence profitability.

⁹ Kelsall 2009.

Our second research question assesses the importance of the investment environment in stimulating foreign investment in horticulture. In section 5.0 we consider political stability, the geographical / climatic and policy environments, the availability of investment finance and the stimulus to the sector provided by foreign aid.

3. What formal and informal factors influence the profitability of export horticulture?

Profitability reflects the cost of doing business. In **section 6** we examine the different components of the business environment confronting export agriculture. These include the quality and quantity of economic and social infrastructure, taxation and regulation practices, and efforts by the industry and/or the government to address collective action issues ('coordination').¹⁰ Taxation and regulation routinely provide officials with opportunities for rent scraping and extortion that increase the costs, including the transaction costs, of doing business. Informal transactions include the payment of 'speed money' to expedite business, and the payment of bribes to reduce official payments, including taxes. The balance between formal and informal costs and benefits determines profitability.

4.0 What formal and informal processes influence land and water rights in the horticulture industry?

'What matters is local politics, not the law.'¹¹

4.1 Land rights. The fertile, densely-populated lower slopes of Mount Meru have been the scene of struggles over land and water rights from pre-colonial days to the present.¹² In the early twentieth century, the German colonial regime cleared an 'iron ring' of land around the base of the mountain for German settlers, exacerbating already critical land shortages.¹³ After the First World War, the British replaced the Germans with Afrikaner, British and Greek farmers, and continued to side with the settlers over Wameru and Warusha demands for more land, pasture and water.¹⁴ This exacerbated the conflict between the local population and settlers as 'increasing wealth, disease control and freedom from war and slavery' had led to rapid growth in the population of the Wachagga, Wameru and Warusha.¹⁵ Land alienation to settlers led to chronic and often violent conflicts over land and water rights

¹⁰ While both private and state coordination can be practiced, it is a state function to promote competition and ease of entry for new market players in the face of private actors' tendency to set up buying or selling cartels. Apart from official efforts to promote local participation in the sector, the issue of promoting competition is not vital for our discussion. Existing companies would gain from the economies of scale of additional market entrants, and have more 'voice' in relations with government.

¹¹ Respondent A.

¹² Listowel 1965; Coulson 1982:111; Spear 1996:213-240.

¹³ At the same time the Germans created a forest reserve above 5300 ft, preventing further expansion up the mountain. Spear op. cit., page 215.

¹⁴ The 'iron ring' was broken in a few places to give peasant farmers seasonal access to lowland pastures without trespassing through settler farms. Spear op. cit. (1951-2).

¹⁵ Listowel 1965:209.

between the Meru and Arusha on the one hand and the settlers and the colonial state on the other, culminating in the Meru Land Case in 1951 (**Textbox 1**).

Textbox 1: The Meru Land Case and nationalist awakening

The Meru Land Case originated in the British colonial government's failure to resolve the land alienation problem created by the Germans, and exacerbated by a fresh allocation of 'ex-enemy' lands, as well as some new ones, to European settlers after the first world war. In the 1930s, the Meru bought an estate ('Farm 31') near **Engare Nanyuki** in the '**Sanya Corridor**', through which the British authorities proposed to allow the Meru to migrate southwards. In November-December 1951, the British evicted the occupants of Farm 31 to clear the Sanya Corridor for the movement to lower ground. Officially, 330 Meru 'taxpayers' and their families were moved, 492 huts and store-houses burnt or destroyed; 400 cattle and 1,200 sheep impounded and moved to **Kingori**, [10 miles from Farm 31] where 'alternative farms had been staked out for the Meru, supplied with water for domestic and cattle use and with two cattle dips.' The Meru were also provided with a Lutheran mission dispensary 'and were offered about £14,000 in compensation.' In July 1952, **Kirillo Japhet**, secretary of the Arusha branch of the **Tanganyika African Association** (TAA, the precursor of TANU) took the case to the **United Nations Trusteeship Council**. Subsequently the case failed to get the required two-thirds majority in the **UN General Assembly**. The white settlers subsequently left Engare Nanyuki when their cattle died, their crops failed and their families fell ill. Prior to independence, landless farmers and cattle owners routinely 'invaded' settler farms, many of which were not cultivated, and were retained, according to critics of the settlers, for largely speculative purposes. European farmers even charged the Meru and Arusha rent for the privilege of accessing their own former land and water. Conflicts between local farmers and settlers around Mount Meru continued into the post-independence period.

Source: Listowel 1965, Chapter 20; Coulson 1982

Some European farmers abandoned their estates after independence, and during the Ujamaa period, parastatals, villages and cooperatives were allocated most of the remaining estates. These were also unable to farm the land profitably, and informal (i.e. not legally sanctioned) occupation of the land continued.

The beginnings of economic liberalisation encouraged some former owners to reclaim their land, for which they had received no compensation and had not had their title deeds revoked. Most flowers, cuttings and seeds are grown on some of these former estates, which have been divided up for this and other purposes.

To date, conflicts between contending claims for land have remained unresolved in the absence of an effective legal system to adjudicate fairly between rival claimants. Shivji makes the general point: '... the underlying ... issues in each one of these [land] disputes [reported to the Lands Commission] can be traced back to some deficiency or other at policy level or at the level of inadequate legal and institutional machinery.'¹⁶

¹⁶ URT 1994: Volume II, page 9.

Colonial lands rights were vested in the German Empire and subsequently the British Crown. German settlers were granted freehold land titles.¹⁷ In 1923, the British established a 999 year lease for new settlers.¹⁸ The post-independence government retained ultimate control of land ('radical title'), and abolished freehold tenure.¹⁹ All freeholds were converted to leaseholds, and leases were reduced from 999 to 99 years maximum. In 1969, leases were replaced by rights of occupancy, meaning that any land, including land held under customary title, could be appropriated by the state, with compensation paid for the improvements made (buildings, permanent crops).

After 1968, the Nyerere government proceeded to nationalise rented property and commercial farm land. Large farms owned by Tanzanians were given to ujamaa villages, while the former owners retained a maximum of 50 acres. In 1973, non-Tanzanian owned coffee estates in Kilimanjaro Region were nationalised and handed over to the Kilimanjaro Native Cooperative Union (KNCU).²⁰ Cooperatives, including KNCU, were abolished in 1976, which helped precipitate the collapse of the estates.²¹

In the Arusha-Meru area, estates were abandoned or returned to the government pending compensation, which usually failed to materialise. According to The Lands Commission report (1994) : '... many of these [foreign owned] farms were settled on by former workers of the farms or neighbouring communities or both.' There were instances '... where the titles of such plantations were revoked but the lands were then re-allocated to well-connected individuals or people of means or foreigners rather than the indigenous landless.' Witnesses to the Lands' Commission 'spoke bitterly about land being given away to foreign ostrich breeders and flower growers who are busy evicting food-growing indigenous peasantry.'²²

Though changes in property rights laws were officially promulgated, little formal conversion of title deeds took place throughout the post-independence period, given the absence of an effective lands' administration at all levels. This administrative weakness gave rise to many ownership disputes when policy was reversed after 1985 and former estate owners or their children began to reclaim land to which they still held an old title deed or for which they had not received compensation.

¹⁷ Leasehold arrangements for settler land also existed under the Germans (URT 1994: 9).

¹⁸ Earlier settlers retained their freeholds. From 1923 to date the 'radical title' in land has been vested in the state.

¹⁹ Under the Freehold Titles (Conversion) and Government Leases Act of 1963. URT Lands' Commission Report 2004:14-17.

²⁰ Tucker 2010; interviewee (Baker).

²¹ It is said that in 1973 Prime Minister Rashidi Kawawa ordered the nationalisation of the Kilimanjaro estates when President Nyerere was out of the country. The Arusha Regional Commissioner convinced Nyerere not to repeat the exercise in Arusha Region, where the local cooperative movement did not have the capacity to manage the estates (Interviewee J, 06/07/10).

²² URT 2004:61-2.

While Julius Nyerere was still alive it was difficult for the government to side with investors against ‘squatters’, some of whom have lived on the reclaimed estates for many years and who now claimed rights of occupancy and compensation for their investments in crops and houses.²³ Nyerere’s death in 1999 removed that informal protection and during the second half of the Mkapa presidency (2000-2005) investors’ rights were enforced and squatters were ordered to leave, backed up by the regional and district authorities, who were assumed to be in the pockets of investors.

Disputes between villagers, cattle owners and foreign investors in Arumeru and Arusha that were reported to the Lands Commission in the early 1990s are summarised in **Textbox 2**. They reflect the tensions created by the transition from ujamaa to a market economy after 1986 sketched above.

Textbox 2: Land disputes and rights in Arumeru, 1975 to date

The **Lands’ Commission** of 1991-93 heard complaints from many quarters during regional sittings. Fifty-seven complaints were reported to the Commission in **Arumeru District** and a further 40 in **Arusha**. A content analysis of the causes of the Arumeru disputes gives the following breakdown, with the number of mentions in brackets:

- Alternative land promised to evictees but not provided (15)
- Non-payment of compensation (13)
- Alienation of land to ‘foreigners’ (6) and ‘outsiders’ (5) (11)
- Acquisition of farm land for public purposes (10)
- Family (8) and boundary disputes (2) (10)
- Confiscation/expropriation of customary land (6)
- Encroachment (4)
- Conflict between customary and administrative tenure (4)
- Alienation of village/cooperative land by village officials (4)
- Others (6)

Many disputes involved the eviction of occupants from former estates and farms that were reclaimed by their previous owners or sold to outsiders. Occupants complained they had not received compensation or been allocated alternative land. But in cases where land was allocated in compensation, there was a danger that the new occupants would be summarily evicted as the former owner sold the land for which he still held title deeds. Land offered for resettlement in **Kiteto** was said to be too distant and dry.

The Lands’ Commission concluded that opportunistic land sales to outsiders, including ‘foreigners’, involved corruption, favouritism and tribalism. In one case, a farm was earmarked to resettle farmers from an abandoned estate, but the exercise was stopped when the local **Member of Parliament** intervened, and the farm was eventually divided up between the MP, the **District Commissioner**, the **District Executive Director** and some **Arumeru District councillors**.²⁴

Conflicts over land and property are not limited to foreign investors in the area.

²³ URT op. cit. In one instance, after a meeting in Patandi, Nyerere authorised the resettlement of farmers on alienated farms in Arumeru district but his orders were not implemented by local leaders.

²⁴ URT, Lands’ Commission Report, Volume II, pp 14-19. A dozen coffee, sisal and sugar farms and estates were identified for potential resettlement. Most of these were eventually returned to previous owners or leased to new owners. Arusha Coffee Estate was taken over by Tanzania Flowers. Since flower cultivation requires relatively small amounts of land compared to coffee, estates have been subdivided and leases sold on to new investors.

Vunjo MP Aloyce Kimaro (CCM) bought the 50 acre **Madira Estate**, located near **Singisi** village, Arumeru District, from expatriates to build a tourist hotel. On June 7, 2009, a group of villagers set 'at least' 15 houses on fire and destroyed crops. 'Police used tear gas and shot in the air, 'but the rowdy villagers were not moved.' Kimaro is quoted as saying: "I wonder why owning 50 acres of land has become such a big issue. I believe this is politically motivated." "... the villagers are attacking me yet there are investors nearby who own thousands of acres." The invasion was said to be instigated by a senior politician with extensive land interests in Arumeru and other parts of Arusha Region, angry with Kimaro's stand against corruption in the ruling party and government.

Source: Lands' Commission Report Vol. II, pp 14, 152-60; Mussa 2009

When resettlement in distant Kiteto failed, the district leadership in Arumeru considered subdividing abandoned estates and farms into individual plots so as to reduce landlessness among the evicted. But there were no funds to pay compensation, and some former owners had reclaimed their land.²⁵

Previous and new estate owners rely to varying degrees on the national and local government to protect their property rights. Our respondents reported only recent case of conflicts with local communities concerning rival land claims (see below). In the 1990s, conflicts were common when commercial farmers attempted to expand the acreage under cultivation into areas occupied by local farmers and herdsman. Such confrontations, which were often violent, involving the mobilisation of the police and Field Force Unit (FFU), were usually settled in favour of the commercial farmer.

Foreign investors leasing land for commercial agriculture run the risk of the lease being revoked, with little hope of legal redress. **Textbox 3** cites a recent example from Kilimanjaro.

Textbox 3: Brits versus Mengis over Silverdale Farm

In May 2004 **Briton Stewart Middleton** entered into an agreement with Mr **Benjamin Mengi**, a younger brother of IPP Media and soft drinks tycoon **Reginald Mengi**, to purchase the lease to **Silverdale and Mbono Farms** in Hai District, Kilimanjaro Region. Middleton and his partners' investment in growing vegetables for export led to the employment of 150 Tanzanians, and his company's farms were the first to receive **EUREPGAP** accreditation in Tanzania. But one year later Mengi began negotiating with another British investor and demanded the lease back. Middleton refused, stating that Mengi had been paid in full. Subsequently the investors were subjected to what they characterise as 'a four-year campaign of violence and harassment, facilitated by the police and judiciary' that included 'the refusal of the authorities to register the lease to the farms ...; the destruction of commercial contracts; violence to, and the imprisonment of, key operational staff; and the constant arrest, and ultimate imprisonment, of Mr. Middleton'.

What Middleton claims as defamatory stories about the case appeared in both

²⁵ Farms identified for subdivision included Tanzania Maua, Farm No. 20 Oljoro, Lakikaki Farm, Peter Kenneth's Farm, Arusha Coffee Estate, Riverside Farm, Vijana and Doli Sisal Estates, Ghikas Farm, File Estate, Lucy Estate and Karangai Sugar Estate. Arusha Coffee Estate was acquired by Tanzania Flowers after compensation. URT op. cit., page 15.

English and Swahili newspapers owned by IPP Media as well as on radio, television and the internet. Court proceedings against the investors continued through 2005 and 2006, including Mengi's application to declare the lease null and void and to evict the investors. In the face of further court proceedings the investors decided it was no longer safe for them to stay in Tanzania. In March 2008, the **British Foreign and Commonwealth Office** informed the BBC that there was 'credible evidence of the harassment and intimidation' of the ... investors.' In an article in the Daily News on 6 June 2006, Minister for Planning, Economy and Empowerment, **Dr Juma Ngasongwa**, was quoted as saying that the investors had been registered by the Tanzania Investment Centre. "They have the full support of his ministry", he said. "They are using local organs to harass legal investors. This is open corruption, which I strongly condemn. It shames us as a nation, which has set out to attract foreign investors." Benjamin Mengi subsequently sued the investors for libel.

Three weeks later whilst the investors were out of the country the **Moshi magistrate's court** ordered the confiscation of all their property in Tanzania, including livesock. The Chief Justice promised the British government that an appeal would be heard immediately, but five years later it remains pending. Despite four years of effort by the **British Government** and, according to the investors, personal promises from **President Kikwete** that the rule of law would be upheld, the **Silverdale farm** case remains unresolved.

Sources:

<http://thesilverdalecase.blogspot.com/2009/11/tanzania-mengi-makes-law-shame-on.html>

<http://www.clickafrique.com/Forums/Thread.aspx?sectionid=23&threadid=2405&pageID=1>

<http://www.ippmedia.com/ipp/nipashe/2005/11/22/54489.html><http://www.ippmedia.com/ipp/guardian/2006/01/19/58115.html>

Interviewee H 24/06/10; interviewee J 06/07/10; Interviewee S 01/07/11

The Silverdale example shows that even lobbying the head of state does not guarantee the resolution of an investment dispute (Mengi is a strong supporter of the ruling party). We have not found any example of this kind of outcome in our fieldwork.²⁶ In 2008, TAHA secretariat claims that it successfully 'lobbied the Arumeru District [Council] to intervene on a conflict between a horticultural investment and the residents of Oldonyo Sambu.'²⁷ Local Maasai had 'invaded' the farm, which had been left in a dilapidated state by the previous owner. The investor spent much time lobbying at all levels, attending village meetings, and so on, in order to resolve the issue.²⁸

²⁶ Perhaps the consequences of the 1973 nationalisations make the acquisition and retention of land rights in Kilimanjaro that much more complicated than in Arusha-Meru. There are exceptions: one TAHA member leases land from a cooperative society in Kilimanjaro Region. Although the lease has changed hands, the arrangement has worked successfully for over a decade (Interviewee H, 24/06/10).

²⁷ TAHA 2009a:17. As a result 'TAHA is now represented on the Arumeru District Development Council.'

²⁸ Email message, interviewee E, 01/07/10. Proceeds from marijuana growing may have encouraged local officials to support the Maasai or at least look the other way. Or it could have been a simple land grab. There have been no further invasions to date.

Farm land is generally developed a piece at a time.²⁹ Poor security complicates investment plans on undeveloped parts of estates. Interviewee B employs 24 security guards on a 30 ha farm with 300 employees. Perhaps providing employment to local women and men³⁰ attenuates the likelihood of conflict with surrounding communities, but there is little farm owners can do to guard against organised 'invasions'. For the moment, these are quite rare.

Last, investors also attempt to protect property rights by allocating shares to prominent persons and having them on boards of directors. One of our respondents had a senior Tanzanian personality on his Board of Directors. Only once did the company call on him to find a solution to an administrative problem (not to do with land rights) and that some time ago.³¹

4.2 Water rights. Like land, access to water for agricultural purposes has been the source of recurrent conflicts since colonial times. In the 1940s and 50s, water scarcity around Mount Meru led to conflicts between settlers and local farmers as the former petitioned the colonial government for access to more water.³²

Competition over water for agriculture, including export horticulture, and other purposes is likely to become increasingly acute as population continues to grow and weather patterns become increasingly unpredictable.³³ We did not come across any conflicts between farmers and villagers over water rights in our small sample. Flower farms use water extremely efficiently, and have boreholes to supplement natural sources. One conflict between Arumeru communities and large farmers over water rights was reported by Kelsall and colleagues.³⁴

In sum, present investors have not experienced major challenges to their land rights from officials, politicians, businessmen or local populations. The present generation of flower farmers enjoys relatively secure rights in land and water, thanks largely to the efforts of the first and second generation of post-liberalisation farmers. Unlike coffee, sisal, biofuels or dairy, floriculture is intensive agriculture³⁵ and large numbers of peasant farmers have not been displaced to make way for flower-growing.

Yet rights are not guaranteed, and investors may have to go to higher authorities to protect them. Appeals to government authorities to re-establish

²⁹ The farm run by interviewee G started off with 4.7 ha, expanding to 6.7 and currently 10 ha.

³⁰ About half the manual workers are women.

³¹ Interview C, 24/12/09.

³² Larson 2001:238. According to the author, major water wastage through inefficient irrigation practices continues to exacerbate water shortages and conflicts. From 2009 to date, unprecedented water shortages on the southern flanks of Mt Kilimanjaro have led wealthy residents to sink boreholes of up to 200 metres.

³³ This was the opinion of respondent F. For the likely increasing unpredictability of weather patterns see Hansen 2009. One respondent's farm suffered from flooding in 2008 as a result of which his wooden greenhouses collapsed (Interviewee H, 24/0610).

³⁴ Oxford Policy Management et al., 2005. Drivers of Change, Part 3, Local Accountability.

³⁵ Tanzanian rose farms have a combined area of only about 150 ha. compared to 450-600 ha in Ethiopia and 2,800 ha in Kenya (Interviewee G 24/0610).

law and order are time-consuming and presumably incur side payments, though no interviewee was prepared to confirm this.³⁶

The direct benefits from export horticulture include employment and training,³⁷ technology transfer, taxes, power consumption, local procurement (transport, office supplies, cardboard cartons, food for the canteen, and numerous imported goods supplied with a margin), and services (lawyers, auditors, insurance and travel and forwarding agents, land evaluators, and so on).³⁸ On the other hand, critics point to the use of scarce land to produce luxury goods for export that could be used to produce food for poor people. Is the industry generating enough value to fend off its critics and endear itself with the state and local communities?

Our historical review suggests that a largely foreign owned floriculture export industry could be vulnerable to future conflicts over lands rights in the Mount Meru area. Given the chronic scarcity of agricultural and grazing land along the Arusha-Moshi axis, and continued population pressures, there is every possibility that land disputes could re-emerge in years to come, *if* the flower export industry survives the current crisis and heads towards 'critical mass'. One solution to the land shortage problem envisaged by a TAHA official is to encourage future investors to establish new farms in Iringa Region, where two TAHA members are already in production, and Babati, which has suitable land up to 2,000 m altitude.³⁹

5.0 What encourages foreign and local investment in export horticulture?

It takes years to get it right'.⁴⁰

Below we provide some background for analysing the drivers of investment in export horticulture. We then review geography, law and order, the policy environment, finance and foreign aid as factors influencing investors' decisions.

5.1 Background. From the late 1980s, Dutch nationals and companies based in Kenya began to invest in cut flowers, cuttings and seed propagation in northern Tanzania, albeit on a relatively small scale. Some Kenya-based firms 'decided to hedge ... against political or other risks in Kenya', but significant FDI was not forthcoming.⁴¹ Things picked up during the mid-1990s,

³⁶ Statements such as 'you can't do anything here if you don't have contacts' lead to this conclusion.

³⁷ Exporters often complain about the shortages of non-manual staff in Tanzania.

³⁸ Email, interviewee C, 01/07/10.

³⁹ Interview H, 24/06/10. The higher altitude will improve the size of the flower heads. The Arusha-Babati will be rehabilitated shortly with WB money. The ADB is financing the paving of the road from Babati to Singida (Email from D Schelling, World Bank, 01/07/10).

⁴⁰ Respondent E.

⁴¹ World Bank 2005:152. According to this source, expansion took place through 'existing players ... restructuring and expanding their operations.'

and the value of horticultural exports from Tanzania increased from USD 5.2 million in 1997 to USD 26.7 million in 1999.⁴²

Many of the first foreign investors in Tanzanian floriculture experienced high failure rates or struggled to survive. We heard of a number of cases where the initial investors wrote off substantial losses and were bought out by other interests. In theory, these second and later generation investors should stand a better chance of success, benefiting from the efforts of their predecessors to obtain land titles and learning from their business mistakes.⁴³ Recent market entrants have simply taken over the remaining years on the lease negotiated between the government and the original investors. Despite relatively secure land titles, later investors have yet to demonstrate the longer-term financial viability of their ventures. These later investors all suffered badly from the ongoing global financial crisis and two farms were forced to suspend production temporarily.

5.2 Location and climate. A number of factors make northern Tanzania a prime location for export floriculture. The climate is favourable, the soils fertile, and locations at different altitudes/temperatures can be found to suit the needs of different varieties of flowers, cuttings and seeds. Proximity to main roads and international airports (KIA, Kenyatta, Dar es Salaam) are added advantages.⁴⁴

5.3 Law and order. When asked what drives investment in horticulture, one of our respondents cited law and order as the most important precondition.⁴⁵ The history of Kenya shows how land annexation by settlers generated intense political resistance and demands for independence from British colonial rule. In the post-independence period, historical grievances over land rights between farming and pastoral communities have been the object of political mobilisation and growing sectarian violence.⁴⁶ On a much smaller scale, the arrival of settlers in the Arusha-Kilimanjaro area during the German colonial period also led to conflicts with local farmers and cattle owners, as discussed above. As in Kenya, the mobilisation around the Meru Land Case contributed to the incipient independence struggle, though again on a much less dramatic scale.⁴⁷ But there the similarities between the two countries end. There is no contemporary parallel between Tanzania and Kenya regarding the nature and importance of land conflicts.

⁴² Quarterly Economic Review April-June 1999:19.

⁴³ This is also true for investments in horticulture and coffee.

⁴⁴ Quarterly Economic Review 1999. Interview with Tjerk Scheltema, Director of Arusha Cuttings. In the later 1990s, cheap labour also helped make Arusha 'very competitive' for floriculture.

⁴⁵ Security of land tenure, taxes and other costs of doing business, and credit, were his other main preconditions.

⁴⁶ Kantai 2009. The Kenyan horticulture sector was temporarily affected by the violence and insecurity surrounding the 2008 elections. In Naivasha, 'Growers ... responded to the violence by housing workers on the secure farms and hiring extra security personnel. The Government also provided armed escort for the journey from the farm to the airport' (*The African* 16/02/09).

⁴⁷ Listowel 1965, Chapter 20.

Tanzania's often-cited 'peace and tranquillity' is a major 'plus' for investors, compared to other countries in the region. If, as seems likely, politically-instigated violence returns to Kenya, Tanzania could 'benefit' in terms of the relocation of some Kenyan farms and KIA becoming a centre for exports.

5.4 The policy context

'... the Development of the Horticulture Sector must be accomplished by the Private Sector. But ... in its present state, the Private Sector does not have the capacity to achieve the goal. The Public Sector needs to create the environment and set the rules that will allow, or indeed encourage, the Private Sector to succeed.'

'There seems to be a total lack of vision with the authorities. It does not matter how many alarm signals are sent, they are all taken as "cry wolf" calls.'⁴⁸

The GOT began to improve the formal conditions for attracting foreign (and local) investment with macro-economic reforms in the mid-1980s. Economic stabilisation was gradually achieved during the 1990s. The main macro-economic benefits derived from reform--lower inflation, more balanced budgets, elimination of parallel markets--are described in our background paper.⁴⁹

Reforms liberalising agricultural marketing of food and export crops had mixed results during the 1990s, and were partially reversed at the turn of the century through the re-empowerment of crop boards and cooperatives.⁵⁰

To date, there is no official national strategy for promoting the horticulture sector. A Private-Public Partnership (PPP) body known as the Horticulture Development Council of Tanzania (HODECT) has drafted a strategy.⁵¹ The above quotation from the strategy questions the capacity of the 'Private Sector' to lead the growth of horticulture, but assumes that the 'Public Sector' has the capacity 'to create the environment and set the rules.'⁵² The strategy argues that, although horticulture has been prioritised in the Tanzania Trade Integrated Strategy (TTIS), it still lacks government support. 'Horticulture unlike traditional crops with crop boards ... has been marginalized with neither institutional support nor coordination with the ... Agricultural Sector Lead Ministries.'⁵³ Given the performance of traditional crops under crop boards,

⁴⁸ Horticulture Strategy, first draft (no date), page 10; interviewee I, 01/07/10.

⁴⁹ See 'Tanzanian investment and business environments', draft, 2009.

⁵⁰ See Cooksey 2003 for the general case and TADREG 2008 for cashew.

⁵¹ Financed by WTO-STDF, HODECT is defined as 'a Public-Private Apex body formed under the consensus of stakeholders and the Government of Tanzania'. Draft Horticulture Strategy (no date) page 9. The final draft of the strategy was published recently, and is discussed below.

⁵² HODECT Draft Horticulture Strategy, page 10. The assumption of state capacity versus private sector incapacity is a recurrent theme in the dominant statist agricultural discourse. Respondent A characterised the official response to a new agricultural sectoral initiative as: 'Let's set up a regulatory authority.'

⁵³ Draft Horticulture Strategy, page 2.

such 'marginalization' and lack of 'coordination' may be considered significant *advantages* for the healthy growth of the sector. But the signs are not good: in October 2009, the National Assembly passed the National Cereals and Other Produce Bill designed to establish a new board to 'supervise production and ... marketing of traditional food crops' including fruit and vegetables.⁵⁴ The Minister of Agriculture, Food Security and Cooperatives justified the Bill on the grounds that agricultural market 'liberalization ... has failed.'⁵⁵

Horticulture lobbyists participated in the preparation of the Kilimo Kwanza⁵⁶ initiative, where the main focus is also on smallholder horticultural development--deemed to be more 'national' and 'pro-poor'--than floriculture.⁵⁷ The influence of the private sector can be seen in Kilimo Kwanza's insistence on market-driven development.⁵⁸ Again, however, critical observers see the likelihood that Kilimo Kwanza will be driven by political rather than economic imperatives in the build up to the December 2010 elections.⁵⁹

We conclude that there are elements in government liberalisation and agricultural development policy that are positive from the point of view of encouraging investment in export horticulture. The horticulture strategy looks like a step in the wrong direction, however. Donor support is strongly interwoven with both policy formulation and project interventions, as discussed further below.

Does the policy environment matter for our horticulture investors? Interviews suggest that they are more concerned with what the government does than with what it says. Their worry is that government actions often contradict policy commitments and investment conditions, for example, over the imposition of VAT on imports and exports. Lack of coordination between government departments and rent-scraping practices increase uncertainties and the cost to doing business. Information on these and other (un)official practices filtering back along the information grapevine is likely to discourage potential investors, however rosy the formal policy environment may be.

5.5 Finance

*'Basically, the banks own the farms.'*⁶⁰

⁵⁴ Edwin 2009.

⁵⁵ Mwakalebela 2009. The Minister, Mr Stephen Wasira, 'said that the private sector has not done well in purchasing crops, in terms of fairness in prices.' On the other hand, one of our interviewees considered the Minister 'sympathetic' to the needs of horticulture exporters (Interviewee H, 24/06/10).

⁵⁶ Kilimo Kwanza (Agriculture First) is the GOT's umbrella agriculture policy (Tanzania National Business Council, no date).

⁵⁷ Horticulture is identified as a crop 'with a high labor intensive factor ... with a potential to make a significant contribution to national economic growth as well foreign exchange earnings.' Tanzania National Business Council (no date), page 12.

⁵⁸ '...the strategy for horticulture expansion must be market oriented. ... all activities and programs need to be predicated on crops and market chains for which there is a demonstrable market. ... Markets need to be conceived as actual entities ready to buy and the driver for production.' (TNBC, page 14).

⁵⁹ For example, Cooksey 2009.

⁶⁰ Interviewee B.

Companies raise finance through debt and equity. Debt can be incurred through bank loans or internal loans from the parent company. Companies are vulnerable to foreclosure in the event that they cannot repay bank loans, as happened to many small Dutch horticulture companies during the 2008 credit crisis. Many public horticulture companies in the Netherlands saw their share value decimated during the same period.

Loans rather than equity have financed floriculture in Tanzania. Most of the first generation of flower farmers were financed totally or in part by loans or grants from Dutch or other dedicated development funds.⁶¹ *Most of these ventures failed.* Five current investors have concessional loans from the Tanzanian Investment Bank (TIB)⁶² while one has a company loan. The TIB loans originated in a government guaranteed Bank of Tanzania financial facility for flower companies. There is reason to believe that the loan facility was brokered by a prominent ruling party MP who is a flower farm owner. One other Tanzanian farm owner and three Europeans also benefited from this facility.⁶³ If this story is correct, it is an interesting example of how informal relations may benefit investors, including foreign investors who would probably not have been able to broker such an advantageous deal themselves.

TAHA claims credit for the TIB's decision to reschedule growers' loan repayments following the 2008 global credit crisis.⁶⁴

One respondent thought that the proportion of investment debt owed to banks is excessive. Yet the sector urgently requires additional working capital to get it back on a growth trajectory. According to one informant: the major players 'should get some form of developmental financing, or at least a considerable lessening of their financial burden.'⁶⁵

Many small Dutch flower and seed companies were bankrupted by the 2008 financial crisis, which saw a 15 percent decline in flower sales. Flower auction prices fell, and demand for some varieties ceased completely. Two TAHA member rose exporters suspended production as a result of the crisis.

Horticulture exporters are particularly vulnerable to risks regarding exchange rate movements because they deal in a number of currencies. For example, many inputs are costed in USDs whereas most sales are in Euros. In 2008, the pound and rouble depreciated by 28 and 35 percent respectively against the USD, discouraging sales to the growing British and Russian markets. More recently, the Euro has lost value against the US dollar *and* the

⁶¹ The Dutch grant facility is PSI (formerly PSOM). The British facility is the AFCF. Other donor countries have similar funds. The Dutch fund was highly thought of by one of our interviewees, who benefited from it himself (Interviewee E, 24/06/10). The Commonwealth Development Corporation (CDC) also funded horticulture ventures.

⁶² Ten percent interest over ten years, with a five year grace period. With inflation and the devaluation of the Tanzanian Shilling, the real interest rate will be significantly less than 10%

⁶³ Interviewee E, 24/06/10

⁶⁴ TAHA 2009c:14.

⁶⁵ Interviewee I, email, 01/07/10.

Tanzanian Shilling. This led to increasing freight rates of 25-30 percent and of 10-15 percent on fertilisers and chemicals. For one investor, this amounted to full-year cost increases of 8-10 percent of sales, undermining profitability and postponing bank debt repayments.⁶⁶

Though the sector has secured investment capital from the TIB, it has not secured sufficient overdraft facilities to finance running costs. Most farms are therefore permanently cash-strapped.

5.5 Foreign aid. Tanzanian horticulture has been promoted by international agreements and foreign aid. The World Symposium of Sustainable Development (WSSD)⁶⁷ identified Tanzania as a priority country and horticulture as a priority sector. More recently the Dutch government, USAID and the World Bank have provided seed capital and programme aid to promote small-scale horticulture and flower exports. The Arusha-based Tanzania Horticulture Association (TAHA) was set up with funding from the Netherlands' government⁶⁸ and its various projects have been largely financed by USAID.⁶⁹ This assistance has proved very useful in terms of underwriting coordination costs that the industry could not have financed itself, as well as in terms of encouraging joint efforts to address common problems.

Our respondents were generally appreciative of the support received from aid agencies, including aid to set up TAHA. In contrast, aid in support of private sector agricultural development in general has not had a significant impact to date. In HODECT's revised Horticulture Strategy (2010) the first 'opportunity' for the commercial horticulture sector listed in their SWOT is the 'substantial commitment of financial and human resources by development partners'. There is no mention of GOT commitment in the 'opportunities' or lack of commitment in the 'threats'.⁷⁰

The Tanzanian state lacks the capacity to coordinate donor-financed projects effectively.⁷¹ Their total impact is consequently probably less than the sum of

⁶⁶ Email from interviewee C, 23/06/10. Foreign exchange risks affect profitability rather than the decision to invest. Currency movements can also be advantageous, of course.

⁶⁷ The Dutch government financed the WSSD PPP (five projects). The symposium, which deals with climate change issues, met for the seventh time in 2009. See http://www.mfdd.fr/english_version.html

⁶⁸ Including the Tanzania Agriculture Productivity Programme, a five-year project sub-contracted to consultants Fintrac.

⁶⁹ *Inter alia*, USAID financed the airfreight project and a Small Growers Capacity Building Project. TAHA also receives funds from the Ministry of Industry, Trade and Marketing (MITM) and the Tanzania Private Sector Foundation (TPSF).

⁷⁰ HODECT 2010:6. The strategy states on the title page. 'THIS DOCUMENT WAS PREPARED WITH INPUT FROM BOTH PUBLIC & PRIVATE SECTORS AND IS INTENDED TO BE A COMMON BLUE PRINT FOR A PARTNERSHIP TO MOVE FORWARD.' (Capitals in the original). TAHA confirmed that they had participated in the preparation of the strategy, though the document itself was drafted by a private consultant.

⁷¹ The second draft of the horticulture strategy (HODECT 2010:20) states that: 'TAPP, WSSD, Global Horticulture Initiative, TTIS, TAHA, TIC and ASDP all have significant activities which could be more efficient if coordinated.' See Cooksey 2010 for a polemic on the perverse effects of excessive and uncoordinated foreign aid to Tanzania. One suspects that the recent

their parts. Fortunately, support for TAHA seems to be exceptional. We return to the aid issue below.

The main conclusion from this summary of influences on investment is that, since investment has been quite modest in the recent past, Tanzania is not a particularly promising external investment destination, or local private investment priority. The main source of finance has not been FDI, attracted by a robust IBE, but loans from a Tanzanian bank, itself financed by an external loan. The recent growth of the sector has therefore been driven more by government and donors than by private sector interests. This has profound implications for the future of the sector.

6.0 What formal and informal factors influence the profitability of export horticulture?

'We are here in spite of the government, not because of it.'

'You can't do anything here if you don't have contacts'.⁷²

Both internal ('endogenous') and external ('exogenous') factors influence the profitability of export horticulture. Internal factors affecting profitability in the business environment include taxation and regulation, public goods--infrastructure (roads, port and airport)--and utilities (electricity and water). The capacity of the industry to generate positive externalities through collective action ('coordination') and collective bargaining (lobbying) with the state also influences profitability. The state may also provide coordination services.

The position of individual producers and the local industry as a whole within a global value chain (GVC) also influences profitability, as well as the level of risk exposure and ability to deal with shocks. Globalisation has increased the number of national players involved in export horticulture as well as the level of price and quality competition.⁷³ Other external factors include access to credit and relative movements in relevant currencies, particularly the US Dollar, the Euro, the Pound sterling and the Tanzanian shilling.

Below we deal with endogenous and exogenous factors in turn, considering, where applicable, both their formal and informal dimensions. **Section 6.1** examines taxation and **6.2** regulation and certification. **Section 6.3** looks at public goods as cost factors for horticulture exporters. **Section 6.4** considers the problem of securing air freight services for for a small sector like export horticulture. **Section 6.5** discusses relations with local communities and the different strategies that respondents adopt towards low-level rent-seeking.

horticultural strategy was drafted in part with a view to obtaining further assistance from current donors, a theme returned to below. An interviewee for the gold report believes that one relatively new business umbrella organisation is said to be closer to the donors who financed it than to its putative members.

⁷² Interviews E, and A respectively, 18 and 24/12/09.

⁷³ Gibbon and Ponte 2005, discussed in section 6.7 below.

Section 6.6 looks briefly at marketing as a factor influencing profitability. **Section 6.7** considers the lessons from global value chain analysis for Tanzanian horticulture. **Section 7** uses the main findings of the report to revisit APPP's analytical framework of *rentierism*, political inclusiveness, and bureaucratic autonomy. **Section 8** is a SWOT analysis for export horticulture, and **section 9** concludes.

6.1 Taxation

*'They try to make your life as miserable as they can.'*⁷⁴

Tax policy is a powerful tool for providing incentives and disincentives to investors and financiers. Flexible tax regimes can help industries deal with external shocks. During the early 2000s, the Tanzanian Investment Centre (TIC) offered a package of attractive incentives⁷⁵ to horticulture investors, but 'their implementation is poor, and businesses frequently have their imported inputs held up at the border point until duty was (sic) paid, despite the fact that they should be duty free.' Claiming back duty paid is 'a long and often futile task.' These tax issues constituted a 'major disincentive to FDI, especially when compared to Ethiopia where investors get considerable help...'⁷⁶

Many governments around the world reduced taxes on key productive sectors in response to the financial crisis of 2008-09. The GOT did not reduce taxes on the horticulture sector. Indeed, the 2009-10 budget abolished exemptions on 'deemed capital goods'. This came as 'a rude shock to the horticultural investors' since most of their agro-inputs came into this category (**Textbox 4**).⁷⁷

Textbox 4: TIC clarifies on 'Deemed Capital Goods'

The abolition of exemptions on 'deemed capital goods' announced in **Minister of Finance, Mustafa Mkulo's**, FY2009/10 budget speech upset many investors, who suddenly found themselves billed for 25 percent import duty on raw materials and other goods that had been duty exempted as part of the Tanzania Investment Centre's (TIC) incentives to investors. On January 11, 2010, the TIC posted a 'Notice to Investors' in national newspapers (see **Appendix**) assuring Certificate of Incentives' holders that the **Tanzanian Revenue Authority** (TRA) would continue to honour deemed capital goods exemptions 'until the expiry of their respective implementation period.' The Notice noted that TIC had 'continued to receive complaints from a lot of investors' and had forwarded the complaints to the **Presidential Investors Complaints Bureau**, which is chaired by the Chief Secretary, on November 9, 2009. The Bureau 'reaffirmed TRA's announcement of July 13, 2009 that such investors be allowed to continue ... enjoying tax relief...' The mandate to issue or amend Certificates is conferred to TIC by the 1997 Investment Code. The 'final fate' of new investors in priority sectors who have been

⁷⁴ Interview B.

⁷⁵ The incentives consisted of the normal tax breaks on investment capital, rights to employ foreign managers and repatriate profits.

⁷⁶ World Bank 2005:152. At the time, it took up to two years to reclaim VAT on exports although exports were theoretically VAT-exempt. The Ethiopian government provides a 70% subsidy: an investor puts up USD 300,000, the government contributes USD 700,000.

⁷⁷ Tanzania Horticulture Association 2009a.

promised tax exemptions is currently the subject of consultations with the government. The Notice ends: '**we have in place a Government that listens and care (sic) for investors.** Please be patient because Tanzania is still your best investment location' (emphasis in the original).

The **Tanzania Horticulture Association** also lobbied the government over the exemptions issue. After listing a number of problems with the tax and regulatory regime in place, TAHA requested that: 'The government should come up with ... initiatives to support this infant industry and to ensure that it is competitively positioned in the global markets. The decision on the deemed capital goods therefore comes at the worst moment...'

Some investors believe that granting and not recognising tax exemptions reflects rent-seeking practices in both TIC and TRA. Others talk of a tendency to try to squeeze every cent out of investors who are already in the country.

Source: *Guardian* 11 January 2010; TAHA 2009b:11.

As mentioned above, as well as lobbying the GOT to reduce taxes, TAHA members also successfully lobbied the TIB to extend loan repayment schedules.⁷⁸

For several respondents VAT is a big headache. VAT and import duty exemptions granted by the Ministry of Finance through the Tanzania Investment Centre are not honoured by the TRA or the Director of Customs respectively. According to some respondents, TRA officials routinely inflate tax liabilities as a ploy to negotiate unofficial deals. Claims for VAT refunds can take up to two years to complete.⁷⁹ One respondent told us that 'bureaucracy' and lack of coordination between government departments costs his business hundreds of thousands of dollars. These and other weaknesses in the business environment add an estimated *twenty percent* to the cost of doing business.⁸⁰

In the 2009 budget, the GOT also announced the imposition of VAT of 18 percent on air freight exports. TAHA protested that imposing export taxes on its members would make Tanzanian floriculture uncompetitive, and one TAHA member declared that he would relocate to Kenya if the tax were not rescinded. After three months intensive lobbying involving the Ministries of Agriculture and Finance, TRA and the Prime Minister's Office, the GOT withdrew the proposed tax.⁸¹

Lastly, local government authorities impose crop cesses of five percent on all cash crops. Flower growers say they refuse to pay the cess on the grounds

⁷⁸ Banks are generally reluctant to foreclose on significant loans, and may extend credit in the hope that things will improve for the borrower. One respondent thought that the horticulture industry in the Netherlands is likely to see more closures before the end of the current crisis.

⁷⁹ A disputed claim requires the claimant to deposit one third of the amount disputed, with no interest or guarantee of getting the money back promptly.

⁸⁰ Respondent B.

⁸¹ TAHA 2009b; Interviewee D, 21/06/10. When TAHA lobbyists spelled out the consequences of the VAT initiative on the competitiveness of Tanzanian horticulture to a senior MOF official, and that Ethiopia subsidised flower exports, he retorted: "Don't tell us how to run the government." The MOF's Tax Task Force does not have a private sector representative. Interviews reveal multiple lobbying strategies: single company, a number of companies, or collective (through TAHA).

that they receive no services from local authorities. They also point to the number of jobs they create for labourers, office workers and security personnel.⁸² While this saves them a lot of money, it does not endear them to local authorities.⁸³

Until horticulture companies can repay outstanding bank loans, they will continue to be vulnerable to foreclosure. Investors in Tanzanian horticulture are yet to see a return on their investments, and the break-even point has been put back by perhaps years as a result of the external shock of 2008-09. As of mid-2010, three companies with TIB loans⁸⁴ were considering a merger that would create economies of scale, streamline management and result in larger volume deliveries. TIB has to agree to such a move.⁸⁵

Finally, one way in which companies operating internationally avoid taxes and make illicit profits is through transfer pricing. Since flowers and cuttings produced in the Mount Meru area are mostly for export markets, and many inputs are imported directly from abroad, it is pertinent to ask whether companies indulge in this practice.⁸⁶ At the same time, only one of the companies sampled was a fully-owned branch of a mother company abroad, an arrangement that would facilitate transfer pricing between the two. None of our respondents was prepared to admit that transfer pricing was practiced in the industry. One respondent asked: 'why is this transfer pricing important? I do not know how other companies are handling it, we have open books and what [we sell] in Europe comes back to the country less costs and imports from abroad.' Another made the (unsolicited) comment: 'the myth that that flower farms are stashing cash outside needs to be forgotten' suggesting that this belief is widely held.⁸⁷

We conclude that there is no evidence to suggest that the companies under review manipulate prices with a view to exporting undeclared profits. Indeed, if the above analysis is correct, for the moment there are no profits to export: current income is all consumed in running costs and keeping the businesses afloat. Any profits are ploughed back into upgrading the facilities or expanding the acreage under cultivation.

6.2 Regulation and certification. Companies exporting produce to the European Union are subject to rigorous phyto-sanitary and environmental certification procedures. There are also Tanzanian rules and regulations to adhere to. Registration of chemicals was a problematic aspect of regulation

⁸² Employees pay NSSF pension contributions and income tax (PAYE). In one company visited, January 2010 wages for labourers are TShs 84,000 per month, with the possibility of a TShs 25,000 productivity bonus.

⁸³ TAHA has negotiated a rate of 3 percent. It is unclear whether TAHA members will be willing to pay, even at a reduced rate.

⁸⁴ Mt Meru Flowers, Tanzania Flowers and Tengeru.

⁸⁵ Interviewees G and H, 24/06/10.

⁸⁶ See Baker 2005 for a convincing exposition on how various forms of irreversible capital flight worth an estimated USD 500 billion a year from poor countries to the banking system of the OECD and its dependencies effectively counteracts the positive inflows of FDI and foreign aid. Transfer pricing is one form of capital flight.

⁸⁷ Emails from interviewees E and I, 02/07/10.

that TAHA and its members successfully renegotiated with the GOT. The Tropical Pesticides Research Institute (TPRI) is mandated to test and register all chemicals used in the horticulture industry. The registration process was superfluous since the UN Food and Agriculture Organisation (FAO) has its own internationally recognised register of certified chemicals, and most of the main chemicals were imported from Kenya, where they had already been certified.⁸⁸ Through formal PPP procedures, TAHA members successfully lobbied the government to abandon the TPRI registration procedure, eventually registering over 300 chemicals for use in the horticulture sector.⁸⁹ This is a good example of collective action and the practical application of formal procedures to overcome a business constraint.⁹⁰

Horticulture exporters are required to comply with international phyto-sanitary standards.⁹¹ Those that are subsidiaries of internationally quoted companies are bound by social, environmental and labour best practices as laid down in international conventions and agreements.⁹² All these incur significance compliance costs in the interest of minimising 'reputational risk.' None of our interviewees complained that compliance costs are excessive or prohibitive, however.

6.3 Public goods. Labour costs and the price of electricity are the main reasons why Dutch flower, cuttings and seeds companies have relocated to Africa, Central America and elsewhere in recent years. Exporting perishable goods is costly and risky. Keeping cut flowers and cuttings in cool rooms and refrigerated trucks during transportation to the airport is expensive. Costs rise when roads are poor and border procedures cause delays. Power is relatively cheap, but outages are frequent, forcing investors to install expensive generators.⁹³

Currently, most horticultural products are exported from Nairobi, which involves a 250 km journey, with possible delays at the Namanga border.⁹⁴

⁸⁸ World Bank 2005:152. At the time, TPRI did 'not recognise the test results and approval' from Kenya.

⁸⁹ Interview D (TAHA).

⁹⁰ Interviewees complained about the impractical system for environmental certification however.

⁹¹ Internationally traded vegetables, which are often eaten raw, are more vigorously controlled than flowers and seeds. GlobalGAP is an initiative of large retailers to assure adherence to phyto-sanitary standards. The African Development Fund (ADF) has been subsidising the compliance costs for African smallholders, which are \$700-800 for the initial audit and \$400 per annum thereafter. Traceability is the key issue from the point of view of managing retailer risk. (Marc Zoss, personal communication 23/06/10). Organic products have their own (increasingly stringent) certification and monitoring procedures.

⁹² In Kenya, international and local environmental and human rights NGOs have raised critical issues challenging the sustainability of floriculture, particularly around Lake Naivasha. The industry has been criticised over water, pollution, land and labour issues, though key companies claim they are addressing these. (Food and Water Watch and the Council of Canadians (n.d.) 'Lake Naivasha: withering under the assault of international flower vendors').

⁹³ Interviewee B said electricity in Tanzania is 'ridiculously cheap', the problem is reliability (18/12/09).

⁹⁴ The Arusha-Namanga road repair contract was terminated by TANROADS, leaving large stretches unsurfaced. The repairs were eventually completed by another company. The

The Secretary General of the East African Community (EAC) illustrates the impact of non-tariff barriers on the Community's decade-old Customs Union:

'... goods going into Kenya from Tanzania reach Namanga, but then get stuck because of bureaucracy and corruption at the border post. This adds one ... or two percent of the cost to the exporter. Unless these non-tariff barriers are removed ... in the end [they] become real tariffs.'⁹⁵

The urgency to move perishable produce may make the additional costs to flowers and cuttings exporters more than the 1-2 percent quoted above.⁹⁶ Respondents also complained about costly delays in clearing containers at Dar es Salaam harbour. One preferred to bring inputs through Mombassa.⁹⁷

But why ship perishable produce all the way to Nairobi, incurring additional costs at the border, when Kilimanjaro International Airport (KIA) is just down the road? We address this question below.

6.4 Airfreight

*'Horticulture is below critical mass.'*⁹⁸

Market coordination problems exist when a number of relatively small enterprises are dependent on external services best provided collectively. The cost and availability of freight services pose a market coordination problem. Transport costs can be reduced if small producers can come together to find collective solutions.⁹⁹ Ideally, horticulture exporters reduce transport risks by contracting a dedicated freight service to ship produce. The minimum freight to make this a viable transaction to the European Union is about 40 tonnes per consignment. A single small exporter relying on sending cargo with a commercial airline runs the risk of flight cancellation or being told there is no free cargo space on any particular day.¹⁰⁰ The need for exporters to coordinate their exports is clearly key during the early, formative stages of an industry, before it achieves critical mass and can contract with air freight companies from a position of relative strength. Tanzanian horticulture

Arusha-Dar road is in good condition, but there seem to be substantial delays at the Chalinzi weigh-bridge.

⁹⁵ Interview with Juma Mwapachu, Secretary General of the EAC, Vodaworld 2010:5.

⁹⁶ One respondent had an entire shipment spoiled when the transporter turned off the refrigeration during the trip to Nairobi in order to save fuel (presumably in order to sell it).

⁹⁷ This respondent had previously employed clearing agents in Dar es Salaam owned by a former Minister of Finance. When the Minister fell from grace, his company lost its comparative advantage. We discuss the container handling performance of TICTS in Cooksey and Shao 2009.

⁹⁸ Interviewee C. 'Critical mass' is reached when all or most basic upstream and downstream support services can be provided locally. Examples include fertiliser, pesticides, packaging materials, and transport. Reaching critical mass also facilitates access to banking facilities and dedicated airfreight. New flower and seed varieties are still generally externally sourced (mostly from Holland), and there are strict rules to protect breeders rights, but there is no reason why other services cannot be sources locally.

⁹⁹ Other actors along the value chain may also attempt solutions.

¹⁰⁰ Respondent B cited the risk of relying on KLM, currently the only international airline landing in Kilimanjaro International Airport (KIA), to upload a consignment of flowers.

producers are still below the critical mass that would allow for dedicated freighting.¹⁰¹

The Tanzania Horticulture Association (TAHA) has helped both flower and other horticulture exporters to coordinate freight services. Since flowers and cuttings are still by far the major contributor to horticulture exports in both volume and value, the smaller horticulture producers effectively benefit from the positive externality of access to dedicated freight services.

In the recent past, exporters have used Kenyatta, Kilimanjaro, and Dar es Salaam airports.¹⁰² Currently (2011) most produce is transported to Nairobi and Dar es Salaam.¹⁰³

Kilimanjaro airport has the advantage of proximity for most horticultural exporters but has suffered from high costs that give a competitive edge to Nairobi (**Textbox 5**), despite the time and cost of transporting goods across the Kenyan border described above.

Textbox 5: Tanzania versus Kenya export cost comparisons

Dar es Salaam and **Kilimanjaro** airports are much more expensive than **Jomo Kenyatta International Airport** in Nairobi for horticulture exporters. This is because freight handling in Tanzania is a monopoly of **Swissport**, and **landing fees** and **fuel taxes** are much higher than in Kenya. In contrast to Swissport's monopoly of freight handling in Dar es Salaam and KIA, there are five companies vying for customers in Nairobi. In 2008-09, fuel taxes alone added **\$23,000** to a typical consignment exported from Tanzania. Through intensive lobbying, **TAHA** managed to get freight costs down by an estimated 30 percent. Were the industry to achieve critical mass, there would be additional pressure on the GOT to improve the competitiveness of its airports compared to Kenya. Loan agreements between **Tanzania Investment Bank** (TIB) and flower companies specify that KIA should be used for all exports. Fortunately, this condition has never been enforced.

Source: Interview D, 21/12/09

Given the importance of transport costs and efficiency, TAHA took the initiative--with financial support from USAID and technical assistance from the consultancy firm Fintrac--to establish its own dedicated transport coordination

¹⁰¹ In December 2009, TAHA members sent about 5 tonnes of vegetables and 18 tonnes of flowers and fruit a week to Nairobi. Gibbon and Ponte (2005:155) recount how Homegrown, Kenya's largest fresh vegetable and cut flower producer /exporter, ran its own nightly freight flight to the United Kingdom. By 2003, Homegrown had 6,000 local employees and an approximate 15 percent market share of Kenyan horticultural exports.

¹⁰² Heavy capital imports are brought in through Dar and Mombassa ports. Recent port congestion has increased the turn-around time for clearing containers. Additional tax demands make matters worse.

¹⁰³ In June 2010, interviewee C told us that border hassles at Namanga are getting worse, especially on the Kenyan side: 'they are inventing more and more obstacles.' (Email 23/06/10). East African Community (EAC) reforms are supposed to put an end to these problems in the near future (i.e. during 2010).

company, known as TAHA Fresh Handling Ltd.¹⁰⁴ The initiative is described in **Textbox 6**.

Textbox 6: Dedicated air freight: victim of the global credit crunch?

The **USAID/Fintrac Tanzania Airfreight Project** was designed 'to create a sustainable, commercially viable airfreight solution' to TAHA members' export requirements. TAHA set up **TAHA Fresh Handling Ltd** as its economic wing in 2007. TAHA Fresh shares are owned by seven exporters. TAHA and TAHA Fresh entered into negotiations with private freight companies, the **Tanzania Civil Aviation Authority, Kilimanjaro Airport Development Company** (the managers of KIA), fuel companies and **Swissport Tanzania Ltd** with the objective of securing dedicated, cost-effective freight services to upload horticultural products in KIA. In 2008, TAHA Fresh entered into a contract with British freighters **MK Airlines (MKA)** to fly a B747-200 into KIA once a week to uplift between 15 and 40 tonnes of TAHA-members products, and flights began in December 2008. The deal involved MK collecting a consignment of fish from **Entebbe**, then horticulture products from KIA, and finally other freight from South Africa. The arrangement worked well, and MK made about 45 round trips to KIA, uploading over 1,000 tonnes of freight. But MK did not survive the global credit crisis and flights came to an end after nine months. Since then, most Tanzanian horticulture freight has been exported from Nairobi's **Jomo Kenyatta Airport**. TAHA expects a rapid increase in horticulture exports in coming years, which should make dedicated freighting a less problematic proposition, assuming, of course, that freight rates do not constitute a 'killer condition' for future investment and growth.

Source: Interview D, 21/12/09; Ubwani 2009; TAHA 2009c; www.fintrac.com.

As of mid-2010, exporters are using Nairobi and Dar es Salaam for their exports, pending a second attempt at securing a dedicated freight service into KIA. The vulnerability of air-freighted exports to exogenous shocks was highlighted by the temporary cancellation of KLM flights out of Nairobi and Dar es Salaam as a result of the volcanic ash cloud from the Iceland volcanic eruption in April 2010. One respondent lost €50,000 from two shipments, while in Kenya losses were in the millions of USDs.¹⁰⁵ These losses, combined with the effect of the devaluation of the Euro, meant that the respondent's company would declare no profits in 2010.¹⁰⁶

Airfreight is a vital area for collective action, and will continue to be so as and when smallholder horticulture exports take off. We have cited other examples where TAHA has played an aggressive and pro-active role in lobbying government on behalf of its members. Nevertheless, the transaction costs of such lobbying are high, and 'the bureaucratic nature of the government

¹⁰⁴ The USAID project is known as the Tanzania Airfreight Project (TAP). The umbrella USAID support is through the \$25m Tanzania Agriculture Productivity Program (Fintrac websites www.fintract.com accessed on 31/12/09). The related USAID website www.tanzania-agric.org is still (December 2009) under construction.

¹⁰⁵ By 21/04/10 Kenyan exporters had lost about \$12m. One company was losing \$35,000 a day. (Reference pending).

¹⁰⁶ Interviewee B, 21/06/10.

system makes it very difficult to push matters to the required levels as there are many layers to unfold before getting there.’¹⁰⁷

6.5 Community relations and low-level conflict resolution

‘I don’t rate corruption that high.’¹⁰⁸

On the basis of interviews, we identify two distinct expatriate strategies for protecting property rights and dealing with official rent-scraping in tax collection and regulation. One is to stick strictly to the formal rules of the game in dealing with the state and not to cultivate informal relationships with politicians and administrators. The other strategy is to negotiate with officials where necessary and to cultivate relationships with key actors from national to local level to help solve problems in the business environment.¹⁰⁹ These contrasting strategies seem to be related to whether the producer is a public/joint stock or private/family owned company. The average size of both family-owned and corporate flower farms is quite small.¹¹⁰ What seems to differentiate the main players is not size, but ownership and management structures.

The Expatriate Manager (EPM) implements the former strategy. He is employed by a medium to large company in an OECD country with a Code of Ethics discouraging bribery or involvement in local politics.¹¹¹ The general manager of one such company told us: ‘I don’t waste time talking to high officials who are absolutely not interested in my situation.’ He had not got to know local officials and had no idea who the regional and district commissioners were. He estimated that corruption and inefficiency added 20 percent to his production and transport costs. These costs are met by loans from head office.

The second ideal-type, we may call ‘the East Africa hand’ (EAH). This person and his family have lived in the region for many years, he speaks fluent (or at least passable) Kiswahili, has a lot of political and business contacts at different levels, considers the ‘informal’ route vital if one is to succeed in business, is sensitive to local cultural practices, and is often concerned with local development issues, which may affect his own long-term business prospects one way or another. The EAH may recount examples where his tactical mobilisation of the local forces of law and order have prevented a land or property dispute of one kind or another from getting out of hand. The

¹⁰⁷ TAHA 2009:23.

¹⁰⁸ Interview A.

¹⁰⁹ These are ideal-typical characterisations. Hybrid varieties are possible along the continuum between these two extremes.

¹¹⁰ Typical sample farms were 15-25 ha in size.

¹¹¹ Many multinational companies do, of course, practice large-scale bribery. Here we are describing a principal-agent situation in which the agent incurs additional costs that head office is prepared to absorb. Presumably there is a limit to this, determined by the threat to the bottom line posed by extended rent-scraping.

substantial transaction costs of this strategy are incurred to help protect the profitability of the EAH's investment.¹¹²

The EAH may have quite a low opinion of the short-term, expatriate manager. What both groups have in common is a demand for high-quality private education for their children, which is available in Arusha and Moshi.

A third strategy we observe involves an expatriate investing modestly in a JV or leasing land for an export venture. With neither the deep pockets of head office of the EPM or the social capital of the EAH, this type of expatriate is the most vulnerable to rent seeking or other risks, and the chances of failure are proportionately larger. **Textbox 3** (above) cited a recent example, where a relatively small private investment proved vulnerable to the vagaries of the local administrative, security and judicial systems.

It is worth contrasting investors' responses to rent-seeking in taxation and customs clearance on the one hand and dealing with local issues—encroachment, theft of property, local government demands—on the other. In the case of taxes and customs, there is little that can be done to resolve disputes by adopting a culturally sensitive approach, by 'going with the grain'. Faced with an unexpectedly high assessment, a tax payer can challenge it or negotiate a compromise. Negotiation provides a rapid solution to what might otherwise turn into an expensive and drawn-out dispute.

On the other hand, investing time in cultivating good relations with local officials and communities helps resolve the local problem. One respondent noted that trying to pull rank by going directly to higher officials to solve local problems could rebound in the longer term, for example, when the higher officials move on, as they frequently do, leaving the lower level official to seek retribution (village and ward-level officials are likely to be more permanent). Sticking rigidly to the formal rules is trumped by going with the grain of local practices and sensibilities. An example is identifying petty thieves informally rather than calling in the police and pressing charges. Roasting a goat and sharing drinks with village leaders is surely a more sensible way of resolving local problems and keeping potentially troublesome neighbours 'on side' than sticking rigidly to formal contracts, official procedures and legal principles.¹¹³ Showing respect for local people and practices establishes trust and good working relations in ways that relying on formal contracts and the legal system alone could never achieve.¹¹⁴

¹¹² An interviewee received a phone call as we were talking and showed me the caller's name before answering. It was a senior regional official, wondering why the interviewee hadn't been over to see him at home as promised (it was Christmas week). Giving Christmas presents probably doesn't cost very much by national standards of rent-seeking.

¹¹³ One exporter told Kelsall in 2008 that he had had numerous court cases to resolve conflicts. This person refused to be interviewed for this report on the grounds that there is too much research done which serves no practical purpose.

¹¹⁴ In *The Division of Labour in Society* (1883) Durkheim discusses the 'non-contractual elements of contract.' His insight was that formal contracts are much more robust if they inhere in well-established personal relations between contracting parties. The anomic nature of large-scale, modern formal institutions makes this embeddedness extremely problematic,

6.6 Marketing strategies. Though traditionally export horticulture has been marketed through the Dutch auctions ('the Clock'),¹¹⁵ a number of our interviewees were targeting niche markets in various European Union countries, including retail chains and wholesale markets. Though substantial costs are involved in identifying potential new customers, and trust needs to be established on both sides, the freight risk is eliminated since shipments are based on firm orders, not auctions (where finding a buyer is not always guaranteed). One of our interviewees saw a 'definite advantage to Tanzania as a supplier to fair trade outlets in Europe.'¹¹⁶ The changing nature of global value chains for horticultural produce presents potential constraints on seeking out niches in this way, as discussed in the following section.

6.7 Market failure and coordination

*'The GOT needs to create a culture in which civil servants help and not hinder exporters.'*¹¹⁷

The main function of coordination is to address market failures, which are inevitable in the early stages of a new industrial sector's development. An essential form of coordination provided by the state is the provision of human and economic capital ('public goods') without which no new private initiatives would be practicable. States and the private sector may coordinate activities to different degrees, with an interventionist state providing additional coordination services in some cases, and in others an organised private sector doing the same, as with the airfreight example discussed above. Kenyan floriculture benefits from the local private provision of seeds, fertiliser, pesticides, technical advice, packaging materials, and so on. The state in turn provides human resources (through the education system) and relatively efficient infrastructural and cargo handling services. These externalities explain Kenyan flower/horticulture cost advantage over Tanzania. In the early stages of developing an export industry, it is unlikely that private coordination will prove viable, which is why a pro-active state is essential.¹¹⁸ Below we consider the roles of the state, the industry and aid agencies in performing coordination functions to address market failure.

Gibbon and Ponte's parsimonious analysis of international value chains for six African agricultural exports confirms the crucial role of the state in promoting private sector-driven investment and growth. These authors conclude that recent trends towards more globalised capital and consumer markets have tended 'to reproduce and extend pre-existing patterns of inequality.' There has emerged a 'widening gap between the capacities of most African

of course. 'Going with the grain' suggests alternative conflict resolution strategies, which is not the same as enriching formal contracts with a 'human dimension'.

¹¹⁵ There were formerly three companies running the daily Dutch auctions; there is now only one. (Interviewee G, 24/06/10).

¹¹⁶ Interviewee I, email message, 01/07/10.

¹¹⁷ World Bank 2005:153.

¹¹⁸ Rodick (2004:13) '...with a nascent industry and a private sector that has yet to be organized, a government role will be required.'

governments and those of other developing countries to design and implement appropriate interventions.¹¹⁹ Moreover, the few success stories they identify--Zimbabwean cotton, Mauritius clothing (up to the late 1990s), Kenyan fresh vegetables, South African citrus--*'owed more to private coordination than to public action.'* Tanzania's position in coffee and cotton value chains has deteriorated in the face of globalised competition and poor performance in state coordination in the last two decades.¹²⁰

The success stories, they argue, depended on 'high concentrations of private economic power' that 'hardly exist outside a few countries in the region, and these countries tend to have non-African business elites. As a result, any meaningful improvement in Africa's position within GVCs [Global Value Chains] is bound to rely on foreign direct investment in the short term and a resuscitation of the capacities of the African state in the longer one.' We need, therefore, to study 'private economic power' and 'frameworks for public regulation' together.¹²¹ 'This is particularly the case for agricultural products, where regulation has a potentially decisive role in lowering entry barriers for local producers.'¹²²

Gibbon and Ponte also distinguish between buyer-driven and producer-driven forms of industry governance. They document the rise of 'buyer-drivenness against the background of changing regulatory environments (both internationally and within individual countries) and the emergence of increasingly complex sets of standards.' These global factors driving value chains influence the relative bargaining strengths of producers and buyers. A weak state and a small/weak private sector are the least conducive combination for successful insertion into increasingly competitive and rapidly changing international markets.

If both self-coordination and state-coordination are problematic, what about donor coordination? Development agencies have taken the lead in promoting the private sector in agriculture, but through a large number of mostly uncoordinated projects. For example, in FY 2006/07, there were at least 140 donor-funded activities promoting the private sector in agriculture, with total commitments of USD 445 million (**Appendix 2**).¹²³ But of the USD 1.93 billion

¹¹⁹ Gibbon and Ponte argue that Kenyan and Ethiopian coffee and Ghanaian cocoa have retained advantageous positions in global markets as a result of inertia, not action.

¹²⁰ Emphasis added. See Gibbon and Ponte 2005:205 for cotton and coffee, Tadreg 2008 for cashew, and Binswanger and Gautam 2010 for the overall picture. These authors suggest that Tanzania should focus on grain, horticulture and livestock exports for the regional market rather than try to compete in global markets, where other, more 'developmental' states, have captured much of the country's market. For example, starting from scratch, Vietnam has overtaken Tanzania in both coffee and cashew exports.

¹²¹ Rodrik (2004:8) makes a similar point: 'Most significant instances of productive diversification are ... the result of concerted government action and of public-private collaboration.' He cites the example of orchids in Taiwan, where the government invested \$65 million in promoting the new industry, providing all technical and infrastructural services, except the privately-owned greenhouses, and even these could be built with low-interest loans to farmers.

¹²² Gibbon and Ponte 2005:160.

¹²³ Wolter 2008. The actual number of projects is likely to be higher since NGOs and non-DAC donors such as China or the Arab Bank for Economic Development in Africa (BADEA)

proposed for the ASDP (Agriculture Sector Development Programme) for 2007-13, a mere USD 8.8 million was earmarked for 'Marketing and Private Sector Development', (0.005%) suggesting that this is not an important GOT priority, but a donor 'enclave'.

In her discussion of aid to Tanzanian agriculture, Wolter notes that 'the evidence so far suggests that the involvement of recipient, *and especially the private sector*, in the development and implementation of DADPs is limited.'¹²⁴ She cites evidence suggesting that 'donors were ... reluctant to share the lessons they had learnt from their projects. ... As a result the chance to feed project experience into programme support was largely missed.' Furthermore, '[t]he 2007 World Bank evaluation of several of its projects in the agricultural sector points to the Bank's *limited analysis beforehand of the institutional capacity of the GoT to implement the ASDP*.'¹²⁵ Finally, the Agricultural Marketing Systems Development Programme (AMSDP) was 'one of the few projects addressing ... agricultural marketing.' Financed by IFAD, the AfDB and Ireland Aid, this USD 43 million project was operating in eight regions by 2008. A final evaluation has been completed but not yet published. A member of the evaluation team told us informally that the project was unlikely to deliver any sustainable benefits for the target population.¹²⁶

One can visualise a whole range of market-related projects both large and small scattered all over the country with no overall coordination, synergy or mutual learning, not admitting or responding to failure, and lacking almost entirely in any public oversight or popular accountability.¹²⁷ Elsewhere, we have explored the possibility that aid is, on balance, a negative force in terms of stimulating private-sector, market-driven development.¹²⁸

This section has reviewed the main factors determining the profitability of export horticulture. Taken together the production and transaction costs incurred in relation to most of the factors reviewed have assured that our 'dependent variable'—profitability—turns out to be negative for our sample of companies. While we cannot give weights to the various factors undermining

are not included in the total. Donors such as USAID operate mainly outside the GoT structures. Four donors were also basket funding the implementation of the ASDP (Agriculture Sector Development Programme). The largest single item is USD 280 million for infrastructure (14 donors). The ASDP has been superseded by Kilimo Kwanza.

¹²⁴ Wolter 2008:25. DADP are District Agricultural Development Plans. Emphasis added.

¹²⁵ Wolter, citing Greeley (2007) and World Bank (2008). Emphasis added.

¹²⁶ Interviewee J, 11/06/10.

¹²⁷ This problem dates back at least until the 1970s. 'Since 1974 a positive blizzard of programmes (by crop, input and region) has emerged and presumably has had some positive effect on output. ... The ... build-up of new programmes ... in some cases appears to have suffered from lack of coherence, priority setting and internal contradictions' (Green et al. 1980: 94-5).

¹²⁸ Cooksey 2010 argues the case that aid to heavily aid-dependent countries like Tanzania is developmentally dysfunctional. There is an urgent need to integrate the impact of aid into our understanding of the post-colonial state. To date, econometric studies have dominated the field; what is needed is national and sectoral case studies. In a recent study of population politics, Richey (2008:2) states: 'there continues to be a familiar disconnect between international development, national policies, and local implementation.'

profitability, there is no doubt that the 2008 credit crisis dealt a heavy blow to global horticulture. The GOT has shown some sympathy towards the sector, but has not acted decisively to lessen the fallout from 2008. Low state commitment to promoting private sector profitability discourages potential new investors from venturing into the Tanzanian market.

7.0 Rent-seeking, politics and bureaucratic autonomy

How have the management of rent-seeking, the level of political inclusion, and the degree of bureaucratic/technocratic independence from politics influenced the outcomes reported in **sections 4-6** above? The main issues are summarised in **Figure 1**.

Figure 1: APPP analytical framework and the IBE for export horticulture

	Land rights	Investment environment	Business environment
Coordinated rent-seeking	<i>Local coordination of rights acquisition & dispute resolution.</i>	<i>TIB loan involved political patronage.</i>	<i>Tax extortion not externally coordinated. Low-level rent-seeking handled informally.</i>
Inclusive politics	<i>Land rights not highly politicised.</i>	<i>Land rights not highly politicised. Policy donor-driven.</i>	<i>Consensus on state-driven policies and interventions.</i>
Isolation of technocracy	<i>Informal political solutions to land disputes.</i>	<i>Low state capacity to plan, coordinate and implement policy. Donors drive policy and projects.</i>	<i>Policy development politically driven. Donors also drive policy and projects. Bureaucracy undermined by rent-seeking.</i>

7.1 Rents and rent-seeking. In a small, relatively obscure sector like Tanzanian export horticulture, we might not expect to find much evidence of centralised rent-seeking. The few tens of millions of Euros invested in export horticulture are of little interest the top decision-makers, and most rent-seeking is likely to be at the regional level and below. Regional and district authorities were involved in securing relatively secure land rights for farmers after the reversal of ujamaa land and agricultural policies during the late 1980s and 1990s. At the same time, local elites were involved in acquiring land for development and speculative purposes.

Not surprisingly, there have been some conflicts between the two groups. It is unlikely that the resolution of these conflicts involved any serious high-level coordination efforts, however. Were the sector to transform into a significant economic player, it would inevitably begin to attract more central attention.

There has also been collaboration between local elites and foreign farmers. We described above how a local ruling party politician was instrumental in obtaining investment finance for five horticulture companies, mostly European-owned, from the TIB on relatively advantageous conditions. The value of rents created through these loans cannot be assessed *a priori*: if all the borrowers default on their repayments, the (dissipated) rent will be the value of the loan, plus accrued interest.

The TIB loans to exporters were financed by an external lending agency, and the promotion of commercial horticulture has been heavily donor-driven. Yet the loans were justified in investment terms and could well be considered an example of a developmental approach to rent-creation under conditions of primitive accumulation. The problem is that the state does not follow up with complementary facilitating policies. Similarly, the small-scale horticulture sector seems to be headed for a state-led development policy, with the private sector demoted to a bit-part player. TAHA's success is the exception which proves the rule.

We argue above that the business environment has been undermined by sudden tax changes and arbitrariness in tax administration. These are signs that the bureaucracy lacks the capacity to handle private sector issues in a consistent manner, and that widespread rent-scraping occurs in the absence of central sanctions.

7.2 Inclusive politics. Land and other issues related to export horticulture have not been seriously politicised.¹²⁹ No ruling party or opposition politicians have used conflicts over land or water rights involving foreign companies to build political capital. No prospective MP has threatened to get rid of foreign farmers if elected. These are particularly striking observations when one considers that the Arusha-Kilimanjaro axis is a key area of opposition mobilisation and modest electoral success.¹³⁰ The one example of recent politically motivated conflicts we came across concerned alleged in-fighting in the ruling party over a hotel project (see **Textbox 2**). The continued involvement of local politicians in export horticulture could presage a new type of PPP, comparable to the Kenyan model. But countervailing forces could easily undermine this positive trend before it becomes deeply embedded.

At the policy level, we do not detect major differences between the main parties' views on foreign investment or private sector development that could influence the politics of the horticulture sector. The formal policies are largely exogenous in origin and the national consensus is that the state should intervene to control the private sector's proclivity to short-change smallholders and the national treasury. This conclusion applies in general and in the particular case examined here.

¹²⁹ Compared, say, to the mining industry

¹³⁰ In the 2005 elections, Arusha and Kilimanjaro Regions returned one Chadema MP each and four and seven CCM MPS respectively (National Electoral Commission website: www.nec.go.tz, accessed on 09/07/10).

7.3 Isolation of the technocracy. Finally, has political involvement in technical decision-making influenced the trajectory followed by export horticulture to date? The 'technocracy' has played a minor role in policy development and implementation, which is heavily donor-driven, as discussed above. Donors in turn 'projectise' interventions, while facilitating the *ad hoc* interventionism of the Tanzanian state.¹³¹ Our review suggests that the autonomy of the bureaucracy is not the key issue: what matters is the capacity of the bureaucracy to play its role in the sectoral development process effectively and efficiently. The latest horticulture strategy allocates multiple coordination roles to the state bureaucracy that presupposes state capacity. Yet technical capacity is limited, and what there is is likely to be hijacked by the practice of patronage.

The modest growth of export horticulture in Tanzania has been achieved without assistance from a technically competent (agency of the) state addressing market failures through coordination and the effective provision of public goods. To function as an effective coordinator, the bureaucracy would need protection against political clientelism and rent-seeking pressures from private business that serve to limit new entry into the sector. From a developmental perspective, it is not the *presence or absence* of collaboration between politics, bureaucracy and the private sector that matters but its *content*.¹³²

8.0 Does Tanzanian horticulture have a future?

*'Come back in ten years and you'll see how this sector has developed.'*¹³³

Figure 2 provides a contemporary SWOT analysis of the key factors affecting investment and profitability discussed in **sections 5** and **6**.¹³⁴ A SWOT for floriculture exports gives a rather mixed picture.

¹³¹ How? By basket-funding the ASDP, by financing stand-alone projects, and by putting large amounts of 'fungible' money in the national budget.

¹³² See Rodrik 2004 for a comprehensive analysis of what this means in practice.

¹³³ Interviewee E, 24/06/10.

¹³⁴ The author downloaded the latest draft of the HODECT National Horticulture Strategy, which contains its own SWOT, after drafting **Figure 2**. Though concerned mostly with small-scale horticulture, there are nevertheless enough commonalities to make it worth comparing the two SWOTs. The comparison shows a relatively high agreement between this report and HODECT on 'strengths', but very divergent views on weaknesses, risks, and opportunities. Though HODECT mentions many market failure issues--weaknesses in input and output markets, credit, and technical services support--it does not address the capacity of the state to tax, regulate, coordinate and service the sector effectively and efficiently.

Figure 2: SWOT analysis for horticulture exports

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Agro-climatic conditions • Law and order • Undisputed land & water rights • Communications • Cheap labour • Flexible creditors • Some collective action • Responsive state institutions • Relatively light regulation 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Growing international demand for floriculture products • Pro-export, pro-private sector official policies & senior officials • Investment incentives • New high-potential floriculture areas • Tanzanian nationals beginning to own farms • Kenyan industry migrates to reduce political risks
<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Unpredictable, arbitrary taxes • Rent-scraping (customs, port) • Unpredictable power supply • Lack of critical mass & positive externalities • Indebtedness to banks • Exchange rate risks 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Anti-FDI politics & policies • Global competition for market share • Politicisation of land & water rights • Extraneous economic & financial shocks • Exchange rate risks • Civil society activism

On the one hand, the overall business environment ('Strengths') is tolerable even if it is not pro-actively supportive of horticulture exporters. The small size and relatively recent arrival of the industry in Tanzania means that beneficial backward and forward linkages within the local and national economy are yet to be developed, as described above.

We have reviewed the main factors influencing profitability: taxation, regulation and coordination, public goods provision, conflict resolution, and marketing strategies. Largely informal local conflict resolution is generally effective, but it is time-consuming and perhaps unreliable in the longer-term. Poorly functioning public goods add to production costs, but electricity is, contrary to public opinion, relatively cheap (but unreliable). Market regulation has shown some improvements, as a result of TAHA and other lobbying at the national level, but regulation and taxation are unpredictable, and add to costs. The state has not yet set up a regulatory framework to coordinate the sector, but the current draft horticulture strategy does not inspire confidence that the GOT can produce a viable strategy that divides tasks strategically between it and the private sector.¹³⁵

¹³⁵ Since the strategy is said to be 'market-oriented' and 'private-sector driven' (2010:11) we would have expected it to be built around a private sector perspective. Instead, the narrative is of a planned, coordinated, broad-based strategy involving 'awareness-raising' among farmers, integrating horticulturalists into district planning processes, and a number of other impracticable and irrelevant exercises from the point of view of private sector led development. The seven 'pillars' of the strategy are to be implemented through 89 interventions by: industry associations (including TAHA) (46 mentions); development partners (43); the private sector (40); Ministry of Agriculture, Food and Cooperatives (24); the GOT/local authorities and other ministries and agencies (35); other non-state (including) (8). At least the private sector is accorded more responsibilities (94) than the state (59) and

Despite serious exogenous shocks in recent years, Tanzanian horticulture exporters remain encouragingly upbeat about the future of their industry. Though most of them are heavily indebted to banks, they believe they can ride out the recent financial shocks and become profitable in the next few years.

9.0 Conclusions

Tanzania is fortunate to enjoy resource endowments permitting the establishment of viable export horticulture. We argue that FDI in the sector was not the result of a propitious IBE, but a mixture of what Rodrik calls ‘random self-discovery attempts’ and comparative advantage.¹³⁶ ‘Self-discovery’ in Tanzanian flower exports involved ‘a huge element of developmental work done by the pioneer flower farms’, without which there would probably be no flower industry in the area today.¹³⁷ The very slow growth of the industry during the 1990s was followed by more significant growth during the first years of this century, but the global credit crisis arrived before the industry had reached anything like critical mass, seriously compromising the prospects of profitability and sustainable growth, at least in the short-term. As well as these conjunctural (exogenous) constraints on the IBE, there are also numerous structural (endogenous) constraints to overcome, as discussed in this report.

If the Tanzanian tourism industry continues to grow, and European and other airlines begin to land regularly in KIA, then it will be more convenient and cheaper to export all types of horticultural produce than at present.¹³⁸ The concurrent development of a floriculture, horticulture and tourism *cluster* would produce additional added value through scale economies and externalities.

We have noted the Tanzanian state’s responsiveness to exporters’ complaints concerning taxes and regulation. But the state needs to actively promote the sector, not just reverse its decisions when businesses complain. Without a dramatic improvement in the performance of the state’s incentive-providing, coordination and regulatory roles, it is difficult to see how Tanzania can become even a significant ‘second-tier supplier’, let alone a major player, in the global horticulture value chain.¹³⁹

Gibbon and Ponte propose that, where state capacities are weak, a strong coordination role for a well-organised private sector is the best solution to market failures. But Tanzania does not have a ‘high concentration of private

development partners (43). Kilimo Kwanza has a similar over-ambitious allocation of responsibilities (Cooksey 2009).

¹³⁶ Rodrik 2004:10.

¹³⁷ Email from interviewee I, 01/07/10.

¹³⁸ This was the opinion of interviewee H (24/06/10).

¹³⁹ Kenyan horticulture is 10-20 percent more efficient than its Tanzanian neighbour. Ethiopian flower exports took off rapidly on the basis of huge state subsidies...

economic power' and the main private actors are foreigners.¹⁴⁰ To prosper in the face of regional and global competition, Tanzanian floriculture will need much more official support and coordination than it has received to date.¹⁴¹ Failing this, the main coordination efforts will come from foreign and local investors. The worst of both worlds would be strong state coordination efforts that do not deliver public goods effectively, in a mediocre business environment.

Our fieldwork in this sector and more generally suggests that the Tanzanian state has not developed an unambiguously pro-private sector ideology or an effective coordination capacity within the bureaucracy at national and local levels that could make exports in this or other sectors internationally competitive. Tanzanian politics are driven by ideological forces and self-interest. The ideology contains elements of defensive nationalism and mistrust of outsiders. The state routinely initiates agricultural marketing policies designed to control the private sector, not empower it, on the grounds that 'unscrupulous' middlemen exploit small farmers.

Can the exporters, through TAHA or other mechanisms, challenge the current state-dominated policy-making and implementation practices? Even if they manage to address sector-specific issues in collaboration with the state, will they not be vulnerable to other state failures in the provision of public goods, and the rent-scraping proclivities of officialdom?

The horticulture strategy is more concerned with smallholder horticultural development than with floriculture, and it may be that a dozen or so foreign exporters will be able to evade the attention of the state in ways that potential commercial horticulturalists and out-growers will not. If the proposed horticulture strategy fails to stimulate commercial exporters and out-grower schemes, it will by the same token undermine floriculture, which would benefit from the industrial deepening that the parallel development of the two sub-sectors could help bring about.

Tanzanian policymakers easily forget that ultimately external markets determine the nature of Tanzania's insertion in global value chains, horticultural included, not the implementation of a national strategic blueprint. Yet the revised horticulture strategy proposes just such a blueprint.

¹⁴⁰ Compare Kenya, where significant players in the politico-bureaucratic class are investors in export horticulture. Tanzania's equivalent class owns between it substantial areas of rural land, but much of it is undeveloped, and large commercial investments are relatively rare.

¹⁴¹ If, for example, floriculture has to relocate its development hub to Babati, the government will have to provide: roads, power supply, security and title deeds, or delegate their provision to reliable agents. What precedent could we cite to demonstrate state capacity to provide these public goods effectively and efficiently?

Appendix 1: TIC and Deemed Capital Goods

Guardian
11 Jan 2010



TANZANIA INVESTMENT CENTRE

NOTICE TO INVESTORS

The TRA's Public notice of July 13, 2009 clarified that TIC's Certificate of Incentives issued prior to June 30, 2009 will continue to be honored and that TRA will grant tax relief to deemed Capital Goods until the expiry of their respective project implementation period. We have, unfortunately continued to receive complains from a lot of investors that they are still facing problems when it comes to clear their project establishment equipment at the point of entry because their Certificates have either been amended to adjust the projects implementation period or reflected changes like shareholders structure or location. Because these problems have kept on reoccurring, TIC decided to forward such complaints to the **Presidential Investors Complaints Bureau** which is chaired by the Chief Secretary November 09, 2009.

Following that submission TIC is pleased to announce that the Bureau re affirmed TRA's announcement of July 13, 2009 that such investors be allowed to continue to enjoying Tax relief until the expiration of their respective project's implementation period **whether the Certificate has been amended or not** because the Mandate to issue or amend the Certificate is conferred to TIC by the investment code of 1997.

For new investors who are going to invest in Priority Sectors and whose establishment goods were deemed since 1998/99, consultations are being made within the Government and the final fate of this matter will be announced transparently.

We therefore wish to assure the investors Worldwide that **we have in place a Government that listens and care for investors.** Please be patient because Tanzania is still your best investment location.

LET US BUILD TANZANIA BY INVESTING IN TANZANIA

26157501

Source: *Guardian*, 11 January 2010

Appendix 2: Tabulation of support to private sector in agriculture

Table 1. Ongoing Support to Private Sector Development in Agriculture
(Fiscal Year 2006/07, commitments in \$ million)

No	Area of Intervention	Donors	No. of Projects	Total Commitment	% of Total	Smallest Project	Largest Project	Average per Project
1	Firm / Farm Level							
1.1	Access to Inputs and Irrigation	Denmark, FAO, IFAD, Japan	12	7.84	1.8	0.40	2.40	0.65
1.2	Production	AfDB, Belgium, EU, FAO, Ireland, Japan, UNIDO, USA, WFP	19	15.63	3.5	0.03	6.36	0.82
1.3	Agricultural Marketing	AfDB, EU, IFAD, Ireland	3	18.42	4.1	0.20	13.03	6.14
2	Public Sector							
2.1	Agricultural Policy and Interventions	Denmark, EU, FAO, Ireland, Japan, Norway, UNIDO	12	13.90	3.1	0.06	6.33	1.16
2.2	Trade, Commerce, Industry	France, Sweden, Switzerland, World Bank	9	12.53	2.8	0.01	7.50	1.39
2.3	Business Environment	Denmark, Germany, Netherlands, Norway, Sweden, UK, World Bank	14	29.64	6.7	0.44	6.00	2.12
2.4	Specialised Agencies	Sweden	1	1.04	0.2	1.04	1.04	1.04
2.5	Economic Infrastructure	AfDB, Belgium, Denmark, EU, France, Germany, Japan, Norway, Sweden, Switzerland, UNDP, UNESCO, UNIDO, World Bank	46	280.34	63.0	0.05	46.40	6.09
3	Public/Private Sector							
3.1	ASDP Basket	EU, FAO, IFAD, Ireland, Japan, World Bank	1	28.87	6.5	0.33	14.20	28.87
3.2	Business Development Services	FAO	1	0.20	0.0	0.20	0.20	0.20
3.3	Advocacy/ Lobbying for Policy Reform (FBOs)	EU	1	0.20	0.0	0.20	0.20	0.20
3.4	Other	Denmark, EU, World Bank	3	14.88	3.3	1.24	9.60	4.96
4	PSD Support							
4.1	General PSD Support	Finland, Sweden, Switzerland, UNCDF, UNDP, UNIDO, World Bank	10	12.21	2.7	0.02	7.60	1.22
4.2	Financial Sector	AfDB, Canada, Denmark, Netherlands, Sweden, UK, World Bank	8	9.30	2.1	0.80	2.07	1.16
			140	445.00	100.0	0.01	46.40	-

Source: Wolter 2008

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