Integrating Food and Nutrition Security into Economic Transformation and Industrialization Agenda: How can agriculture be the driver rather than follower of economic transformation in Tanzania?

New Dodoma Hotel, Dodoma

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Policy Reforms to Catalyze Agriculture Transformation and Agro-industry

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Outline

- Introduction
- Building upon successes of ASDP-1
- ASDP-2 has to address new challenges and opportunities
- Policy Reforms to Catalyze Agriculture Transformation and Agro-industry
INTRODUCTION

The Agricultural sector has great potential in transforming Tanzania’s economy:
- Key driver of industrialization in the country
- Employs 65.5% of population
- Contributes to 29% of the country’s GDP
- Sector has performed modestly during the last 15 years
- Sector’s performance doesn’t match the country’s natural resources and market opportunities
NEED TO BUILD UPON SUCCESSES OF ASDP-1

ASDP-1 (2006 – 2015) key achievements:

- Sector’s annual growth of 3.5% exceeds population growth of 2.8%
- Food self-sufficient during the last 15 years despite sporadic shortage among 30 districts
- Performance in some value chains has been beyond expectation
- Compelling evidence on agricultural sector transformation
- Improvement in nutrition: decline in stunting from 42% to 34%
- ASDP-2 builds on successes of ASDP-1
  - Among the priorities of ASDP-2 includes catalyzing private sector investment (Component 4)
  - Prioritization of Component 4 is a reflection of consensus among agriculture stakeholders on the need to address binding constraints to agricultural sector growth
GOING FORWARD: ASDP-2 TO ADDRESS NEW CHALLENGES AND OPPORTUNITIES

- Rising food prices
- Population explosion
- Changing demographics – youth bulge
- Rapid urbanization
- Rising middle class – rising food imports
- Climate change
- New technologies
- Regional integration – EAC, SADC, etc.
- Potential “Dutch disease” as gas sector emerges
Recent Reforms - 2017/18: Agricultural Fees & Charges Reduced/Removed

- Corporate tax reduced from 30% to 10% during the first 5 years of assemblers of vehicles, tractors and fishing boats.

- Tax exemptions – VAT
  - On capital goods on machines and plants in production of edible oil, textiles, leather and pharmaceuticals (including vet.)
  - Fertilized eggs for incubation
  - Locally produced animal fees

- Import duty reduced on wheat from 35% to 10%; Escrow account established to ease refund of import duty on industrial sugar.
Excise duty increased on carbonated drinks, mineral water, juice, beer, etc.

Produce cess – reduced from 5% to 3%

Others: Reduction of 108 nuisance fee and charges – crops=80, livestock=23, fisheries=5
1. Reverse a declining public investment in agriculture

2. Reduce cost of production and enhance producers’ competitiveness

3. Increase the competitiveness of agro-industry

4. Ensure predictability in Agriculture Markets and Trade Policy

5. Establish a legal framework to enable SMEs leverage movable assets to access credit

6. Address challenges in farm labor through youth engagement

7. Other policy reforms to catalyze agriculture transformation and agro-industry
1. REVERSE A DECLINING PUBLIC INVESTMENT IN AGRICULTURE

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| Need to reverse a declining public investment in agriculture                 | ▪ Important for inclusive growth and deepening the impact of rapid economic growth  
▪ Success of industrial revolution hinges upon agriculture transformation  
▪ ASDP-2 builds upon successes of ASDP-1  
▪ Decline in ag sector annual growth from 2.3% in 2015 to 2.1% in 2016 (NBS/BoT, 2017), while population grows at 2.8% p.a. (Census NBS, 2013)  
▪ Decline in share of agriculture budget (2016 ASR, 2017/18 Budget speech)  
▪ Tanzania lags behind other countries in SSA in meeting the Maputo/Malabo target (ASR, World Bank 2017)  
▪ Decline in the share of agriculture in total lending by the financial sector (BoT, 2018)  
▪ Public investment in public goods (research, extension, rural infrastructure) is critical to leveraging private sector investment | ✓ Increase agricultural sector budget to meet the CAADP (Maputo/Malabo) commitment of 10% of the national budget  
✓ Need to pay attention to budget implementation e.g. only 3% of development budget was disbursed in 2016/17  
✓ The budget needs to reflect priorities under ASDP-2. E.g. NFRA and Input subsidy account for the largest share of the agricultural sector budget  
✓ LGAs fall short in meeting the guideline for budget allocation to agriculture for own source revenue (20% agric., 5% livestock & 3% fisheries) |
## 2. REDUCE COST OF PRODUCTION

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| Further reforms needed to reduce agriculture production cost – specifically LGAs and regulatory body fees and charges | - Multiplicity of fees and charges are a disincentive to the agricultural production  
- The GoT in 2017/18 budget session took bold steps to reduce produce cess from 5% to 3%, abolish 80 fees and charges in agriculture, especially those related to agricultural boards  
- Further reforms are needed to make agriculture profitable to producers | ✔ International best practice for taxes based on turnover is for rates which are under 1% e.g. service levy  
✔ Define a timeline for gradual reduction of produce cess to under 1%  
✔ Need to reinstate the 1 ton threshold for cess exemption as stipulated in the initial 2017/18 Finance Bill  
✔ Producers paying service levy should be exempted from produce cess  
✔ Regulatory fees and charges need to be further reduced  
✔ Consider a “single rate – Single window/platform” approach to consolidate all regulatory fees for easy administration and monitoring |
## 3. Enhance Competitiveness of Agro-Industries

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| Reforms to enhance the competitiveness of agro-industry: with special attention to priority sectors – edible oil, dairy, livestock, poultry and horticulture | - Critical to agriculture transformation  
- **Recent food import averages around $ 640 million.** Mostly from **edible oil, sugar, wheat, livestock products (dairy, meat,) & horticultural products (fruits and vegetables)** (BoT/NBS reports)  
- Fertilizer import bill is approx. $120 million per year  
- Potential for farmers and investors in the **import substitution**  
- VAT applies to several agricultural inputs & implements, exempted under the repealed law (VAT Act of 2014)  
- High production cost hampers competition with imports as well as in regional and international markets  
- Dichotomy in policy objectives between SMEs and large scale processors. More consensus on value chain development strategies with defined timelines e.g. a phase out tariff structure | - Defined *timelines* for various fiscal incentives  
- **VAT exemption for locally produced commodities – edible oil**  
- **VAT and excise waiver for veterinary pharmaceuticals**  
- Tax exemption to **packaging materials for seeds, horticultural produce, dairy products and feed**  
- VAT exemption for post harvest handling technologies, agriculture insurance, spare parts for greenhouse & irrigation systems  
- Establish a review committee at MoA to review VAT/Import duty exemption before submission to MoFP  
- Need for policy predictability and coherence |
## 4. Agriculture Marketing and Trade Policy Predictability

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<td><strong>Policy predictability</strong></td>
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<td>✓ Policy predictability &amp; coherence needed urgently to benefit farmers &amp; agro-processors</td>
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<td>• SSA spends over $35 billion annually in importing food</td>
<td>✓ Rule based &amp; consultative policy making would alleviate challenges in ag marketing</td>
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<td>• Low intra-regional trade in Africa (10%), EAC (12%) and SADC (9%) compared to Asia (40%)</td>
<td>✓ Fiscal incentives could contribute to alleviate the seasonality of production</td>
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<td>• Food trade offers a great opportunity to promote intra-regional trade</td>
<td>✓ Further incentives needed to promote local manufacturing of such technologies</td>
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<td>• Tanzania has a comparative advantage in resources and geographical position</td>
<td>✓ Rationalize the number of regulatory institutions</td>
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<td>• Food crops trade could promote inclusive growth</td>
<td>✓ Introduce open and data driven decision support</td>
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<td><strong>Seasonality of production</strong></td>
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<td>• Seasonality of production is a challenge to farmers and sustainability of agro-processing industry e.g. dairy, tomato, etc.</td>
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<td>• Glut during harvest season is challenge for farmers in selling their produce while scarcity during off-season threatens agro-industry and laying-off of workers</td>
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<td>• Agro-industry has resorted to importing raw produce during off-season which often is cheaper than locally grown produce</td>
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<td>• Improve storage and use technology</td>
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<td>Higher costs of doing business</td>
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5. ESTABLISH LEGAL FRAMEWORK TO ENABLE MOVABLE ASSETS TO ACCESS SMES LEVERAGE CREDIT

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| Legal framework to enable SMEs leverage movable assets to access credit | ▪ Access to finance has increased but SMEs still face a challenge particularly in agriculture and rural sector (FSDT – Agricultural Leasing Market Scoping Study for Sub-Saharan Africa, 2017)  
▪ Kenya and several other countries in the region have passed their Secured Transaction Law  
▪ The law could also enhance access to finance for women and youth  
▪ The law could make other related laws more effective e.g. the 2005 Warehouse Receipt Law and the 2008 Leasing Finance Law | ✓ Expedite the process to establish a legal framework – Secured Transactions Law  
✓ Establish collateral registry for movable assets |
### 6. ADDRESSING CHALLENGES IN FARM LABOR THROUGH YOUTH ENGAGEMENT

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| Addressing challenges in farm labor while promoting youth engagement in agriculture | - Nearly two thirds of Tanzania’s population is youth  
- Agriculture could alleviate youth unemployment if strategic investment are made to **attract** them into the sector  
- High value annual crops, irrigation, post-harvest activities and farm technologies appeal to youth | ✓ Introduce agriculture in VETA curriculum  
✓ Improve MATI and LITI curricula for entrepreneurial farmers  
✓ Prioritize value chains preferred by youth  
✓ Provide **fiscal incentives** on agriculture technologies for greater youth engagement in agriculture |
# 7. Other Policy Reforms to Catalyze Agriculture and Agro Industry Transformation

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<td>Strengthen phytosanitary and pest management capacity in MoA</td>
<td>▪Farmers incur losses as a result of increased outbreaks of pests and disease.</td>
<td>✚Plant protection fees should be ring-fenced for pest management – quarantine and preventive activities to build capacity to predict, eradicate and treatment/control of pests</td>
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<td>Regulatory Agencies Fees</td>
<td>▪There are over 42 payments (taxes, fees and levies) paid by registered agricultural business.</td>
<td>✚Rationalize regulatory fees and levies charged by regulatory authorities (e.g. TFRA, TFDA, OSHA, Tanzania Atomic Energy Commission (TAEC) and FIRE)</td>
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<td>Imports value uplifts by Customs</td>
<td>▪TRA Customs have been uplifting values of imports during their assessments. The uplifts are done despite the submission of all supporting documents to justify the declared import value.</td>
<td>✚TRA Customs to give fair assessments on the import documents logged to them</td>
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THANK YOU