

Do Kilimo Kwanza Exemptions Benefit Poor Farmers?

An analysis of Tanzania's Budget 2010/2011

The Issues

For many years, agriculture has been touted as the backbone of the Tanzanian economy. Past performances of the sector, however, indicate that it has not been able to act well as the engine for growth and poverty reduction as intended. Recognising that the sector has direct impact on about 80% of Tanzanians who depend on it for their livelihood, the government has embarked on the 'Kilimo Kwanza' initiative which aims to transform agriculture by enhancing its financing so as to improve technology, increase industrialization and ultimately boost productivity. It is hoped that this will ensure the sector, which contributes about 30 percent of the GDP, plays a more vital role in unlocking people out of poverty.

The annual budget process offers a valuable opportunity to assess whether public statements about government priorities are put into practice. This post-budget brief presents an analysis of the national budget for financial year 2010/2011 on the theme of 'Kilimo Kwanza'. More specifically, it examines whether the Kilimo Kwanza-driven tax exemptions for the financial year are directed towards helping poorer farmers.

Introduction

In August 2009, the government launched the 'Kilimo Kwanza' initiative to transform the agriculture sector into a modern and commercial one by increasing investments in the area including infrastructure and technological developments, reorganising the way the sector is managed which includes enhancing human resources, and increasing land availability for agricultural activities. This approach to enhancing the sector, it is believed, will help boost agricultural productivity which will impact positively on the reduction of poverty in the country.

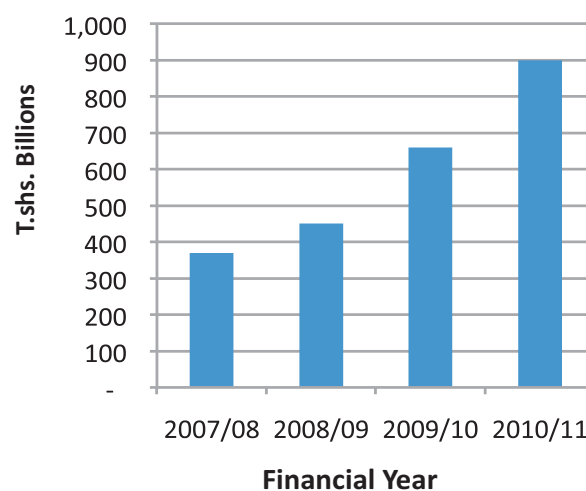
This brief looks at how the exemptions for the 2010/11 agriculture budget have responded to the Kilimo Kwanza resolution that the government has adopted and examines whether there are positive impacts for the small or peasant farmer.

The Agriculture Budget

Overall, the agriculture budget has increased in response to Kilimo Kwanza. The total planned budget for the Agricultural sector for 2010/11 is Shs 903.8 billion which is a 35.5% increase from 666.9 billion that was allocated in 2009/10. This year's allocation, however, only represents a little over 8% of the total annual budget (11, 112.419 billion or approximately Sh11 trillion) which is still short of the 10% proposed under the 'Kilimo Kwanza' initiative. 28% of the total agricultural sector budget will go to the Ministry of Agriculture, Food Security and Cooperatives (253.3 billion) of which Tshs 103 billion will go to development, an increase from Tshs 92 billion allocated in

the previous financial year. A total of 3.8 billion has been allocated towards the agricultural equipment basket fund to be used as soft loans to small farmers, who produce over 80% of the food requirement in the country.

Agricultural Sector allocations



Source: MAFSC budget speeches 2007 to 2010, Budget books for 2007/08 – 2010 /11

Exemptions

To encourage productivity in the sector, the government has issued exemptions in the following areas:

- Value Added Tax (VAT) is exempt on transportation (intra-transport) of agricultural products like sugar cane, sisal and tea plantations from the farm to the

processing industry. However, this will apply to organised farming only. This means that VAT on fuel used by transporters carrying raw materials produced by small holders or peasants will still be imposed. The costs are then transferred to the informal enterprises that process the products, and ultimately, the poor consumer bears the tax burden. Since it is the poor who predominate the informal agriculture sector in Tanzania, this exemption will have little positive impact on their activities. Moreover, should fuel prices increase, basic food prices and other essentials are also likely to increase, which will hence most affect the poor.

- VAT is also exempt on animal feed, agricultural implements like combine harvesters and those used in breeding services. While farmers engaged in small-scale animal husbandry may benefit from VAT exemption on animal feed, exemption of machinery like combine harvesters benefits mostly large-scale farmers.
- Horticulture farming will also benefit from exempting VAT on airfreight charges on transportation of flowers as well as Grant VAT special relief on green houses. This move will help boost the country's exports of flowers but since small-holder horticulture is still in its infancy albeit growing gradually, this move sets to advantage the larger commercial farmers for the time being.
- Exemption on import duty on tractors. Tractors, large and small are needed, but these cannot benefit marginal producers who own 1.5 to 3 acres of land parcels. Moreover, while the exemption will benefit business, there is no proof that the tractor retail price in districts will be reduced.

Tax increases

- Increase in export levy on raw cashewnuts from 10% to 15% or USD 160 per tonne, whichever is higher. This is intended to encourage value addition activities at home and to revive cashew nut processing industries which can in turn help create jobs.

Recommendations

- A pro-poor tax policy is generally one that is geared towards targeting areas where the majority of the poor are employed. In Tanzania, this is the rural informal agriculture sector (e.g. small holders, fishermen and pastoralists). Hence, the taxation policy should be designed to help this group the most.
- Agriculture policy formulation and budgeting should be done in the context of the overall economic framework and poverty reduction strategy. The government should continue to look for ways to

reduce the adverse impact of macroeconomic and sector policies on the poor.

- A pro-poor agriculture tax policy is one that supports agriculture enterprises that not only employ the poor, but those owned by the poor. Hence tax exemptions, whose implications are reviewed time and again, to help the sector, should be aimed more to support poorer rural enterprises.
- There is a need to consider a farmers' taxonomy/classification based budget. This way, initiative to support large, medium and small scale farmers will be clearly articulated.

Conclusions

These tax exemptions in the agriculture sector aim to raise the levels of investments, see employment generation and ultimately improved incomes for a minority, particularly those working in organized and larger farms. However, this taxation policy will do little to alleviate poverty amongst the bulk of the rural population by way of the 'trickle-down' effect because it is biased in favour of larger more-formal enterprises.

Tanzania requires human development which is not only sustainable, but equitable and empowers the majority of the population who are poor. Hence, whilst these efforts to stimulate productivity and growth in the agriculture sector by the way of tax exemptions are welcome step in the right direction, more efforts should be channeled towards ensuring our agriculture taxation policy in also pro-poor.

¹ Agriculture Budget speech 2010/11 budget books and Kilimo Kwanza resolution document.

ⁱⁱ "Trickle-down" effect is an economic theory which argues that allowing enterprises to thrive will lead to their profits eventually reaching lower-income individuals and other sections of the economy. Studies, however, have shown that this type of growth has resulted in rising inequality because the trickle-down effect was either unimpressive or absent (e.g. Facets of Economic Development By Ratnakar M. Gedam, 1989).



Policy Forum

270 Kiko Avenue, Off Old Bagamoyo Road, Mikocheni B
P.O. Box 38486, Dar es Salaam, Tel:+255 22 2772611

Fax: +255 22 2701433

Email: info@policyforum.or.tz ; www.policyforum.or.tz

Making Policies Work for People in Tanzania!