

Revenues from the Agricultural Sector: How much is Tanzania Losing from the Sector?

1. Introduction

ANSAF is a forum for Non-State Actors (NSAs) to discuss and deliberate on pertinent sectoral policy issues. It brings together NGOs (local and INGOs), farmers' umbrella and the private sector. In its 2016 Annual Learning Event (ALE), ANSAF focused on theme "*Leveraging Agriculture-led Industrialization: Setting the Ground for a Mega Take-off.*" ALE aimed at bringing together the wealth of knowledge and skills from different stakeholders, which leads agricultural transformations process through triggering agro-processing. ANSAF



further believes that strengthening of agro-industrial capabilities and linkages improve opportunities for added value and serve as effective approach of achieving agricultural transformation and inclusive growth. This policy brief clearly demonstrates missing opportunity, which Tanzania encounters from unutilized potential of agricultural products value addition.

2. The Contribution of Agriculture Sector to the Economy

In 2015, agriculture sector's contribution was equivalent to 31.4% in real GDP and 67% employment. Main export crops included tobacco, cashew nuts, coffee, tea, cloves, sisal and cotton. Cashew nuts was the fastest growing crop, whose value grew from US\$ 50 million to US\$201 million between 2010 and 2015 in terms of contribution to the national income. Also, livestock and fisheries sub-sector had an upward trend of 18% and 8% to GDP respectively. However, value addition for these agriculture products is low at 10% on average. Moreover, it is revealed that the investment of both public and private sector in value addition remains very low. These lead to missed opportunities such as revenue, employment and innovation.

3. How much is Tanzania Losing? Selected Value Chains (VCs)

Tanzania spends its revenues (millions of US\$ annually) to import agro-products that could be produced domestically. The statistics indicate that the processing capacity remains very low, compared to its neighboring countries such as Mozambique and Kenya. For instance, export of cotton and crude oil *visa-viz* import of textile and edible oil are very low. The few processed products are into semi-processed stage. It is asserted that agro-processing could be one of the mechanisms to increase revenues and reduce imports bills for the government. Thus, the following sections focus on a few VCs – cashew nuts, sunflower, red meat, hides & skins, sugar and dairy sub-sector as lens for the analysis.

¹MALF 2016



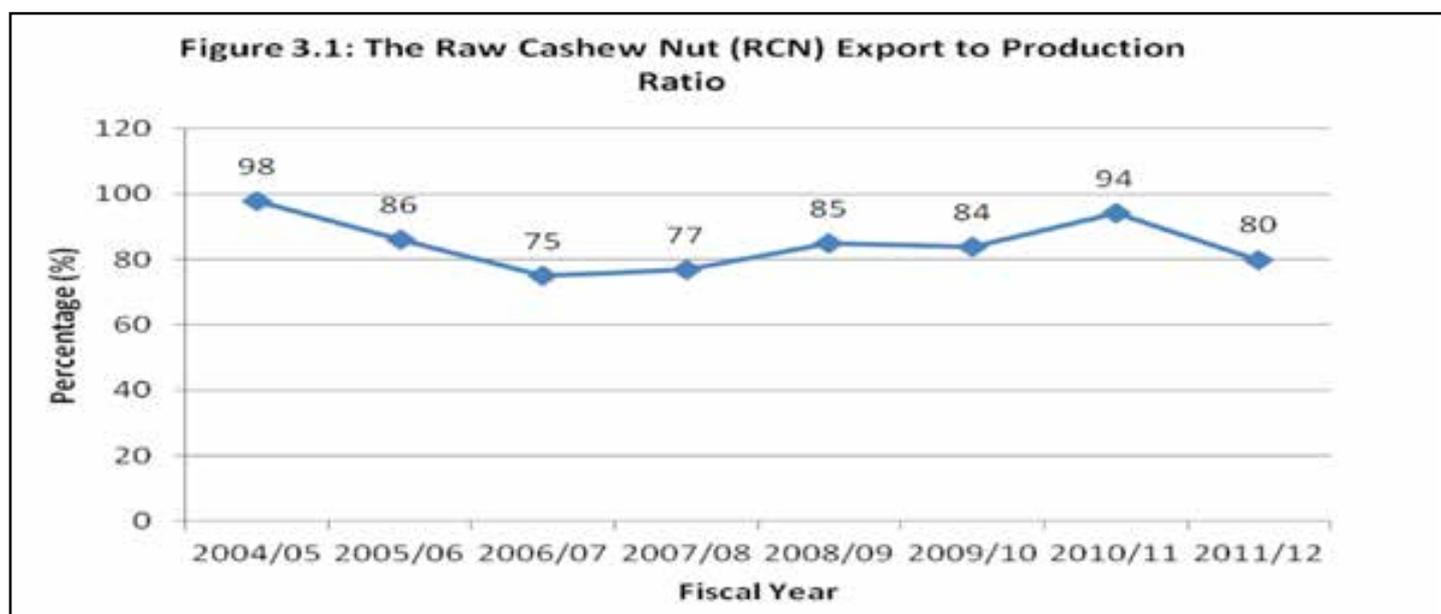
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1.1 Cashew Nuts

Source: Cashew Board of Tanzania (CBT) report, 2012

The figure 3.1 above shows that an average of 85% of cashew nuts produced in the country is exported as raw materials, which denies Tanzania huge amount of revenue and other benefits such as employment and skills spillover.

Table 3.1 Cashew Nuts Export Value & Opportunity Foregone



Source: FitzPatrick & ANSAF 2013

Table 3.1 above delineates the missing opportunities in shell cashew nuts export of an average annual loss of over US\$ 110 million. This loss is more than annual development budget for the Ministry of Agriculture, Livestock and Fisheries (MALF). Also, US\$ 110 million could build enough modern, food safe cashew nuts factories to process the entire Tanzania cashew crop. Processing the crop would: create 45,000 jobs (Fitzpatrick & ANSAF, 2013); processors pay farmers better prices; improve quality; and quantity of produce.

Period (2008-2012)	Export Volume (Tonnes)	Export Value (USD)
Export of Cashew nuts in shell	461,319	573,915,000
Kernels Equivalent	128,169	1,059,043,754
Cashew shell	230,659	14,070,199
Total value	564,700 (US\$)	1,125,012,003
Total Value Addition forgone		<i>551,097,003</i>
Value Addition forgone each year		<i>110,219,401</i>



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1.2 Edible Oil

Official statistics from MALF (2015) estimate that the level of production of sunflower is closer to 3 million tons per annum. With all the resources for edible oil production, Tanzania required 200,000 to 300,000 tons of edible oil. The data shows that local production of both factory and artisanal extracted oils contributes to about 40% of the national edible requirement, with imported oils accounting for the remaining 60% (IARI, 2008). Edible oil import ranked the second (after petroleum) equivalent to 2.63% of the total import value of US\$ 13.6 billion in 2013. Thus, Tanzania spends about US\$ 358 million to import edible oil per annum. This is attributed to lack of modern mechanical extraction equipments and ineffective way to increase productivity in agriculture. On the other hand, the country export of refined sunflower oil value was less than US\$ 2 million in 2014, whereby the exports of sunflower crude oil reached US\$ 6 million in 2014. Demand for edible oil import is on rising as urban population is on surge within and outside Tanzania. Based on analysis a total of US\$ 358 million could be recovered if more investment is made to produce and establish refinery plants within the country.

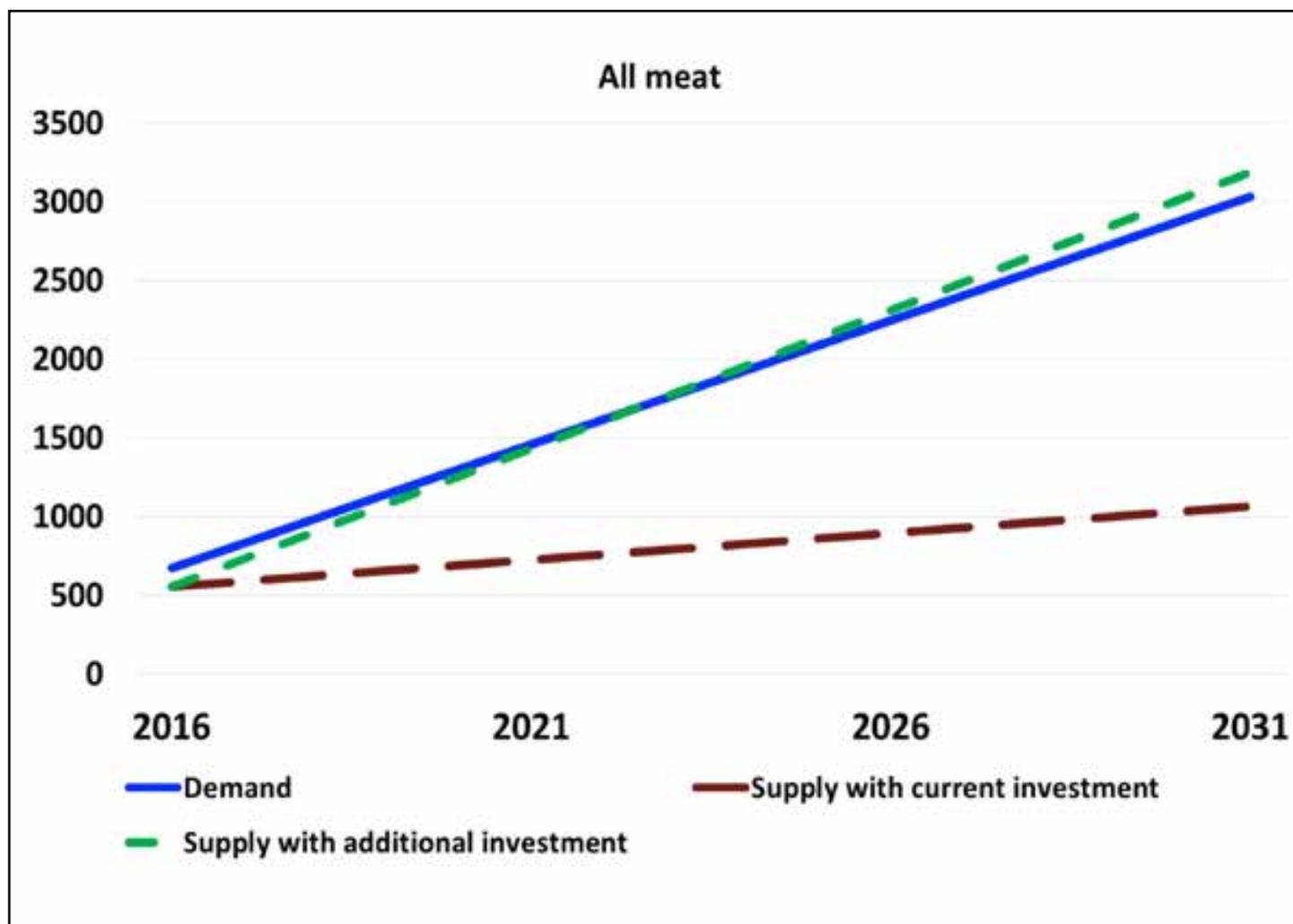
1.3 Red & White Meat

With over 25 million cattle, 17 million goats, 9.2 million sheep, 2.67 million pigs and 42 million local breed chickens; livestock sub-sector's potential has not been optimized –through value addition: The livestock processing industry in the country is still under developed. There are about few small and medium scale meat processing establishments located in Dar es Salaam, Iringa, Arusha, Coastal Region, Rukwa, Morogoro and Ruvuma. Also, there are few modern abattoirs located in Arusha, Sumbawanga, and Dodoma. These facilities are not sufficient to supply quality meat to niche markets (supermarkets and tourism hotels) within and outside the country. The Livestock Sector Analysis (LSA) by MALF and ILRI identified 2 commodities, which can potentially contribute to economic growth through industrialization. The study showed that there is a huge deficit of meat projected for over 15 years (2016-2031). Thus, white meat, especially from chickens can help to close the projected deficit and reduce the country's importation of chickens' meat (*Figure 3.4*).

²Ilunga Agricultural Research Institute (2008)

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Figure 3.3: Meat Scenario with Additional Investment in Red and White Meat



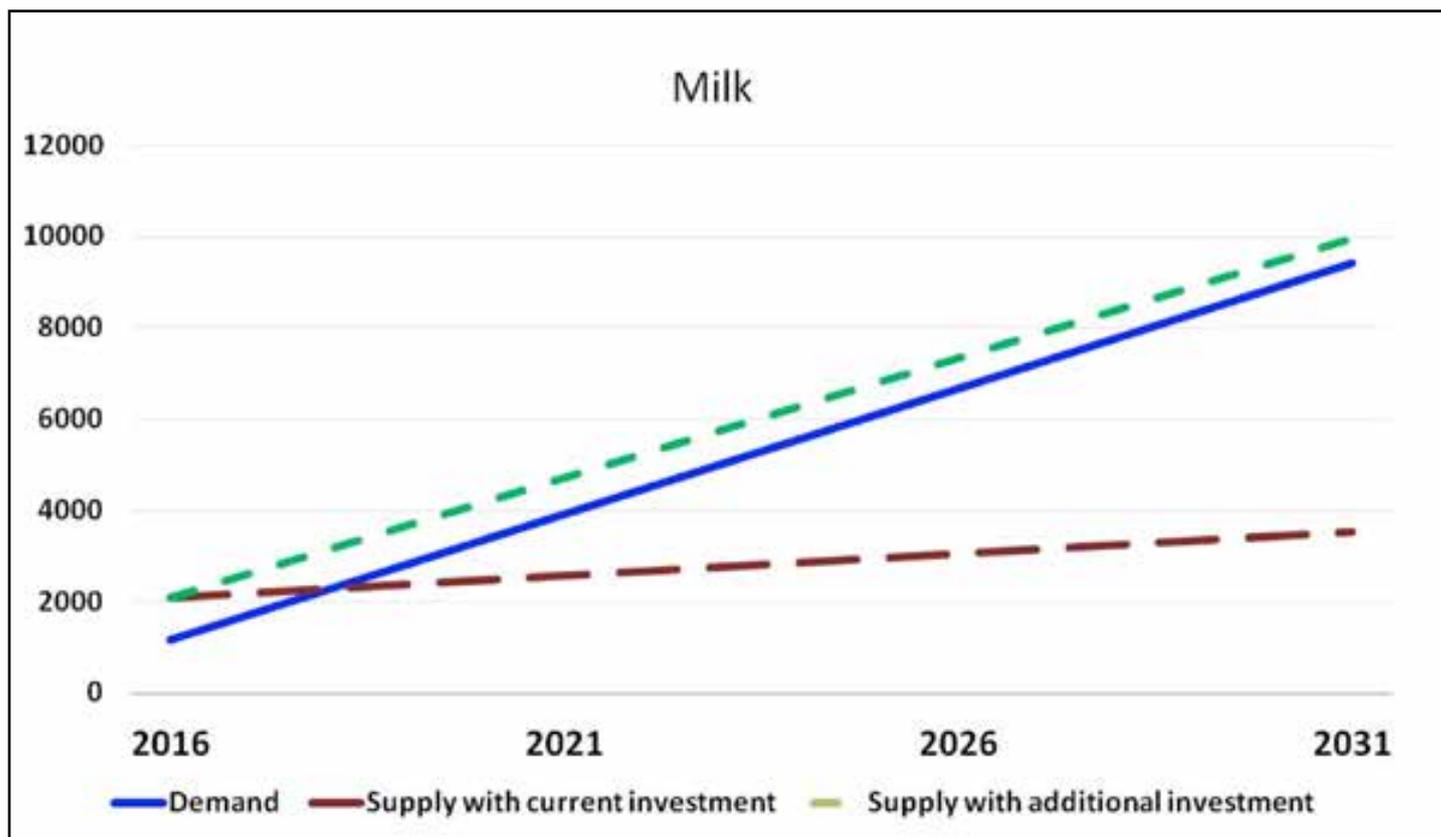
Source: International Livestock Research Institute (ILRI), 2016

1.4 Hides & Skins

- Hides and skins form 10% of an animal when slaughtered, resulting to an annual estimate of 2.8 million hides and 2.1 million skins production per annum. In year 2015/16 a total of 1,575,139 hides and 1,124,000 skins were processed, equivalent to 57% and 52% for hides and skins respectively, which is below processing capacity of over 40 million square feet per annum for available tanneries. According to Ministry of Industry, Trade and Investment (MITI), the country's tanning industry only produces at around 46% of the installed capacity and mostly processes up to the stage of wet-blue. This implies that Tanzania has huge stock of raw materials for leather industries, which would potentially contribute to sector and national income through taxes and exports. Experience indicates emerging interest among youths to step in the hides and skins

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products processing, which in turn increases income and jobs opportunity. Raw hides for example would cost US\$ 4 and when processed, products from hide are sold up to US\$ 80. Also, it was revealed that a simple technology to start with and investment capital is quite reasonable. Figure 3.4 shows how much the country is garnering from unprocessed animal hides and skins. Thus, processing the hides and skins products would have increased export value, income and employment for Tanzania.



Source: International Trade Centre (2015)

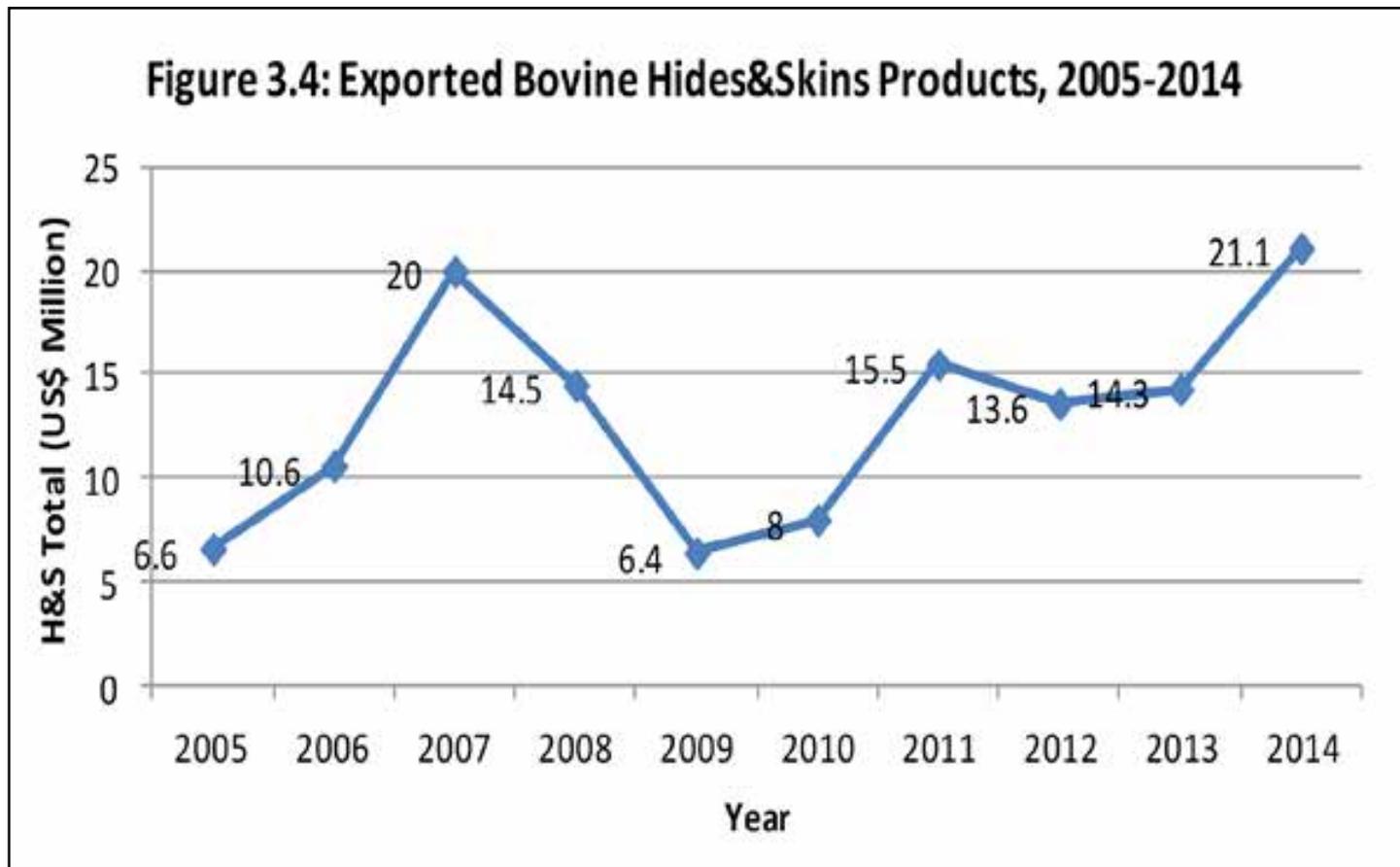
1.5 Dairy industry

Based on Tanzania Dairy Board (TDB), cattle keepers produce about 67% of milk, while small scale livestock keepers (SHFs) produce 33% of the milk. And about 70% of off-farm milk sales come from smallholder dairy farmer and large-scale dairy farms. In addition, off-farm milk marketing is dominated by the informal sector, which commands about 97% of the marketed milk, while only 3% of domestically produced milk is processed. On average, 70 million litres of dairy products (worth US\$ 20 million) were imported in 2013. Also, milk powder makes up about 80% of imports, followed by Ultra High Temperature (UHT) milk, cheese and butter. Thus, Tanzania can reduce import bills by investing in local production and productivity (Figure 3.5).



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Figure 3.5: Milk Gap Projection & Investment Scenario Results

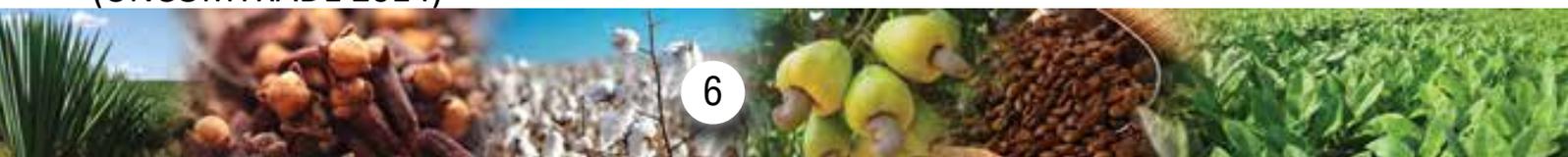


Source: ILRI 2016

1.6 Sugar Industry

The potential producers of the sugar products in Tanzania are Kilombero, Mtibwa, and Kagera Sugar Industries. According to official statistics, current supply of sugar is 291,000MT annually against a national demand of about 590,000MT. The supply gap is complemented by import of sugar, which is sometimes sold at lower price than the domestically produced sugar products. This can distort the market price and affects the production of domestic sugar industries. However, the government has been making interventions assuring local sugar producers of its determined commitment to provide a good environment for investment so that the country becomes self-sufficient in sugar by 2021. This will contribute to filling the gap and creating employment, foreign exchange through sugar exports, and exchequer through taxes.

³ (UNCOMTRADE 2014)



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4. Conclusion

Investing in agro-processing would increase the country's revenue if the government is determined to utilize the available opportunities in agricultural products value chains, processing in particular. Also, there are other potential benefits from agricultural products value addition, which include jobs creation in each value chain knot and skills-spillover to local people who will be working for large investors. In addition, the government's intention of "Nurturing Industrialization for Economic Transformation and Human Development" as its main agenda in the Second National Five Year Development Plan (FYDP II) will be realized.

5. Key Recommendations for Policy Implications

5.1 Policy Framework: Players in Industrializations

- Improvement of existing legal frameworks (policies and regulations):
 - ✓ Create enabling business environment to attract domestic and foreign investments;
 - ✓ Simplify and rationalize procedures, regulations and mandates to encourage compliance in agriculture led industry;
 - ✓ Harmonization of multiple regulatory authorities which lead into high operational costs in agro-processing;
- Protect domestic industries from external unfair competition by increasing the tariff for the products with comparative advantage in local market as well as restriction of agricultural raw products exports (cashew, sunflower, milk, hides & skins) so as to promote value addition; and

5.2 Institutional Framework

- Promotion of SMEs and establishment of industrial clusters and industrial parks;
- Support to agro-allied industries and invest in areas such as research and development (R&D);
- Strengthen strategic industrial support – target institutions such as SIDO, TEMDO, CAMARTEC, TIRDO;



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- Development of semi-skilled and skilled manpower for SMEs and large industries; and
- Build technical schools with market oriented curriculum to equip the learners with competence skills.

5.3 Agro-Industry Financing

- Establishment of wing –credit facilities for industry-based investment (TADB –Industrial wing) to speed-up investment flow and loans for industrial development. This will compliment efforts of TADB, which support production at farm level and agricultural window at TIB providing financing for value addition process;
- Support both farmers and processors’ access to credit, equip them with management skills and technical expertise to enhance production and productivity; and
- Encourage local, foreigner partnership for agro industry establishment.

5.4 Vertical and Horizontal Sector Coordination

- Encourage comprehensive value chain (VC) approach (e.g. contract farming);
- More transparency of transactional costs for equal partnerships on specific VCs
- Strengthening intermediary coordination:
 - ✓ Horizontally and vertically to help mobilization of resources
 - ✓ Create/strengthen reliable domestic and foreign markets for industries’ produce rather than raw exports; and
- Maintaining the checks and balances between the imports and exports of various commodities.



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