

## POLICY BRIEF

### **2016/17 Budget Analysis: Is the Agriculture Sector a Priority for the Country Economic Growth and Reduction of Poverty?**



## 1. Background and the context

The Government of the United Republic of Tanzania (URT) has since independence claimed that agriculture is the backbone of the country's economy. The agriculture sector is among the leading sectors in Tanzania employing over 75% of the population; accounting for over 26% of the Gross Domestic Product (GDP), 30% of exports, 65% of raw materials for Tanzanian industries, and about 95% of food consumed by Tanzanians. In spite of this outstanding contribution, the Government has continued to pay lip service to the sector, judging from budgetary allocations. This policy brief demonstrates, through an analysis of government financing, the continued neglect of the sector.

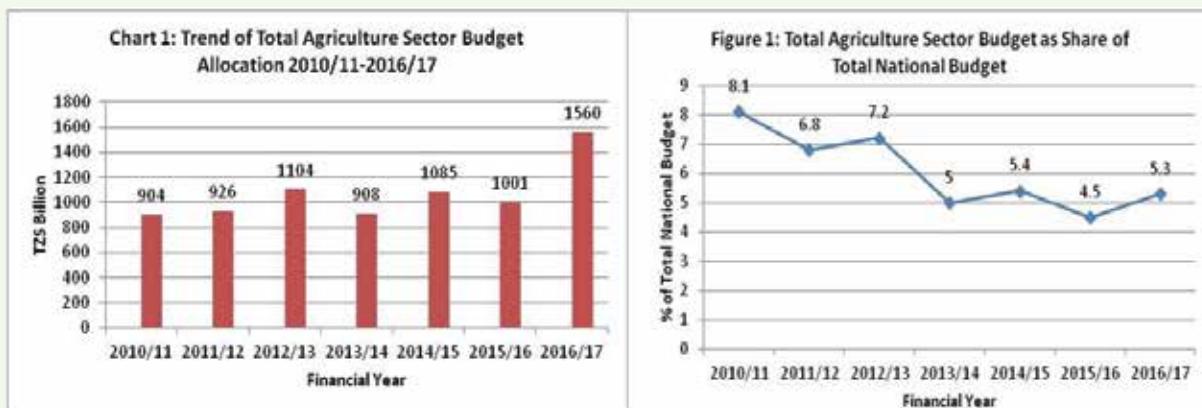
This hinders poverty reduction efforts as it perpetuates the current slow growth in agriculture and fails to complement efforts by smallholder farmers. An agriculture-led industrialization strategy, as championed by the fifth government of Tanzania, with the intention of becoming a middle income country by 2025, will not be realized unless there is adequate and strategic investment.

## 2. How is the Agriculture sector financed?

### 2.1 The agriculture sector budget allocation

The agriculture sector budget has been increasing in absolute terms, but when compared to the total national budget, financing is actually decreasing. According to Maputo Declaration 2003, reiterated in Malabo Declaration 2014, Tanzania, which is a member of African Union (AU), has committed to allocating at least 10 percent of the total national budget to the agriculture sector. It is now more than a decade since the signing of the Declaration and Tanzania has never been able to honor this commitment.

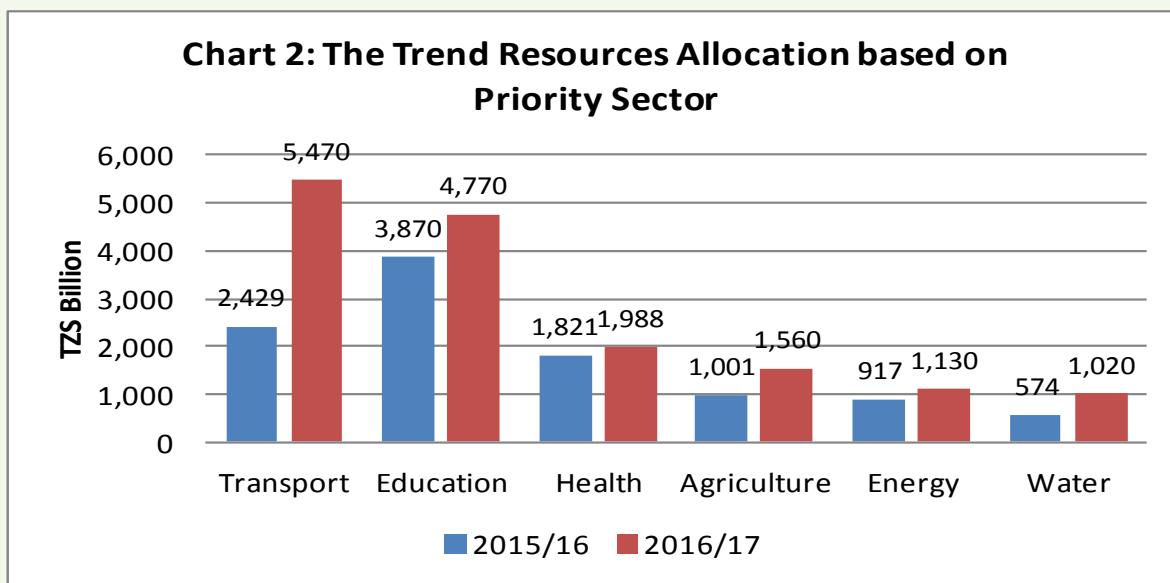
Chart 1 and Figure 1 below shows the financing trend of the sector from the financial year 2010/11 through 2016/17. The trend shows that the highest allocation ever attained was 8.1% in 2010/11 fiscal year and the share has decreased to 5.3% in 2016/17.



Source: Budget Speeches, 2016/17

## 2.2 Comparison with other sectors

Chart 2 below indicates the government priorities in the 2016/17 budget in terms of financing. It illustrates that currently out of 6 key priority sectors of the government the agriculture sector ranks fourth. The chart below and the insights it presents calls into question government's commitment to agriculture as a backbone of the economy.



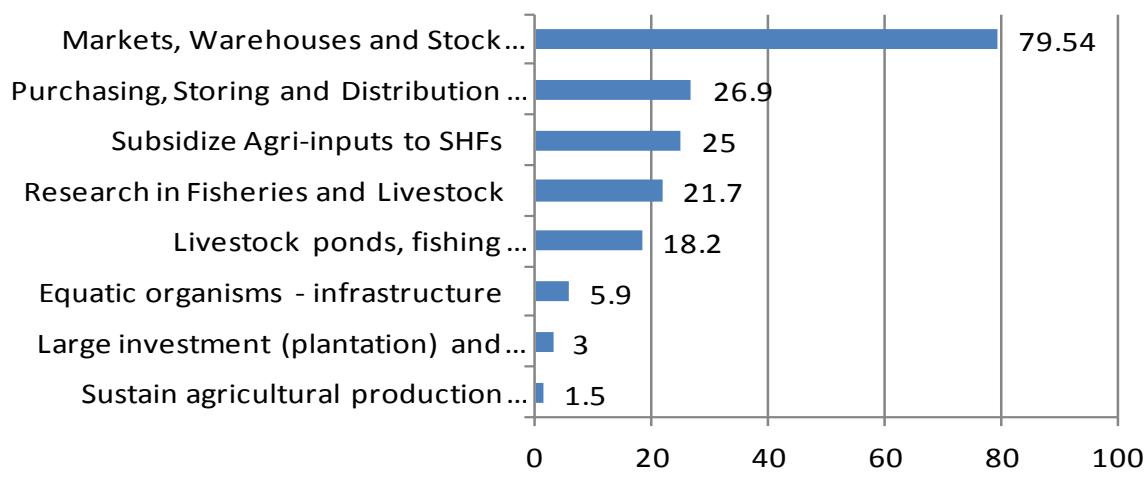
Source: Budget Speeches and Citizens Budget, 2016/17

## 2.3 The allocations to key areas

Breaking down the Agriculture budget into detailed allocation of expenditure and specifically development expenditure further illustrates the conclusions provided above. The ongoing trend based on previous FY experiences indicated that development budget funds are not disbursed timely and in their entirety. This trend has adverse effects on the planned development activities for all components of the Agriculture sector.

The Citizens' Budget document for year 2016/17 indicated that the development expenditure was TZS 181.74 billion. However, the budget speech mentioned TZS 125.673 billion. There is also a huge difference between the total budget allocated for development versus expenditure (recurrent and development). The discrepancy in figures between budget speech and Citizen Budget raises the issue of transparency in public resource use and therefore creates difficulty in understanding how the funds will be utilized. This stifles efforts of enforcing accountability for public resource use.

**Chart 3: 2016/17 Agriculture Financing (TZS Billion)**



Source: Citizens Budget 2016/17

Chart 3 shows the 2016/17 agriculture budget development expenditure, where construction and rehabilitation of markets, warehouses and silos, purchase and distribution of stock material are allocated TZS79.54 billion, equivalent to 43.8% of TZS181.74 billion. Sustaining agricultural production by providing access to credit to smallholder farmers (SHFs) was allocated a mere TZS25 billion. What is not clear is what the remaining portion of the TZS 1560 total budget for agriculture is going to finance. An example of better use of funds would be to reallocate resources from construction of new warehouses and market rehabilitation to completion of the half-built warehouses and markets under Collectively Warehouse Based Marketing (COWABAMA) in the southern highlands and pay arrears for contractors. Similarly there are many incomplete Irrigation DAMS and Schemes projects in the country. Moreover, Chart 3 indicates that the financing to agricultural inputs to smallholder farmers (SHFs) has decreased to TZS25 billion in 2016/17 compared with TZS96.1 billion recorded in the preceding financial year of 2015/16. Allocating fewer resources in sustaining agricultural production and reducing the financing to agricultural inputs to SHFs will substantially have adverse impact on production and productivity of both agriculture and agro-industry activities.

However, it is envisaged that the increased resource allocation to agriculture support sectors such as rural electrification and rural roads will be directed towards regions and districts where agricultural investments are to take place. This will hasten the investment in agriculture activities, especially in agro-processing for women and youth in rural areas.

As indicated in Table 1, in the FY 2016/17 budget, the government has set aside TZS 21.7 billion for funding research to increase productivity in fisheries and livestock compared to TZS7.1 billion allocated in FY year 2015/16. A portion of the TZS18.2 billion allocated to Livestock, Ponds and Fishing will be directed to fisheries subsidy and conducting a feasibility study for the construction of a large fishing port. It is not clear how the value addition to livestock and fisheries will be enhanced. Furthermore, strengthening as well as effective utilization of available plants/ports to increase production and productivity is crucial and needs government intervention.

**Table 1: The Trend of Resources Allocation to Key Investment Areas (in TZS Billion)**

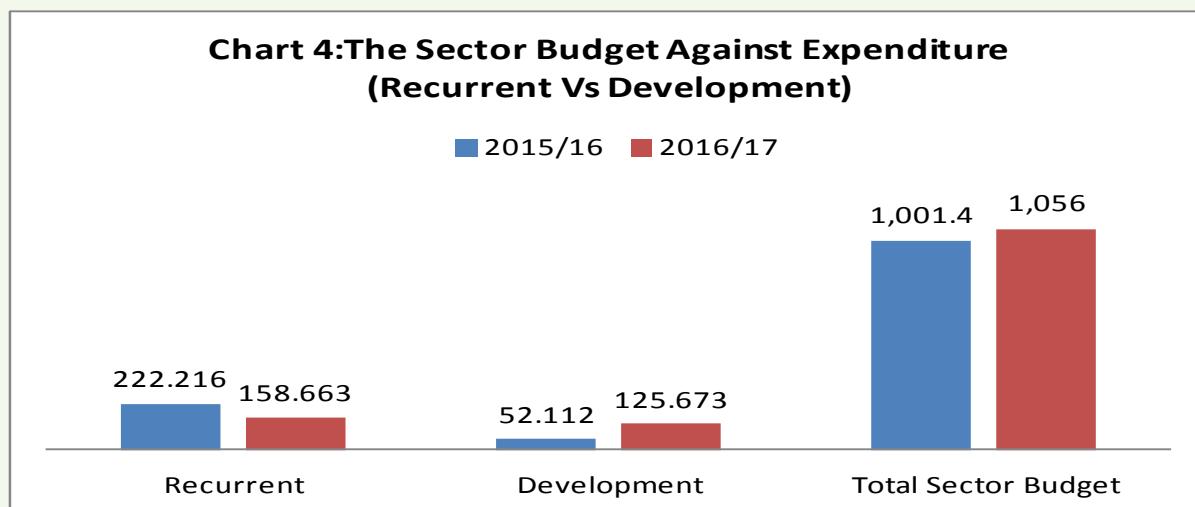
| S/No. | Key Investment Areas                    | 2015/16 | 2016/17 |
|-------|---|---------|---------|
| 1.    | Rural electrification                   | 378.1   | 587.6   |
| 2.    | Borehole drilling and dams construction | 42.2    | 38.8    |
| 3.    | Warehouse and markets                   | 7.2     | 79.54   |
| 4.    | Inputs to smallholder farmers (SHFs)    | 96.1    | 25.0    |
| 5.    | Investment in large scale (plantation)  | 7.9     | 3.0     |
| 6.    | Irrigation infrastructure               | 7.1     |         |
| 7.    | Research                                | 7.1     | 21.7    |
| 8.    | Rural roads (transfer to LGAs)          | 34.12   | 50.96   |

**Source:** Citizens' budget and budget speeches information 2015/16 & 2016/17

#### **2.4 Agriculture Sector Expenditure: Recurrent Vs Development**

According to the Ministry of Agriculture's Budget Speech, there is a decrease of recurrent expenditure from TZS222.216 billion in 2015/16 to TZS158.663 billion in 2016/17 financial year, which is equivalent to a 28.6% decline, and an increase in development expenditure from TZS52.112 billion in 2015/16 to TZS125.673 billion in 2016/17, equivalent to 141.2%. This is a positive indicator of the current government's efforts to put more emphasis on development spending which will impact sector

growth. In the Chart 4 below the agricultural sector budget allocation and expenditure (recurrent and development) are shown.



**Source:** Budget Speech and Citizens Budget Data 2016/17

## 2.5 Women and Youth Empowerment for Agriculture

The Government through the lead ministries (Agriculture, Prime Ministers Offices Regional Administration and Local Government (PORALG), and Health) makes efforts to ensure that women and youth are empowered. Table 2 below indicates that efforts in supporting women and youth are in place for two consecutive financial years of 2015/16 and 2016/17. It further shows that support to women has decreased while that for youth has increased. However, there is little evidence to provide substantive conclusion that the government support to women and youth is directly linked to agricultural activities.

**Table 2: The Trend of Government Contribution to Women and Youth**

| Group | Activity 2015/16  | Allocation (TZS Billion)<br>2015/16 | Activity 2016/17  | Allocation (TZS Billion)<br>2016/17 |
|-------|---|-------------------------------------|---|-------------------------------------|
| Women | Women Economic Empowerment Project  | 2.5                                 | Women Economic Empowerment  | 1.96                                |
| Women | Support to Tanzania Women Bank  | 2.0                                 | Credit to Smallholder Farmers   | 1.5                                 |
| Youth | Provide Capital, Equipment and Working tools to 3000 youth in 1000 projects | 2.0                                 | Facilitate new investment (plantation) and youth employment opportunities | 3.0                                 |

**Source:** Budget Speeches and Citizens Budget 2015/16 & 2016/17

### 3. Conclusion

The agriculture sector, even in the context of inadequate funding, contributes significantly to the country's economy and development. However, Government financing trend remains inconsistent and contradictory. Analysis on budgetary allocation has revealed that small holder farmers, who constitute the majority of farmers in the country, still do not receive enough in terms of budgetary investment. Besides, budgetary allocations as well as new projects have not fully taken into account already existing structures and this limits the impact.

In addition, the support to groups of women and youth who constitute a big portion of the population engaging in agriculture shows no clear link to the sector. The government financing to key areas that impact on both productivity and value addition is crucial. Moreover, government efforts in increasing budget allocation to agricultural development activities and reducing unnecessary spending should be applauded.

## POLICY RECOMMENDATIONS

Based on the analysis in this brief, we call on the government to take the following measures;

- Increase more budget allocation to agriculture sector in line with Malabo Declaration commitments in order to accelerate impact on growth and reduction of poverty.
- Invest more in key areas (rural energy, rural roads, inputs, irrigation, and markets) that promote the agricultural production and productivity.
- Enhance transparency in resources allocation, especially development expenditure for the purpose of enhancing accountability.
- Have clear budget support for women and youth that directly links to agricultural activities (e.g. value addition).
- Allocate more funds for strengthening and utilizing the available and construction of new livestock products and fisheries processing plants.
- Allocate funds to complete the suspended projects in agriculture sector, for instance in irrigation dams and schemes, warehouses and markets.

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