# 2020/2021 Analysis of the Agriculture Budget: A Call for Improved Financing of the Sector

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Brief 2:20

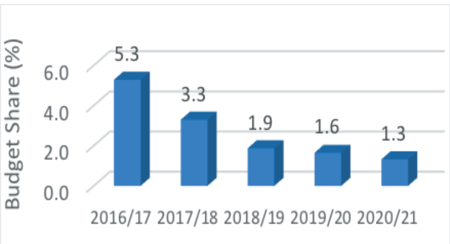
## Background

Agriculture remains a significant thrust of Tanzania economic growth, contributing 28.6% to the national Gross Domestic Product (GDP), employing more than 65.5% of the population majority of whom are women and youth, providing about 65% of the industrial raw materials and contributing to 1/3 of export earnings (hali ya uchumi, 2019). However, regardless of its significant contribution in the country's economy and livelihood, the sector is being allocated less budget share by the Government. In Financial Year (FY) 2020/21 the sector was allocated only 1.6% of the Government budget, something which is way below the Malabo declaration's recommendation that requires African countries to allocate at least 10% of its government budget on agriculture. The meagre resource allocation negatively impacts the sector's ability to deliver services such as extension, equipment, etc. Therefore, Government is highly called upon increasing the budget allocation in agriculture to achieve the Second Agriculture Sector Development Programme (ASDP II) goal which aims at transforming the sector.

## Budget Allocation to Agriculture Sector

In a five years' period (2016/17-2020/21), the government has been allocating less than 6% of its budget on agriculture. Between 2016/17 and 2020/21, the government allocation in agriculture decreased by about 75% from TZS 1,560 billion to TZS 460 billion (Figure I).

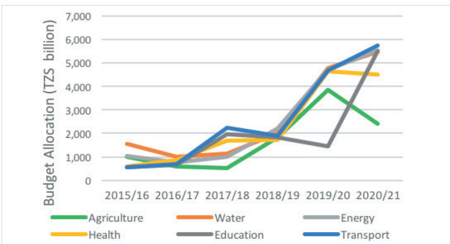
**Figure 1: Five Years Trend of the National Agriculture Budget Share**




*Source: Ministry of Finance and Planning (MoF)P, 2020*

Moreover, for the past five years, the government has been allocating more budget on transport and energy than agriculture (Figure 2). In 2019, agriculture sector contributed 28.2% of the national GDP, with 6.2% coming from crops (Budget speech, 2019). Both a sharp decrease of the government budget on agriculture and less allocation to the sector as per Malabo declaration threaten the sector's growth and transformation. Therefore, we call upon the government to increase its share on agriculture.

**Figure 2: Trend of government priorities, 2015/16 – 2020/21**



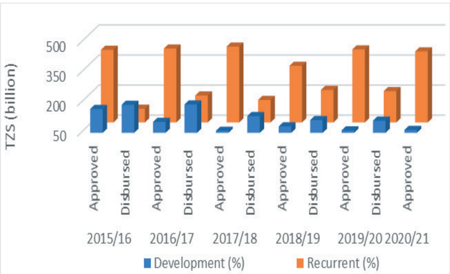

*Source: MoFP, 2020*

## Agriculture Budget Allocation Versus Disbursement

On average, between 2016/17 and 2019/20, 66% of the sector's overall budget has been approved to support development projects. However, only 40% of the approved budget was disbursed. As for the recurrent budget, within the same period, 34% of the entire budget was approved and 60% was disbursed (Figure 3). This clearly shows that less of the approved budget on the development projects has been disbursed, something which interferes with the pace and continuity of the development activities.

The total budget approved in FY 2020/21 has decreased by 2%, from TZS 207 billion in 2019/20 to TZS 202 billion in 2020/2021, whereby the budget for development project decreased by 4% while that of recurrent increased by 2%. In FY 2020/21, 68% of TZS 202 billion is approved to support the sector development projects and the remaining 28% to support recurrent. Based on the past three years' experience the government is called upon implementing their commitment in order to effectively support the sector's development.

**Figure 2: Trend of agriculture budget allocation vs disbursement, 2015/16 – 2020/21**




*Source: Ministry of Agriculture (MoA), 2020*

## Budget allocation to livestock sector

Budget allocation to livestock sub-sector between FY 2017/18 and 2018/19 decreased by 9% from TZS 35 billion to TZS 32 billion before it decreased at an increasing rate of 31% from TZS 32 billion in 2019/2020 to TZS 22 billion in 2020/2021 (Figure 3). Budget allocation for the development project has decreased by 34% from TZS 29 billion to TZS 19 billion in 2020/21 while that of recurrent remained at the same rate of TZS 3 billion. The decline trend in the total budget for the sector and that of the development projects implies negative impact on the sector which limits both investment and growth of the sector. For example, in 2018 the sector grew by 5% which was a decline from 6.4% growth in 2017.

**Figure 3: Trend of budget allocation to the livestock sector, 2028/19 – 2020/21**


*Source: MoA, 2020*

## Budget allocation to Fisheries

During FY 2020/21 fisheries sub-sector was allocated a total budget of TZS 33 billion whereby recurrent was TZS 18 billion and development projects was 15 billion. By the end of April 2020, 68.7% and 46.2% was disbursed for the development projects and recurrent expenditures, respectively. The sub-sector's allocation and disbursement are relatively low in relation to the amount that the sub-sector reported to collect by April 2020 (TZS 33 billion). The fisheries sub-sector grew by 8% in a period between 2017 and 2018 due to proper maintenance of fish spawning grounds including individual dams and growth of market demand both internally and externally. However, during the same period the sub-sector's GPD contribution decreased by 0.2% and extension services decreased by 0.4%. This calls for the government's deliberate efforts to increase its budget allocation to the sub-sector.

## Contribution of Agriculture to Government Revenue Collection

Government revenues come from several sources, ranging from tax and non-tax revenue, grants, loans and Local Government Authorities (LGAs) own sources.

On average for the period between 2014/15 and 2018/19 the government has been achieving about 88% of its target on revenue collection. By this, the government is better positioned to implement its development projects and address existing challenges.

Guidelines require that a part of revenue collection from the LGAs should be sent back to the respective LGAs at the rate of 20%, 15% and 5% for the agriculture, livestock, and fisheries, respectively. Implementation of this requirement has for several years now not been fulfilled as required. This has negatively affected the LGAs ability to implement their own plans.

## The Impact of COVID-19 on Agriculture Sector

The COVID-19 pandemic has affected not only the health sector but also economic sectors including agriculture. Due to its threat on lives, production was affected. The introduced restrictions that saw transport across borders extremely difficult, affected markets. Farmers and especially those whose products are mainly for export like horticultural products experienced significant loss.

It is commendable that the government through its Central Bank (Bank of Tanzania) to reduce the impact of the pandemic, reduced discount rate from 7% to 5%. This was meant to enable Banks including Tanzania Agricultural Development Bank (TADB) to borrow from the BOT at lower interest rate and thereby lower its lending rates to their customers.

Additionally, banks and other financial institutions were instructed to consider the financial difficulties experienced by borrowers because of COVID-19 and re-negotiate on loan repayments. While this measure is greatly appreciated, it is anticipated that banks will adhere to the instructions and thereby enabling borrowers (who include farmers) to re-strategize and continue with their business.

## Fiscal Reforms

To date a total of 114 agricultural reforms have been introduced since the approval of the national Blueprint in 2017. Specifically, in 2020/21 there were 60 agricultural reforms among others aiming at protecting local producers and promote value addition. Below are some of those reforms.

1. Apply a rate of 25% import duty rate instead of 0% for one year on crude palm oil under HS Code 1511.10.00 as well as crude edible oil.
2. Apply a duty rate of 25% instead of 10% or 0% for one year on consumption sugar imported under specific arrangements (to cover the shortage in the domestic market).

3. VAT exemption on Agricultural crop insurance
4. Charge excise duty rate of 844 shillings per kilogram of imported powdered beer with HS Code 2106.90.90.
5. Packaging materials falling under HS Code 4819.50.00 used by domestic manufacturers of UHT milk –from 25%.
6. Removal of input tax restrictions on exports of raw products.

## Conclusion, challenges, and policy recommendations

This analysis focused on government budget allocation and fiscal measures taken by the government to support agriculture sector. Unlike fiscal reforms, budget allocation for the FY 2020/21 has not been in favour of the agriculture sector as only 1.3% of the national budget is allocated to the sector; something which hinders its growth. Below are among the key challenges observed and policy recommendation for each challenge.

1. In a five years' period (2016/17 – 2020/21), agriculture budget share has been decreasing at an increasing rate from TZS 1,560 to 460 billion and the share has been below 6% of the national budget. Both, the decline and the low rate of agriculture share threaten the sector's transformation and inclusive economic growth.

***Recommendation:*** Government should comply with CAADP/Malabo agreement to support the sectoral growth.

2. More than 50% of the budget has been approved to support development projects in the sector but less has been disbursed something which hinders the pace and continuity of the developmental projects.

***Recommendation****:* Government should comply with their commitment when approving budgets and disbursement should be on a timely fashion.

3. Budget guidelines on re-investing 20%, 15% and 5% in agriculture, livestock and fisheries has not been complied to something which has been affecting the sector's performance including its contribution on GDP.

***Recommendation:*** There should be an enforcement in place to support implementation of the budget guidelines.

4. There is no clear operationalization plan of the Interest Rate reduction by the BoT to ensure achievement of the intended goal.

***Recommendation:*** Government should put a clear operationalization plan in place.

5. Between 2017 and 2018 the government addressed some of the fisheries challenges and left others which are key to the sector something which affected the sector including its contribution to the national GDP.

***Recommendation:*** For effective outcome, the government should address challenges holistically.

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