17

17

Tanzania - Agricultural trade policy issues

Ramesh Sharma

1. Introduction

Tanzania's current national trade policy was launched in 2003. Two years later in 2005, the second PRSP, called *National Strategy for Growth and Reduction of Poverty* (NSGRP) (or *MKUKUTA* in Kiswahili) was also launched. Around the same time, some other policy frameworks have been prepared, notably for agriculture, industry and food security. The process of articulating and formulating trade policies, however, is an ever-evolving process and the debate on alternative views does not stop. Implementation experience and new developments in internal and external environments, e.g. the 2008 global food crisis and the launch of the ECA customs union, keep this process alive and dynamic.

It is in this context that the purpose of this paper is to discuss key agricultural trade policy issues facing Tanzania with a view to contributing to this ongoing process of articulating appropriate agricultural trade policies and trade support measures, and their mainstreaming in national development frameworks.

The background work leading to this and other papers (the next two chapters) under the FAO trade policy articulation project were undertaken by a team of analysts in Tanzania on the basis of literature review, data analysis and stakeholder consultations. About ten national experts contributed to the background work and papers, coordinated by Economic Research Bureau at the University of Dar es Salaam. Many brainstorming meetings were held with government officers, non-state stakeholders and civil society for their views on policies. The background study that contributed to this paper is Hatibu, Cosmos and Chamanga (2010).

As with most countries in Africa and elsewhere, Tanzania's agricultural trade policies also evolved through time, passing through the usual phase of import-substitution with heavy public sector role in the economy to a more and more liberal policy regime. In the past decade or so, the government has formulated a number of policy frameworks, such as the National Poverty Eradication Strategy (1998), National Development Vision 2025 (1999), Poverty Reduction Strategy Paper (2000), and national trade policy (2003). A number of sectoral policy frameworks and plans, such as for agriculture and industry, have also been formulated. The launch of the EAC in January 2005 and the customs union in 2010 are other important developments that will have considerable implications on Tanzania's trade policy options. The next chapter on mainstreaming discusses in some detail these policy frameworks.

The next section of this paper presents selected agricultural trade policy issues, categorized into three groups: policies towards food products and food security; policies towards cash or export crops; and cross-cutting trade issues. These are brief discussions and aimed primarily at bringing out key issues and alternate views. The issues are selected based on their significance and prominence in contemporary policy and debates. Section 3 concludes with a summary.

2. Selected agricultural trade policy issues

2.1 Food policy for food security

Food policy in Tanzania is largely liberalized and a clear vision as well as strategies and policies have been articulated in national policy frameworks, as discussed in the next chapter on mainstreaming. In several cases, this is still on paper only (in policy statements) than in practice, which is an indication of the difficulties faced in implementing policies. The fundamental objective in the food sector is raising food production and competitiveness of the sector. This point is noted next, but then there are a number of divisive policy issues that recur in policy discussions and are important to record.

Raising food self-sufficiency level and exporting food

While not a divisive issue and so not a frequent headline topic as are maize export bans and the size and role of food reserve (SGR), increasing the level of food production and self-sufficiency rates are at the core of the national policy frameworks like the NSGRP and agricultural policy. Although very much a traditional agricultural production subject, trade policy does have some impact on this, e.g. through higher or lower levels of import protection, whether or not the commodity is an ECA sensitive product, and how effective are the rules of origin for free intra-ECA trade.

There is a consensus that Tanzania's food production levels are far below potential given the country's land and water endowments. Historically, policy attention and debates on trade policy have focussed on the export of cash crops and very little on import substitution and on the potential that exists for the export of food crops. The fundamental constraints to expand food production are well known – only 3 percent of the arable area is irrigated, farmers' yields are 20–30 percent of potential yields, and fertilizer application amounts to less than 10 kg of nutrients per hectare. Thus, most agree that with appropriate policies and investments, Tanzania could significantly increase food production and capture domestic market as well as export to the region. The national policy frameworks do recognize these potentials and boosting food production is part of the new strategies. One of the operational targets of the NSGRP is raising food crops production from 9 millions tonnes in 2003/04 to 12 millions tonnes in 2010. This strategy also includes targeting selected food crops as strategic and focussing resources on them.

Several policy issues discussed below have impact on food production potential. These include for example how the ECA sensitive product tariffs are set, adjusted and implemented; what happens to the policy of export bans within ECA but also outside; the operation of the SGR; effective protection for food production relative to that for competing crops; investment climate for private sector to be engaged in food production; and striking a right balance in supporting agriculture through investment in public goods on the one hand and inputs and other subsidies on the other.

According to the Tanzania case study of the World Bank agricultural distortions project (Morrissey and Leyaro 2009), the negative taxation on importables, the basic foods, has been reduced considerably, with the situation shifting to positive support of 10 percent in 1990-94 and 6 percent in 2000-04 (but negative 15 percent in 1995-99). Compared with the support to non-agricultural tradables, the overall relative bias against agriculture has halved since the latter 1980s, from negative 70 percent to negative 35 percent in recent years - much reduced, but still negative and considerable.

Maize export bans[1]

Maize export bans, and related policies, are amongst the frequently commented policy interventions under the heading of food policy or food security in Tanzania (and in east/south Africa in general). While the export of almost all agricultural products is liberalized, maize faces occasional export bans. As the main maize surplus region (southern highlands) borders on northern Zambia and Mozambique, the maize deficit zones, there is a strong incentive for maize export, particularly

[1] This is based on Minot (2010) and various papers in Sarris and Morrison (2010) volume.

during the harvest months. Government policy is to allow the export of maize only when all the regions of the country can be declared to be food secure. As there is almost always a problem of food insecurity in some part of the country (notably in the semi-arid central region), in practice maize exports are banned on an almost continual basis. As a result, maize prices in the southern highlands are lower and more volatile than they would otherwise be. The export ban also presumably keeps the price of maize lower in deficit regions than it would otherwise be.

Most analysts tend to argue against the ban, on the ground that a ban worsens the livelihood of southern maize farmers without harming the rest of the Tanzanian consumers. The 2010 EAC Food Security Strategy clearly states that there should be no export ban on food commodities and products intended for consumption within the EAC region (see below). The sensitiveness of maize in the region is well known – maize is also an EAC sensitive product, and that different EAC members seem to have different views on the maize CET itself (see below). Minot (2010) makes a remark that in a recent seminar in the region, a government official said that export bans would be necessary until Tanzania becomes self-sufficient in maize. The logic of this argument is not that clear and this is an issue that obviously needs more research and debate.

Given the porous borders, export bans are also difficult to enforce and often only raise transaction costs for cross-border trade. In 2008, Kenya's forecast maize deficit was estimated to be over 600 000 tonnes, much of which could have been imported from Uganda and Tanzania. However, Tanzania had an export ban in place while Kenya maintained a 50 percent import duty. As a result of the market shortages, the price rose sharply. Despite the official export ban, 120 000 tonnes of maize was imported from Tanzania (Jayne *et al.* 2009).

A rules-based trade policy for maize

In view of the above, what is to be done to maize, as well as to other staples? Citing the results of Chapoto and Jayne (2009), a synthesis report of a COMESA (2010) policy seminar notes that more active intervention in maize markets has not helped Malawi, Zambia, Kenya and Tanzania because trade barriers and changes in government policy tend to exacerbate price volatility. This has the effect of dampening investment in the maize sector. It was said that embracing open border policies and relying on regional trade to stabilize maize prices could be a win-win situation in terms of both efficiency and price stability. In this regard, a "maize without borders" policy was considered to be an important part of the overall maize government policy that has a potential to considerably stabilize maize price for both consumers and producers.

The classic recommendation is open border policy with government role limited to areas such as market information, promoting competition, investing in physical infrastructures and other public goods and improving rural financial markets to improve the capacity of traders (COMESA 2010). Nevertheless, that seminar synthesis also noted that governments in the region are unlikely to cease intervening in food markets, and thus what is desirable in the meantime is promoting more "rules based" approaches to marketing and trade policy in order to reduce the level of policy uncertainty and price instability associated with it. These include setting clear criteria for changing tariff rates or trade barriers, and preferably reducing trade restrictions and cross-border trade barriers, both regulatory (e.g. phytosanitary standards) and bureaucratic (e.g. border crossing documentation).

Successfully addressing these dilemmas may lie at the heart of the efforts to move to a new post-liberalization regime in which governments retain the ability to influence prices to achieve national food security objectives but within a clear and transparent framework of credible commitment to support long run private investment in the development of markets.

Strategic Grain Reserve (SGR)

The SGR, established in 1991, is a key player in Tanzania's maize market. The objectives of the SGR are to advise the government on food security policy, supply food in emergencies and stabilize staple grain prices. SGR purchases are based on forecast national food balance with a view to maintaining stocks for three months' of consumption. Its capacity is 150 000 tonnes but in practice the amounts in storage have generally been in the range of 50-80 thousand tonnes.

Minot (2010) remarks that the SGR has not been successful in stabilizing grain prices. This is mainly because the volume of purchases and sales in a given year is generally less than 50 000 tonnes, which is negligible compared to the volume of grain produced (5 million tonnes) or even marketed (about 1.25 million tonnes). But the SGR features prominently in Tanzania's national trade as well as food and agricultural policy documents. The 2008 global food crisis has raised the political support for SGR-type response to managing staple food price volatility.

The pros and cons of the SGR have been debated for a long time. On the pros side, one argument is that the demand for maize placed by the SGR enhances the badly-needed market competition among private traders, besides supporting producer prices, importantly so in the remote southern highlands. In addition, SGR is said to offer premium prices to attract more purchases from smallholder growers.

The main argument on the negative side is that the SGR operations create an uncertain environment for private traders, thus undermining one of the government's own objective. In part, this is due to unpredictability in the provision of public funds which determines the scale of the SGR operations. Likewise, the release of SGR grains during poor or off-season precludes price advantages that stockholders would have benefited during high off-season prices. The SGR therefore offers an implicit subsidy to maize consumers at the expense of producers. It has also been argued that SGR procurement, both at border and producer markets, reduces price volatility whereas its releases increase volatility in a manner that the net effect is detrimental to producers. In addition, the SGR is said to suffer from bureaucratic procedures, political interference, under-utilization of capacity, and so on.

The *EAC Food Security Action Plan 2010-2015,* introduced in more detail in the next chapter, has proposed food and financial reserves at the regional level. The target is for each Member to have food and feed reserves of at least for six months by 2015 (from current levels of at least three months). A second target set is for the EAC members to establish a contingency fund for six months' worth of food reserves by 2015. In the light of the above commentaries on the SGR, the doubling of the reserves to six months obviously looks very ambitious.

One argument made by many analysts is that price stabilization should rely much more on trade than stocks, but still in some combination. In the context of a customs union, trade combined with regional, not national, food stocks should in theory serve better the food security objective of the members. There is no end to this debate. Two new developments have continued this discussion – the recent global food crisis and the EAC regional strategy on reserves. These provide the rationale for continued analytical work and reflections.

2.2 Cash crops – addressing negative farm protection and market inefficiencies

There are several recent studies and analyses on Tanzania's export commodities. The summary below is brief and merely presents a snapshot of the evolving pattern of support or taxation to the sub-sector due to policy and other reasons. Useful references on commodity briefs and issues are MoAFSC (2008) and volume 2 of the DTIS report (GoT 2005). The former is a joint publication of the Tanzania Ministry of Agriculture and FAO and provides comprehensive analyses of a number of commodities, as well as trade and other aspects. The latter provides analyses of cashew, coffee, cotton, tea, horticulture, spices and fishery.

The Tanzania case study of the World Bank agricultural distortions project (Morrissey and Leyaro 2009) provides estimates of the evolution of policy-induced distortions for eight cash crops - coffee, cotton, tea, sisal, tobacco, cashew nuts, pyrethrum and beans. The overall average Nominal Rate of Assistance (NRA) for these eight crops has been negative (i.e. net taxation) and historically large: -66 percent in 1990-94, -52 percent in 1995-99 and -49 percent in 2000-04. As for individual crops, for 2000-04, the NRA was high for tea (-91 percent) and cotton (-70 percent), between -45 and -55 percent for beans, tobacco and pyrethrum, and zero or low for cashew, coffee and sisal. Negative protection was fairly similar in

1995-99, as well as in 1990-94, for some of these crops. The fundamental problem seems to be inefficiencies of markets rather than policy induced distortions. What follows are briefs on the commodities covered.

For *cotton*, with high negative NRA, the authors cautioned that it seemed likely that the extent of disincentive is overestimated, and that the significant reforms implemented especially since 2004 should have markedly reduced the distortions by now. For *tea* (with a NRA of about -90 percent), there has been almost no change in the situation for many years. One reason considered for this was the absence of competition due to strong monopsony in the tea industry, with a few companies dominating processing and marketing. For *tobacco* and *pyrethrum* (also high negative NRAs), there was no evidence that the elimination of exchange rate distortions has reduced distortions to incentives, so it was assumed that inefficiencies remain high and farmers receive a diminishing proportion of the export price, with processors most likely capturing the benefits.

The results for *cashew nuts* are said to be consistent with observations that marketing and processing efficiency has increased in recent years, reflecting increased competition. As a result, farm-gate prices have kept pace with the export prices. *Sisal* appears to have been the least (negatively) distorted product, and by the mid-1990s traded freely. *Beans* are the only example of a non-traditional export covered. The results suggest relatively unchanged marketing efficiency so that the elimination of exchange rate distortions is reflected in reduced policy distortions – the NRA declined from -75 percent to -45 percent.

The WTO trade policy review for Tanzania (WTO 2006) provides further information on commodity policies. According to this, to encourage local processing of some export commodities, Tanzania applies an export tax on raw cashew nut and a cess of 20 percent on raw hides and skins. At various times, other taxes and fees were also applied, e.g. a cess and agricultural services fee. On the other hand, import tariff of 25 percent is imposed on coffee and coffee products.

Tanzania has eight commodity boards for cashew, coffee, cotton, pyrethrum, sisal, sugar, tea, and tobacco. They performed several functions such as regulate products, inspect quality, announce indicative prices (minimum farm prices) and collect and disseminate statistics. Up to July 2006, the boards applied a 2 percent levy on exports. Traditionally, the boards have been criticized for their price interventions, distorting markets and harming farmers, e.g. in the DTIS study (GoT 2005).

The DTIS has also identified a number of cross-cutting issues affecting the export crops. The prominent among these were the following: i) the role of the crop boards; ii) excessive taxation; iii) weak agricultural support services; and iv) price volatility. Crop boards had virtually unlimited regulatory power, and had intervened in ways that distorted the markets and hurt farmers. Funding for the boards came from a cess on crop exports levied on producers, but the boards have not always worked in the interest of producers. The key recommendation was for the boards to become independent producer supported organizations representing the industry, while all economic activities are left to the private sector.

The second issue is heavy taxation on export commodities, estimated to be roughly 20 percent of the sales prices. In many cases, local taxes are collected as cess on volumes, which means that per unit tax rate is a much higher percentage of the total price in low-price years than in high-price years - exactly the opposite of what is desirable. Local taxes remain high despite a directive from the Prime Minister's Office that District cess should not exceed 5 percent (taxes are said to have been renamed to bypass this directive). Also, local municipalities have the authority to pass new levies without oversight from the central government. Heavy taxation has resulted in negative nominal rates of protection or negative incentive to produce. There is a need for not only lowering the taxes but also rationalizing these across crops.

The third cross-cutting issue is the need to improve support services to the agricultural sector. In particular, research and extension needs to be strengthened with a view to responding to market demands. And the fourth issue is price volatility. This needs to be addressed urgently as public intervention schemes in the past have not worked. In many cases, such interventions to reduce risks in markets for internationally traded commodities did actually impede growth by ending up taxing producers themselves. Thus, new market-based insurance schemes (e.g. warehouse receipt or inventory financing systems) are being explored.

2.3 Selected cross-cutting issues

Appropriate CETs for ECA Sensitive Products

In the ECA agreement, 31 agricultural tariff lines (at HS8 level) are designated as EAC sensitive products (59 lines in total including all products). Table 1 shows that the CET rates for these products are mostly substantially higher than the 25 percent maximum rate for non-sensitive products. For 11 of the 31 lines (rice, jaggery and sugar products), the CET is a compound tariff of *ad valorem* rates or USD 200 per tonne, whichever is higher. A US$200 per tonne specific tariff on grains and sugar is indeed a very high duty.

Given that members of a customs union rarely have uniform or similar "sensitivity", a common CET can easily be a source of divisiveness as conditions change as regards domestic production, processing etc. As a result, it is normal that governments face varying pressures from economic agents (traders, processors farmers and consumers) for adjusting the CETs (through duty remissions or other

TABLE 1:
Common External Tariff rates for EAC sensitive food and agricultural products

Product	HS Heading number	# lines (HS8 level)	CET %
Milk, cream	04.01/02	12	60
Wheat, meslin	1001.90.20+.90	2	35
Maize	1005.90.00	1	50
Rice [1]	10.06	4	75
Wheat and meslin flour	1101.00.00	1	60
Maize flour	1102.30.00	1	50
Sugar[1]	1701.11.90;.12.90;91.00;98.10;99.90	5	100
Jaggery[1]	1701.11.10+.12.10	2	35
Cigars, cigarettes	2402.20.90+.90;2403.10.00	3	35
Total/average		31	56

Source: Stahl (2005)
[1] The applicable CET for these lines is a compound tariff – the *ad valorem* CET rates or USD 200 per tonne, whichever is higher.

TABLE 2:
Appropriate CETs for Sensitive Products - views from an informal discussion

	Hard Wheat	Wheat flour	Rice	Sugar
Current CET%	35%	60%	75%	100%
Kenya	35 is ok	60 is ok	75 to 35	100 to 10
Tanzania	35 to 10	60 is ok	75 is ok	100 is ok
Uganda	35 to 0	60 is ok	75 is ok	100 is ok
Rwanda	35 to 0	60 to 35	75 to 35	100 is ok
Burundi	35 to 0	60 to 35	75 to 35	100 is ok

Source: Table prepared by the author based on discussions posted in Uganda Manufacturers Association website, cited in the footnote. It is not clear who participated in the discussions; presumably they are traders from the five countries.

means). Despite the apparent significance of the issue, no analysis was found on this topic. However, an informal discussion posted on a website of the Uganda Manufacturers Association illustrates the nature of the debate.[2] Table 2 summarizes proposals on appropriate CET and what follows illustrates the discussion. It shows traders from the member countries making different arguments for revising up or down the sensitive CETs.

For hard wheat, the proposal made was for reducing the CET from 35 percent to 0, arguing that hard wheat is not produced in the region and that customs officials always face difficulty differentiating the two types of wheat. One participant from the country with some wheat production argued that the CET should be reduced to 10 percent but not to zero, while another called for maintaining the tariff at 35 percent so as to retain the space for protection and safeguard, while using duty remissions during shortages. More or less these very arguments were made for other products also, with producing members calling for maintaining higher CETs (and using duty remissions when needed) and non-producing members arguing for zero or very low tariffs (and doing away with the remission system). For products like wheat and wheat flour and industrial sugar, other arguments made were ensuring the availability of cheap raw materials for industry (e.g. for bread manufacturers and beverage industry). Where processing capacities exist, the argument made was for lower CETs for raw materials. In the case of rice, some countries saw emerging opportunities for expanding rice production due to new production policies and higher world prices - and hence a higher CET. Others, with limited production potentials, argued for a lower CET.[3]

Notwithstanding these debates and the complexity of the issues, not a single paper was found that analysed the issues well. Stahl (2005) is an exception and offers some comments. Among other things, he points to the possibility of negative effective protection to some value adding sub-sectors if the periodic remissions are not decided carefully and promptly. A recent newspaper article provides an account of similar concerns (and confusions) raised when a decision was made to lower the CET for wheat for the 2010/2011 season.[4]

Issues on facilitating intra-EAC free trade

The EAC became a customs union (CU) in January 2010 after the end of a transition period in December 2009. This has some implications for some CU instruments.

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2 *Proposals for Review of the EAC List of Sensitive Goods*, Report of discussions, Uganda Manufacturers Association. http://uma.or.ug/index.php/proposals-for-review-of-the-eac-list-of-sensitive-goods. It is not clear from the website who (e.g. traders or manufacturers' or officials) discussed these issues.

3 Minot (2010) has remarked that one reason Kenya has been arguing for a lower CET on rice (35 percent) was due to pressure from Pakistan that imports large amounts of tea from Kenya.

4 Op-ed by Francis Ayieko in *Sunday Nation*, 5 Sept 2010.

Several studies have addressed these issues. The following account is based on a brief by the East African Business Council which fairly well summarizes the issues, notably from the side of the private sector.

Internal taxes – With the CU, intra-EAC trade is now duty free. Moreover, it has been agreed that domestic taxes such as the VAT and excise duties shall be paid to the consuming and/or importing countries. But there are still duties that apply to such trade. In order to discourage and end smuggling, there is an urgency to harmonize disparities in remaining domestic taxes by implementing initiatives such as signing and ratifying the agreement on avoidance of double taxation.

EAC Rules of Origin – Effective operation of the rules of origin will continue to be important for two reasons in particular. One is the complexity created by membership in multiple regional economic communities (RECs) like COMESA, EAC and SADC. Second, the modalities for collection and accounting for customs revenue are not in place yet. Unless these issues are sorted out early, the fear of trade deflection will continue to hamper intra-EAC trade.

EAC Duty Remission Scheme – This is also seen as a divisive issue if there is a tendency among the EAC members to use national duty remission schemes, granting different exemptions and remissions outside the EAC. The use of remissions has been considerable in recent years. Granting exemptions often creates unfair playing field for others and undermines competition, thus eroding the effectiveness of the EAC CET as well as EAC Customs Management Act.

Elimination of Non Tariff Barriers (NTBs) – As intra-EAC trade became duty free, there is a fear that NTBs may increase. To prevent this, a more pragmatic approach is needed for eliminating the NTBs, requiring the adoption of an instrument for enforcing removal of NTBs. This will require EAC organs to be empowered to deal with persistent cases of NTBs at regional level especially those emanating from administrative and legislative measures by members such as imposing taxes and levies of equivalent effect to tariffs and bans on imports based on quality and standards.

Multiple RECs – Differences in the CET among multiple RECs like the EAC, SADC and COMESA are also sources of potential trade conflicts among the EAC members. Handling this complexity is difficult, and efforts need to be directed towards a more harmonized CET for three RECs.

Treatment of Export Processing Zones (EPZs) Goods – Under current rule, goods kept within the EAC's EPZs do not qualify for duty free intra-trade once sold within the EAC because goods introduced are generally regarded, for the purpose of import duties and taxes, as being outside the CU. Strict enforcement of this rule is essential to avoid potential frictions.

In summary, there are several issues that could disrupt the smooth flow of intra-trade expected within the EAC and which need to be addressed. Several of the above issues do not appear to be difficult to resolve, as they merely require political will and administrative support.

Addressing cross-border trade

In a recent paper on this subject, Little (2010) presents a comprehensive picture of cross-border trade (CBT), mostly informal, demonstrating the scale, complexity and vital role of this trade in the economies of eastern Africa. The insights provided and issues raised also apply to Tanzania. He notes that despite the significance, CBT suffers from policy ambiguity, misunderstandings and an unwarranted concern that the trade's 'informality' encourages trade in illegal goods and a major loss of public revenue. The following summarizes his major findings.

a) Scarcity of information for policy making - Contemporary CBT in many parts of eastern Africa is not captured in government statistics, and some information is available only through special surveys. This hampers constructive policy dialogue and results in misinterpretations. For this reason alone, it important that market information systems expand to include the coverage of CBT so that policy can be informed by reliable data.

b) Traders' perceptions – It is important that traders' perception about CBT should be an important input for CBT policy. But this is almost never the case. Where such efforts have been made, valuable insights have been revealed for policy. Most of the issues have to do with insecurity, lack of markets, role of the government in 'policing' and taxing CBT, and lack of infrastructure and credit.

c) Administrative and legal ambiguities - There is a great deal of uncertainty about existing policies toward CBT, e.g. what level of administration is responsible for regulating/licensing the activity, and the rights of CBT traders to engage in trade of legal goods. Efforts to counter these shortcomings and to establish more formal policies toward CBT, especially for maize trade, have however been advanced in southern Africa. An example is COMESA's *Maize without Borders* initiative.

Policies that acknowledge and encourage, rather than discourage, regional CBT can capitalize on comparative advantage for different locales, strengthen local food security, increase collection of state revenues and investments in key market and transport infrastructures, and reduce price volatility and market imperfections. By recognizing the importance of CBT rather than discouraging it, governments could expand revenues through customs and tax collection at borders and market towns, and also improve the welfare of the people living there.

Fertilizer and inputs subsidies

Fertilizer subsidies, although not a trade issue in the narrow sense of the term, are covered by the WTO Agreement on Agriculture under domestic support measures. From a development angle, this issue is even more important. In many countries, large-scale subsidies on fertilizers are often blamed for crowding out public investment on agriculture that has a higher payoff for growth and poverty reduction. National policy frameworks like the PRSP and agricultural policies often have statements supporting the provision of incentives and subsidies to farmers and agriculture. The inherent budgetary trade-off between investment and subsidies do not however get clearly addressed. As a result, this continues to be a divisive issue.

Fertilizer subsidies are among the programmes that use up large amounts of the budget. In the case of Tanzania, general fertilizer subsidies were phased out in the early 1990s, only to be granted again in 2003 in the form of transport subsidies, the main aim being encouraging the use of fertilizers in remote areas. From 2008, subsidies have taken the form of a voucher scheme, the National Agricultural Input Voucher Scheme (NAIVS). The vouchers that NAIVS provides to maize and rice farmers subsidize half of the price of a package of improved seeds and fertilizers (with the package providing enough of these inputs for one acre of maize or rice). The NAIVS was implemented in 56 districts in Tanzania's high potential zones for maize and rice in 2008/09, and the plan is to eventually scale up to reach 65 districts throughout the country.

Schemes like these are also known as "smart subsidies", presumably these being targeted programmes, relying on the private network of input suppliers, and for having an exit plan. Only time will tell if these new experiments work and do away with the past problems. The fact that private input supply chains are promoted by the programme, rather than crowded out, is consistent with the strategies of the NSGRP and agricultural policies. As for the cost, these are not cheap programmes. Recently in 2009, Tanzania borrowed about US$144 million from the World Bank/IDA to expand this scheme, the other half of the budget coming from the government. It is in this sense that it is important to keep in mind the cost and benefit of a programme like this vis-à-vis the alternatives like investment (irrigation, rural roads etc).

As said above, Tanzania's NSGRP and trade and agricultural policies mention subsidies and incentives in many places, including credit subsidies. The size and effectiveness of these measures need to be brought within the purview of the discussion of agricultural trade policies because of the opportunity costs of the funds, and second because the effectiveness of trade policy is often linked to overcoming certain constraints in production – hence the important link between policy and investment.

Inefficiencies of the domestic markets and high costs

This is also a recurring theme in the Tanzania case study of the World Bank distortions project (Morrissey and Leyaro 2009), as is the case in many other studies, and indeed appears as an acute problem for Tanzania. This systemic issue deserves a special mention here. In the concluding section of that case study, the authors summarize the problem as follows.

For the cash crops, the case study found it difficult to distinguish the effect of policy distortions from inefficiencies in marketing and market structures.[5] Thus, it is quite possible that the negative estimates reflected market inefficiencies in addition to (and most likely even more than) policy distortions. It was also noted that products with high negative NRAs appear to be those where there is limited competition and inefficient marketing or processing (cotton, tea and tobacco) whereas the NRAs are much less negative for products in sub-sectors where competition has been introduced and efficiency raised (coffee, cashew nuts and sisal). Thus, more efforts are needed for improving the functioning of output and input markets.

The study concluded that despite many rounds of reforms and generally improving infrastructures and information, there was little evidence of improvements in marketing (including processing and transport) efficiency for most products. In view of this, while measures to improve yields and production efficiency are important, the analysis suggested that measures to improve competitiveness and efficiency in processing and marketing (including transport and distribution) are equally important. Intra-regional trade facilitation and other measures associated with regional integration are also equally important.

Minot (2010) reviews a number of recent studies that quantify the transmission of price signals of staples across the border and domestic markets in Tanzania. In one of them, it was found that during 1992-2002 the average difference in the price of rice and maize between two markets was consistently much higher than transport and marketing costs, indicating marketing inefficiencies.

One somewhat divisive issue is the incidence of a subsidy or taxation. For tobacco and pyrethrum for example, the World Bank case study notes that although the results suggest a subsidy for consumers, there are few actual consumers in Tanzania and so this should be interpreted as implying a potential subsidy for processors/ traders (at least in the sense that producer prices are lower than they should be). A similar interpretation could apply to cotton. As various stakeholders have been

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5 One reason for the difficulty in measuring distortions and transfers of subsidies/taxation across the chain was the multiple levels of the agricultural markets (typically 3-4 levels) through which the products passed, namely the farm, local town, central market and world market.

increasingly participating in the discussions on policies, it is important that there are sound analyses to present to them to show the incidence of the tax or subsidy, i.e. who benefits and who loses and by how much.

This issue has been recognized well in both the NSGRP and agricultural policy (the ASDP). In response, a number of policy and regulatory reforms are proposed in order to reduce the cost of doing business across value chains, and thus entice private sector investment. These are outlined *inter alia* in sub-component 2.3 of the ASDP - *Marketing and Private Sector Development*, with programmes for reducing marketing costs and risks for small and medium producers, traders, processors and other service suppliers, with an overall objective of linking farmers to markets through value chains.

3. Conclusions

The purpose of this paper is to discuss key agricultural trade policy issues facing Tanzania as a contribution to the process of articulating appropriate agricultural trade policies. The next chapter reviews in some detail key national policy frameworks for trade and agriculture. Agriculture is accorded top importance by the main framework, the NSGRP, also signalling a departure from the past in stressing on commercialization, competitiveness and the role for the private sector. The food sector has been given its due importance, and the recent global food crisis has reinforced this prioritization. Tanzania's trade policy was also found to be balanced in terms of the provision of instruments to support both the food and export sub-sectors. In terms of the challenges, there are both short-term policy issues to resolve and the longer-term development of the sector. The former include, for example, the size and role of the SGR, handling the sensitive maize sub-sector, relatively high taxation facing export agriculture, and many factors behind the high cost of marketing products and inputs.

Without repeating what have been said in Section 2 on these issues, two additional points are made below.

First, the government needs to lead the process of establishing and promoting value chains for selected food and cash crops. This is important for two reasons. The more important reason is that this is the right way to move forward in view of the vision and strategies for agricultural development as articulated in the NSGRP and agricultural development plan. This is also the right way to entice the private sector to participate in the commercialization of agricultural sector. The second reason is for fine-tuning policies through research and analysis. Many of the problems behind the often said high marketing and transaction costs in domestic and export trade can be identified through a research framework based on value chains. As a value chain involves several actors along the chain with at times conflicting interests (e.g.

between farmers and processors on export taxation of raw produce), it provides the framework for identifying, and quantifying, the impact of an intervention on these economic agents. This in turn provides the basis for formulating a coherent policy. The government could also encourage development partners and research institutions to get involved in this process of articulating policies that are evidence-based, sound and thus not easily reversed.

Second, there is a need for doing more on stakeholder consultations in articulating these interventions. These meetings are essential for formulating sound policies that are not easily reversed. During the background work that contributed to this paper, several stakeholder consultations were held in order to better understand that process as well as to try some policy ideas articulated as part of this work. What comes out very clearly is that for these consultations to be effective, much more needs to be done than just holding the meetings. At the minimum, participants should have the benefit of having a brief that explains the consequences of alternative policy options being discussed. In its absence, stakeholders may attend the consultation, but will contribute little. This is especially important for discussing trade policies which tend to be divisive and most societies seem to have different views on these issues.

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