Implication of the 2006/2007 Budget on the Development of the Agriculture Sector in Tanzania

1 Introduction

Tanzania has substantial potentials to achieve faster and diversified economic growth necessary to raise welfare of her people. But the country is experiencing development problems. The economy is characterised by a large share of agricultural goods, predominance of primary exports, low degree of industrialisation and of economic diversification, high population growth rate, and high level of indebtedness. These problems are manifested in poverty as indicated by low income per capita, hunger, diseases, and low life expectancy. Escaping from these economic hooks and creating sustainable development has been a dream of the government since independence. However, so far little has been achieved towards this goal - poverty, especially in the rural areas is still alive and biting.

Although increased industrialisation and urbanisation are all important in the growth and development process, there is explicit consensus among economists that development of agriculture, which is the largest sector in the economy, is a necessary starting point. (Johnston and Mellor, 1961; Kuznets, 1964; Nicholls, 1964). To this, Todaro (1989) adds that without agricultural development, industrial growth either would be stultified, or if it succeeded, would create such severe internal imbalances in the economy that the problems of widespread poverty, and unemployment would become even more pronounced.

The importance of agriculture in the economy could be appreciated by considering its contribution to Gross National Product (GDP) and export earnings. If agriculture was dropped in the equation, Tanzania's \$ 11.3 billion of nominal GDP in 2004 would drop to \$ 6.1 billion with consequent drop in per capita income from \$ 321 to \$ 173. On the other hand, export earnings would drop by 60% with severe impact on the balance of payment. That is why increasing productivity of the farming sector and assurance of a sufficient flow of food and materials from agriculture to meet the needs of the population and economic growth should be the major strategy to develop the economy in Tanzania (Table 1).

Table 1: Gross Domestic Product (GDP) at Factor Cost by Kind of Economic Activity at Current Prices, Tanzania Mainland

Millions of TSh

Economic activity	2000	2001	2002	2003	2004
A: Monetary					
Agriculture	1,690,856.3	1,919,703.6	2,205,161.0	2,508,853.0	2,959,247.0
Mining and Quarrying	99,519.0	120,454.0	152,977.0	210,574.0	278,262.0
Manufacturing	499,725.6	564,689.0	638,663.0	710,951.0	791,416.0
Electricity and water supply	112,752.7	124,789.1	145,753.1	156,963.0	177,614.0
Construction	282,149.7	335,923.5	389,671.3	454,163.0	532,017.0
Trade restaurants and hotels	823,025.2	926,870.0	1,038,094.4	1,153,323.0	1,319,172.0
Transport and communication	328,259.1	361,558.0	404,945.0	451,281.0	509,948.0
Financial and business services	382,969.9	421,511.0	494,800.6	564,334.0	637,128.0
Public administration and other services	709,351.0	796,930.0	893,082.9	956,209.0	1,044,230.0
Less financial services indirectly measured	-151,359.0	-157,785.0	-168,830.0	-194,155.0	-233,218.0
Total Monetary GDP	**4,777,249.5**	**5,414,643.2**	**6,194,318.3**	**6,972,496.0**	**8,015,816.0**
B: Non-Monetary					
Agriculture	1,330,302.0	1,486,442.4	1,679,360.0	1,909,002.0	2,252,613.0
Construction	61,205.0	69,235.0	80,312.6	91,958.0	105,752.0
Own - Occupied dwellings	537,625.0	654,295.0	745,896.3	842,863.0	913,138.0
Total Non-Monetary GDP	**1,929,132.0**	**2,209,972.4**	**2,505,568.9**	**2,843,823.0**	**3,271,503.0**
C: Total GDPfc: (A+B)	**6,706,381.5**	**7,624,615.6**	**8,699,887.2**	**9,816,319.0**	**11,287,319.0**
Population (millions)	31.9	32.9	33.6	34.2	35.2
D: Per capita nominal GDP (TSh)	**210.2**	**231.8**	**258.9**	**287.0**	**320.7**

Source: Bank of Tanzania (2005)

Despite government efforts to develop agriculture, the sector is still facing numerous constraints. Exports are lower now than they were in the late 1960s and 1970s (World Bank, 2000), and agricultural productivity is still very low and erratic (Vision 2025, 1999). For example, while a farmer in the European Union (EU) produces enough food for 130 people, in Tanzania one farmer produces enough food for 2 people. As a result food shortage is persistent and sometimes cases of starvation are reported. Food shortage makes the country to import thousands of tones of foodstuffs especially cereals. In this way, the country loses not only foreign exchange that could be used to import industrial inputs but also revenue because the importation is accompanied by tax exemption. Precarious food supply gives rise to consumer price instability in urban areas. Worse still food imported is distributed free of charge or sold at a very low price. The long run multiplier effect of this practice is likely to push out local farm products from the market as producers become discouraged.

All these are happening in spite of Tanzania being richly endowed with arable land, and other potentials for agricultural production. Since independence the government of Tanzania has been designing different strategies aimed at putting the agricultural sector on the right footpath. The history of these is too long to explore in this paper, but one thing is certain – these efforts have not produced significant outcome (impact) for the poor in the farming communities. Successes are reported in the papers.

Of recent the government has come up with a chain of strategy papers and policy initiatives embedded in the Tanzania Development Vision 2025 and National Strategy for Growth and Reduction of Poverty (NSGRP), colloquially known as MKUKUTA. With regard to the agricultural sector some of the relevant policies and strategies include Agriculture and Livestock Policy (1997), Agriculture Sector Development Strategy (ASDS) 2001, Poverty Reduction Strategy Paper (PRSP), Cooperative Development Policy (2002), Rural Development Strategy (RDS). National Food Security Policy (2004) and Agricultural Marketing Policy (2005). Under this framework, the country has witnessed mushrooming projects/programs such as Agriculture Sector Development Programme (ASDP), Participatory Agricultural Development and Empowerment Project (PADEP), Agricultural Marketing Systems Development Program (AMSDP), National Irrigation Master Plan (NIMP) and District Agricultural Sector Investment Project (DASIP) just to mention a few.

The Government of Tanzania supposedly recognizes that stronger performance of the agricultural sector is key in realising intended acceleration in real GDP growth and the needed reduction in poverty.

Therefore, government budgets are supposed to align themselves along implementation of the programs outlined above with the aim of achieving sector growth targets and increasing real annual growth rate for export crops with observable impact in food security and income poverty reduction for the rural poor. The aim of this paper is examine if the 2006/2007 government budget proposes measures that would bring the nation closer to achievement of such goals.

2 The 2006/2007 Government Budget and the Agricultural Sector

National budget is the most important economic policy instrument for government. It reflects the government's social and economic policy priorities. No policy or plan can be implemented without funding, and thus the budget is the key to implementation of any government policy. A well prepared budget reflects stability of a government to both collect funds and disperse them effectively. A functioning budget system is vital for formulation of sustainable fiscal policies and facilitates economic growth. This paper discusses implications of the 2006/2007 government budget on the agricultural sector. The discussion is put under two categories; positive and shortcomings of the budget.

2.1 Positive aspects in the budget with direct impact on agriculture:

There are a number of aspects in the budget that are pro agricultural development. These are outlined in the foregoing section.

(a) Agriculture allocated reasonable share

The budget states that the agricultural sector is allocated a reasonable share of the budget as will be indicated by the fund allocated to the lead Ministries of Agriculture namely Ministry of Agriculture, Food Security and Cooperative, Ministry of Livestock Development and Ministry of Local Governments. Given the importance of the sector, any increase in expenditure is a welcome move.

(b) Financial Services to be Improved

The budget is set to improved financial services in the country with a view of increasing access to capital for agriculture. Lack of credit has been one of the areas constraining development of the sector. According to the budget, the improvement of financial services will be achieved through:

- Transformation of the National Investment Bank (TIB) into a development bank capable of providing term financing for production sectors including agriculture. To this end the capitalisation of the bank will be increased by about 50% (from TSh. 24.9 billions to TSh. 50 billions).
- Preparation of procedures for establishing SACCOS of different community-based groups which will be facilitated to access credit from commercial banks and financial institutions located in the regions across the country.
- Appointment of a special committee (jointly the government and CEOs of all banks) which shall review access and evaluate, among other things, the problems associated with perceived risk in agricultural lending.

(c) Subsidy Fertiliser Allocation to be Increased

Subsidy on fertiliser, seeds and inputs for agriculture and livestock as well as for irrigation infrastructure have been increased. For example, Subsidy on fertiliser has been tippled from TSh. 7 billions allocated during the last fiscal year to TSh. 21 billions in this year. This is a positive because it is an incentive for farming as it increases farm profitability by reducing production costs. Agriculture is a highly subsidised sector all over the world, without which the sector tends to under-perform. After all our trade partners in the west and many countries in the African-Caribbean and pacific (ACP) are subsidising their agriculture in different ways.

(d) Continued Improvement on Infrastructure

The budget reassures continued support to infrastructure, especially road network. This is crucial for agricultural development because of the nature of settlements of smallholder farmers, who produce more than 90% of total agricultural outputs in the country. They are scattered in rural communities while the major markets and processing facilities for crops as well as input sources are located in urban centres usually at a considerable distance from each other and from the major seaports. Because of this structure of human settlement and of production, efficient transport system assumes an extraordinarily important role in the country's economic development. Well-developed road infrastructure benefits the farmers in many ways. It opens villages to other villages and to market centres, reduces transport costs and improves competitiveness in the marketing system. This, increases producer prices, and raises the income of the poor, whose expenditures stimulate demand of industrial goods. In addition, researches show that an increase of rural road network by 1% would increase aggregate agricultural productivity by 0.5%. Indeed the multiplier effect of improve road infrastructure is enormous.

(e) Decentralisation of budget implementation

Decentralisation of budget implementation is a welcome move. The capacity of local governments will be strengthened to be able to handle huge sums of money, especially in the planning and implementation of District Agricultural Development Programs (DADP). In this way, the problem of perceived misuse of fund at ministerial level will be resolved.

(f) Tax structure Reforms to Protect Local Manufacturers

Locally grown grounded, roasted or instant coffee have been exempted from VAT as it was done in tea – this will revamp the coffee sector by enhancing production, processing and reviving coffee export. Furthermore, the rate of tariff on wine produced with more than 25% imported grapes has been raised by about 7% (from TSh 820 to TSh 878 per litre. This will protect local processors of wine and thus a profitable market for vine growers. Similar measures have been taken for the advantage of sugar industry.

2.2 Critiques on the 2006/2007 Government Budget on Agriculture

2.2.1 General Shortcomings

(a) The Planned Economic Growth Rate is Too Little

The economy is planned to grow at 5.9% year 2006, 7.3% in year 2007, 7.7% in 2008 and 7.9% in year 2009. This level of growth is too little to have any significant reduction in poverty. It is estimated that even if the economy of Tanzania grew by 8% since 1990, with the population growing at 3% per annum, by year 2010 still one third of the population would still be living in poverty. At the moment over 60% of the population in the country is estimated to be living below the international poverty line of $2 per day. This underlines the magnitude of the challenge facing the country in implementing her National Development Vision 2025 and MKUKUTA. Much higher growth targets should be planned. Tremendous achievements could be realised if the government addressed bottlenecks in the agricultural sector and allied industries, which support over 70% of the population.

(b) Dependency is still high

The 2006/2007 budget will depend on external grants by 39% down by 2% from last year's budget. This improvement is too little to be proud of. If donors do not keep their promises implementation of the budget would be in trouble. In addition, with this level of dependency, the government has no freedom to institute development strategies for the benefit of her people in its own way, unless the donor community approves.

(c) Inflation – Unemployment Dilemma not Addressed

Secondly, inflation and unemployment are the two twin problems that cause economic instability. Thus any serious budget should show clearly how these problems are going to be addressed in the subsequent fiscal year. The issue of inflation has been addressed relatively adequately. The budget plans to contain inflation at 4% (at 2001 prices) by June 2007. But nothing is mentioned about unemployment rate and its trend, and explicit strategy for addressing this problem. Keeping an aye on only one of these two problems is a serious mistake planners can commit because the two are inversely related (inflation-unemployment paradox in the economy). If the government is using monetary or fiscal policy to slow down total spending to cure inflation, long before it even gets the inflation problem under control it is likely to have more unemployment than it can tolerate. The public should press the government to treat unemployment as a sensitive matter that can not be taken for granted.

2.2.2 Specific Issues on Agriculture

a) Agriculture Treated Like Any Other Sectors

The 2006/2007 government budget like previous budgets has treated agriculture just like any other sectors of the economy. The sector is tangentially touched by the budget without robust strategies to harness its full potential so as to guarantee sustainable food security and ensure economic prosperity for the people. Agriculture can not be treated trivially; the production and marketing processes in the sector are quite unique from other sectors. Some of the distinguishing characteristics of the agricultural production and marketing include; (a) because of its central role in the economy of developing countries, agricultural production and marketing is subjected to numerous policy distortions (b) Agricultural production is to a great extent dependent on weather as well as biological patterns of reproduction (c) Time lag - It takes long to change substantially the production of some commodities. For example coffee, sisal must be planted several years in advance before production can be realized. This in turn means that, during the time full production is being awaited demand conditions may change (d) Farmers in most cases price takers in the sense that they cannot individually or in groups influence significantly price of their products and ((e) cost-price squeeze problem is inherent in the agricultural sector - buyers of farm products have superior bargaining powers as compared to farmers. This is because these buyers are usually larger and have better marketing information than farmers. Blanket strategies will not have impact on the sector.

b) Failure to Categorise Farmers

The budget has failed to recognise that farm producers in Tanzania can not be put in one basket labelled "farmers" and then design a global strategy for addressing their problems. For practical reasons and indeed for effectiveness of government policies, producers in the agricultural sector should be categorised into large, medium and small scale farmers, and be specific about the target group to be affected by a given policy decision. For example transformation of the TIB into a development bank capable of providing term financing for agriculture is purely for medium and large scale farmers. The budget seem to have nothing concrete for smallholder farmers who are the majority and produce more than 90% of total agricultural output in the country.

c) Increased Expenditure on Agriculture is Illusionary

The alleged increase in budgetary expenditure in the 2006/2007 budget on agriculture is illusionary. In real terms (if inflation is factored in), the increase would drop by about 5%. Given the institutional setup of the agricultural sector, it is difficult to ascertain the exact amount allocated to agriculture at the moment, but it can be intuitively argued that it is around 4% as has been in the previous budgets. This level of spending on agriculture does not reflect its critical role in the economy considering the fact that it accounts for close to 50% of the GDP (46.2% in 2004). Meagre budgetary allocation to agriculture is clearly a violation of the Maputo Declaration (2005), which requires all member States of AU to allocate at least 10 percent of their national budgets to agriculture and rural development in order to reverse the current trend of undercapitalisation, uncompetitive and under performing African agriculture, which is symptomatic of inadequate expenditures in the sector by African Governments. Public expenditure on agriculture in developed countries is quite exorbitant. For example, the European Union in 2002 spent 50% of its € 100 billion budget on the agricultural sector. Asian and South American countries have following the same trend and their economies are booming.

In addition, the alleged allocation of fund to agriculture may not be available for the sector. In the budget the government has expressed her wishes to spend several billions on agriculture. If donors who contribute 41% of the budget, for any reason, do not keep their promises or internal revenue collections fall short of targets, the anticipated spending on the sector would drop significantly. In other words, there is always a mismatch between budgeted and actual expenditure in almost all sectors of the economy. Estimates show that this mismatch is around 25% of the budgeted expenditure. In this respect, the agricultural sector is not immune. Thus, proposed spending on agriculture in the 2006/2007 government budget does not reflect public desire to revolutionalise the sector.

The declining public expenditure on agriculture in Tanzania is a mirror image of what is happening in Africa countries in general. This is not an error of omission for policy makers, it is purely by design on perception that past public expenditures on the sector have achieved little impact in relation to their costs. Policy-makers believe poor performance of the economy is attributed by overdependence on agriculture, which does not deliver. Thus, they believe it is high time to diversify the economy by putting much emphasis on industries at the expense of agriculture. Stated in different words there is no political will whatsoever in developing the agricultural sector. The little that is done on agriculture is purely for governments to be seen doing something by the development partners. As long as the public is not ready to spend adequately on agriculture, not much should be expect out of it.

d) Increased Public Expenditure Syndrome

Another area of shortcomings on the 2006/2007 government budget, which is related to the previous point on public expenditure on agriculture, is indiscriminate pouring of money in the sector as a guarantee for success in improving productivity. The tendency has been to measure success by the amount of money that has been allocated to agriculture in funding a chain of programs and projects – NAEPI, NAEPII, Farm machinery distribution program, subsidy program, PADEP, AMSDP, Rural Financial Services

Program (RFSP) just to mention a few. These programs and projects have and are spending billions of money. PADEP alone for example is going to spend 70 billions. The question to be asked is whether these efforts will have significant outcome in a sustainable manner.

For example, subsidy on fertiliser which is highly praised by the public, may not deliver desired results after the 21 billions have been spent. It should be recalled that the government initiated fertiliser subsidy arrangement for the farmers in the Southern Highlands regions of Iringa, Mbeya, Rukwa, and Ruvuma to increase production of maize in the zone and make the country self-sufficient in food production. However, since the subsidy program started the level of maize output has not changed and farmers are complaining that the subsidised fertiliser does not reach them. Investigation shows that most of the fertiliser ends up in the shops of stockists and sometimes smuggled to neighbouring countries. Apart from that, even if the fertiliser reached farmers, it is not clear whether it will be spent on maize production and not other crops of better returns in the area such as tomato, cabbage and onions.

In the light of what has been explained above there is a need for the government and the donor community to consider critically the possibility of changing the approach in funding the agricultural sector. This paper will later suggest an alternative approach for contemplation.

e) Taxation of Farm Operations

Another issue which the budget has failed to address is the taxation of agriculture through the value added tax (VAT), the problem which farmers in many parts of the country have been complaining about. Farmers are treated as final consumers in the production process, and by law they are not supposed to be VAT registered because they are dealing with products that are exempted from VAT. On the other hand, most of the farmers trading partner (transporters, processors, and other service providers are VAT registered and are allowed to claim back from the Tanzania Revenue

Authority (TRA) the VAT paid in the trading transactions. This was not an issue to be ignored by the government budget.

3 Budgetary Strategies to Revive Agriculture

The most important thing to do in order to achieve green revolution in Tanzania is for the government to change her approach in effecting public expenditure on the agricultural sector. The emphasis should be shifted from directly supporting production (supply side) to supporting the demand side. This can be done through adopting the **minimum price scheme or intervention price** for strategic crops. This system was and is still being used by developed countries to sustain agricultural production since World War II, and is being used by medium income economies of Latin America and Asia to boost agriculture so that it becomes an engine of industrialisation in these economies.

The basis of this suggestion emanates from the current state of affairs in the production and marketing system of agricultural crops in Tanzania since the country started implementing the agricultural adjustment programme, agreed between the World Bank and the Government in 1990. In a nutshell, the reforms have witnessed withdrawal of government from business oriented kind of activities. The system is now operated by private business people responding to the forces of demand and supply. In this kind of arrangement the loser is a farmer who sells his/her produces at prices below production cost. A slight improvement can be achieved only if farmers formed cooperatives and farming associations. Nevertheless, this can not solve the **price-cost squeeze problem** characteristic of agricultural business all over the world. At the moment there is a small group of traders who position themselves strategically in the system. They buy crops (especially paddy and maize) at low prices at harvest time and sell them at prices three times higher later during lean seasons

The minimum price scheme would ensure that farmers recovered production costs plus a small margin of profit, say, 20%. At the moment the government doesn't care whether the prices received by farmers recover production cost or not. As long as production costs are not recovered the farming sector will never advance. Once farmers are assured of the market for their produces, they can take initiative to intensify output using inputs at market price. **One thing that policy makers and agricultural development planners should remember is that all inputs such as fertilisers, chemicals, credit, technology, extension service, etc are derived demand of output.** What this implies is that their demand depends on the demand of output. If there is no market for output no matter how much credit, fertiliser, etc the farmer used no agricultural transformation can be realised. It is only after a farmer is sure of selling product at a profitable price will he or she seek more inputs at own initiative. That being the case, one can imagine the fate of agricultural projects that emphasise on input supply alone - they are doomed to fail. This may explain the reason why many agricultural projects and programmes have failed to transform agriculture in this country.

To start the intervention price mechanism for Tanzania it is not difficult; the **warehouse receipt system** and **the strategic grain reserve (SGR)** network can be a starting point. Of course there pertinent issues to be resolved in the minimum price scheme such as (i) contradicting the philosophy of government pulling out of business (ii) Where would the government get money to buy all such crops (iii) how would the stock be disposed off (iv) this may suffocate the middlemen in the system (v) how should the system be managed? (vi) which crop should be supported ((vii) for how long should the price be supported? (viii) what are the advantages of this approach over the current approach? (ix) wouldn't this contradict WTO norms? (x) how would the donor community perceive this idea?, etc, These and other related questions are interesting issues to discuss but they are beyond the scope of this paper. What is important is that the public and especially the members of parliament should start questioning critically the current approach in carrying out public expenditure on agriculture is if agriculture is to be modernised in Tanzania.

4 Conclusion

For an agrarian economy such as Tanzania's, resolving bottlenecks in the sector that employs the majority of people, that is agriculture is prerequisite to economic development. If that is the case, government budgets should have clear strategies to develop the sector. The 2006/2007 government budget is like any other government budgets in the previous financial years. It has some issue which are positive for the agricultural sector but there are little specific issues for small scale farmers. As long as the budget has left out this segment, which is the largest portion of the population, and produces more than 90% of total agricultural output, not much should be expected in an endeavour to push the benefits of economic development to the poor given the current trend in financing the sector. Alternative approaches like the minimum price scheme are key to agricultural success in this country. The system has worked in many countries; there is no reason why it shouldn't work in Tanzania. If this system was adopted it would encourage youngsters to get involved in farming and provide solution to the unemployment problem facing the country. The public, especially the members of parliament should start thinking untraditionally if anything substantial is to be realised in speeding up economic growth in Tanzania.

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