

Farmers decry produce cess for weakening agriculture

By Veneranda Sumila
BusinessWeek Reporter

Dar es Salaam. The government should do away with "produce cess," as it is burdensome to farmers and goes a long way to exacerbate their poverty and jeopardising agricultural revolution endeavours.

A new study indicates that the tax, considered by farmers and business people as nuisance, has negative consequences felt all over the production value chain.

According to the report "cess discourages investment in agriculture sector because the rates are too high. In the same vein, weaknesses in the cess collection system discourage production and marketing of crops, and high produce cess rates and weak accountability mechanisms negatively affect compliance on the part of taxpayers."

"Given the negative consequences of the tax on the agricultural sector, it is recommended that it should be reduced or abolished," notes the document titled "STUDY ON PRODUCE CESS TAXATION SYSTEM IN TANZANIA" by The Agricultural Council of Tanzania. BEST AC financed the study.

The study reveals that the tax does not contribute to the development of the agriculture sector in the country, rather it is used to pay allowances and salaries of non-agricultural officials. "Funds from this basket are utilised in financing the general operations of the district councils which include mainly payment of sitting allowances to councilors for council and committee meetings," says the report.

None of the nine district councils surveyed in the report had a system of directly ploughing back the revenue from produce cess to the



Oranges are finally being offloaded from a lorry at a market in Dar es Salaam. The producer of the oranges did pay farm gate cess as soon as the lorry was ready for takeoff from the farm. PHOTO | FILE

agricultural sector.

According to the study, interviewed agricultural stakeholders said that the removal of the levy is crucial, arguing that the produce cess rates are too high for the agriculture sector which is characterised by low profitability margins.

Despite the fact that the law requires traders and not farmers to pay the levy, the former have been imposing the tax to the latter indirectly.

"Some of the interviewed farmers indicated that the produce cess is actually charged on them rather than traders," says the study.

According to the report, farmers stated that sometimes the traders talked about cess when negotiating for reduction in prices. Thus, they argued that in most cases the traders could manage to shift the burden of the cess to them through reduced prices or charge them directly.

Literature suggests that most of the crops marketing systems in Tanzania are not efficient as they are characterized by information asymmetry, few buyers who often form cartels, and lack of crop storage facilities.

"On the basis of that there is reason to believe that the produce cess is passed over to farmers by traders," says the report adding that: "Under such a situation, arguments in favour of abolition or reduction of cess may not necessarily guarantee farmers better market prices."

Poor produce cess collection methods also reveal a reason for abolishing the tax as it benefits other people other than the government.

ACT policy officer Laetitia William said in an interview that councils have put in place agents to collect the levy. "These councils give the agents estimates of what they should collect for the government. They can collect more and pay the local governments only the agreed estimates. The rest is not accounted for," she said.

Effective collection of the cess can enable each council to obtain at least Sh300 million per crop per season.

"The reasons for outsourcing cess collection included lack of capac-

ity on the part of district councils to administer cess collection given the size of the district councils," says the report.

According to the study, serious weaknesses in the cess collection and accountability mechanisms have been discouraging agricultural production and trade as well as compliance on the part of the taxpayers, reducing the amount of collected revenues.

ACT also suggests the removal of crop cess because of inconsistency amounts taxed to each district.

The study reveals that there are variations in cess rates across the country which distorts competitive conditions in agricultural production and trade.

"You find that in Kilosa for example the produce cess is lower while in Monduli the levy is higher, this attracts traders to buy crops from the district with the lower levy and neglect the other," said Ms William.

Produce cess rates that are actually applied in practice in some of the district councils ranged from 0.34 per cent to 5 per cent.

For instance, the report says that, actual produce cess rate on sugarcane in Mvomero District was 2 per cent in 2009/10, 1.6 per cent in 2010/11 and 3 per cent in 2011/12 while the rate in accordance with the bylaw was 5 per cent.

According to bylaws of the Monduli District produce cess on crops is charged at a rate of 5 per cent of farm gate price, however in practice, all crops are charged Sh1,000 per sack irrespective of the value (which is equivalent to between 1-2 per cent). Mufindi District charges Sh8.50 per kilogram of tea which is equivalent

MORE INFO: GOVT MULLS ABOLISHING CESS

Tanzania is mulling abolishing crops cess, following farmers' outcry that it has been a burden to them.

A senior official at the ministry of Agriculture, Food Security and Cooperatives who could not be named was late last year quoted in the press as saying that a final decision had been reached on the matter, pending its implementation.

The levy has been implemented by almost all Local Government Authorities for more than 20 years.

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The percentage that most district councils charge as cess in Tanzania. It is a common practice for traders to pass all the 5% produce cess to producers in terms of lower farm gate prices.

17

The 5 per cent cess rate is 17 times more than industrial producers have to pay (0.3 per cent).

to 0.34 per cent of the price.

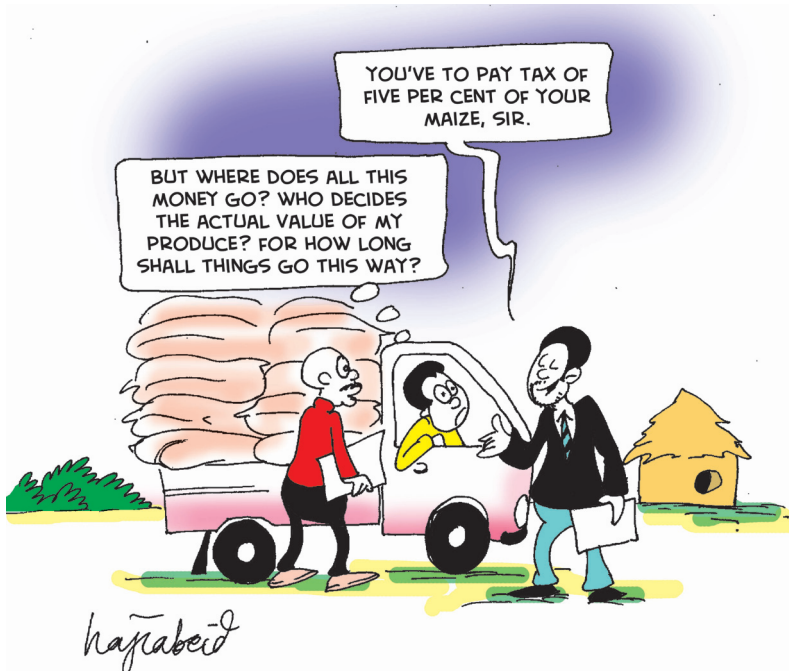
According to the study, statistics on production of agricultural commodities in the district councils indicate that huge amounts of potential revenues are not collected due to inefficiency in the collection mechanisms

For instance, according to the study, based on the analysis of production statistics, the potential revenue at the existing produce cess rate of 5 per cent amounts to almost Sh4 billion against a projected collection of Sh200 million by the Babati District Council.

Even if the produce cess rate is reduced to 2 per cent, the revenue that is expected to be generated based on production (approximately Sh1.38 billion) will be greater than the current and projected revenues provided that collection mechanisms are improved to ensure all potential revenues are collected.

Ms William suggests that due to its little contribution to the councils revenue, if removed, the levy will have no visible impact to district income. She said that currently produce cess contributes about two per cent of the total local government authority.

The Local Government Finances Act No. 9 of 1982 has specified produce cess as one of the sources of revenue to district and urban councils in Tanzania.



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