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Brief No.

FINANCING AGRICULTURAL SECTOR DEVELOPMENT IN TANZANIA

Tanzania

Introduction

S*The financing of the agriculture has been through a variety of sources with the Government traditionally being the main source of funds to the sector mostly to support services and infrastructure. Government resources have been supplemented by Development Partners who have been supporting the development of the sector through contribution to the ASDP Basket Fund and stand-alone projects. In addition, resources to the sector have also been channeled through Non Governmental Organisations (NGOs), both local and foreign, and these have also made significant contributions to the sector, although the exact amount of resources flowing through this window has been difficult to estimate. The Government has taken measures including legal and policy reforms to encourage the commercial private sector to invest in agriculture. However, the result has not been as significant as expected as many private sector players are still hesitant to invest in the sector.*

So far the little FDI that has gone into the sector has been directed mostly into crop buying and other less risky ventures. Very little FDI has gone into large scale production or infrastructure. The Government is aware that one of the main constraints to private sector investment in agriculture is lack of appropriate financing arrangement particularly considering the risky nature of such investment. The Government is therefore taking steps to establish an Agricultural Bank as proposed in the *Kilimo Kwanza*, and to start with, it has opened a special window for agricultural lending in the Tanzania Investment Bank, while preparations are being finalized to establish a fully dedicated Agricultural Bank.

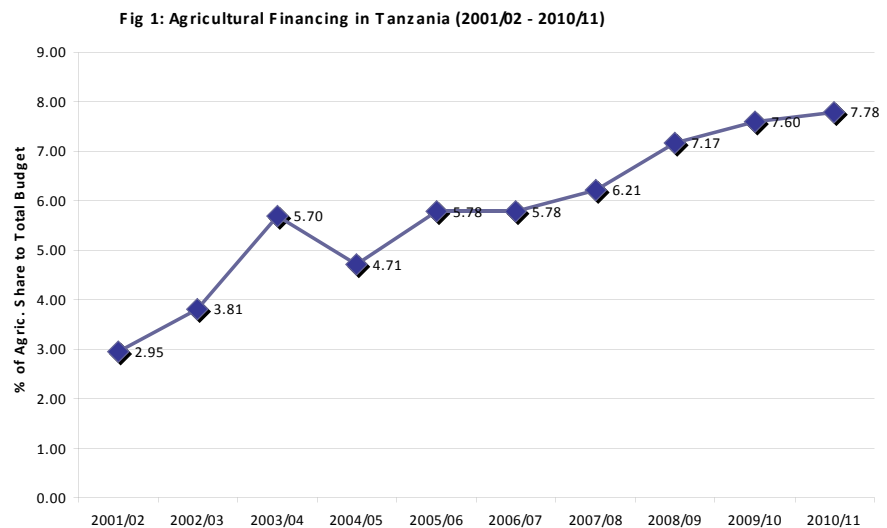
At the same time, the ASDP framework has facilitated investment by small scale farmers at the local level by setting aside funds that support investment projects that are identified in a participatory way by the communities and incorporated into the District Agricultural Development Plans (DADPS). The Government together with Development Partners has decided that in the medium term, this framework will continue to guide investment into the sector. Emphasis will continue towards encouraging other stakeholders particularly the commercial private sector to participate more vigorously in supporting the sector.

2. Trend of Agricultural Financing

The trends in agricultural financing in Tanzania from 2001/02 to 2010/2011 show that, in nominal terms the total agricultural resource allocation has been increasing over time as shown in Figure 1 below. For example, during financial years 2001/02 and 2004/05 the total budget allocated to agricultural sector was Tshs52,072 million and Tshs3,347,539 million which were equivalent to 3% and 4.7% of the total government budget respectively. During financial years 2009/10 and 2010/11 the corresponding figures were Tshs517.611 billion and Tshs903 billion which can be translated into 7.6% and 7.7% of the total government expenditure respectively.

Since 2006 financing of the agricultural sector has been mostly through the ASDP framework. Public spending for the sector has benefited greatly from Development Partners' support. Since 2006/07, implementation of ASDP shows that some Development Partners have been supporting the sector through the ASDP Basket Holding Account.

Figure 1: Trend in share of agricultural financing in the total budget 2001/2002 – 2010/2011



3. The justification for increased agricultural financing

Public investment (from domestic and external sources) aimed at transforming the agricultural sector is critical. Public investment is needed in agricultural technology development (high-yielding varieties, technologies for reducing crop losses and livestock diseases), rural roads, farmers' training, and irrigation systems. Public investment in these "public goods and services" is necessary to entice private investors to establish contract farming and out-grower schemes as well as input distribution and marketing activities. In Tanzania, where 80 percent of the population depends on the rural sector for their jobs, food and income, allocation of 10% of its total government budget to agriculture is necessary. Tanzania's current expenditure on agriculture is still small when compared with Asia's public expenditure in the 1970s, at the height of the Green Revolution. For example, India spent an average of 10 to 20% of its government budget on agriculture in 1970s, while Malaysia spent an average of 20% of government investment on agriculture from 1960 to 1983. The proposed higher expenditures for agriculture will be focused on addressing the sector's priority challenges as detailed in the Brief on Investment Priorities. In the medium and long term, this level of public investment may adequately complement private sector investment in the agricultural sector. Thus the new role of public investment in agriculture will be to assist the private sector "buy into the agricultural growth process". Without it, private sector investment will be minimal or stalled, delaying the envisaged transformation of Tanzania's largely subsistence agriculture.

4. The Current Financing Status and Gap

4.1 Financing Agriculture in Tanzania Mainland

The ASDP is financed through the General Budget Support (GBS), a Basket Fund, stand alone projects and the private sector. Currently, there are five Development Partners in the Basket Fund; the World Bank, Government of Japan, Irish Aid, International Fund for Agricultural Development (IFAD) and African Development Bank (AfDB). At the national level, financing is done through the MTEF system as per budget guidelines. The stand alone projects include PADEP, DASIP and ASP in Zanzibar. At the local level, financing is done through a variety of specific transfer modalities that are based on the Local Government Development Grant performance criteria that are also aligned to ASDP objectives.

ASDP appraisal document indicates that estimated cost for implementation of ASDP through Basket Fund is US\$ 315.5 million. However, this estimate excludes cost for national irrigation development which is a prime driver for increased agricultural productivity and profitability as well as mitigating the effects of adverse weather conditions. In this regard, the actual estimated cost that is required to implement the programme becomes US\$2.1 billion and this is the cost that is required to implement the programme in seven years.

For the period 2010/2011 to the end of the current phase of ASDP in 2012/2013 the financing gap is as indicated in Table 1 below which shows a cumulative gap of Tshs1,348.31 billion (US\$1,037 million). This is an average of Tshs450 billion (USD 345.6 million) per year over the next three years. However, projections to 2014/2015 show the cumulative financing gap to be Tshs8,257 million (US\$ 6.35 billion). This financing includes estimates for some of the areas that are included in the strategic investment priorities within the CAADP framework such as irrigation, mechanization, research and extension and human resource development. However, detailed planning and costing will be done to estimate the financial requirements for the additional investments like infrastructure, agro-processing, production and distribution of inputs, over the medium and long term to meet the poverty reduction and MDG targets.

Table 1: Agriculture Sector Financing Gap 2010/2011 – 2014/2015

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
DPs Commitments	175,835,883,000	74,906,910,000	56,074,200,000			
Government Contribution	727,964,117,000	982,751,557,950	1,326,714,603,233	1,791,064,714,364	2,417,937,364,391	7,246,432,356,938
Farmers contributions	117,990,800,000	138,910,574,161	180,614,528,841	243,829,613,935	329,169,978,813	1,010,515,495,750
Total Fund available	1,021,790,800,000	1,196,569,042,111	1,563,403,332,074	2,034,894,328,299	2,747,107,343,204	8,256,947,852,687
Actual Requirements	1,229,497,195,135	1,659,821,213,432	2,240,758,638,133	3,025,024,161,480	4,083,782,617,998	16,513,895,705,375
Financing gap (Tsh.)	207,706,395,135	463,252,171,321	677,355,306,060	990,129,833,180	1,336,675,274,794	8,256,947,852,687
Financing gap (USD)	159,774,150	356,347,824	521,042,543	761,638,333	1,028,211,750	6,351,498,348
Fin. Gap as a %-age of total requirements	16.89	27.91	30.23	32.73		50.00

4.2 Financing Agriculture in Zanzibar

Estimates and resource projections for Zanzibar show that during the next 5 years Zanzibar will have substantial financial gap in the agricultural sector, as shown in Table 2 below. The gap is Tshs90.37 billion (USD 75.3 million), an average of Tshs11.3 billion (USD 9.4 million per year). On average, this gap is about 49% of the total sector resource requirement per year. The trend shows that this gap keeps on shrinking with time.

Table 2: Resource requirement projections for Zanzibar

Year	MKUZA/MDGs Resource Projections (Resource Requirement) (USD)	Available Resources as % of Resource Requirement	Existing Financial Gap in Agriculture
2009/10	22,197,361	12.2	87.8
2010/11	23,746,430	16.6	83.4
2011/12	26,216,808	31.4	68.6
2012/13	27,826,658	55.9	44.1
2013/14	26,427,060	78.9	21.1
2014/15	27,489,017	111.4	(11.4)
Total	153,903,334		

5. Modalities for Agricultural Financing

In Tanzania aid has been delivered in three different modalities. These are General Budget Support (GBS), Basket Funding (BF) and Stand Alone Projects. The Government Budget Support (GBS) is consistent with national and international commitments such as the Paris Declaration, Accra Agenda for Action (AAA) and the Joint Assistance Strategy for Tanzania (JAST). The government realizes however, the need to use any of the modalities depending on the nature of the intervention to be supported and preference of Development Partners. For whichever modality to be used the overriding consideration is for the funding to be applied towards achieving the goals of the ASDP/ASP. The government will endeavour to encourage more Development Partners to support the development of the sector using a variety of modalities, in line with the CAADP principles.

Agriculture Sector Contacts:

Coordinator of Agriculture Sector Lead Ministries (ASLMs),
Ministry of Agriculture Food Security and Cooperatives (MAFC),
P.O. Box 9192, Dar es Salaam.

Telephone: +255-22-2862480/1, Fax:+255-22-2862077