

KONGWA DISTRICT BUSINESS COUNCIL

CROP LEVY TASK FORCE REPORT

MARCH, 2015

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1. Background

For decades agricultural sector remains to be the backbone of Tanzanian economy. The sector employs majority of Tanzanians and it's the main source for industrial raw materials. The growing speed of the sector does not match with its high potential to national economic contribution. In that view the government of Tanzania has embarked on different initiatives to improve the sector. Amongst the initiatives include initiation of Agricultural Sector Development Program (ASDP), *Kilimo kwanza* and ratifying different international compact such as Comprehensive African Agricultural Development Program (CAADP). More over, the government has been advocating for private sector engagement in agriculture so as to improve its profitability.

In the pursuit of attracting private sector investment in agriculture, the government has been striving to improve business environment especially through tariff and tax regulations. This is the area that might attract or push away agricultural investments. For example, the Ministry of agricultural report¹ of 2009 (Impacts Assessment of Tax reforms) indicate that tax is among the impeding factor of production. Tax and levy in agriculture had different forms ranging from market levy to crop cess. The government of Tanzania enacted crop cess of not more than 5% of the crop value to be instituted in the country. However, following decentralization, the Local Government Authorities (LGAs) were mandated to decide upon the actual crop cess not exceeding 5% of the crop value. Therefore, different LGAs have been formulating their own regulations of charging the cess but on condition that its applicability is subject to be signed by the responsible ministry. The cess has been contributing the largest chunk of LGAs income

Kongwa District Council is amongst the LGAs that depends much on the crop cess to earn its income. For example, in the 2015/16 budget estimates that amounts to 1.4 Billion Tanzanian shillings, it has been projected that about 710 million will be raised from the crop cess and levy. The large portion of the sum will be collected from the International crop market at Kibaigwa. For a long time the market has been the targets source of income emanating from the cess. This was a result of farmers and traders being satisfied with the market taxation systems. Of recently there has been changing taxation system whereof, the cess and levies has been increased. This seem to increase burdern to both farmers and traders. The same has caused shying away of farmers and traders from using the market and hence reduction in market collections. On that view, a need to revitalize business at the market arose. It is against such a background that the executive committee of the District Business Council constituted a task force that among other things will conduct a study on the levis and come up with

¹ *Impact Assessment of Tax Reforms Study* conducted in 2007 by Ministry of Agriculture, Food Security, and Cooperative (MAFSC, 2009)

recommendations that would result into increment on LGA income and at the same time reduce burden to farmers and traders. In long run this will have impact on improving agricultural profitability.

1.1 Terms of References (ToR)

The Task force were guided by the following Terms of References:

1. Establish the trend of crop levy collection in Kongwa District for the past three years
2. Analyse methods used in levy collection at Kongwa District
3. Establish crop production statistics for the past three years in comparison with other LGAs
4. Analyse the act guiding crop levy collection (At National, region and district level) compare it with other LGAs
5. Provide recommendation on method/ways of collecting crop levy without conflicts

1.2 The Task Force

The task force team was composed of four persons. To bring balance to the team, members were selected from two group's i.e traders (Private sector) and LGAs staff (Public sector) see table 1 below.

Table 1: Task Force Team Formation

No	Name	From	Status
1	Mr. Jeremiah Maina	Chairperson of the Market Board (Private sector)	Chairperson
2	Mr. Nkinde Moses	Kongwa District Council (Public sector)	Secretary
3	Mr. Sebastian Msolla	Trader (Private sector)	Member
4	Mr. Oswald Kinabo	Kongwa District Council (Public sector)	Member

1.3 Report Organisation

This report has been organized in 6 main sections. The first section shows trend of levy collection for the past three years. Section two indicates methods used to collect crop levy and their challenges at Kongwa district. Section three shows crop statistics for the past three years. Section four establishes methods used in collecting agricultural production information at Kongwa while Section five analyses the act guiding crop levy collection at Kongwa district. The last section, provides recommendations on best ways of collecting levies without causing any conflicts at Kongwa District.

2. Trend of Crop Levy Collection at Kongwa District for the Past Three Years (2011-2013)

2.1 Crop Levy Collection at Kongwa District

Crop levy collection contributes largely to the income of Kongwa District Council. Table 2 below shows the crop levy collection trend for the past three years. The table indicates an increasing trend of collection as time goes. Nevertheless, it has been noted that high potential of collecting more revenues exists if more efforts will be in place.

Table 2: Crop Levy Collection at Kongwa District

Income Source	2011	2012	2013
Crop levy	441,500,744	509,369,190	667,544,983

Analysing the contribution of individual crops in district revenues, data from collection agent (Adosta, 2014) were used. The data indicates that levy from maize crop was the highest as compared to other crops see Table 3. This has an implication that motivating or incentivating maize farmers would lead into improved production and at the same time improve collections.

Table 3: Revenue Collection from Different Crops

Source of revenue	2011	2012	2013
Maize			240,633,000.00
Sunflower			9,993,500.00
Sorghum			3,628,000.00
Groundnuts			14,499,000.00
Other crops			32,804,500.00
Grand Total			301,558,000.00

2.2 Crop Levy Collection in Other LGAs

As it has been shown earlier that the main act guiding crop levy collection indicates a provision of charging cess between 0-5% of the crop value. However, LGAs has been mandated to formulate by laws and regulations that will indicate actual charges. In this regard, variations between LGAs have been observed in charging the cess for the same crops see Table 4 below. The impact of the different charges between LGAs would be farmers and traders taking their crops to neighbor LGA with low charges. This might result into decrease in revenue collection for the subsequent district.

Table 4: Crop Levies in Other LGAs

LGAs	Charges in TShs		
	Maize	Groundnuts	Sorghum
Kongwa	1000	2000	1000
Dodoma (U)	300	300	330
Mpwapwa	1000	1000	
Kondoa	2000		
Bahi	1000		
Chamwino	1000		
Kiteto	1200		
Babati (U)	500		
Babati	1000		
Kilindi	2000		

Source: URT-MAFSC, 2013, Taskforce Research, 2015

2.3 Contribution of Some Selected Crops in Districts Revenues

In the central corridor regions, reports² show that maize is the main contributing crop in revenues. It accounts for 60-70% of the crop revenues in the corridor see Table 5 below. Impliedly maize is very important crop at the regions. A quick reflection here is that any initiative to improve revenues emanating from crops, maize should be given priority. There should be conducive and friendly business environment to attract both farmers and traders involved in the same.

² United Republic of Tanzania-Ministry of Agriculture Food Security and Cooperatives, 2013

Table 5: Contribution of Some Selected Crops in Districts Revenues

Region	District	Crop	Contribution to the revenue from crops
Morogoro	Kilombero	Rice	Zaidi ya 70%
Dodoma	Kongwa	Maize	Zaidi ya 80%
Singida	Singida	Maize, sorghum, millet	Zaidi ya 60%

Chanzo: URT- MAFSC, 2013

3. Methods Used in Collection Crop Levy at Kongwa

3.1 Types of levies collected

In Tanzania, a farmer or trader in agriculture is faced with the accumulation of charges of tax separately, for example a research³ conducted on tax burden to farmers show six types of taxes that exist in agricultural commodities Watch Box number 1. These taxes in accumulation with other challenges facing agriculture hinder involvement of private sector stakeholders in the same. If agriculture is to improve involvement of private sector is imperative and that will only be possible through improving the business environment (including proper tax burden reduction).

Name of the tariff	Mode of collection	Basis	Amount
Land	Collected by LGAs on behalf of central government LGAs get 20% of total collections	Annual tax levied to owners	In rural areas the land tariff is Sh. 200@acre and TSh. 3000 per acre in urban areas
Crop Levy	Levied by LGAs Usually collected by agents	Paid on crop value (Mostly paid by buyers)	According to law not exceeding 5% of the crop value
Market levy	Payable to the market during market days	Levied to sellers	TSh. 300-500 per day depending on the crop types
Transport license	Payable to relevant crop Boards	Eg on Coffee levied \$60 annually	USD 60 per annum
Business license	Payable to LGAs	Mostly to traders (With capital to the tune of Tshs 20m)	Varies
VAT	Paid by registered companies	Mostly to agro-dealers	20%

Source: World Bank (2009)

³ WB (2009), Tanzania-A Study of the Burden off Local Taxes on The Agricultural Sector

3.2 Methods Used in Collecting Crop Levy at Kongwa District Council

Crop levies are a major source of revenue for Kongwa District Council as it contributes more than 90% of its domestic income sources. The amount enable the district to cover administrative activities and to support implementation of development projects as well as providing subsidies to villages governments and small towns of Kongwa and Kibaigwa.

The methods used to collect crop levies is through the use of agents who are Kibaigwa Market Board and a private company namely Adosta. All agents collect duties on behalf of Kongwa District Council.

3.2.1 Kibaigwa Market Board

Kongwa District Council made an agreement with the Network of Farmers Groups in Tanzania alias MVIWATA to form a Market Board in 2009. The established board entered into an agreement with the Kongwa District Council to collect crops levies and share percentage of revenue as follows:

- a) The Council shall be paid 70% of crop levies emanating from charging crops exiting the market which is paid by the traders
- b) The Board shall be paid 30% of the crop levies emanating from charging crops exiting the market which is paid by the traders

Additionally, there is another source of revenue collected by the Board of Market for running the market (Market levy). This is paid by farmers. The charge is TShs. 2.50 per kg. In these collections the Council get thirty percent (30%) of those revenues while the Board retains 70% for the operation of the market.

These arrangements has made the Council to get reasonable amount depending on respective harvest season. I.e if there is high crop yield, then simultaneously the sales increases at the market and hence results into large flows of Council revenues. See Table 6 below that shows the trend of amount collected and paid to the Council by the market board.

Table 6: Amount paid to the Council by the Market Board

	2011	2012	2013
Amount Payable to the Council	269,144,336.00	429,351,210.00	314,404,055.00

Source: Kibaigwa Market (2015)

3.2.2 Adosta Company Limited

Kongwa District Council has also entered into a legal contract with Adosta Company to collect various levies including crops at the district. In accordance with the regulations,

tariff collection agencies should collect levies according to the by laws of Kongwa District Council. However, up to the moment of producing this report the by laws have not yet been ratified by responsible ministry to effect its use. The agent collects the levies as indicated in annex 3.1

3.2.3 Tarrif structure at Kibaigwa market

The structure of tarrif in Kibaigwa Market is divided into three main groups; (I) Crop levy out of the market (ii) Crop levy into the market and (iii) Market levy (See Table 7).

Table 7: Tarrif Structure at Kibaigwa Market

No	Tarrif	Charge	Collector	Distribution
1	Crop levy out of the market	TShs 1000 per 100kg bag	Agent	According to the contract
2	Crop levy into the market	TSh 500 per 100kg bag	Market Board	70% Council 30% Market Board
3	Market levy	TShs 2.50 per Kg	Market Board	70% Market Board 30% Council

Source : Task force Survey (2015)

3.2.4 Challenges in Collecting Crop Levies

After conducting a research on revenue collection, the working group discovered the following challenges:

- a) The presence of unscrupulous traders who try to refuse to pay tax/levies
- b) The presence of two types of levies, namely Tshs 1000 levied by the agency as a crop cess and 500 shillings levied again by the board. This seems as replication of the levy that needs review.
- c) Some staff members of the agent (Adosta) does not use proper language to customers and their loyalty in revenue collection leaves more questions.
- d) The main law provides penalties not exceeding 5% of the crop value, but this rate is not sensitive to the cost of production and thus contravene with other tax charge regulations.
- e) Bylaws that should be made by the Council to provide guidance on levy collection does not exist pending to seeking the approval of the minister in charge.

- f) Due to the non-friendly environment, the working group revealed shortage of farmers and dealers that send their produce directly in the market. The Task force team revealed increased number of farmers selling their produce at their homesteads thus denying revenue to the district Council.

4. Crop Production Data Trend for the Past Three Years in Comparison with Other LGAs

4.1 Data on Maize production

The task force conducted analysis of maize production in the districts of Dodoma region. Information obtained through the Ministry of Agriculture indicate Kongwa District as one of the biggest producers of corn not only at the regional level but also at the national level. Table 8 shows maize production information at Dodoma.

Table 8: Maize production data at Dodoma Region

District	Statistics	Year						
		2005/2006	2006/2007	2007/2008*	2008/2009	2009/2010	2010/2011	2011/2012
Bahi	Area ('000'ha)	-	-	13.32	-	-	-	-
	Production ('000'tons)	-	-	13.52	-	-	-	-
	Yield (tons/ha)	-	-	1.01	-	-	-	-
Chamwino	Area ('000'ha)	-	10.44	54.90	23.67	21.67	7.94	33.63
	Production ('000'tons)	-	31.00	49.36	14.03	16.29	3.01	9.09
	Yield (tons/ha)	-	2.97	0.90	0.59	0.75	0.38	0.27
Dodoma (Urban)	Area ('000'ha)	15.73	15.36	20.32	5.36	-	7.96	8.89
	Production ('000'tons)	35.42	18.21	19.93	1.59	-	2.35	1.48
	Yield (tons/ha)	2.25	1.19	0.98	0.30	-	0.29	0.17
Kondoa	Area ('000'ha)	76.58	47.56	91.52	32.26	23.86	25.05	48.84
	Production ('000'tons)	114.86	40.51	98.51	19.12	15.46	21.04	32.53
	Yield (tons/ha)	1.50	0.85	1.08	0.59	0.65	0.84	0.67
Kongwa	Area ('000'ha)	-	38.35	108.57	49.31	48.07	41.08	34.88
	Production ('000'tons)	-	41.50	112.24	4.99	30.12	25.93	17.42
	Yield (tons/ha)	-	1.08	1.03	0.10	0.63	0.63	0.50
Mpwapwa	Area ('000'ha)	23.36	17.50	50.21	9.35	19.82	22.25	15.64
	Production ('000'tons)	17.30	23.28	57.42	4.05	16.14	10.24	10.41
	Yield (tons/ha)	0.74	1.33	1.14	0.43	0.81	0.46	0.67

Source: MAFSC (2014)

4.2 Cost of Production of Maize

In the calculation of levy charge rates it is better to analyse the cost of production. Under normal circumstances the tax charges / levies should be based on the cost of production so as to be fair to producers who are farmers. In 2014, NAFKA conducted a study to analyze the cost of maize production in Kongwa district (see table 9 below). In its analysis, the type of farming (Improved or local) were considered.

Table 9: Production Cost Per Acre

Activity	Local farming	Improved Farming
Land preparation	20,000.0	20,000.0
Tilling	30,000.0	30,000.0
Inputs	31,500.0	185,000.0
Other costs	70,750.0	160,000.0
Total costs	152,250.0	395,000.0
Yields (Bag/100Kgs)	3.0	12.0
Transport to selling point (1500@Kg)	4,500.0	18,000.0
Price Per 1Kg	400.0	400.0
Return per Acreage	120,000.0	480,000.0
Profit Per acreage	(36,750.0)	67,000.0
Benefit per Kg	(122.5)	55.8

Source (NAFKA, 2014)

Considering the price of the transaction, as the farmer gets a good price (Tsh 400) per kilo then under local farming practice, will enter losses at Tsh 122. For those who practice modern agriculture will have the benefit of Tshs 55.8 kg. In considering this analysis and adding the crop levy charges, it results into a heavy burden for an ordinary farmer. With these figures at hand, definitely something needs to be done to reduce production costs and increase agricultural yields. This would further be translated in commercializing agriculture and improve its profitability.

5. Methods of Data Collection For Kongwa Council in Comparison With Other Councils

The department of Agriculture at Kongwa District Council receives crop production data in various ways. This section of the report provides the methods used and its challenges.

a) Through Ward and Village Extension Officers

Extension officers collect various statistics on crop production within their villages and present them to the office of the District Agricultural Officer. The method used in

the collection of data is through the use of a survey form filled by the extension officers.

Challenges

- i. The biggest challenge is the difficulty of access to information in areas that have no extension officers. This also leads to lack of accurate data for the entire district.
- ii. Tools used to collect information also brings challenges on the accuracy of the data collected.

b) Special Form (Production questionnaire)

This method involves the distribution of a questionnaire relating to various crop production statistics. These questionnaires are assigned to the village level extension officers and marketing managers to fill out and then back to the district agriculture officers for further analysis.

Challenges

- i. The biggest challenge is the difficulty of access to information in areas that have no extension officers. This also leads to lack of accurate data for the entire district

c) Rural Visiting Making Field Assessment and Observation of Crop Production

Agricultural officials from the district office makes rural visits to see realities on crop production, records information and compare them with the projected production estimates.

Challenges

- i. The challenge with this method occurs when agriculture department does not have fund to cater for subsistence allowance for the officials that would make the assessments.

d) Through the Commodity Markets

Market Boards eg. Kibaigwa market Board provides information on various crops inflows and out of the market. These information usually contain different data on various crops available in and out of Kongwa district.

Challenges

i) The main challenge with this method emanate on the way that some farmers sell their produce directly to merchants who do not pass through markets. This affects information available in markets by missing crops that are sold outside them.

6. Main Act Governing Collection Crop Levy (National, Regional And District) and Compare it With Other Districts

Crop levy collection is governed by the legislation act passed in 2002. Following the decentralization of power, the law gives the LGAs authority to impose charges at the rate between 0-5% of crop value. The act mandate the LGA to determine actual rates through establishing by laws that has to be approved by the responsible minister.

In Kongwa District Council the bylaws that were approved by the council members are in the approval process by the minister. Thus the main act of 2002 is used pending to approval of the bylaws. Currently the act does not seem to fit the actual needs at the district. Annexure 6.1 shows the main act governing crop levies.

7. Recommendation on method/ways of collecting crop levy without conflicts

Working through the challenges and conflicts emanating from crop levy collectin at the District Council, The task force team came up with recommendations in two folds (i) immediate and long term recommendations.

a) Short term Recommendations:

1. Removing replication on crop levy

The crop levy structure at Kibaigwa market can be seen in the following Table 10

Table 10: Crop Levy Structure at Kibaigwa

No	Tarrif	Charge	Collector	Distribution
1	Crop levy out of the market	TShs 1000 per 100kg bag	Agent	According to the contract
2	Crop levy into the market	TSh 500 per 100kg bag	Market Board	70% Council 30% Market Board
3	Market levy	TShs 2.50 per Kg	Market Board	70% Market Board 30% Council

Source: Task force Survey (2015)

Following the challenges observed on the crop levy collection structure at Kibaigwa market, the following are the task force recommendations:

- i. The regulation shows a charge of Tsh 1000 to be instituted as levy for maize crops. After consultations and review of charges from other LGAs the team was satisfied with such an amount. However, the team recommend the best way of charging it should be by dividing it into Tsh 500 charged outside the market and the remaining Tsh 500 in the market
- ii. The Tsh 500/= charged in the market by Board should be removed as it is nothing but replication of the tariff that is also charged outside the market.
- iii. The market levy that is 2.50 shillings per Kg should continue so as to facilitate market operations and activities.
- iv. In order to improve the Council revenue, the task force team recommends to reduce number of collectors from two i.e the Board and an agent to only one. The commissioned agent should be earning by percentage of collection unlike now where the agent has to pay the fixed amount allocated. For example if he has to pay 400m to the council, even if he collects 1 bn Tzs he is responsible only for the 400m. The team has sought that percentage allocation would increase collection efficiency and the Council revenue. It is proposed that the Council should be getting 70% of the collection while the agent will get the remaining 30%

b) Long term Recommendations

1. Using electronic system to collect revenue across the district

The current revenue collection system seems not to have accurate information/statistics and also integrity of some collectors is at question. The team suggest having an electronic system that will be more efficient and transparent on the amount collected. This would help to improve responsiveness, accountability and Council revenue. Also the system will help in having accurate crop statistics on the data base.

2. Crop levy regulations should comply to the national taxation acts and regulations.

The task force team suggests crop levies regulations to comply with other national tax laws, of which the tax is levied on item after other release of costs of production. This is also possible with crops, and to a larger extent it will reduce the burden borne by farmers.

3. Establishing Crop Information Centres

In this report, the task force team has exposed challenges associated with collection of crop production data. These are very important information to portray a broad picture of revenue projections. The task force therefore, recommends on establishment of crop information centres that would be documenting crops exiting villages, wards, division and districts at large. These centres will all be electronically connected to have aggregated district statistics. The impact of these centres will be reflected in having more accurate data that will be of more use in projecting the district revenue and budgeting processes

4. Expanding tarrif collection avenue

This report shows that the estimated 2015/16 budget is nearly 1.4 billion, 710 million of these will come from crop levies. This shows the great dependence of the district in crop levies. The task force team is still convinced that the district has the opportunity to increase revenue sources. For example, the team is proposing formalization of land to enable the owners to use as collateral for loans and invest in other areas that will be taxed. Secondly the Council will collect rents of land in formalized land and increase their revenue base.