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# Policy and Taxes in the Tanzanian Cashew Industry

A review of charges applied to the cashew  
industry and their effect as instruments of policy  
on international competitiveness and local  
development

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**Acronyms**

ARI	Agricultural Research Institute
BOT	Bank of Tanzania
CAT	Cashewnut Association of Tanzania
CBT	Cashewnut Board of Tanzania
CIDEF	Cashew Industry Development Fund
CIF	Cost, insurance, freight
CIP	Cashew nut Improvement Programme
COBIT	Control Objectives for Information Technology
DAI	Development Alternatives Incorporated
FoB	Free on Board
IAS	International Accounting Standards
ISACA	Control And Systems Audit Association
MAFS	Ministry of Agriculture and Food Security
MCM	Ministry of Co-operatives and Marketing
MIT	Ministry of Industry and Trade
MOF	Ministry of Finance
Mt	Metric tonne
MTEF	Medium Term Expenditure Framework
PESA	Private Enterprise Support Activities
PDN	Produce Delivery Note
PORALG	Presidents Office for Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
Rs	Rupees
TFAS	Tanzania Financial Accounting Standards
TRA	Tanzanian Revenue Authority
Tsh	Tanzania Shilling (\$1.00 = Tsh 1050)
VETA	Vocational Education Training Authority

**Exchange rate applied: Tanzanian Shillings (Tsh) 1050= 1US\$**

## Preface

This report was compiled on the basis of international research conducted in Oxford, UK and interviews conducted in Dar es Salaam and Mtwara Region of Tanzania during the course of August and September, 2004. The results of data analysis, the conclusions drawn and a summary of recommendations were presented at a meeting of stakeholders of the cashew industry at the DAI PESA offices on September 20<sup>th</sup> where further deliberation contributed to the analysis, validated the conclusions and confirmed the recommendations.

The consultancy team was assembled by DAI and Abt Associates, Maryland, USA under the USAID-funded DAI PESA project. It was led by John Fynn, agricultural economist, supported by Anthony Perez working on the systems and process analysis, and Donald Kamori, economist working on data and institutions. The study also drew particularly on two previous bodies of work in addition to many other documents listed in the Annexes: the first by David Williams and Tim Piper of Technoserve in Tanzania who thoroughly investigated the issues relating to the viability of the cashew industry, and with processing in particular; and the second by ECI of South Africa which provided a Tanzanian cashew subsector report in October 2003. Many meetings were also held with stakeholders who contributed generously of their time and experience to provide insights and detailed data on the state of the cashew industry, the constraints and the opportunities in its development.

The team would like to express their sincere gratitude to all those who contributed their considerable expertise and valuable experience to the study, and took pains to ensure that we became fully apprised of the issues. We sincerely trust that the outcome of this analysis will amply repay their efforts by its determination of the steps that may be made towards securing a prosperous future for all those involved in Tanzanian cashew production and processing.

We would also like to express our gratitude to the staff at DAI PESA offices who provided valuable support, useful advice and hospitality to the team during the course of the study.

The judgements and opinions expressed in this report have been expressed in good faith on the basis of the Team's observations in the course of this brief exposure to the industry. No injurious effect on any party is intended or implied by any statements that may be contained in this report.

John Fynn

Dar es Salaam.

September, 2004.

# Executive Summary

## **Instigation of the study**

This study was commissioned following a USAID funded Cashew Nut Sector Study completed in October, 2003, and cashew forum in Dar es Salaam in March, 2004, when delegates decided that the Tanzanian cashew industry should be viewed in the international context in order to highlight the issues relating to competitiveness. The study immediately reveals that, while competing countries have managed to apply financial support and tariff or legislative controls to their cashew industries at various levels, Tanzania has required that the industry be largely self-funding in research and extension, in improvement of stock, in promotion and regulation, in the maintenance of idle processing plants, in support of District Councils and a range of local demands that are peripheral or irrelevant to cashew.

The contrast in the effective tax regime between Tanzania and its competitors has made it more relevant to examine the burden of taxes imposed on producers and processors than to compare in detail with competitors. Examination of the correlation between stated policies and the application of charges to growers, both in theory and in practice, provides wide scope for improvement. The study focuses on the impact of the charges and on the opportunities for their re-alignment with the policies of export promotion, creation of employment and poverty alleviation.

## **Methodology**

A desk study was carried out, using the resources of the Oxford University Libraries in UK and the information available on the Internet, followed by interviews with stakeholders and parties that have studied the industry in Dar es Salaam and Mtwara Region. The accumulated data was analysed and validated at a stakeholders' workshop when alternative scenarios were explored on the basis of an economic simulation model. Recommendations are based on the experience of competitors, analysis of impact of charges, the policy statements and economic modelling of the implementation of proposed changes.

## **Structure of the report**

The background to cashew production is followed by a description of the economics of the industry and the charges against it. The process of deduction of charges is reviewed and assessed in the fourth chapter, and the fifth looks at the impact of charges on competitiveness and long-term viability. The sixth chapter compares the Tanzanian cashew charging mechanisms with those in other countries and with other export crops. Chapter seven explores alternative scenarios by economic modelling. Chapter eight draws conclusions and provides recommendations based upon them. Annexes provide data, background information and in depth analysis of the charging system.

## **Background**

Cashew is second only to coffee in importance in Tanzania's export crops with potential to increase foreign exchange earnings and provide employment through processing. Most (94%) of the crop is currently exported as raw nut to India and Vietnam. It is taxed to fund institutions that provide services to the industry, the District Councils and a range of enterprises that are not related to the industry. Some Coastal regions to the south rely on cashew for 80% of their GDP, making it the main vehicle for poverty reduction on which 280,000 growers are directly dependent. Most production is by smallholders on plots of up to 2 ha and there are large areas where self-propagating cashew grows wild or was abandoned during Ujamaa in the 1970s when total production of raw nut fell from 145,000 tonnes to 17,000 by the late '80s. Production rose again to 122,000 tonnes by 2000 but has since declined to 77,000 in 2003/04.

Farmers respond to net prices because they provide incentives to roam further afield to harvest wild or un-tended trees. The disparity between Free on Board (FoB) prices for raw cashew nut and farmers' net income is the subject of much of the analysis in this report.

The production of cashew is in decline as a result of several factors, including the burden of taxes, which has removed incentives to rejuvenate the aging plantations or apply commercial management practices to them, and the increase in processing capacity is not accelerating at the anticipated rate. Taxes, levies and cesses on average over the last 5 years have amounted to 16%, or \$56 million (Tsh 50 billion) of the export revenue.

Poverty of the producers is palpable and increasing, while an analysis of the point of impact of the taxes and levies imposed shows the growers to be taxed at 44% in the major cashew growing regions. Citizens not involved in cashew, but having the same earnings from employment as the majority of cashew growers, do not fall into the taxable income group. They are also not asked to contribute to the plethora of funds to which cashew growers are obliged to submit.

### ***The policy framework***

Policies encapsulated in the National Development Vision 2025, the Poverty Reduction Strategy Paper and Agricultural Sector Development Strategy, include poverty reduction, promotion of agricultural exports, equitable and efficient tax policy implementation, abolition of "nuisance" taxes, and provision of extension services by Local Governments. The policies are in full support of the equitable development of the industry to ensure a means of livelihood and a fair tax base. However, they also demand that cashew development will be mostly self-funding.

### ***Stakeholders***

The industries structure is described to provide an understanding of the impact of deductions from it. The few commercially sophisticated producers are either linked to the processing industry or have their own marketing arrangements. The majority of producers are smallscale farmers growing a range of crops among their cashew trees, or they may be opportunistic harvesters of wild trees. Processors include two major enterprises and three smaller ones with less than 1000 tonnes of kernel output. There are traders and exporters who may be local or foreign with or without a long-term stake in the country. In addition to the stakeholders above who are "internal" to the industry, there are those "external" stakeholders who derive their source of development funds or livelihood from levies or cesses on the industry. These include the Central Government, who derive tax revenue; Cashewnut Board of Tanzania (CBT) and Naliendele, who contribute directly to the wellbeing of the industry using export levies; District Councils who derive maintenance and development income from the industry that is partly related to supporting it; and a number of funds that either purport to support cashew or simply tap the income flow to meet extraneous needs with no direct benefit to cashew.

The CBT levies 3% on export of rawnuts (of which 1% is levied on behalf of Naliendele Research station) and 1% on export of kernels. The Board is both regulatory and functional in a development capacity. They negotiate cashew prices on behalf of farmers and represent their interests (but have no farmers on the board) and extend the advice generated by Naliendele to growers. Naliendele conducts trials on cashew (among other crops) to enhance the scientific body of knowledge that is the basis of the industry, and they propagate varieties for sale to growers at reduced prices. The Cashew Association of Tanzania (CAT) formerly represented growers and processors but no longer has wide or representative membership or adequate sources of funds to perform any functions effectively. The Cashew industry Development Fund (CIDEF) formerly managed a fund derived from exports, but this has been redirected to CBT, and CIDEF remains in a moribund state with only a dwindling revolving loan fund. The Cashew Management Unit (CMU) of the Ministry of Agriculture and Food Security is a one-man team managing or observing the interests of the industry within the Ministry. Four Ministries have interests or share involvement in the industry, and these are headquartered in geographically dispersed cities, which renders concerted efforts by government on cashew problematic and inefficient.

***Issues on competitiveness***

The raw-nut price on the international market results from the supply and demand balance, and it is not negotiable except on the basis of the quality of the product. Tanzania, in common with other producers of raw nut, is therefore a price-taker and does not immediately damage her price competitiveness by imposing charges on the industry, because the charges are reflected back to the producer, not onto the market.

The value of Tanzanian raw nuts within the narrow scope for negotiation on the international market is related to their quality, which is affected by management of the trees and post-harvest handling. Incentives for delivering good quality are expressed through the domestic pricing mechanism and marketing chain, which are severely distorted by the imposition of charges. Similarly, the price of Tanzanian kernel is a function of quality, reliability in supply and marketing expertise, and there is much to be done through the pricing mechanism to ensure that quality is delivered.

**Economics of production**

The method by which purchasing prices are arrived at pays no heed to costs of production. It is calculated by subtracting the costs and generous profit margin of the buyers from the supposed cost, insurance and freight (cif) price of raw nuts at foreign ports. Examination of the results of these deliberations, described in chapter 3, suggests that farmers could benefit from a more rigorous process. Their share of FOB price is in the range of 63% although it has reached 72% and fallen to 34%.

The farmers generally are not well aware of the influence of inflation on their prices since the shilling value appears to hold up reasonably well while world price falls because the nominal price creeps up as the shilling devalues. However, when they are faced with the cost of imported inputs they perceive them to be unaffordable because the price of imports reflects both real terms cashew price deterioration and shilling devaluation. Therefore, production is maintained only from aged trees to which fungicides are not applied, resulting in low yields (average 3.5kg cf 36 kg for well-management trees).

**Impact of taxes, levies and contributions**

The ease by which deductions can be made from the rightful income of the farmer, and the lack of organisational empowerment and education at the call of the farmers, has made the cashew trade a particular target for deductions. All taxes levies and contributions removed from the residual value also diminish the remainder that is given to the farmer to the extent that in some districts the farmers are carrying the highest effective tax rate in the land. It is notable that employees in other sectors, earning incomes equivalent to the average of a cashew grower's, would not fall within a taxable bracket and would therefore pay no tax, and a self-employed entrepreneur would pay a mere 1.2% on turnover.

Analysis of the deductions process, at each point of deduction, reveals severe deficiencies that leave ample scope for abuse. Enquiries into the nature of contributions, which are said to be volunteered by farmers, reveals that they are not accounted for, that they are largely irrelevant to the cashew industry and that they are not voluntarily contributed. Indeed, farmers have voiced strong objections to them. They have also declared that they would like to increase their contributions to funds to purchase inputs that are crucial to the attainment of good yields and quality produce, but that they cannot afford them. It is plain to see that with the removal of the obligations to pay contributions to arbitrary funds, the farmers would not only be willing, but would be able, to apply the necessary inputs that would lead to expansion of cashew production.

The application of the various funds either to the industry, the District Councils or to other causes is not transparent. The activities of the beneficiaries of the funds have not been subjected to evaluation

that might determine their relevance to the industry. The opportunities for alternative sources of funds have not been rigorously applied. The accounts of the various voluntary funds are often not available.

Analysis of the impact of the taxes, levies and contributions on the competitiveness of the industry shows that, since they do not affect the FoB price, they do not impinge on the competitiveness of the product on the market in the season in which they are imposed. They do, however, affect the market share since the higher the price, the further the farmers roam to harvest nuts. In the long run the deductions do have an impact on the competitiveness of the industry since farmers do not apply recommended inputs, they do not replant trees, they do not apply the recommended husbandry practices to the trees and new generations of farmers are not entering the field. Hence the crop remains smaller than the potential provided by the current population of trees, the process of regeneration of trees and of farmers is not taking place, and the quality of the product is declining due to the incidence of disease and as a result of the ageing of the trees. Opportunities for substantial investments in production to make use of the natural endowments that are available to Tanzania are not attractive under the current taxation and organisational regime.

The imposition of charges on the cashew industry does not support the stated policy of the Government in respect of agricultural development, the cashew production sector, the processing sector or the poverty alleviation strategy. Indeed the instruments of policy implementation have been applied in a manner that is opposed to the stated policies. This situation is not the result of intent, as confirmed by Central Government's recent directives to District Councils that prohibit the collection of contributions at the same place as levies. The unfortunate consequence of the collection process is incidental and has arisen as a result of the applying the need to raise funds without the experience of a system that would not confound the policies.

### **International comparison**

Comparison with policies of other countries that are either at the same stage of development or which have accelerated ahead reveal that they have used export levies effectively to promote processing, and that the governments have themselves provided investment funds for the development of the industry by introducing subsidised, high- yielding planting material and development finance for processing capacity.

### **Alternative scenarios**

Simulation modelling of alternatives to the current trends of declining productivity shows that by re-diverting deductions from nuisance taxes to the supply of inputs, and relieving growers of extraneous charges, which would apply more funds to inputs and increase yields, a steady and reliable increase in production could be nurtured. If the processing industry is also able to source investment funds and rely on a steady growth in international marketing of Tanzanian kernels, they would provide competition in the raw nut market that would improve the farmers' net price. The growth of the industry under these assumptions provides a reliable source of income for CBT and District Councils at a fixed absolute figure equivalent to their current income, and a greatly increased disposable income in farmers' pockets. The multiplier effects attendant on spending these disposable funds would provide opportunities for the generation of replacement income for the nuisance taxes and District Council needs as well as stimulating rejuvenation of cashew production. The effective tax rate could be reduced from more than 40% to less than 8% while still providing for the needs of the CBT, Naliendele and District Councils and providing for inputs. Improvements in the efficiency of application of the funds, as yet to be determined, would allow for further cuts.

### **Conclusions and recommendations**

Conclusions on the revenue collection regime in the context of the Tanzanian cashew industry focus on their alignment with policy and the impact on the growth of the industry. The recommendations are

at two levels: general for the direction of the industry, and specific in terms of the revenue collection process.

- A comprehensive understanding of the trends and influences on the cashew industry should be acquired by creating an economic model that would provide predictive capability and, thereby, guidance on the imposition of policy instruments through taxes on raw nut exports.
- CBT should be independently evaluated as a means to determining opportunities for improving delivery of services to farmers.
- The financial burden of maintaining the unutilised factories belonging to government should be moved from the farmers who are currently paying through deductions from their producer price. The responsibility for the facilities lies with the investors and not with the farmers.
- Naliendele Research Institute should be provided specialist assistance in optimising their opportunities to become more financially self-reliant. Such an achievement would remove the burden from farmers.
- The means of delivering extension services through the various channels entrusted with the function should be evaluated with a view to enhancing the service.
- The levy on kernel exports should be suspended during the expansion of the processing industry. It should be re-applied only when the processing industry is demonstrably buoyant and only to the level that can be justified by the demands of CBT in providing services that are necessary for the whole industry.
- The advantages to industrialists provided by VETA should be accessed fully by the processing industry.
- Collection of District Council levies should be centralised at the point of exit at the ports and the funds distributed according to the origin of the produce.
- Traders with outstanding debts to the council should be disqualified from acquiring trading licenses.
- The collection of so called voluntary contributions should cease. However, a system of collecting funds vital to the industry, including the input fund, should be determined as soon as possible but farmers should not be coerced into contributing. The right to make deductions from farmers' income should be contingent on farmers' verifiable statements of consent.
- The regulatory functions of CBT should be vested with a higher authority whose costs are borne by government. The authority would be mandated to ensure that government policy is effectively implemented. This body would be authorised to scrutinise the activities and expenditure of the CBT and to monitor the imposition of all charges on the industry.
- NGOs should be encouraged to enhance the empowerment of farmers through formation of associations.
- Central government should give consideration to means of assisting with replanting of cashew trees by application to funds such as Global Environment Fund.
- Central Government should explore means of providing loan guarantees for the establishment of small- scale local processing facilities.

Further detailed recommendations on the management of the deductions process are included in the annexes.

# 1 Introduction

## 1.1 Instigation of the study

This report emanates from a USAID funded Cashew Nut Sector Study in Tanzania in October 2003 and a Cashew Forum held by DAI PESA in the Courtyard Hotel on 29<sup>th</sup> March, 2004 at which it was concluded that the issues relating to the impact of taxes, levies and contributions on the competitiveness of the Tanzanian cashew industry should be assessed in the light of international practice. Consequently a desk study was conducted to investigate the taxes, levies and incentives that act upon the cashew industries of competing countries and to determine what aspects of these policies have an impact on the competitiveness of the industry.

## 1.2 Comparing and contrasting

Vietnam in particular has proved to be highly successful in rapidly expanding its industry to become one of the major producers and processors. The West African producers fall within the same category as Tanzania as exporters of raw nuts with a nascent processing industry, and Mozambique on the border with Tanzania has had a chequered history in the development of processing. These countries in particular have been the subject of the desk study but officials within the industry have not responded to questionnaires requesting data on policy and its implementation, although some have stated that they are willing but have not yet found time to do so. Analysis of their policy implementation tools has proved problematic given the dearth of up-to date data on the subject.

However, a brief encounter with the economic situation prevailing in the Tanzanian industry is sufficient to reveal that there is stark contrast between the policies in all of the above countries and Tanzania, since other countries have lent support to their industries while Tanzania has shown a strong propensity to draw revenue from the industry and to require that it funds its own development and, at the same time, covers the costs of errors in judgement on the part of the Government relating to investments in processing factories.

The study therefore has become preoccupied with the enormity of the burden placed on the farmers and the consequences for the short and long-term viability of the cashew industry rather than focussing on finer points of contrast with other producers. The policies are diametrically opposed, so that detailed contrast serves no purpose. There is greater mileage to be made in progress towards a vibrant industry by addressing the problems imposed by the taxes and levies than by contrasting with competitors.

## 1.3 Methodology

The desk study was conducted by literature searches in Oxford University Libraries and the internet and in consultation with attendees of the recent meeting of cashew grower countries in Pemba, Mozambique. The Team then met with stakeholders in Dar es Salaam before travelling to Mtwara Region for field visits in Tandahimba, Newala, Masasi Districts and Mtwara/Mikindani Town Council. In the course of the field work the process of revenue collection in all its guises was thoroughly investigated to determine the integrity of the system. The findings were validated by repeated meetings at every level of the industry from farmers through District Council officials, to line Ministries and the role of CBT, CAT, CIDEF, ARI Naliendele and others was traced through documents and by interview.

The findings from the field were validated in Central Government Ministry offices in Dar es Salaam and were presented to another meeting of stakeholders at DAI PESA. Discussion at that meeting confirmed the conclusions reached by the Team and further validated the findings that were analysed for this report. Reasonable assumptions as to possible alternative scenarios for the industry have been applied to an economic model as a predictive tool for assessing the value and effects of policy

implementation instruments, and the results have been viewed in the context of the current state of the industry to determine the feasibility of inducing growth and prosperity for the participants.

Conclusions as to the impact of taxes, levies and contributions have been drawn and recommendations have been made for alleviating their burden in a manner that can induce growth without jeopardising the development programmes of District Councils, the CBT and Naliendeke.

#### **1.4 Structure of the report**

The background to the cashew industry is presented briefly with the stakeholders and their roles and structures followed by an overview of the issues relating to cashew. In the third chapter the economics of the industry are exposed to reveal the pricing mechanisms and revenue collections with the points at which they impinge.

In the fourth chapter the deduction process is reviewed and assessed. The fifth chapter looks at the impact of the taxes on the different levels and aspects of the industry and its competitiveness.

Chapter six shows the comparative position in other countries and in other crops within Tanzania. In chapter seven alternative scenarios are explored as a result of employing an economic simulation model, and in chapter eight the report draws conclusions from the analysis and makes recommendations based upon them.

Annexes are attached which provide details of findings, data, further analysis, contacts, references and Scope of Work.

## 2 Background

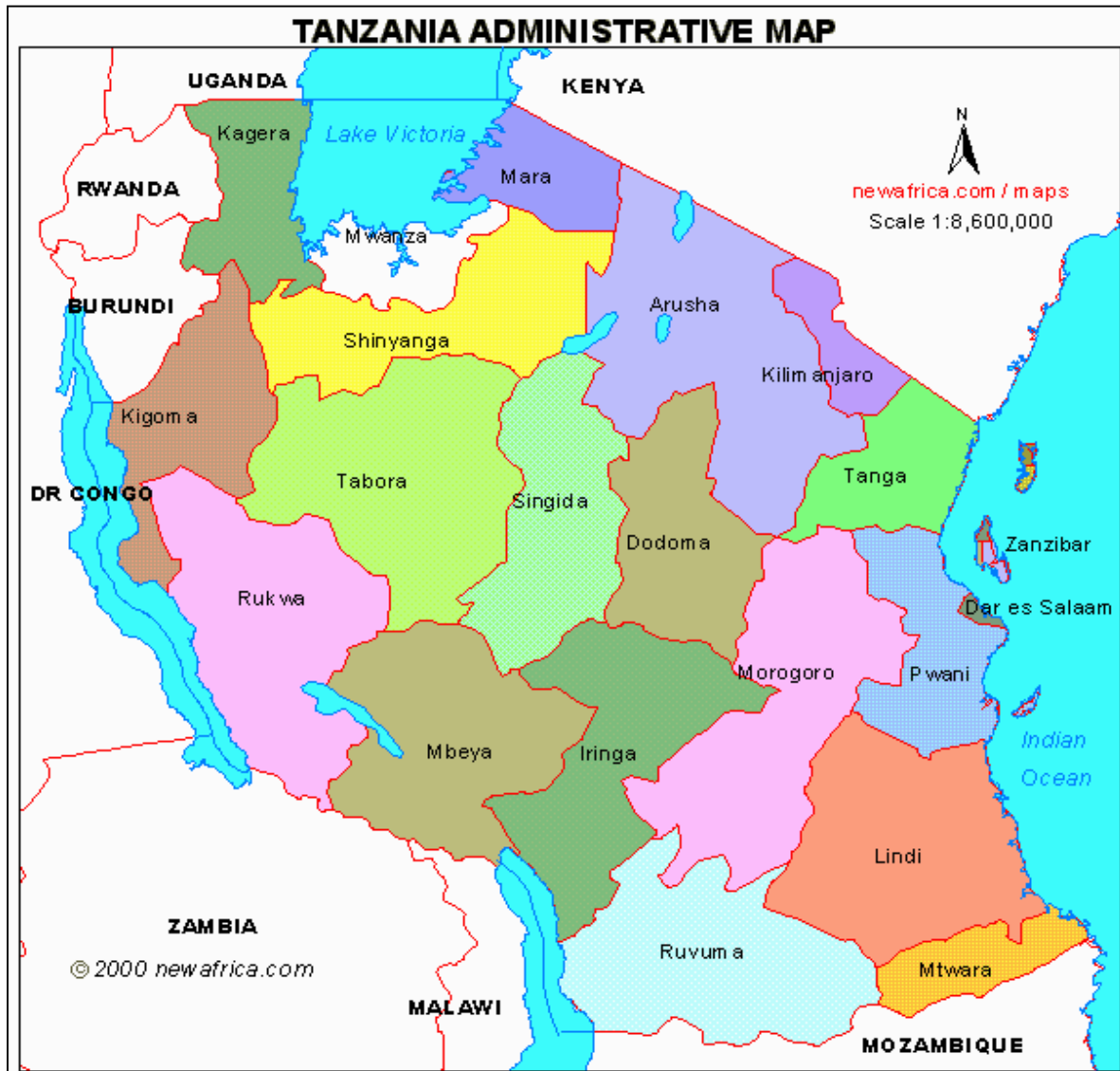
### 2.1 Country Context

Tanzania has a population of 34 million of which half live below the poverty line and 80% of the total live in rural areas. The decline in poverty in Dar es Salaam fell from 28% to 18% between 1991 and 2001, while in rural areas it fell only from 41% to 39% although there were annual increases in GDP of 3% to 5%.

The Coastal areas have bimodal rainfall with short rains in October to December and the main rains from March to June, while in Southern areas the single rainfall season occurs between November and March. The principal food crop is maize, which accounts for 20% of GDP, followed by rice, beans, cassava, sorghum and wheat. The cash crops, in descending order of importance, are coffee, cashew, cotton, tobacco, and tea, which are increasing in total by 6% per annum as a result more of yield per unit area than from expansion of the area.

The country has over 10,000 villages, 2,537 wards, 120 districts, and 21 regions over 7 agro-ecological zones. The challenges accepted by government are to develop farmer empowerment and private sector involvement in service delivery with decentralisation to District levels, and to mainstream crosscutting issues on HIV/AIDS, nutrition, environment and agricultural education in schools.

**Figure 1: Administrative District map of Tanzania**



## 2.2 Cashews in the economy

### 2.2.1 Production areas

Cashewnut is grown in five regions of Tanzania: Mtwara, Lindi, Ruvuma, Coast, Dar-es –Salaam and Tanga. Some expansion in the regions planted to cashew has been witnessed in the 1990s, extending the coverage to Songea. In the case of Mtwara, Lindi and to some extent Coast Region, cashewnut is the biggest contributor to the regional economies, its share amounting to over 80% of the Regional GDP. It is therefore an important source of income earning as well as a major vehicle for reducing poverty in the respective areas.

### 2.2.2 Units of production

The crop is grown by an estimated 280,000 smallholders in plots of one to two hectares totalling about 400,000 ha, which is also inter-planted with cassava and other food crops. A large number of cashew trees are also growing wild and are harvested opportunistically when the price increases. A few large-scale growers have plantations amounting to about 2,000 ha in Lindi and Mtwara Regions.

### 2.2.3 Value of production

The value of production is governed by the FoB price and by the volume of production, which responds with a one-year lag to the price, unless the weather is unfavourable.

**Table 1: Production and prices**

Year	Output MT	Average FoB price in US\$/tonne	Farmer income % of FoB Price	Local Processing Tonnes
1973/74	145,080			
1989/90	17,059			
1999/00	121,207	1,039	72.1	1,274
2000/01	122,254	798	34.8	5,165
2001/02	67,369	537	62.7	5,042
2002/03	92,372	564	63.3	8,632
2003/04	77,613	635	65.5	9,000

Source: CAT

### 2.2.4 Cashewnut ranked among other crops

The cashewnut crop is one of the major cash crops in Tanzania. The other major crops are coffee, cotton, tea, tobacco, cloves and sisal, with foreign exchange earnings as detailed in the table below:

**Table 2: Major export crops**

COMMODITY	2002 US \$ Millions	2003 US \$ Millions
Coffee	35.2	50.0
Cotton	28.6	46.6
Cashew nuts	46.6	42.2
Cloves	4.0	10.3
Tea	29.6	24.8
Tobacco	55.5	42.2
Sisal	6.6	6.6
Total Agric. Export Revenue	206.1	222.7

Source: Statistics Office

The position of cashew as an export crop is showing a steady decline due to the age of the trees and the lack of management applied to its production.

### 2.2.5 Cashew as a revenue source

Taxes on cashew are levied at several points in the production, processing and export chain to raise funds for the cashew industry itself and for several unconnected funds. The total contribution of the sector to a range of funds is illustrated below. The total direct contribution of the cashew industry to revenue collection points has been \$56 million or Tsh 50.5 million in just 5 years, which is an average of 16% of export value. This is the core of the issue addressed by this study.

**Table 3; Incidence of Taxes on Cashews in Comparison to Export Revenue**

	2000	2001	2002	2003	2004	Average
Exports in US\$ millions	123.79	96.91	34.60	46.27	48.74	75.09
Av. FOB price \$/tonne	\$ 1,039	\$ 798	\$ 537	\$ 564	\$ 636	\$ 758
Levies at District Tsh m.	9,961	11,746	4,376	7,852	6,218	7,640
CBT contributions Tsh m	2,967	2,426	971	1,395	1,579	1,860
City levy Tsh millions	378.64	261.44	79.78	108.54	119.59	205.59
Total in Tsh millions	13,306	14,433	5,427	9,356	7,916	9,948
Total in US\$ millions	16.66	17.30	5.80	9.31	7.33	12.02
Deductions % of exports	13%	18%	17%	20%	15%	16%

Source: CAT

## 2.3 Policies relating to cashew sector development

Cashew has been referred to as the rich man's food produced by the poor man, and cashew producers in Tanzania are indeed among the poor. Their product is, however, a vehicle for alleviating poverty – and poverty alleviation is the Government's main development agenda, encapsulated by the National Development Vision 2025 and the Poverty Reduction Strategy Paper (PRSP).

The objectives are to consolidate macroeconomic stability, promote economic growth and fiscal independence and to reduce poverty by:

- promotion of agriculture as described in the Agriculture Sector Development Strategy, which promotes production, profitability and exports;
- implementation of a fiscal regime supportive of commercial and subsistence agriculture;
- application of equitable and efficient tax policy conducive of private sector development but balanced with Government's revenue mobilization requirements;
- implementation of a more efficient and equitable Income Tax Law passed in April, 2004; and,
- abolition of Local Government "nuisance taxes" in 2003/04.<sup>1</sup>

The Agricultural Sector Development Strategy (ASDS) declares a primary objective of creating an enabling and conducive environment for improving profitability of the sector as the basis for improving farm income and rural poverty reduction in the medium and long term.<sup>2</sup>

The Poverty Reduction Strategy Paper (PRSP) recognizes that agriculture is critical to poverty reduction (Box I)

### Box I

<sup>1</sup> *Budget Digest, 2004*. Ministry of Finance, United Republic of Tanzania.

<sup>2</sup> *Agricultural Sector Development Strategy*, United Republic of Tanzania, October 2001 Page iv.

*Why agriculture is critical to Poverty Reduction.*

According to the latest 1991/92 Household Budget Survey in Tanzania, the majority of the poor are found in the rural areas, where agriculture is the mainstay of livelihood. Agriculture, as defined in this (PRSP) report, has such a dominant role in the economy that it is the most critical of the sectors that have been identified as the priority poverty reduction sectors in the PRSP. In the long run commercialising smallholder agriculture and accelerating its growth rate are critical in pulling the majority of the rural poor out of abject poverty. The ASDS lays the foundation stones for this long run objective but also proposes interventions with a more immediate impact on rural poverty alleviation through diversified and increased production and productivity of smallholders.<sup>3</sup>

The report continues on page 9 to concede that “despite a considerable rationalization and streamlining of taxes in recent years, there are still significant direct and indirect taxes on many agricultural products.”

And further, on page 35 that: “It should also be noted that a growing and profitable agriculture would provide a sound tax base in the medium and long term”. But, on page 48 it warns against “a tax regime that creates disincentives to using formal marketing channels.”

The First Medium Term Plan for Poverty Reduction refers to: “Taxes - a wide range of taxes, levies and fees that have negative effects on agricultural production.”<sup>4</sup>

On extension services the paper states, on page 40: “Local Government Authorities will have primary responsibility for ensuring that extension services are adequately provided to smallholder farmers. The majority of extension service provision for smallholders will continue to be financed by central or local governments”.

Page 45 confirms that: “Up-to-date and relevant information is crucial for all stakeholders in a market economy. Currently the collection and dissemination of agriculture information is focused on data collection, analysis and dissemination for planning purposes at the national level.”

There is, therefore, conclusive evidence that the Tanzanian agricultural and fiscal policies show full support for poverty alleviation, and that, while the necessity of taxation is confirmed, there are on-going efforts on the part of the Government to reduce taxes that are detrimental to poverty alleviation or to the growth of agricultural industries.

## 2.4 Introduction to the Tanzanian cashew industry

### 2.4.1 Historical development

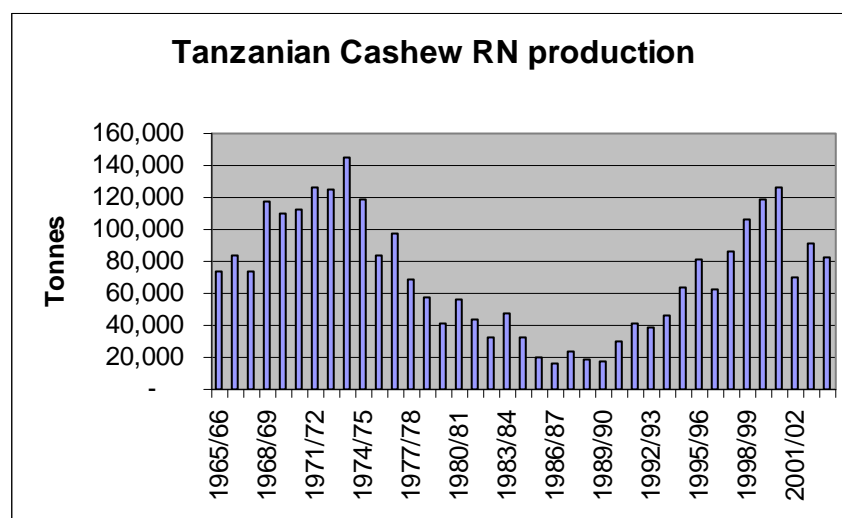
Cashew has been grown commercially in Tanzania on a significant scale since the 1950s, providing variable income for large numbers of producers in coastal areas, where the lack of infrastructure and markets have provided few alternative income earning opportunities.

The main output is raw nuts for export and about 7% is currently processed domestically. Sales of by-products such as Cashew Nut Shell Liquid (CNSL) have not been significant although potential for use of shells for fuel in the production of cement is promising.

Total output has exceeded 145,000 tonnes of raw nut in 1973 and fallen below 20,000 in 1986 in response to factors both internal and external to the management of the industry, including collectivisation of villages that resulted in the abandonment of large areas of cashew production.

<sup>3</sup> IBID.

<sup>4</sup> *First Medium Term Plan for Growth and Poverty Reduction 2004/05-2006/07, Volume I.* President’s Office, Planning and Privatisation, Dar-es-Salaam, December 2003

**Table 4: Output of raw nut in Tanzania since 1950s**

Source: CAT

#### 2.4.2 *Fluctuations: The causes and effects*

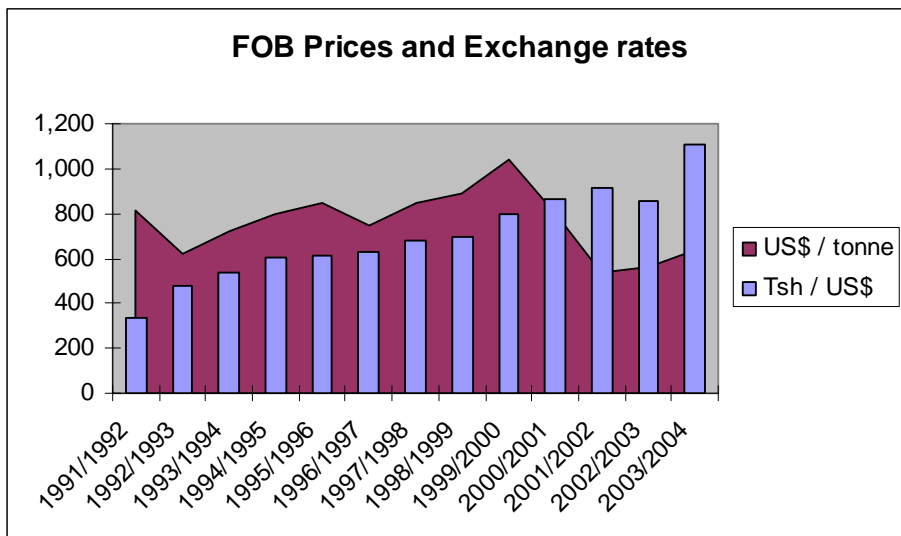
Since much of the national output is derived from trees that are either remote or only casually tended when opportunities are favourable, the total output is highly sensitive to producer price. The higher the price expectation, the further farmers are prepared to go to collect nuts and the more effort they are prepared to devote to care of the trees and the harvested crop.

The price is subject to fluctuations in the international raw market that has been dominated by India's demand to keep their processing capacity engaged in the period before their own crop is harvested. Tanzania's and Mozambique's crops are bought for export to India after the harvest in West Africa and before the harvest in India so that high productivity in West Africa and high expectations of the Indian harvest exert downward pressure on the price offered in East Africa. Similarly any delay in the sale of the East African crop results in a rapid decline in price offered since it implies a clash with the domestic Indian crop.

Vietnam has entered the trade aggressively planting large areas to high yielding varieties and installing processing capacity that, not only anticipates increased domestic output, but currently accommodates surplus raw nuts on the international market. In the long-run, significant plantings in India and Vietnam threaten to satisfy domestic processing capacity in those countries and to cut back on demand from Africa for raw nuts. However, this trend is to be viewed in the context of an anticipated annual increase in world demand for kernels of more than 4 per cent per annum.

Prices expressed as FoB (Free on Board ship at domestic port) in Tanzania have fluctuated as a result of the above factors and to contentious management decisions within the domestic industry that caused delays in the buying campaigns, resulting in decline in the prices offered. Prices in US Dollars per tonne are shown below, but these have been further modified in the eyes of the domestic industry by the impact of inflation led partly by devaluation of the Tanzanian Shilling (Tsh).

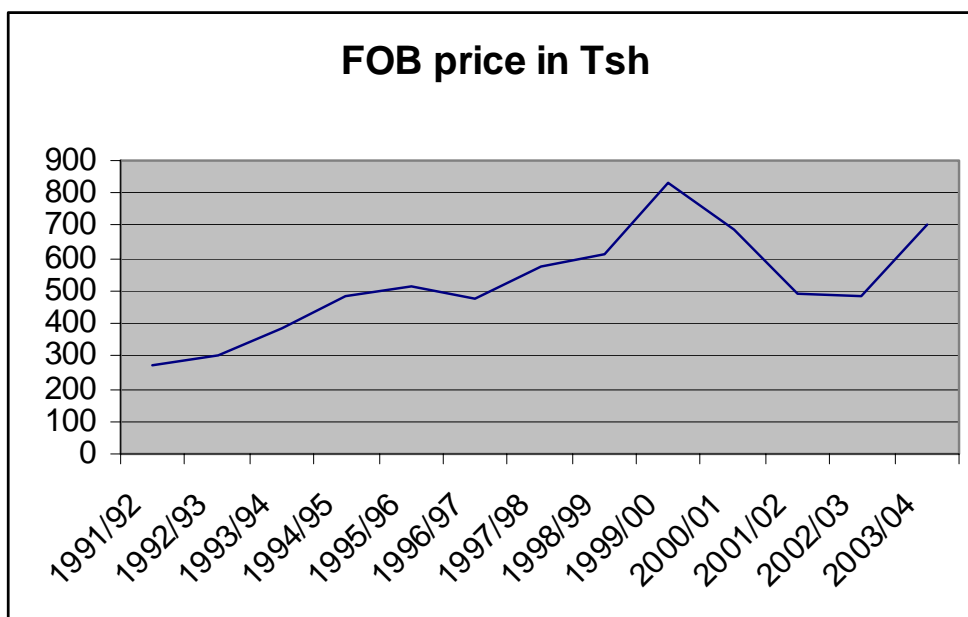
Figure 2: Average FOB raw nut prices and proportional exchange rates.



Source: CAT

Farmers who are not well aware of the impact of devaluation may perceive that the price is not in decline, because the nominal value in local currency has generally increased. However, the reality of values strikes when they are confronted by the cost of imported inputs (which, incidentally, have also been exaggerated by monopoly exploitation). This explains the constant refrain by farmers that inputs have become unaffordable.

Figure 3: FOB raw nut prices in Tsh/kg



Source: Derived from CAT.

## 2.5 Stakeholders

### 2.5.1 Internal to the industry

#### 2.5.1.1 Producers

The producers are not organised into associations or groups, other than for marketing purposes through Primary Societies and Co-operative Unions. Much of the crop is simply gathered from trees that have germinated in the wild or whose ownership is not known, so that much of the harvest is purely opportunistic. There are very few commercial producers with more than a few hundred trees and orderly plantations with standardised spacing are extremely rare. There are said to be approximately 280,000 cashew growers in the country.

#### 2.5.1.2 Processors

There are a number of very small scale processors who provide the local market by hand processing near the source of production, and there are five larger scale processors listed below.

**Table 5: Processors and output (in mt per annum)**

Name	2002/3 Processed	2003/4 Processed
Premier Cashew Industries	6,032	1,156
Mohamed Enterprise Ltd.	2,000	2,000
Masasi Factory	800	-
Olam (T) Ltd	500	-
Kibaha Factory	100	-
<b>Annual Total</b>	<b>9,432</b>	<b>3,156</b>

Source: CAT

#### 2.5.1.3 Buyers

Buyers include those who buy as agents for larger buyers and those who buy directly for export. The usual process is that a buyer will engage agents to deal directly with buying centres of the Primary Societies and with farmers for consolidation into loads. Primary Societies and Co-operatives are also involved in the trading process. According to CBT, during the 2003/04 season there were 46 licensed buyers, of which 15 were foreign based. Only buyers who undertake to buy more than 100 tonnes of raw cashewnuts are licensed.

#### 2.5.1.4 Exporters

Exporters are at the top of the buying chain domestically, and may be either resident in Tanzania or staying temporarily for the cashew buying season. They normally operate as registered companies, although it is said that the same individuals can reappear in consecutive seasons under different names, possibly to escape the record of the previous season. Companies exporting cashew in recent years are listed in the Annex I.

#### 2.5.1.5 Others

Others involved directly include input traders, transporters and banks.

#### 2.5.1.6 *Institutional stakeholders*

The institutions that are dedicated to the interests of the cashew industry are listed under paragraph 2.6 below. These serve the needs of the industry as described.

#### 2.5.2 *External to the industry*

These include the beneficiaries of the taxes, levies and contributions but which do not necessarily play a direct role in the commercial management of the industry:

- District Councils who levy 5% of FoB value of all raw nuts;
- Village Councils;
- a number of community projects that are funded from the industry but which may not be directly related to the production or processing of cashew;
- Central Government that gains through taxation of the industry and related activities.

#### 2.5.3 *Line Ministries*

The Ministries involved in the cashew industry include:

- Ministry of Finance (MOF) – dealing with revenue and expenditure;
- Ministry of Co-operatives and Marketing (MCM) - dealing with marketing;
- Ministry of Trade and Industry (MIT) – dealing with processing factories;
- President’s Office of Regional Administration and Local Government (PORALG) – dealing with taxes;
- Ministry of Agriculture and Food Security (MAFS) – overseeing CBT and dealing with development policy.

## 2.6 **Institutions and industry structure**

### 2.6.1 *The Cashewnut Board of Tanzania (CBT)*

The Cashewnut Board of Tanzania (CBT) was established under Act No 21 of 1984. In 1993 the Act was amended with a view to transforming it from being a Marketing Board to a Regulatory Organ. Prior to the 1993 amendments CBT was operating as a multipurpose Board. For instance its key functions included production control, supply of inputs, collection of levies, processing of cashew kernels, as well as exports of raw nuts and kernels. The underlying objective of the 1993 amendments was to facilitate participation of the private sector in the industry as part of the Government’s economic liberalization programme.

The CBT’s role now is confined to the following functions:

- Issuing licences to buyers of cashew nuts
- Issuing export permits to exporters of raw cashew nuts and kernels.
- Implementing cashew development programmes, in particular, quality and quantity assurance and transmission of research findings from ARI to the farmers, through training of farmers
- Regulation of the industry. As a regulatory body CBT’s role is to create a level playing field for all stakeholders in the industry. CBT is currently preparing the necessary regulations.

An examination of CBT's budget shows that the 81% of its revenue is provided by the cashew farmers in the form of levies on the industry. CBT collects a levy of 3% of FOB value of raw cashew nuts and 1 % of FOB price on exports of cashew kernels.

**Table 6: Budgeted CBT revenue 2002/03**

<b>Items</b>	<b>2001/02</b>	<b>2002/03</b>
<b>Revenue</b>	Tsh Millions	Tsh Millions
Levy on exports of raw cashewnuts	760.5	732.13
Levy on exports of processed kernels	65.34	146.37
Licence Fees on for processing	0	2.1
Registration of Buyers	12	12
Eport Licence	9	9
Rent from Godowns	101.21	104.94
Leasing fees on factories	108	50
Weighing Scales	10	6.54
Other Sources	11.83	11.83
<b>Total</b>	<b>1077.88</b>	<b>1074.91</b>

*Source: CBT*

The 3% levy is used to finance the following activities:

- 1% is retained by CBT for its administrative costs;
- 1% is retained by CBT for cashew development activities;
- 1% is transferred to the Agriculture Research Institute, Naliendele to support research activities in the cashew industry.

It is of interest to note that among the expenses covered by CBT there is preventive maintenance of the cashew processing factories that have been closed down and are now in line for privatization. The cost of maintaining these assets, that were the result of a Government decision, has therefore been transferred to the farmers.

The funds are also used to meet the costs of CBT's regulatory functions. Since funds used for the two cost items are contributed by the farmers in the form of a levy on cashew nuts, the net effect of this is to reduce the farmers' net revenue. Further, the factories are not owned by the farmers, and there are evidently also no plans to transfer the proceeds of the sale of the factories to the farmers who have effectively paid for their upkeep, mitigating the costs of the ill-founded Government investment. This contrasts sharply with other state enterprises that have been lined up for privatisation but are unable to meet their operating costs. In these cases, preventative maintenance costs, including employees' retrenchment costs and statutory benefits, are paid by the Exchequer, or employees are told to await the sale of the respective assets before receiving their benefits.

**Table 7: CBT Expenditure 2002/03**

Expenditure	2001/02	2002/03
	Tsh Millions	Tsh Millions
Wages and Salaries	237.97	210.51
Fair and Allowances	223.41	166.36
Office Expenses	180.82	156.37
Office Stationeries	34.63	28.12
Training and Seminars	77.5	50.4
Special activities	114	41
Loan repayment	0	150
interest rate charges	0	32.4
Instalment on ARI Debt	0	80
Maitenance of Buildings	69.5	69.5
Staff welfare	58.8	60.6
Capital Expenditure	63.54	15.2
<b>Total</b>	<b>1060.17</b>	<b>1060.46</b>
<b>Surplus/ Deficit</b>	<b>17.71</b>	<b>13.72</b>

Source: Cashewnuts Board of Tanzania

### 2.6.2 The Agriculture Research Institute, Naliendele

The Agriculture Research Institute (ARI), Naliendele is a multipurpose Research Centre and is based in Mtwara. Much of its work is concentrated on conducting research on the cashew industry. The major areas covered include breeding, pathology, crop protection, agronomy, vegetative propagation soil science and biotechnology as well integrated farm management.

ARI Naliendele is under the Ministry of Agriculture and Food Security. As such its administrative budget, including costs in respect of other crops, is covered by the Central Government. Costs relating to research on cashew are financed with funding from the 1% levy on exports of raw nuts which is collected by CBT on behalf of ARI. Its research activities for each year are approved by the Research Steering Committee, which also approves the associated budget.

However, in the past the work of ARI has been affected by lack of adequate funding. For instance, during the 2001/02 crop season, CBT had collected a total of Tsh 824.1 million equivalent to 1% levy on exports of raw nuts, which is used to finance cashew research activities. However, only Tsh 362,8 million was released to ARI. Thus CBT withheld Tsh 461.3 million. CBT is now repaying to ARI the money that was withheld. Due to inadequate funding, CBT was forced to shelve implementing some of the activities that had been approved under the Cashew Research Programme. Further arrangements need to be put in place to ensure that in future ARI will continue to receive adequate funding as more raw nuts are processed domestically.

### 2.6.3 Cashew Association of Tanzania (CAT)

The Cashew Association of Tanzania was established on the 2<sup>nd</sup> May, 1995. The major objectives of the Association are summarized below.

- To support the Government effort in improving and developing the cashew industry;
- To act as medium for and to promote the interests of all stakeholders involved in the cashew industry;
- To participate fully in evolving systematic ways of applying and determining the type and quantum of levies/cess in the cashew industry.

- To liaise with the Government and any other institutions in Tanzania or elsewhere in the World dealing in activities related to cashew development;
- To induce all participants in the cashew industry to join the Association;
- To mobilise members to actively participate in activities aimed at sustaining the growth of the cashew industry in Tanzania;
- To formulate policy, strategies in all matters related to the provision of improvement;
- To devise and design programmes for provision, improvement, expansion and /or rehabilitation of the cashew industry in Tanzania; and
- To closely monitor the programmes so devised and designed.

The objectives are comprehensive and are intended to cover the interests of all stakeholders, including farmers. However, this does not appear to apply to the farmers as evidenced by the fact that farmers are essentially price takers. This is because the farm-gate price is determined after all the costs, including the buyer's margins/profit, have been deducted. The farmer's production costs are not considered in arriving at the farm-gate price.

Further the Association has not been involved in facilitating timely availability of agricultural inputs, such as sulphur dust, which is extensively used to spray the cashew trees. Currently there is only one private input supplier in Mtwara region.

Taxes, levies, fees and other deductions paid by the farmers are high in relation to net income. (See section 3.7.)

If the Association were to fully implement all the objectives outlined above, a vibrant cashew industry in Tanzania would be more feasible. However, membership includes parties with conflicting interests including farmers, buyers, exporters and processors. The membership is 104 but declining since their source of funds, which used to amount to Tsh 15 to 18 billion, has been reduced with the demise of the Cashew Industry Development Fund (CIDEF), which supported them. Farmer members pay between Tsh 500 and 10,000 per annum, according to their scale of operation and as decided by the Board of Governors.

The Board used to meet quarterly but have now ceased to meet at all. No sitting allowance was paid. It is claimed that the Association gave the only private sector voice on the cashew industry directly to Government and that it was not delivered through CBT. However, it is conceded that the role of the Association is now verging on the irrelevant since their role is being subsumed by the Cashew Management Unit (CMU) within the Ministry of Agriculture and Food Security (MAFS) in a move that is seen to be reminiscent of parastatal management styles. The CBT seems also to have assumed the role of representative of the cashew stakeholders who are not, however, represented proportionally on their Board.

The current structure of the industry would not render them redundant but internal conflicts of interest and their dependence on funding from CIDEF appear to have undermined their authority in the structure of the industry.

#### **2.6.4 *The Cashew Industry Development Fund (CIDEF)***

CIDEF was established on the 15<sup>th</sup> March, 1996. It operates as a Trust Fund and their key objectives are summarised below:

- To facilitate research and development activities of the cashew crop in Tanzania;
- To facilitate local cashew nut processing with a view to exporting value added cashew kernels;
- To solicit funds locally and abroad for development of the cashew industry in Tanzania; and

- To conduct public education campaigns with a view to educating the public on the importance of the cashew industry in the development of the economy of Tanzania.

Initially CIDEF was being funded through a levy of 2% on the FOB price of raw cashew nuts. The money received was being used for its administration costs and lending to farmers for buying agricultural inputs and also to other stakeholders. However, in 1998, following representation by CBT to the Government, a decision was taken to stop remitting the 2% levy to CIDEF. Instead the money is retained by CBT.

Since 1998 CIDEF's capacity to finance cashew development activities has been considerably weakened. The funding was withdrawn due to mismanagement and a poor loan recovery rate of 32% which has diminished the revolving fund from Tsh 1.7 billion to Tsh 217 million, and a large portion of the loan portfolio is still outstanding. The mechanisms for authorisation of loans were lacking and there was inadequate financial regulation and risk management. The allocation of funds to CIDEF used to amount to Tsh 800 million annually. Loans to borrowers of up to Tsh 2 million were provided interest free and up to the maximum of Tsh 15 million at 10% pa.

#### **2.6.5 *The Cashew Management Unit (CMU)***

The CMU is within the Ministry of Agriculture and Food Security and is mandated to serve the interests of the cashew industry. It is essentially a one-man team responding to needs of the industry as they arise and from the policy rather than the commercial perspective.

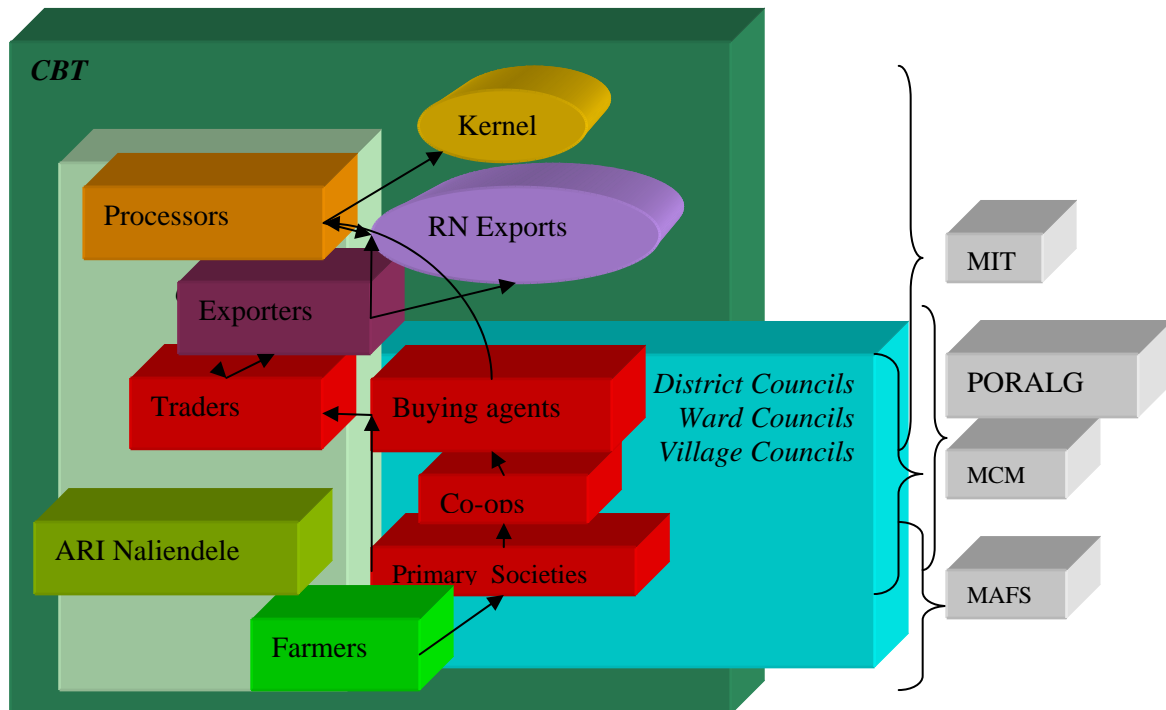
#### **2.6.6 *Co-operative Unions***

Co-operative Unions are the umbrella organisations of the Primary Societies which function as the marketing outlets of agricultural products including cashew nuts.

### **2.7 *Zones of influence within the industry***

Since the farmer communities have not been organised into representative associations their interests are, at least in theory, guarded by CBT. The CAT also plays a role for them but it has divided interests in the wider sector of the industry. The zones of influence within the industry are represented diagrammatically in the chart below, which also indicates the flow of nuts from the farmers to the export markets.

Figure 4: Zones of influence in the cashew sector



Source: Author observations

The fact that the cashew industry is subject to influence, regulatory control and policy guidance from four different ministries has been cause for some confusion and lack of cohesion in the past, which has hampered its development. The difficulty of achieving concerted action on the industry is exacerbated by the fact that the line Ministry Headquarters are also separated geographically with the country. This was quoted as a major stumbling block to achieving agricultural reform in 2001<sup>5</sup>. There is scope for improvement in the institutional structure of the industry with main responsibility for all policy that bears on cashew being vested with MAFS.

## 2.8 Issues on competitiveness

Competitiveness is considered in terms of:

- price of raw nuts and kernels on the international market;
- quality of raw nuts and kernels; and
- sales volumes and market share.

### 2.8.1 The raw nut price

The raw nut price is determined by supply to India and Vietnam, which have surplus processing capacity and buy from Africa to extend the working season of their factories. The cashew harvest in India precedes that of West Africa, which in turn precedes that of East Africa so that a continuous flow of raw material can be achieved by Indian and Vietnamese processors. A decline in the demand for raw nut from Tanzania can result from a surplus of kernel on the World market, a high yield of raw nuts in countries supplying the surplus processing capacity in India or Vietnam.

The fact that Tanzania is a price taker in the market has profound consequences for the impact of taxes, levies and other charges applied to the marketing of cashew, because every charge acts

<sup>5</sup> Economist Intelligence Unit, Country Report – Tanzania, 2001

backward in the chain to the producer and not forward to the consumer. It is therefore the farmer as receiver of the *residual* price who ultimately pays the tax and not the trader, the exporter, the processor or the consumer. This fact is crucial to policy implementation within the sector.

### 2.8.2 *The quality of the nuts*

The price offered is also affected by the quality of the nuts produced, which is a function of the climatic conditions and natural endowments of the production area and the on-farm management of the crop. Tanzanian kernels are valued for their size and colour and rank more highly than Mozambican kernels in size and Ivorian kernels in colour. In fact the Tunduru kernels have been referred to as the best in the world because of the dryness of the season at harvesting. Poor quality in some cases is due to the age of the trees, lack of application of fungicides, and to poor post-harvest handling and grading. Mkuranga is affected by short rains during harvesting, leading to fungal infections and Newala and Tandahimba are known for large nuts but comparatively small kernels.

Quality of the product, reliability of supply and ease of trading within the administrative environment of the country are contributory factors in price determination, but the power of the buyers, whether working as cartels or not, has more impact on the FOB price than does the power of the sellers. It is a buyers' market and the sellers can do very little beyond ensuring a good quality product and efficient service to influence it.

### 2.8.3 *Market share*

The corollary to the pricing structure described above is that the imposition of charges in the marketing chain does not immediately affect the competitiveness of the Tanzanian product in the market since it does not act on the FOB price. However, in the long-run it does affect the productivity of the industry, the rate of rejuvenation of plantations, the entry of youngsters to production enterprises, the intensity of management of trees and the harvested crop, the disease control, the extent of the harvest and the rate of development of the regions of its provenance.

The extent of the harvest is particularly flexible in Tanzania due to production in relation to the history of settlement, and it is said that about 40% of trees are not regularly harvested. This is because many trees were abandoned in areas previously settled when the *Ujamaa* scheme was introduced in the 1970s under which villagers were moved to new consolidated settlements. Trees too remote to harvest conveniently are now only harvested if a price increase justifies the added effort required in reaching them. There are also unresolved issues of ownership that inhibit harvesting of some trees, and some sources even evoke man-eating lions among the constraints to extensive harvesting.

### 2.8.4 *Conclusion on competitiveness*

Revenue collected from the industry does not affect the export price of raw nuts immediately, but in the long-run it does have an impact on competitiveness by reducing the farmers' capacity to ensure good quality and high volumes from healthy tree stock. The revenue collection also perpetuates poverty in rural areas, which has an impact on education and health, resulting in reduced likelihood of the industry evolving into a vibrant and responsive enterprise.

### 3 The Economics of Production, Processing and Marketing of Cashew in Tanzania

#### 3.1 The value chain

Since it is established that the farmer takes the residual price after subtractions from an estimated overseas price to the point where the farmer is paid, we will trace the value chain in the same direction so as to illustrate the process of price determination.

#### 3.2 Price determination

Cashew is not a product to which a commodity price is attached, whether it is in raw nut or kernel form. Kernels are sold under a multiplicity of grades depending on their colour, completeness, size or the section of the whole from which the stubs or butts derive. The wholes are graded according to the number making up a standard weight, and the variability in the out-turn of nuts from any sample of raw nuts is a function of the quality of the raw nuts and the skills applied and equipment used in decortication, drying, peeling and grading. To complicate matters further, the grading system applied in Brazil is not the same as that applied in India, Vietnam and Africa. It is not, therefore, a simple matter to take the quoted price of a particular grade and work it back through processing, shipping storage and so on to the price of raw nuts at a particular point.

It is simpler to investigate the price of raw nuts at a particular harbour and work back from there. This is the process undertaken by the Cashewnut Board of Tanzania (CBT), who is entrusted with negotiating with buyers to determine a price to be paid to farmers at Primary Societies. CBT researches the price of standard grade raw nut at the Indian ports of Tuticorin in Tamil Nadu and Cochin in Kerala, and sits with Board members, some buyers and observers to deduce what can fairly be paid as a residual from all preceding costs to the farmers. The price at these ports varies from year to year according to the supply and demand balance mentioned above, so it serves no purpose to examine the actual figure here. The detailed costs are included in the Annex II of this report and summarised in the table below.

**Table 8: Summary of price determination process**

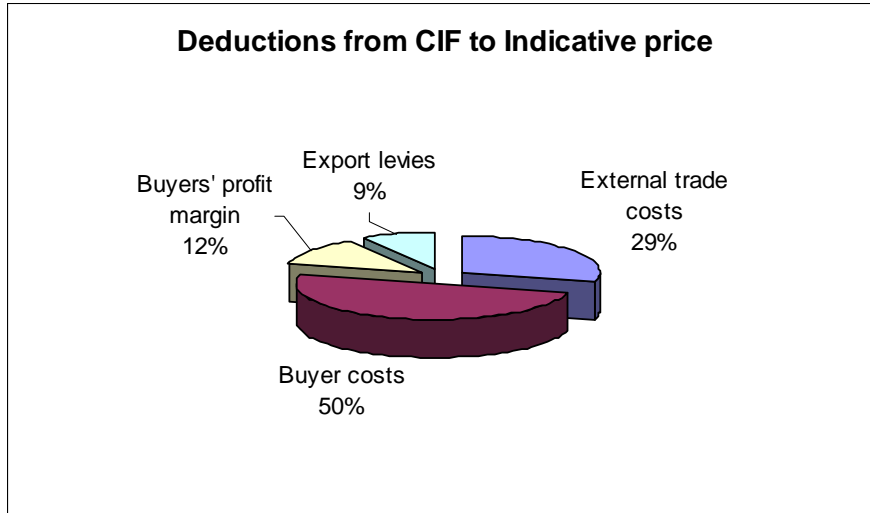
Indicative price determination 2003/4 season Summary	Value points Tsh/kg	CIF cost components Tsh/kg	es, taxes & contributions Tsh/kg
CIF	761.25		
External costs		80.85	
FOB price	680.40		
Domestic buyer costs		171.06	
Export levies			23.41
Indicative price	485.93		
Producer variable costs		178.53	
Producer gross margin	307.40		
Producer fixed costs		11	
Producer profit before deductions	296.48		
Weighted av. DC Levy			23.57
Weighted av. Contributions			63.02
Producer cash returns (net price)	209.89	209.89	
Levies & contributions		110.00	
<b>Total</b>		<b>761.25</b>	<b>110.00</b>

Source: CBT

The proportional breakdown of costs from the carriage, insurance and freight (cif) value of raw nuts in foreign port is displayed graphically below.

Deductions from the cif price in US Dollars include shipping, spillage, freight, brokerage and insurance to arrive at the (Free on Board) FoB value at point of departure from Tanzania, converted to Tanzanian shillings (Tsh).

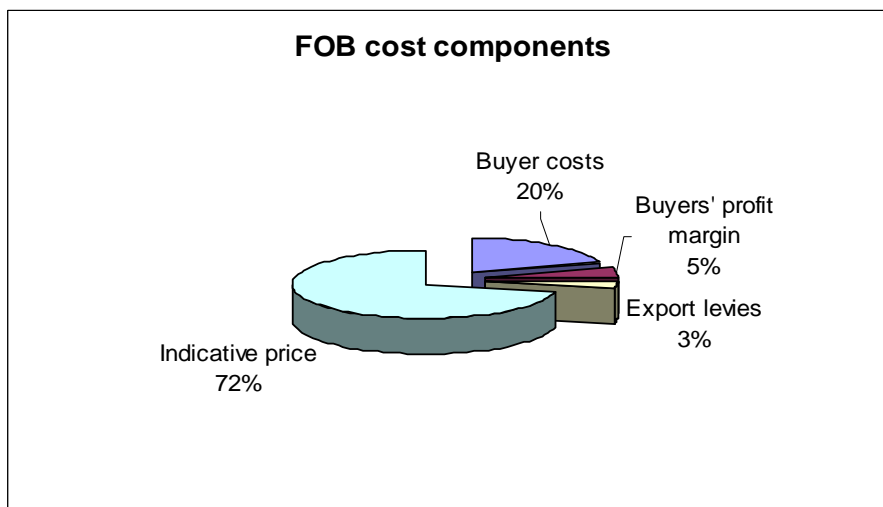
**Figure 5: Cost components resulting in Indicative price from CIF value**



Source: CBT

The Indicative price is not a fixed price but is supposed to indicate to farmers what to expect from buyers in the opinion of CBT who are mandated to safeguard the interests of the farmers. It is arrived at by deducting costs from the FoB value derived above, which include average transport costs from warehouse to docks, buying costs including agents' fees, spillage to the port, bags for packaging, and storage. Before dispatch to the port there are warehousing costs including more transport from Primary Societies, finance costs, security, licence and insurance and a contingency allowance. The buyers' profit margin of 5%, the CBT levy of 3% and a City Levy of 0.3% of FoB value are also deducted to leave what is variously called Farm Gate Price (FGP) or Indicative price. (The City Levy has been discontinued since June of 2004.)

**Figure 6: FoB cost components of raw nuts.**



Source: CBT and Naliendeke

The District Council Levy of 5% of FGP is then removed to give the “Farmer Net Price” or “take-home Price”. However, he is not yet able to take it home before further deductions are made.

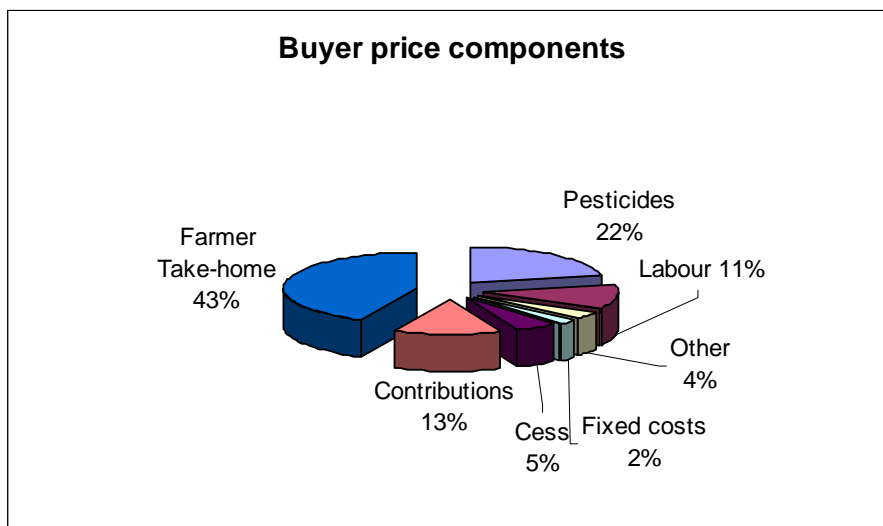
It appears that the price used as an Indicative price in Mtwara Region in the 2003/04 season was already reduced by 5% to account for the District Cess and that a further 5% was deducted at point of sale. CBT has been asked to clarify this in writing but have not yet responded. The buyers may have had a gratuitous extra 5% profit at the farmers’ expense.

### 3.3 Farmer contributions

In almost every cashew producing district, charges have been imposed on sales of the product in addition to the District cess. These are contentious issues, since farmers deny that they are voluntarily made, as contended by the District Councils. The issues relating to the process and justification for their deduction are explored below. At this point we simply point out their impact on farmer income and returns to factors of production.

The weighted average contribution paid by farmers in, so called, voluntary contributions is 13%, and the District Cess is a further 5% of the amount paid by buyers to farmers at Primary Societies and other legal buying stations.

**Figure 7: Components of the Buyer Price to Farmers**



Source: CBT and Naliendele.

### 3.4 Costs of production

Under this study there has been no first-hand determination of the costs of production, but figures have been provided by Agricultural Research Institute (ARI) Naliendele that illustrate their own findings. These figures have been applied to models used in the analyses of impact conducted in this study.

Three levels of management can be considered in the costs of production:

1. low-input management as practised by the majority of smallscale farmers whose yields are correspondingly low, resulting in the low average national yield of about 3.5 kg per tree;
2. standard commercial management including levels of inputs recommended by ARI Naliendele, which can result in yields of 12 – 15 kg per mature tree in plantations; and
3. intensive management levels with higher input levels which may be expected to yield 36 kg per tree in plantations.

The low-input management system is not recommended since it does not optimise the land, the trees planted on it nor the labour applied to them, but it is recognised that the system is perpetuated by some due to lack of better information or lack of working capital to apply to inputs. This situation can be at least partially addressed, so there is no justification in using the system as a model on which to predicate the sustained management of the industry. The highest input system requires intensity of management that is likely to be found only in large scale commercially managed plantations of which there are currently very few. The middle level of management is widely applicable and would bring significant leverage to growth in production if facilitated by access to resources. It is this level that is, therefore, adopted in the model for growth and for assessment of tax rates on profits.

Returns to investment of labour and inputs are improved with incremental advances in management intensity, so the argument for intensification of management is soundly based on commercial principles. It also implies that strategies to improve access to fungicides and the means to apply them are economically beneficial to individuals and the industry at large. Conversely, deductions from farmers' income that are not reapplied to yield improvement capabilities are detrimental to productivity – as may be expected.

### **3.5 Processing**

#### **3.5.1 *Choice of technology***

The range of available techniques for cashew decortication spans highly technical equipment through manually operated devices to simple wooden hammers. Accordingly, the labour required to meet certain targets of scale varies enormously, so the tax regime affecting capital investment and labour employment has a significant impact on profitability. For example, machinery imported for the purpose is exempt from duties suggesting a policy of mechanisation, whereas employment of labour attracts taxes of 6% of the wage bill despite the policy to promote employment.

Profitability in cashew processing is correlated with turnout of whole kernels that fetch disproportionately higher prices than bits. The skill and dexterity demanded of labour in manual shelling to achieve high whole-nut turnout is therefore crucial to profitability – and it is not quickly acquired. Therefore, there is a learning curve to be financed by new entrants to the processing industry.

The semi-mechanised decortication process is widely used in India and Brazil. It yields higher turnout and is being adopted in Tanzania in favour of the more mechanised equipment with which the parastatal factories were originally fitted.

#### **3.5.2 *Apparent advantages of domestic processing***

A case is put forward by processors which states that the advantage gained by processing in close proximity to the source of whole nuts is lost by the disadvantages of operating in the Tanzanian context. This carries some weight due to the learning curve and the tax structure facing employers. However, the great majority of workers are employed on a seasonal or part-time basis due to the discontinuous supply of raw nuts and to the lifestyle of many of the employees, which does not afford full-time continuous employment, due to other commitments and an unwillingness to commit to continuous and monotonous daily work. The employers are not obliged to pay the 6% tax on “casual” workers.

The learning curve is significant since in India one worker can shell 35 kg per day while in Tanzania the figure is 17 kg per day. It is not only the acquisition of skills in nimble dexterity but also the urgency in applying them that is crucial to achieving competitive efficiency.

Competition for raw nuts against exporters plays a significant role in the development of domestic processing capacity. Processors can themselves export the raw nuts if the profit margin for such an

enterprise is greater than for local processing, and the difference can be manipulated by the imposition of an export levy. Although the levy is ultimately at the expense of the farmer, the proceeds can be reinvested through the CBT in the development of the sector, thereby ameliorating the dampening effect.

The success of the CBT Indicative price negotiating process in raising the price to farmers also has a strong bearing on the propensity to process domestically. If export of raw nuts can deliver in a few weeks the profits that can be made over months of processing, there is an obvious advantage in exporting the raw nuts. The industry loses the potential opportunities for adding value through processing and the benefit of the by-products of CNSL or biomass fuel, but decisions as to whether to export raw nuts or to process will depend on the commercial imperative to optimise profit.

In conclusion, the economic advantages that would seem to accrue to domestic processing are not as attainable as they may at first seem. They become more attainable as the scope for profit taking from raw nut exports is reduced by tight control of the regulations imposed through CBT, as the price differential between export and domestic use is hiked by levies, and by keen negotiation on the part of CBT over the Indicative price.

### **3.6 Export of kernels**

#### **3.6.1 *Quality and value***

The price obtained for kernels on the international market is related to quality of product and of service in supplying them. The quality of the product is a function of production management that minimises incidence of disease both pre- and post-harvest and of reliability in shipping consistent grades. Prices offered to those with a reputation for consistency exceed prices offered to those who are new to the market - particularly with African provenance. Breaking into the market, even with good quality products, has its costs, and a position once achieved, must be carefully safeguarded.

#### **3.6.2 *On the export of kernels***

At the point of export an export levy is imposed on kernels at the rate of 1% of their FoB value. This is submitted to CBT and should be applied to the development of the industry. Since approximately 5 kg of raw nuts are required to provide 1 kg of kernel, and because the kernel has added value by virtue of the labour applied to it, the tax on export of kernel is approximately 52% of the raw nut levy of 3%.

For example:

- 500 tonnes of raw nut with FOB value of Tsh 648/kg paying 3%, would yield Tsh 9.72 million,
- and, with a turnout of 20%, be equivalent to:
- 100 tonnes of kernel with FOB value of \$4850 (at Tsh 1050/\$) per tonne, paying 1%, which would yield Tsh. 5.09 million. (52% of raw nut export levy).

#### **3.6.3 *Training***

Training is a vital component in achieving quality and hygiene in processing and so contributions to the cost assist in accelerating progress towards greater share in the international kernel market. The 6% tax payable on wages bills by employers is divided between Central Government and the Vocational Education and Training Authority (VETA). It is up to the employers to ensure that they obtain services in training from VETA, which could compensate for the tax payments.

### 3.7 Summary of levies, taxes and incentives

#### 3.7.1 Point of deduction

The charges are applied at various different points including buying stations, District Offices and Ports. A Central Government directive has now disallowed the collection of “Voluntary” Contributions at the same point as District Council or CBT levies. Following this directive, it is not yet clear where the deductions for local contributions will be made.

**Table 9: Summary of taxes, levies and contributions**

<b>Tax / levy / contribution</b>	<b>Point of application</b>	<b>Rate and basis</b>	<b>Application of funds</b>
Kernels	At point of export	1% of FOB value	Applied to CBT for administration and development.
Employment tax	Monthly returns to TRA	6% of total wages bill for permanent employees.	3% to TRA. 3% to VETA for training.
Company profits tax	Returns to TRA	35% on trading profit.	TRA
Pension fund		10% of wages and salaries of permanent employees.	TRA
Personal income tax on earnings	Returns to TRA	Pro rata rates on earnings in excess of Tsh. 600,000 pa.	TRA
Turnover tax	Returns to TRA	1.2% of turnover below Tsh. 3 m. pa.	TRA
Raw nuts	At point of export	3% of FOB value	1% administration costs of CBT; 1% previously to CIDEF for acquisition and distribution of inputs and for capital investment loans in processing, but now applied to CBT for development activities.  1% to Naliendele ARI for research activities into cashew production.
Raw nuts	At point of export.	0.3% of FoB value	Previously paid to Ministry of Finance. Discontinued since June 2004.
<i>Continued...</i>			

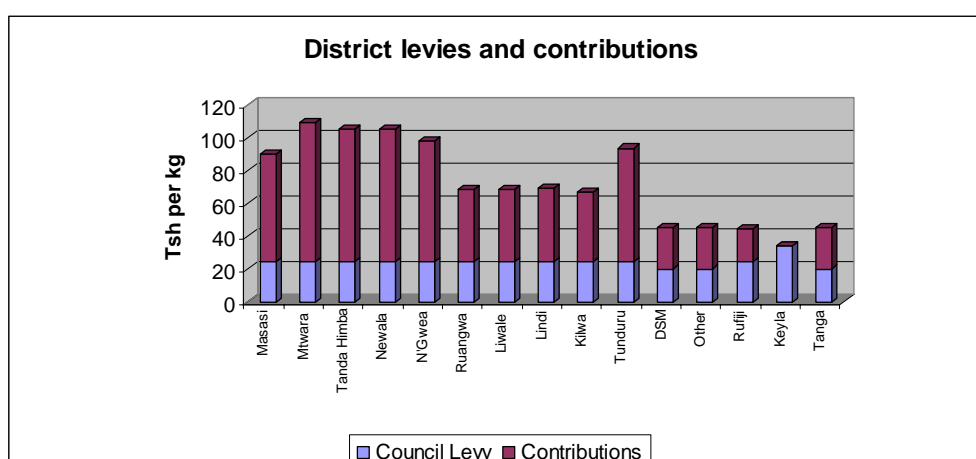
<b>Tax / levy / contribution</b>	<b>Point of application</b>	<b>Rate and basis</b>	<b>Application of funds</b>
Licence fees for buying of Cashew.	At District Council Offices prior to buying.	Tsh 300,000 per buyer per district per annum.	To administration of the District Councils.
Trading Licence	At CBT offices prior to buying.	Tsh 60,000 per buyer per district per annum.	To administration of CBT.
District Cess	At District Council offices prior to buying each consignment.	Variable according to District but usually 5% of FOB value.	To administration of Districts.
“Voluntary” Contributions to a wide range of causes depending on District.	Previously at buying stations but now disallowed by Central Government.	Widely variable.	According to heading but including input cess and levy in Primary Society and Co-operative Union management.

Source: Author interviewees.

### 3.7.2 Variability of contributions

The variability of contributions at different Districts is wide and is greatest in those with highest output of cashew. This is perhaps because there are fewer alternative sources of funds, but it may also reflect the fact that it is easier to levy cashew because the farmers are apparently compliant, although they may not be empowered with a coherent voice with which to object.

**Figure 8: Summary of levies and contributions applied at District level**

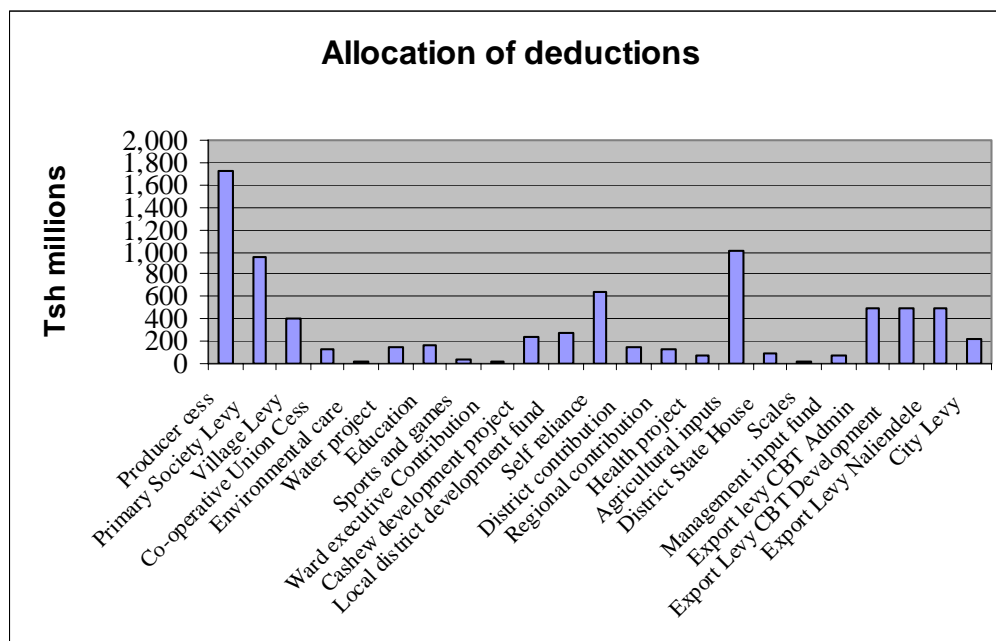


Source: CAT.

### 3.7.3 Total deductions

When levies in all areas are summarised the total deductions for each fund can be shown as in the bar chart below. This also includes those deductions made on behalf of CBT and the now discontinued City Levy. The total amounts raised from deduction is shown in the table in Annex III.

Figure 9: Total levies and contributions.



Source: CAT.

### 3.7.4 Application of funds

The list of funds to which farmers have made contributions includes many that do not directly contribute to the cashew industry, although they may indirectly serve some of the needs of some of the cashew growing families. Those funds which do contribute directly to the industry are:

- the Primary Society levy;
- the co-operative union levy; and
- the agricultural inputs levy.

However, the efficiency with which these funds are reapplied to the industry is not clear, since there is no known audit or evaluation of the management of the funds and the monitoring procedure is either not in place or leaves too many gaps to provide assurance of probity.

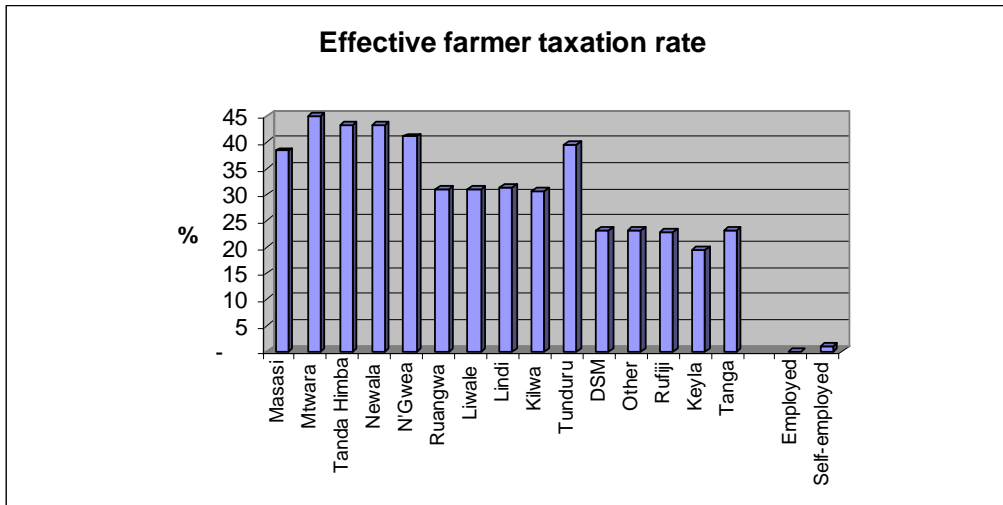
Anecdotal evidence derived from verbal reports and from the minutes of meetings held between farmer association representatives and CBT suggest that there has been serious breach of trust or incompetent management of the funds leading to their erosion and ineffectuality in the provision of inputs to the farmers.

The nature of some funds suggests opportunism, since they have been so easily collected during the buying process and since the farmers have not been empowered to object. Indeed they are generally known as “nuisance” taxes.

### 3.7.5 Effective tax rate

When all taxes, levies and contributions applied to raw cashew are summarised and viewed in relation to the farmers’ net revenue or profit, the tax rate demonstrated in the chart below emerges.

Figure 10: Effective tax rate on farmers



Source: CAT.

The right hand side of the chart shows the comparative position of an employed person having the same income as a cashew grower with 105 trees (Tsh 600,000). Anyone employed on such a salary would pay no taxes. The self-employed with a turnover of up to Tsh 2.8 million would pay only 1.2% in taxes.

### 3.7.6 Who bears the burden of taxes?

The farmers are, therefore, more highly taxed under the current system of levies and contributions than any other sector of society in Tanzania, which illustrates why the Central Government has directed that levies are to be capped at 5% and that contributions should not be collected from farmers at the same point as levies (presumably to reinforce the distinction between the two).

## 4 Taxation Process – Analysis of Directives Enforcement and Replacement at Local Government Level

### 4.1 The Overview of the Process Analysis and Finding

The primary objective of the Process Analysis is to provide a detailed description of tax/levy provisions in Tanzania. Such a description allows us to compare the tax/levy provisions in Tanzania with each of the major cashew producing countries. In this way we can accurately measure the impact of policy on competitiveness.

Our focus is on whether the regime that caps maximum taxation of 5% at the local level can be achieved. We analysed the different types of taxes/levies collected from farm gate to export. We evaluated the administration/collection procedures, application of the levies and effectiveness of the levies/or collection system) in order to deliver three results.

#### 4.1.1 Describe the current regime of taxes, levies and contributions

An accurate description of the regime is essential. We have described the current tax regime in terms of the taxes applied to the transaction. The processes we analysed support transactions that begin with the producer who grows and harvest cashew nuts through the market at which the cashews are sold to the buyer.

#### 4.1.2 Qualify the impact of the regime on the industry

Having described the tax regime in terms of process our understanding of the process is then compared against specific standards of good practice. This comparison allows us to measurably and specifically qualify the impact of the regime on the industry.

#### 4.1.3 Present Recommendations

Having compared the described regime against particular best practice, we are able to present options available to make the taxation process more transparent, efficient and effective. Options for replacing or eliminating taxes above the 5% level are presented as part of this report.

### 4.2 Scope of the Process Analysis

The fundamental subject of this analysis is the implementation and control of tax processes at specific levels of government. The scope of this review has been refined to ensure that we focus on those processes within the stakeholder structures that are relevant to the taxation in the cashew nut environment. Our analysis of the taxation process focused on two of the three levels of implementation. The figure below describes the scope of our analysis of the administration/collection process.

#### Figure 11: Scope of process analysis.

Note: The grey area in the figure describes the scope of our analysis. We observed detailed procedures for the each of the four types of taxation (district cess, local contributions, licenses and permits, export levies) in the system. However, we did not test these procedures as part of our study. We examined them to evaluate their impact on the process.

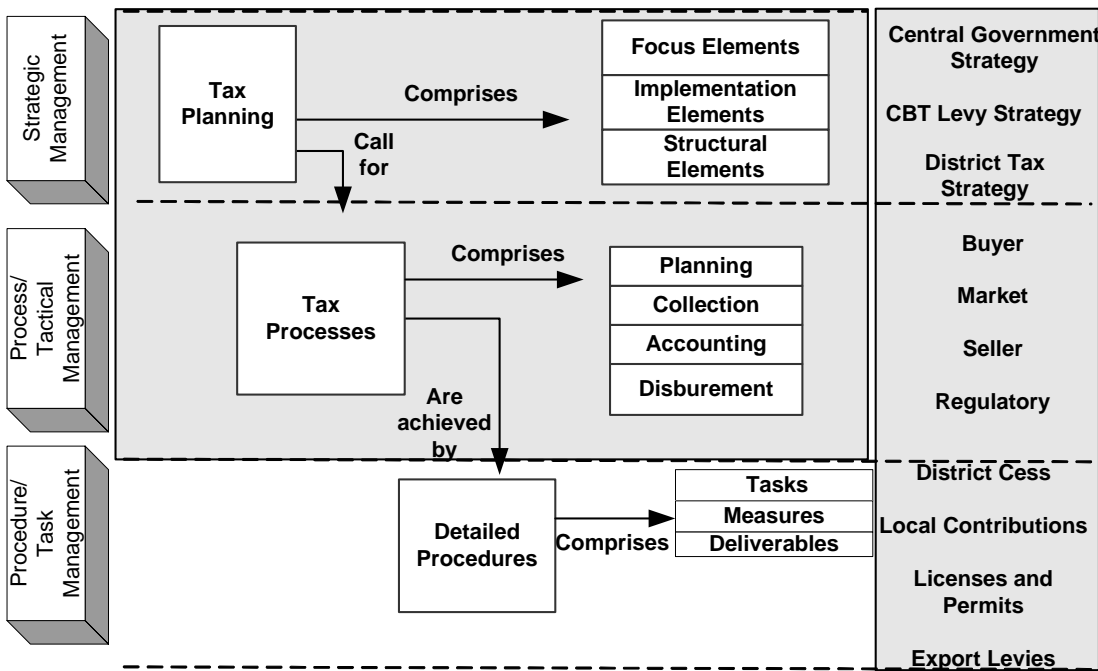


Figure – 11 Scope of Process Analysis

#### 4.2.1 Tax Strategy and Planning

We understand that any taxation process is more likely to have a positive impact if it has been the result of thorough planning at all levels of management. We analysed strategies of the

- Central Government
- CBT
- and Local Government

Our analysis considered the vision, mission, objectives and structural elements of their taxation strategies.

#### 4.2.2 Tax Processes

The impact of the tax regime is measured by the effectiveness of its planning, collection, accounting and disbursement functions. We examined the:

- Buyer processes
- Market processes
- Seller processes
- and Regulatory processes.

#### 4.2.3 Tax Procedures

One of the overall objectives of this study is to qualify the impact of the tax regime on the industry. The efficiency of the taxation process has an impact on the sub-sector environment. Efficiency can be measured and qualified according to how well the procedures are directed and controlled.

The scope of this study was limited to the strategy and process. We did not test procedures. We were able to observe tasks, measures and deliverables that comprise the four tax procedures:

- district cess,
- local contributions,
- licenses and permits
- and export levies.

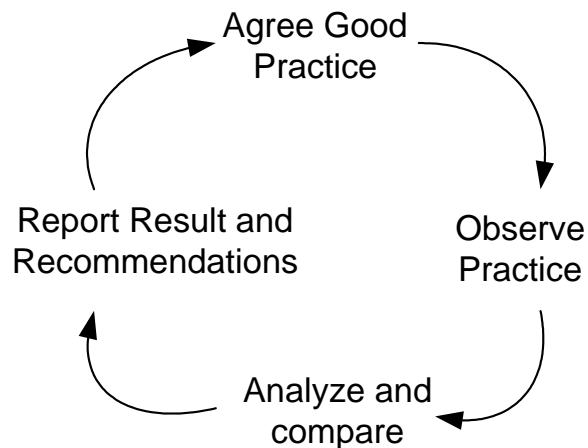
### 4.3 Approach

Within the scope we applied a straightforward approach to study of the taxation process. Our approach has four steps summarised below.

#### 4.3.1 Agree Review Guidelines

The first step is to agree standards of practice by which the effectiveness of the taxation regime can be measured and qualified. The study compared process against four standards:

- In Tanzania the overall guide for best practice in the strategy and planning process is the central government strategy for budgeting according to the Medium Term Expenditure Framework (MTEF) planning.
- The standards for accounting for collection at the Districts and CBT are bound by International Accounting Standards (IAS) 36, 37 and 38 and the revised standard IAS 16, 22 28 and 31. The study focused on standards for disclosure, transparency and accountability according to those standards.
- The standard for reporting and communication is defined in Tanzania Financial Accounting Standards in particular TFAS 1 Presentation of Financial Statements and TFAS 24 Public Sector Financial Reporting.
- Process administration, data and information control standards are defined in Control Objectives for Information Technology (COBIT) Standard for reviewing information systems developed by the International Information Control And Systems Audit Association (ISACA)



#### 4.3.2 Observations

Our observations were made at the Central Government, CBT, District and Local Government, Cooperative Union and Primary Society levels. A list of persons interviewed as part of this engagement is at Annex IX. We have included a contact directory.

#### 4.3.3 Analysis

The third step in our approach is to analyse our observations. The key result of this analysis were:

- the mapping of tax process
- and the examination of procedures in order to assess the effectiveness and determine the impact.

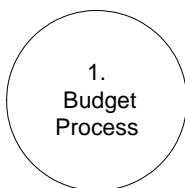
The result of our analysis is a detailed view of how what we observed impacts the cashew nut environment. It is fundamental to our study. The regime was compared against specific standards of best practice that should be expected in a well-managed system of taxation. The detail result of this analysis is at Annex IV. Section 4.5 Summarizes our findings.

#### 4.3.4 *Report/Adjust*

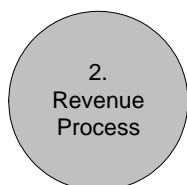
The effort in our approach is to provide an opinion as to the way forward for the tax regime. Our opinion is based on the observation and analysis defined above. We feel that our recommendations, if implemented will result in a more efficient integration of tax structures. Section 4.5, Summary of Findings, describes the recommendations for how the system can and should adjust.

#### 4.4 **Process Map**

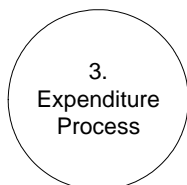
The Government of Tanzania's function for managing financial resources is known as the Integrated Financial Management System. It comprises six processes. The local government taxation is a Revenue process. The Revenue process is a process within the Integrated Financial Management System. Taxation as imposed by the districts must be understood in the context of the system of which it is a part.



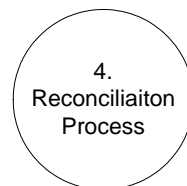
**1. Budget Process.** The first process in the overall mechanism of funds management is the budget process. Budgets are prepared at all levels in accordance with the respective Ministries Medium Term Expenditure Framework (MTEF), which is a combination of rolling plan, forward budget, performance budget and strategic plan. Any funds collected by the districts must be included in the MTEF process.



**2. Revenue (Cashew Buying) Process.** The second process in the financial management mechanism is revenue assessment, collection and accounting. The cashew buying process is a source of revenue received by the Districts.



**3. Expenditure/Disbursement Process.** Accounting for revenue is the core process in Expenditure of funds is managed according to specific Government procedure .



**4. Reconciliation Process.** The revenue and expenditure must be reconciled against the approved budgets.



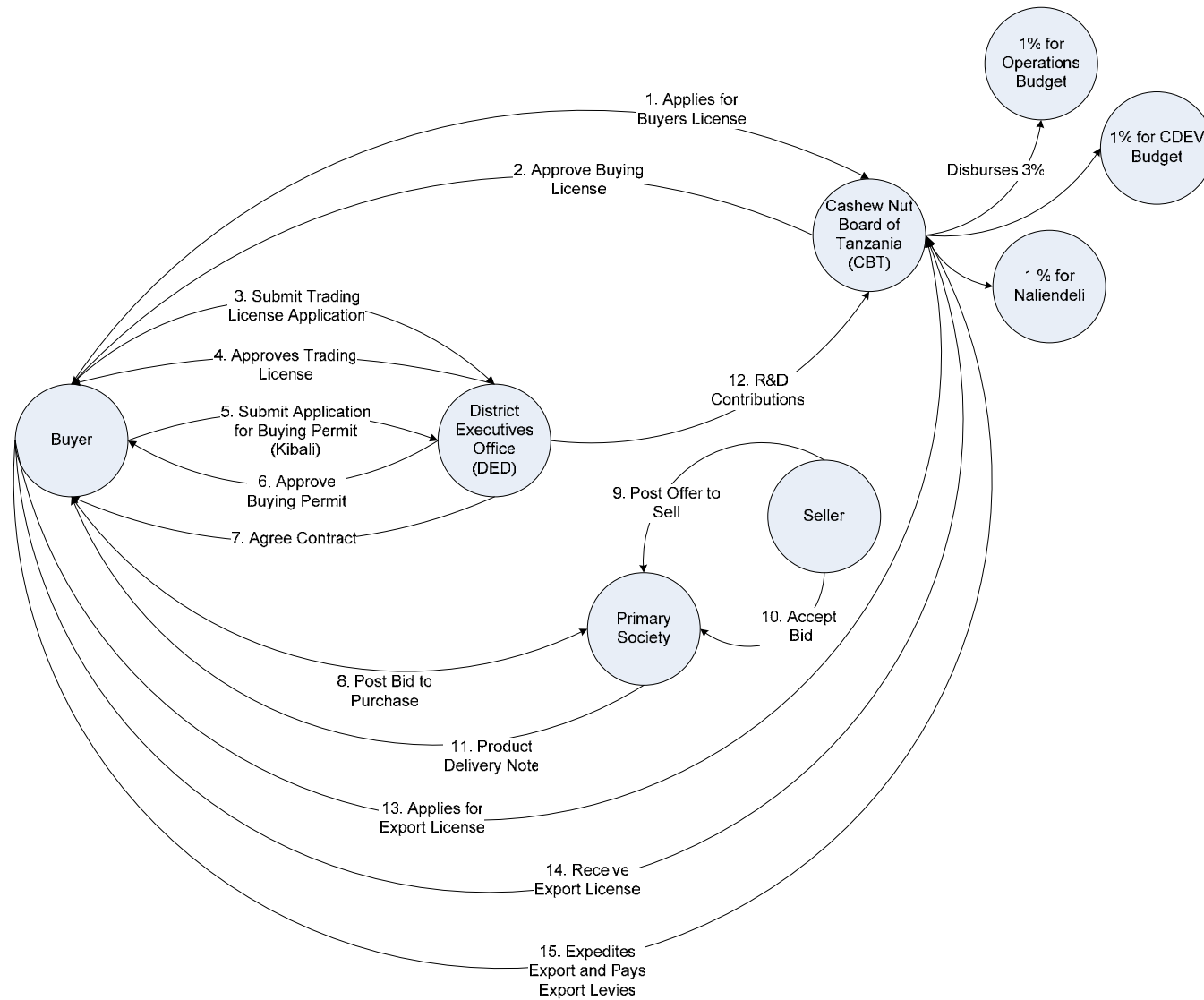
**5. Financial Reporting Process.** Monthly and quarterly cash forecasts as well as cash flow statements are prepared. Specific expenditure reports are also sent to budget division of the Ministry of Finance.



**6. Audit Processes.** There are two audit processes that are used to ensure the reliability of the system. Internal audit measures the effectiveness of operations and administrative procedures as well as the accuracy of accounts. In dependent external audit are used to protect stakeholder interests.

4.4.1 *Cashew Buying Process*

**Figure 12: Cashew Buying Process**



**Table 10: Description of the buying system**

<b>Description of Cashew Buying System</b>	
<b>Process</b>	<b>Description</b>
<b>1. Application for Buyer's License</b>	The Buyer applies to the Cashew Nut Board of Tanzania for Buyer's License. The license costs TSh 300,000.
<b>2. The Buyer's License is approved and issued.</b>	The CBT issues the Buyers License. The license is valid for one year.
<b>3. The Buyer submits a trading license application .</b>	The Buyer submits a trading applications to the District Executive Officer. The license costs Tsh 60,000.
<b>4. The trading license is approved and issued.</b>	The DED issues an approved trading license the license is valid for one year and must be renewed annually.
<b>5. The Buyer applies for a Buying Permit (Kibali).</b>	The Buyer applies for a Kibali from the DED. The Kibali is valid for one year. There is a minimum purchase amount is 100 tons.
<b>6. The Buying Permit is approved and the (kibali) issued.</b>	The Kibali permits the buyer to buy from one and only one primary society.
<b>7. The Buyer agrees and signs a contract to buy.</b>	Districts present the buyer with a contract which must be signed and witnessed.
<b>8. The Seller posts offer to sell with the Primary Society.</b>	The farmer posts their cashews and intention to sell with the primary society.
<b>9. The Buyer posts a bid to purchase with the Primary Society/Buying Centre.</b>	The buyer registers with the buying centre and posts their bid to purchase and price.
<b>10. The Seller accepts the bid price</b>	The seller indicates acceptance to the primary society clerk or the clerk accepts the bid.
<b>11. The Primary Society issues a Product Delivery Note.</b>	The Product delivery note is issued it is signed by the Primary Societies representative.
<b>12. The buyer applies for an export license from CBT.</b>	The buyer applies for an export license and pays the 3% levy on the export amount.
<b>13. The Buyer accepts the export license.</b>	The buyer accepts the license and completes shipping.

#### 4.5 Summary of findings

As far as the current regime of taxation is concerned we found that:

- the current regime of taxation is arbitrary and unfair;
- it is having a negative impact on the industry and the cashew nut environment;
- strategic planning is too informal and does not support management's vision;
- the processes for implementation lack adequate infrastructure and controls;
- it is the root cause of as much as USD 2 Million per annum in lost revenues from the district cess;
- district voluntary contributions are not voluntary;
- it imposes the greatest burden on those who are least capable of paying it.

## 5 The Impact of Taxes, Levies and Contributions on Stakeholders

### 5.1 Competitiveness

The FOB price of raw nut and kernel, as described above, is determined by the international market and is not influenced by the imposition of taxes and levies within Tanzania. Any charges applied to the price chain simply reflect downward to the farmer and do not immediately impinge on the international market price. Thus the competitiveness of the Tanzanian raw nut production is not affected *within a single season* by taxes and levies. The levies are simply added to all other costs faced by the buyers and exporters and removed from the residual price received by the farmer.

In the longer term the market share that is likely to be achieved by Tanzanian cashew product internationally is reduced by higher levies because farmers respond to the previous season's net price. If it is reduced, the farmers apply less effort in tending the trees and gathering the harvest resulting in a smaller tonnage and market share. Less attention to the trees, and particularly fire control, weeding and pesticide application, leads to reduced quality of the nuts expressed in their size, colour, texture and freedom from blemishes, leading to reduced grades and tarnished reputation.

### 5.2 Farm Gate prices

Since the farmer is a residual price taker, every imposition of a charge to the marketing chain at any point before entry into foreign factories is a direct charge against the farm gate price. The farmer also has both variable and fixed costs of production which, when deducted from the farm gate price, leave his profit. The deductions all reduce his profit and amount to up to 44% "tax" as described in Section 3.7 above.

### 5.3 Poverty

Poverty is both the direct result of taxes and other charges against the cashew industry and, to some extent the cause of it since the urgency to obtain a small amount of cash to meet an immediate and crucial need results in the acceptance of low prices for cashew. In addition poverty is often correlated with poor education so that the farmers may not be well aware of the market forces or the price potential of their products, leaving them exposed to exploitation by profit seeking traders.

### 5.4 Long-term viability

The long-term viability of the production sector of the industry cannot be predicated on collection of nuts from essentially "wild" trees. Although much of the product is currently derived from trees that have been self-propagated and which do not benefit from husbandry, this *laissez-faire* approach to tree populations is not likely to result in good quality nuts. The ownership structure of wild trees precludes careful management and specially disease control. The genetic characteristics of the trees will reflect an ability to tolerate natural conditions rather than respond with good quality and yield to disease control.

A vibrant industry with long-term prospects of competitive viability must be founded on well-nurtured trees of recommended varieties grown for commercial gain and protected against disease, fire and theft. Such plantations will be created in response to market signals, supported by extension advice, within the context of a supportive agricultural policy. The market signals are expressed in terms of price reaching the farmers' pockets, and every diversion of this flow that does not fund benefits for the industry reduces the long-term viability of cashew production in a competitive commercial environment such as exists in the international cashew market.

## 5.5 Industry support to local projects and services

### 5.5.1 *District Levy*

The 5% levy paid to District Councils must contribute to their capabilities in supporting the communities. However, no evaluation of their effectiveness is available. It is understood that as much as 50% of the due levies are not actually received by the Councils, although farmers' receipts may have been reduced to accommodate the deductions.

### 5.5.2 *Agricultural Input levy*

This fund is generally accepted by the farmers, since it provides them with the means to protect their crops from disease. In the course of the field work for the study, the consultants were told by farmers that they would like to contribute more to the inputs fund than the Tsh 20 that they currently contributed. They quoted Tsh 30 and even Tsh 50, demonstrating a willingness to apply the recommended rates of fungicides to their crops. The statements were made in areas where local traders had applied a retail mark-up of 50 to 100% on fungicide so the rates may be reduced, but the statements showed that farmers believed that the fund served a useful purpose in facilitating production.

Consultants did not gain access to assessments of the efficiency applied in the management of the fund, but it is believed that there could be improvements in pricing and delivery of fungicides to farmers. Such a step would provide the means to farmers of producing higher yields of good quality product. There were frequent reports that farmers were obliged to pay cash for their inputs, although they had already had deductions made from their cashew sales. It was said that the fund had been "mismanaged" and was no longer available for the provision of inputs. There is apparently no system in place to monitor the management of the fund or check on the probity applied to its use.

### 5.5.3 *Primary Society levy*

The levy ranges between Tsh 2.00 in Nachingwea and Tsh 44 in Kilwa. In Mtwara it is Tsh 22 which would provide Tsh 300 million for the management of the society in the area for a single season. There is little evidence of the impact of such income to the Primary Society marketing infrastructure in terms of capital investment that might improve their efficacy in trading of cashews. In addition the Co-operative Union in Mtwara charges a further Tsh 10 per kg which would provide them with Tsh 136 million per annum at 2003/04 levels of production.

### 5.5.4 *Funds unrelated to cashew*

In the absence of the opportunity or the authority to investigate the application of funds to development causes, it has not been possible to make well founded judgements as to their effectiveness and impact on the lives of local communities. The success that is quoted by officials of Newala and Masasi District Councils, although it was not substantiated by investigating financial accounts, is that Secondary Schools have been built as a result of community contributions to the education fund. No confirmation of the source of funds to build the schools has been made.

In Masasi a fund for Self-reliance is levied at the rate of Tsh 45 per kg of raw cashew, which should have raised approximately Tsh 207 million in the 2003/04 season. Again no evaluation of the application of this fund has been made available so it has not been possible to judge whether the fund has had positive or negative impact on self-reliance of communities or whether it would have had greater impact if the agricultural input fund had been raised from Tsh 15 to Tsh 20 or more in the District.

Similarly in Tandahimba the Self-reliance Fund of Tsh 18 per kg should have raised Tsh 235 million and supplemented the Tsh 91 million raised for Local District Development and the Tsh 26 million raised for cashew development. Since Tsh 78 million was also raised for the Village levy, Tsh 78

million for health and Tsh 65 million for water projects it is reasonable to assume that self-reliance was well secured, unless the deductions actually inadvertently removed that very status from those who were obliged to pay for it.

Funds such as District State house, Sports and Games, environmental care, District contribution and ward executive contribution have all been loaded onto the burden of cashew growers and seem to have engendered more resentment and reluctance to increase yield and deal through official marketing channel than anything else. They have been labelled nuisance taxes with good reason.

## **5.6 Policy implementation coherence in relation to cashew**

### **5.6.1 *Responsibility for the industry***

A position paper (summarised in Annex V) was prepared in 1995 that removed the responsibility for the development of the industry from the government to the industry itself as represented by the various bodies described in section 2 of this study.

The disconnection arising between the stated policy and the application of taxes and levies is to a large extent a result of this transfer of responsibility and the consequent need to raise finance. It has meant that the application of charges to the industry is viewed more in terms of the needs to raise revenue than the need to steer the industry by means of incentives and constraints.

## 6 Policy Implementation in Competing Cashew Producing Countries

### 6.1 Comparison of taxes and incentives with other producing countries

The main features of taxes and incentives and the state of the industry in some competing countries are listed here and a summary table is included below.

#### 6.1.1 *India*

##### 6.1.1.1 *Policy towards imports of raw nuts*

India as a whole has some monopsony power in the raw nut market as it imports 90.5% of the worldwide raw nut exports (UNCTAD). This is countered though by the number of individual buyers competing for African raw nut exports.

##### 6.1.1.2 *Assisted investment in processing capacity*

One of the categories of factories in Maharashtra is organised by a local NGO National Bank for Agriculture and Rural Development (NABARD) and the Agricultural Department, which provides training for young unemployed people who then invest Rs. 50,000 of their own money, supplemented by Rs. 25,000 subsidy from NABARD to start small local processing factories. There are 45 such factories successfully processing 1 tonne per month and selling under the brand name of “Gopuri” with the marketing help of local youths. They also process bits into sweets for local sales. The success of these units has led one of the banks to provide working capital loans for the period of the cashew season.<sup>6</sup>

There were also five cashew apple processing units run by women on a self-help basis and producing jelly, pickles, squashes etc. With more financial support and marketing there would be scope for expansion.

#### 6.1.2 *Vietnam*

##### 6.1.2.1 *Subsidy on planting*

The Government is spending US\$1.38 million over 5 years from 2000 to introduce “hi-tech,” high yielding cashew strains.

Due to a sharp drop in world market price, vast acreages of cashews were cut down to plant other kinds of commercial trees in the late 1990s. But in mid-1999, the Prime Minister approved a strategy for developing the cashew industry by the year 2010 as proposed by the Vietnam Cashew Association (Vinacas). The Ministry of Agriculture and Rural Development then began a cashew-strain development program for the 2000-2005 period. Farmers have changed their planting habits in the three years since the implementation of the project, according to Dr Pham Van Bien, head of the Southern Agricultural Association.

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<sup>6</sup> Liberalisation, Gender and Livelihoods: the Cashew Nut Case. IIED. December 2003. p. 35

#### 6.1.2.2 *Processing factory standards*

The modernized technology at all cashew nut processing enterprises has met the Hazard Analysis Critical Control Point (HACCP) hygiene standards for North America, Europe and Japan and their kernels achieve higher prices than Indian produce (*Nair, 2002*).

Vietnam exported 42,000 tonnes of cashew nuts for US\$155 million in the first half-year (2004), an increase of more than 40% in volume and 55% in value over the corresponding period of last year. Vietnam now ranks second after India in cashew nut exports thanks to its stable export price of US\$3,800 for one tonne. Meanwhile, one tonne of cashew nuts rose to US\$4,100-4,200 on the international market due to poor harvest in drought-stricken areas of India and Brazil (*July 1 business briefs 01/07/2004*).

Vietnam is forecast to export 100,000 tonnes of cashew nuts for more than US\$350 million this year, an annual increase of over 30%.

#### 6.1.3 *Indonesia*

##### 6.1.3.1 *Ban on raw nut exports*

Based on a study by the industry and trade ministry, export taxes were to be imposed on cashew nut and two other primary commodities (raw hide and cacao beans not yet fermented) respectively. The export taxes are estimated to range from 20% to 30%. The export taxes are expected to discourage exports and to encourage development of the domestic processing industry. So far unhulled nut makes up 94% of cashew nut exports (*Indonesian Commercial Newsletter; 9/28/1999*).

The policy is to increase the value of exports. The husk could still be used to produce lubricant oil for the engines of jet planes.

#### 6.1.4 *Nigeria*

National Accelerated Industrial Crops Production Programme (NAICPP) stimulates crop production and is providing improved varieties of cashew at 50% subsidy (1.1 million trees at about US\$50,000).

Marketing companies are set up jointly with farmers and government but Government will divest their shares within 5 years.

The average annual output is about 176,000 tonnes of raw nut, but according to the Federal Ministry of Agriculture and Rural Development the output is about 30,000 tonnes per annum. The Federal Office of Statistics and Nigerian Export Promotion Council give these figures:

**Table 11: Nigerian exports of cashew**

Year	Quantity Tons raw nuts	Values US\$ millions	Average value US\$/ton
1999	13136	3.41	259.4
2000	15009	7.02	467.7

**Export of Kernels**

<b>Year</b>	<b>Quantity Tons kernels</b>	<b>Values US\$</b>	<b>Average value US\$/ton</b>
1999	20	63,000	3150
2000	100	115,000	1150
2001	111	439,474	3959

*Source: Nigerian Export Council*

Nigerian cashews are priced 30% lower than those from Tanzania according to Chemonics

No taxes are levied (most cashew farms are owned by people who were in power at one time or another). Levies are charged by local governments.

**6.1.4.1 Incentives for processing include:**

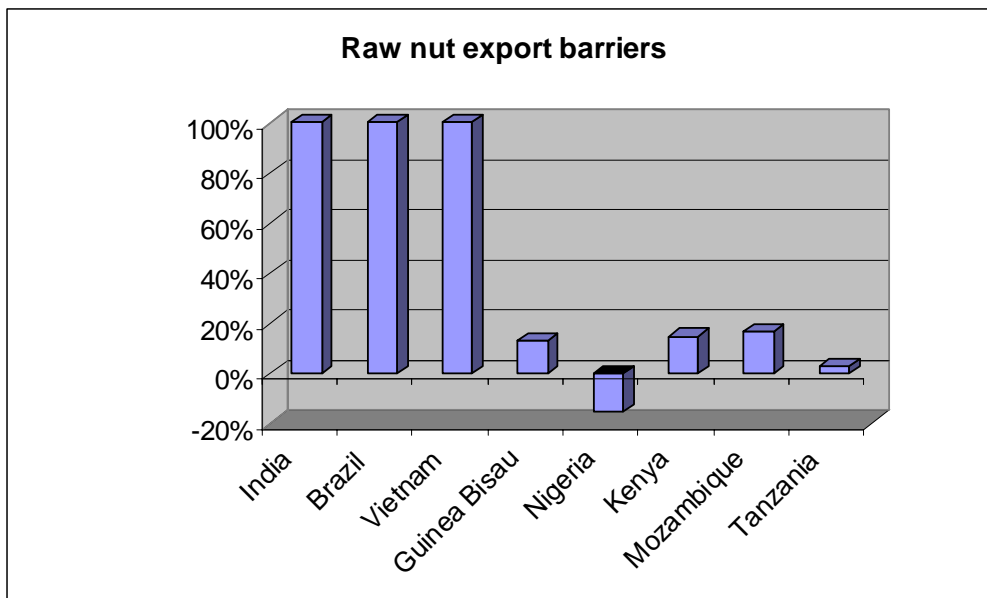
- Export expansion grant – 20% repatriation of foreign proceeds - operated by the Nigerian Export Promotion Scheme.
- Export processing factories scheme – allows them to attain export free zone status and enjoy tax incentives without relocating to the Processing zones in Calabar. – By the Nigerian Export Processing Zones Authority.
- Small and medium scale industrial credit scheme – 10% of pre-tax profit is set aside by commercial and merchant banks as loans to processing industries. Operated by Central Bank of Nigeria.
- Pre and Post shipment financing of processors granted by NEXIM bank. However, processors are still competing with other manufacturers.

Export promotion is also provided and includes information dissemination, trade fair participation, trade mission activities, product profiles and catalogues, prices indices, workshops and seminars and export warehousing in strategic foreign locations.

**6.1.5 Summary of export barriers**

The countries with surplus processing capacity, India Brazil and Vietnam, ban the export of raw nut to ensure that income is earned domestically from processing. Countries in the same position as Tanzania in respect to development of processing capacity are steadily increasing the barriers to export of raw nuts in order to encourage domestic processing. Nigeria is a special case in that exports of raw nuts are subsidised although there is some capacity to process them domestically. This appears to be an expression of the power exerted by the growers on the policy makers and must be a strong deterrent to the establishment of processing capacity. Many of the owners of the cashew producing estates are, or have been in positions of political power.

**Figure 13: Summary diagram of raw nut export barriers**



*Source: Derived from country information.*

**Table 12: Summary of taxes and incentives**

<b>Country</b>	<b>Incentives</b>	<b>Taxes/Levies</b>	<b>Production (Tonnes raw nut)</b>	<b>Exports of raw nuts (Tonnes)</b>	<b>Export of kernels (Tonnes of kernels)</b>
<b>India</b>	55% subsidy in set-up costs of small scale factories.		2000/01, 450,000 2001/02, 508,000	2000/01, - 249,000 (35%) (Imports) 2001/02, - 355,000 (41.14%) (Imports)	2000/01, 405,000 tonnes raw nut equiv 2001/02, 443,000 +/-140,000 tonnes kernels
<b>Vietnam</b>	Govt. spending US\$1.38 million to improve cashew strains over 5 years from 2000.	20% Tax on export of raw nut.	150,000 tonnes	Increases in exports of over 30% pa. .	37,000 tonnes kernels 2001: 33,000 tonnes
<b>Brazil</b>			150,000 to 180,000 tonnes		2001: 29,700 tonnes
<b>Guinea Bissau</b>	High costs of importation of equipment. "50 in EU, 150 in Brazil, 250 in Guinea Bissau. Unions and exporters are serving only their short term interests.	20% export tax on raw nuts, payable on export: Impots extraordinair: 10% Rural development tax: 2%. Customs service: 1%. In total = €106 per tonne. Previously the tax was 22% leading to massive smuggling to Senegal.	2000: 83,000 tonnes 2001: 91,350 tonnes Prod.P = 2001; 100 – 150 FCFA/kg which is very low and caused reduction in area cultivated.	= 90% of export revenue. 2000: 73,200 2001: 78,600	
<i>Continued</i>					

Country	Incentives	Taxes/Levies	Production (Tonnes raw nut)	Exports of raw nuts (Tonnes)	Export of kernels (Tonnes of kernels)
<b>Côte d'Ivoire</b>	Devaluation of the CFA together with increase in demand for good quality Ivoirien nuts led to good returns. Disorganised market chain. Ivoirien nuts are renowned for sweetness and taste. Long marketing chain leads to anarchy.	20% export tax on raw nuts or US\$ 0.256/kg which nearly reduced export to nothing. It was reduced to US\$ 0.17 /kg.	Increasing production levels reached 75,000 tonnes in 1999 to 87,573 in 2001 Prices ranged from FCFA 100 – 150 at start of the campaign to 175 – 250 in the middle and end. = US\$ 0.311 – 0.445 to 0.385 – 0.577.	2000: 63,379 tonnes @ average US\$ 0.687/kg. 2001: 87,573 @ US\$ 0.404	2 factories with combined capacity of 4,000 tonnes raw nuts pa. or 5% of the production at 1999 levels. 2000: 353.3 tonnes @ US\$ 5103/tonne. 2001: 517.07 tonnes @ US\$ 3,067/tonne.
<b>Tanzania</b>		District cess and contributions 10% to 16% of farm gate. Total tax of 22% of FOB. Export levy 3% of FOB value for CBT levy, CIDEF. Stamp duty US\$30 per tonne. Phyto cert 1.05/= /kg Port charges 21/= /kg CBT District licences TSh. 60,000 per district. Export licence 0.5%	98/99: 106,000 tonnes 2000/01: 122,000 tonnes 2001/02: 67,000 tonnes 2002/03: 86,000 tonnes Prod Price average lately = US\$ 567/tonne	83,000 tonnes to India	4 processors with capacity of 6,600 tonnes kernel pa producing 2,910 tonnes pa.
	<i>Continued ...</i>				

Country	Incentives	Taxes/Levies	Production (Tonnes raw nut)	Exports of raw nuts (Tonnes)	Export of kernels (Tonnes of kernels)
<b>Kenya</b>	<p>Liberalisation of prices has not brought stability. There is lack of support services to producers. There is no regulatory body. Poor policy framework and lack of plans. However, a budgetary proposal is under preparation for research into cashew.</p>		<p>Producer prices US\$ 0.26 to 0.33/kg = “unsatisfactory” 1998: 10,986 tonnes 1999: 14,615 tonnes</p>	<p>“All nuts exported raw to India.” 14,000 tonnes.</p>	<p>No processing in Kenya since close of factory (capacity 5,000 tonnes RN pa) on 1997. But the Kenya Nut Company is involved in roasting and has HACCP certificate and organic registration.. Except small processors handling about 10,000 tonnes RN which do not meet export standards.</p>
<b>Benin</b>			28,000 tonnes	28,000 tonnes	
	<i>Continued ...</i>				

Country	Incentives	Taxes/Levies	Production (Tonnes raw nut)	Exports of raw nuts (Tonnes)	Export of kernels (Tonnes of kernels)
<b>Nigeria</b>	50% subsidy to plant. Govt sets up marketing companies with farmers and divests after 5 years. Export expansion grant of 20% of forex proceeds. Export scheme allows tax incentives. 10% of Banks' pre-tax profits set aside for as loans for processing industries. Shipment financing. Export promotion by overseas trade missions.	No taxes are levied on export but Local Government levies apply.	Average 15,000 tonnes.	2000, 15,000 Priced 30% lower than Tanzania.	2001, 111 Tonnes (Kernels at US\$ 3959.20 per tonne)
<b>Indonesia</b>		The export taxes are 30%.	30,000 tonnes	94% of exports (1999)	
<b>Mozambique</b>	Poor regulatory framework. Mozambican nuts renowned for size.	18% to 22% export levy on raw nuts.	2002: 30,000 tonnes	40% of GDP is due to raw nut and kernel exports. 28,000 tonnes. Raw nut producer/export price 2000/01, 0.23/0.41 = 56% 2001/02, 0.30/0.43 = 70% Av exp p 98/99 = \$695.35/tonne	1999: 2,402.12 tonnes @ \$4.29/kg 2000: 3,174.19 tonnes @ \$4.01/kg 2001: 946.06 tonnes @ 2.00

Source: Compiled from literature

## 6.2 Taxes on other agricultural crops or enterprises

Most major crops in Tanzania are subject to the imposition of taxes and levies. However, the stronger the lobbying power of the growers' associations, the less likely they are to encounter onerous deductions.

Cashew suffers from poor representation in the lobbying arena because the only large scale growers are not closely associated with small-scale growers, and because the smallscale growers are too dispersed, they have generally not had the benefit of education and because very little effort has been expended in lending assistance to them in the formation of associations and farmer groups. Cashew growers are also referred to in some areas simply as "gatherers" because they are opportunistic in their harvesting and do not tend the trees from which they harvest.

It could also fairly be claimed that lack of organisation among the growers suits those whose profits and source of funding are derived from cashew, since a strong growers' lobby would diminish the opportunities for extracting funds from the industry in the form of trading profits or for peripheral or unrelated activities.

**Table 13: Comparison of levies on other crops**

Crop	Cotton	Tobacco	Coffee	Cashew	Sisal	Tea
District levy	2%	5%	5%	5%		2.83%
Board Fee	0.70%	20Tsh/kg	1%	1%	1060Tsh/ton	1%
Dev fund/research	4.90%	2Tsh/kg	0.75% of pp	1%		1.50%
Export licence				0.36 m Tsh	1.643mTsh/pa	
Inputs/dev				2.72%		
City levy				0.58%		
Primary Society Levy				2.54%		
Co-operative Union Cess		69Tsh/kg		0.36%		
Others				10.88%		200/Tshacre

Source: CAT

## 7 Alternative Scenarios for the Tanzanian Cashew Industry

### 7.1 Current trends

As described above, one of the factors that prevent the industry from achieving its growth potential is the revenue collection impositions which reflect on the farmers' profitability. Trees are not being replaced at the rate that would ensure long-term vibrancy, there are few new entrants to production or processing, and the revenue collection burden remains suppressive despite policy pronouncements.

The indications from Central Government are that there is concern at the level of deductions from the farmers, and there is a directive to cap the District Cess at 5% and not to allow the collection of contributions at the same point as deduction of the cess.

### 7.2 Determining a path to improvement

#### 7.2.1 *Lessons learned in other producing countries*

As described in the previous chapter, other countries are investing government funds in the development of their cashew industries both in production and processing while Tanzania has extracted (for CBT, District Councils and other causes) \$84 million<sup>7</sup> between 1998 and 2003/4. While Tanzania, unlike some competing countries, has not had the luxury of a broader range of exports to provide a tax base, cashews could provide a substantial tax base from profits on processing and production in the event of a successful expansion of the industry, it is likely that investments in the growth of the industry by the Central Government would be a worthwhile investment. It would also address rural poverty as recognised by the government policy. The success of Vietnam, in particular, in increasing output from their cashew sector shows that it is feasible to expand in the medium-term if the natural resource base is suited to cashew production – as is the case in Tanzania.

#### 7.2.2 *Central issues in the drivers of change*

Change will take place as farmers perceive that there are substantial income flows to be derived from cashew production. Already, with an aging tree population, it has been seen that cashew can generate substantial returns, but they are not reaching the farmers who are the ones to respond with higher output and improved quality. One of the main drivers for change, therefore, is the receipt of attractive cash returns by that sector of the industry that is able to respond – the farmers. Therefore, the returns from exports and domestic processing must be allowed to flow unimpeded to the farmers.

One of the mechanisms by which farmers will receive a better price from the market is the growth of the processing industry in the locality of production. This removes economic inefficiencies from the system by excluding the need to transport bulky raw nut to distant and overseas factories.

Once farmers are persuaded by the price structure to increase production and improve quality they must have access to:

- improved planting material, which is available through Naliendele and other outlets arranged by CBT and others;
- increased access to fairly priced inputs, particularly fungicide sprays, and the means to apply them, which can be arranged by competent management of the input fund. The farmers are already willing to increase their deposits in the fund to the levels that would permit the application of recommended rates;
- the knowledge about how to produce high quality nuts. The extension service is not currently disseminating the information adequately to those who are keen to learn;

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<sup>7</sup> CAT figures

- security of tenure over the trees that they plant;
- and the assurance that the structure of the industry is framed around their interests so that their profits will not be raided by other interests.

The system for collection of necessary and approved revenue would need to be improved to minimise wastage and eliminate opportunities for corruption.

In order for these issues to be addressed, the lacunae in the institutional structure of the industry must be reconciled with the need to provide undiluted representation of the interests of the producers. This would help to ensure that returns to farmers from exports and processing would be optimised, that the services provided by CBT to the growers would be performed with efficiency, and that the issues over input pricing, fund management, revenue collection and land tenure would be aired to the benefit of the industry.

### **7.3 Modelling an alternative scenario**

#### **7.3.1 Assumptions**

In modelling the growth of the industry it is assumed that:

- the issues raised above will be addressed within two or three years to allow for an increase in processing capacity of 10,000 tonnes per annum for 5 years;
- kernel marketing from Tanzania will gain adequate market share from India, Vietnam and Brazil;
- capital investment funds will be available to the private sector to meet the demands for expansion in processing at interest rates that allow viability;
- the kernel export tax is suspended until the processing capacity approaches adequacy for the whole crop;
- the nuisance taxes are ended but that levies will be applied for the maintenance and management of Primary Societies and Co-operative Unions;
- the input fund will be increased to allow for the full application rates of fungicides within 5 years. Bearing in mind that much of the crop is gathered opportunistically and is not sprayed, it is not necessary to achieve 100% financial coverage of inputs in relation to harvested crop;
- District Councils, CBT and Naliendele income derived from cashew will be capped at current levels;
- the levy on exports of raw nuts will be maintained and will increase gradually as an increased incentive to process domestically;
- the price elasticity of supply will increase from 0.6 to 3 over the period that input fund is increased and nuisance taxes are removed. This would be due to the rapid change in productivity of trees sprayed adequately. Bear in mind that the current average yield of trees in Tanzania is only 3.4 kg per tree and that the commercially achievable potential is 36 kg per tree.
- the demand from the World market for raw nuts and kernels remains constant (for the purpose of this exercise only) over the next 5 years at the levels prevailing in 2004.

#### **7.3.2 The model**

The simulation model used to explore the potential and limits of tolerance in the industry has been assembled in simplistic format for the purposes of this study only. It is represented by a print out of its

standard setting in the Annex VI, which reveals the potential for the performance described below under the assumptions above. In the event that it should be harnessed to provide predictive guidance for policy makers its formulae would be expanded and its operating mechanism simplified to provide straightforward testing procedures for those who need not necessarily be involved with the intricacies of its functions. It would also be designed to be refined in the light of evolving interconnections within the industry and to improve its predictive accuracy by accommodating the lessons of the past.

**7.3.3 Sensitivity**

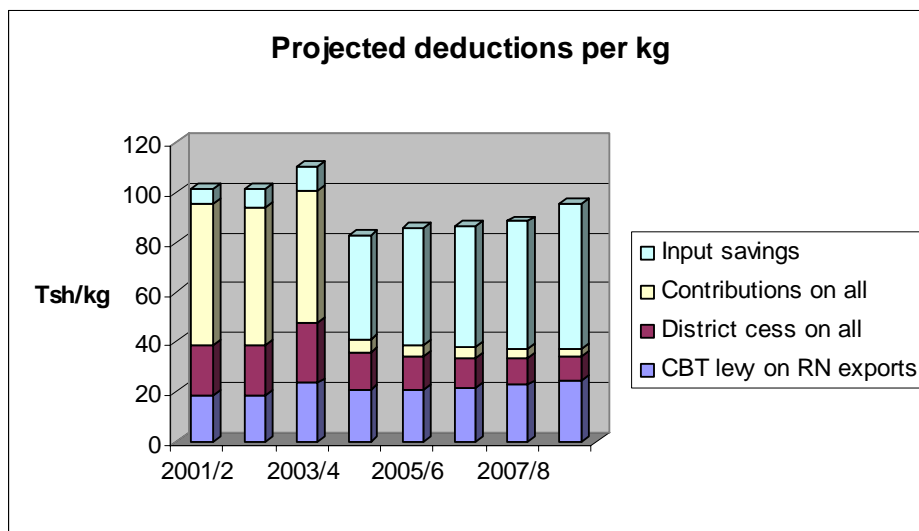
It is noteworthy that a production model driven by the parameters above is highly sensitive. Any moderation of taxes or levies applied has an immediate impact on the growth of the industry. The application of an economic model to the industry is useful in demonstrating the sensitivity of the production and processing engines and the limits of tolerance within a growth trajectory of the imposition of extraneous costs.

It is for this reason that it is recommended that an economic model be maintained by CBT as a guide in policy deliberations.

**7.3.4 Results**

The distribution of deductions is modified from the current year to allow increases of savings for input application, retained allocations for Primary Societies and Co-operatives and eliminated deductions for extraneous funds not directly related to cashew. The contributions to CBT and District Councils have been capped at absolute standard amounts. (This is difficult to achieve in practice since it is not known how big the crop will be before deciding on the level of cess. It would have to be adjusted from year to year to maintain a constant average.) The input savings increase to reach the full recommended rate within 5 years.

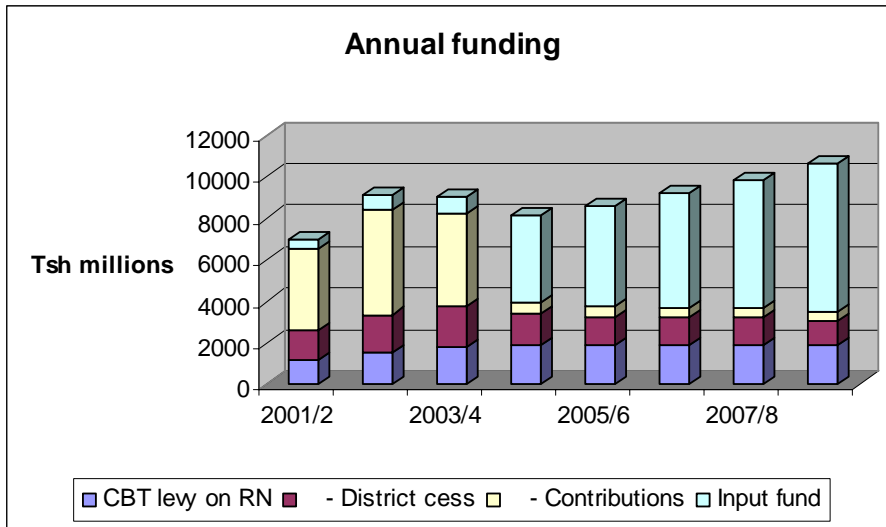
**Figure 14: Conversion of fund allocations from nuisance taxes to input fund**



*Source: Author simulation model*

The funds for inputs grow per kg and in total due to increased output. Conversion of fund allocation to inputs and the capping of CBT and District Council revenues provides for growth in the input fund.

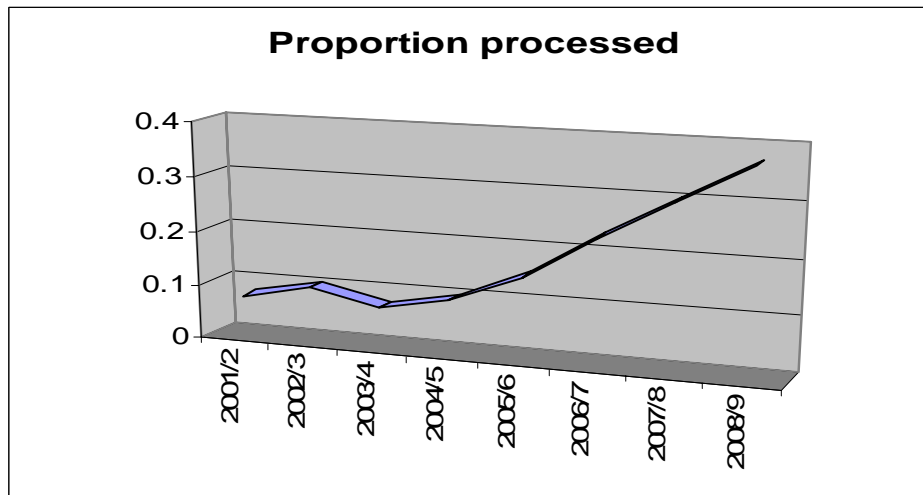
Figure 15 : Total fund growth projection



Source: Author simulation model

The application of the raw nut export levy, the removal of the kernel export levy and the sale of processing factories to the private sector together with other incentives to enter processing result in an increase in domestic processing capacity of 10,000 tonnes per annum.

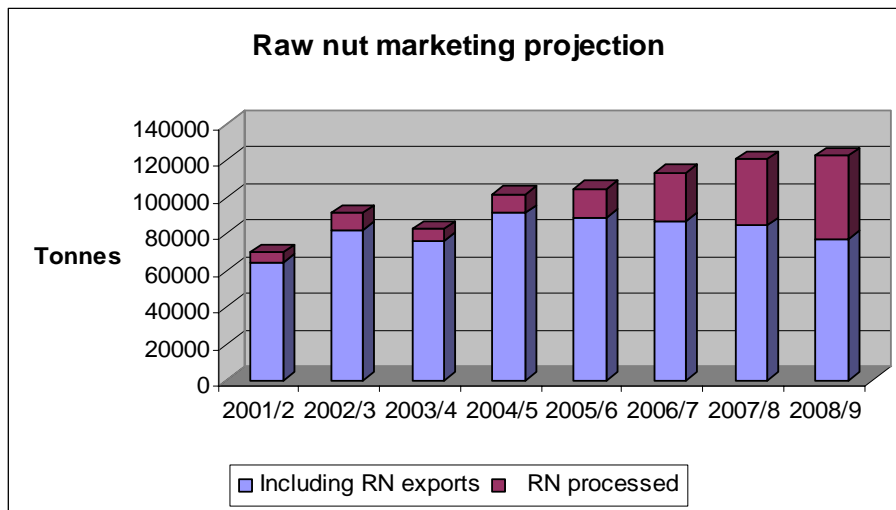
Figure 16: Increasing domestic raw nut processing capacity.



Source: Author simulation model

Increased domestic raw nut processing results in decreased total raw nut exports and an increase in over-all production

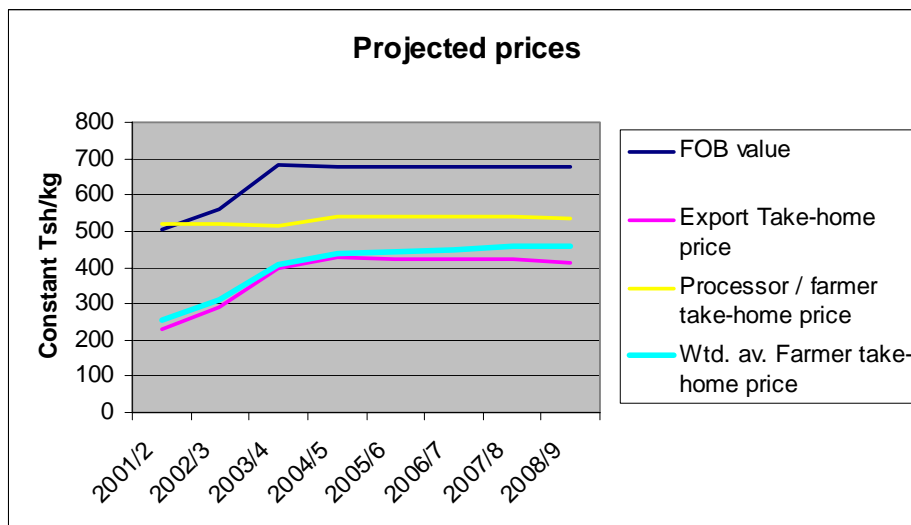
Figure 17: Projected production and distribution of rawnut



Source: Author simulation model

Increased processing capacity leads to higher average farmer prices, since processors are able to pay more than exporters (fewer costs and no export tariff). The result is that the average achievable producer price rises even within a constant demand assumption.

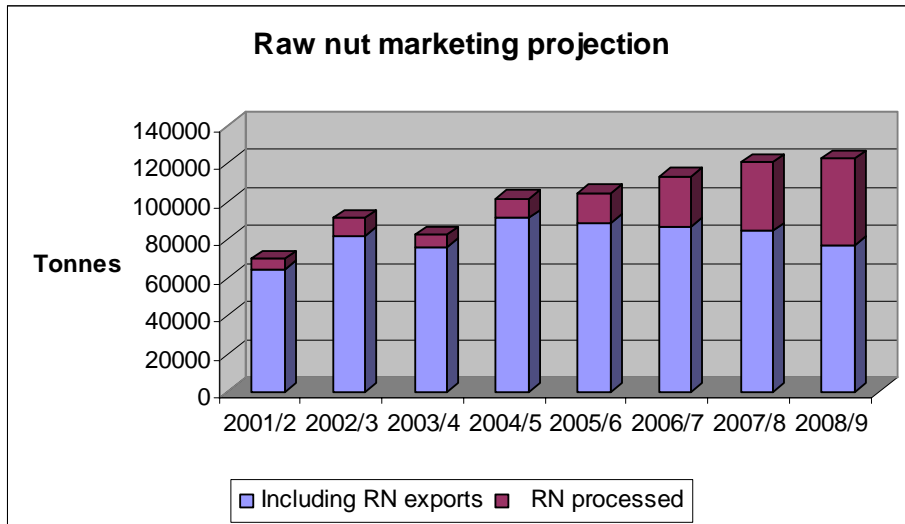
Figure 18: Projected farmer prices



Source: Author simulation model

Increased processing capacity leads to decline in exports of raw nuts despite the increases in total production.

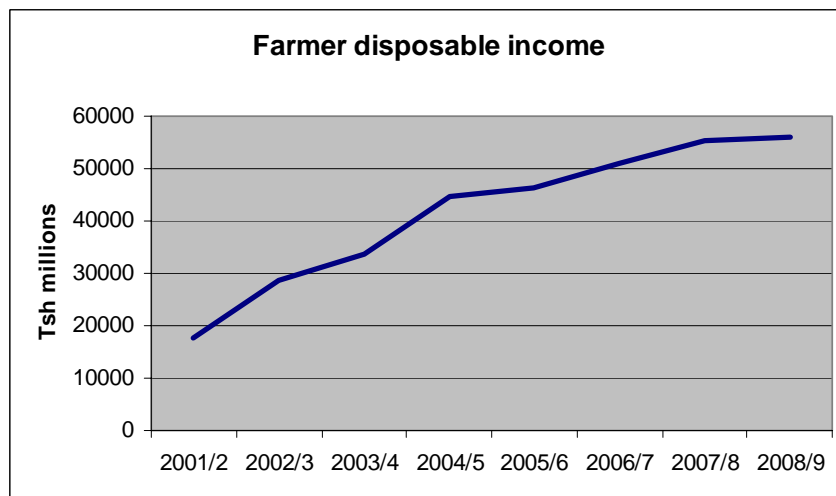
Figure 19: Raw nut export projection



Source: Author simulation model

Increased output together with an increasing proportion of the crop that is domestically processed and reduced deductions for non-related enterprises lead to substantial increases in farmer disposable income.

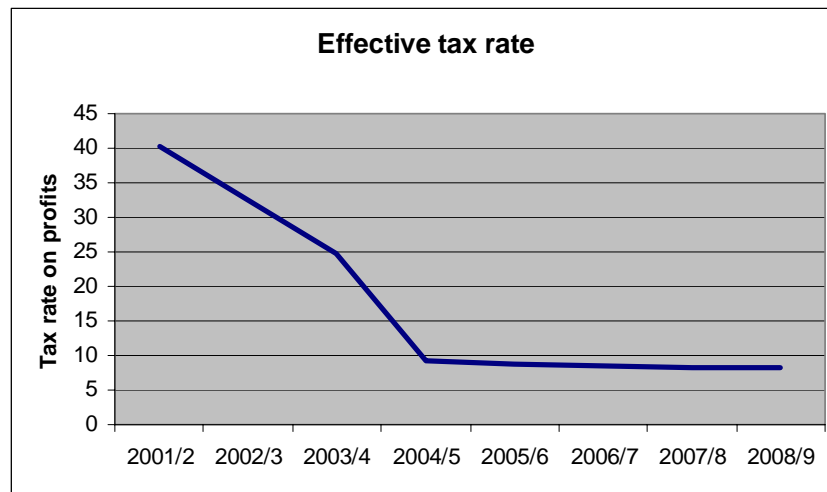
Figure 20: Projected farmer disposable income



Source: Author simulation model

Reductions in the contributions and levies on the industry leads to a reduction of the effective “tax” burden on the farmers.

**Figure 21: Projected reductions in tax burden**



*Source: Author simulation model*

### 7.3.5 Applying the model to implementation of the policy

The results illustrated above are achievable within the assumed parameters and indicate that the policies, when effectively implemented, could guide the industry towards improved performance with constant demand. Where the parameters of the model are improved by incorporating lessons from the performance of each season, its predictive capabilities will become more accurately aligned with reality. Even the crudest predictive capability can still provide useful guidance on the application of policy tools to the sector.

The model also facilitates the management of input funds and could be refined to be more region-specific for this purpose.

More data on the application and use of funds within the District Councils and CBT would allow for the setting of realistic revenue collection targets and the determination of a means of achieving them.

### 7.3.6 Lessons from the model

We learn from the model that a reduction in the effective tax rate is achievable and will lead to growth if increases in the proportion processed provide further impetus to increasing average net prices to the farmer. As the production function applied to the model gains further validation in the light of closely monitored experience, it will be possible to target interventions more closely.

## 8 Conclusions and Recommendations

### 8.1 Broad and detailed recommendations

This section covers broad recommendations under specific headings. More detailed recommendations as to procedures are included under Annex IV containing the detailed findings.

### 8.2 Taxes and levies as instruments of policy implementation.

#### 8.2.1 *Raw nut export levies*

Export levies of 3% paid to CBT can provide an advantage to buyers of raw nuts to local processors and are therefore advantageous to the promotion of domestic processing by providing scope for processors to offer higher buyer prices than exporters. If the domestic processing capacity is not sufficiently developed to absorb a significant proportion of total raw nuts, the effect of the levy will impinge more heavily on growers since the average of prices offered (between exporters and processors) will not rise.

In the absence of significant processing capacity, the imposition of export levies on raw nuts is detrimental to production incentive, since it is the farmer's net price which is reduced in order to accommodate the levy; i.e. the farmer and not the exporter pays the levy. If the export levy is efficiently and effectively applied to rejuvenation of the production sector, the deductions are mitigated; if not the farmers are suffering an unfair loss.

#### **Recommendation**

The imposition of an export levy should be maintained as a means of favouring the development of processing capacity and as a means of delivering a funding stream to CBT. As the processing capacity increases, raising the barrier to exports imposed by the levy could increase the protection of the raw nut supply to the processors. This should be done with caution since it can also damage average returns to farmers if there is insufficient demand from processors. It should be done at a rate that allows for a steady increase in the average price paid to the farmer.

The economic progress of the industry should be scrutinised on a regular basis in relation to a mathematical (computer based) model that would identify the drivers of change and their impact on the trends within the industry, and, on the basis of historical information, provide predictive assessment of the effect of interventions such as the scale of levies applied. Such a model could be developed and operated by a consultant through the PESA Project on a periodic basis or installed by the Project for the use of CBT or the Ministry of Agriculture.

#### 8.2.2 *Application of the levy to the cashew industry through CBT*

The proportion of the fund raised by the application of export levy on raw nuts is not fully transparent, although figures are available on the expenditure of CBT and Naliende. Close examination or audit of the CBT accounts is a necessary exercise in monitoring the financial performance of the Board but does not necessarily provide insights into the effectiveness of the Board in furthering the interests of the cashew industry.

The burden of maintaining the processing factories (Tsh 2.66 billion since 1994) is carried by CBT with funds provided by the levies on exports, which are derived from the farmers. However, the farmers are not the owners of the factories; they will not receive dividends from the sale of the factories.

Since the raw nut export levy is ultimately paid by the farmers, it is in the best interest of the industry and to the national economy that the expenditure of the fund is applied with maximum efficiency to the interests of the production sector of the cashew industry.

**Recommendation**

In order to ensure that this is the case, it is recommended that the activities of CBT be evaluated. Such an evaluation would necessarily be conducted independently and could be done by the PESA Project under contract with the Ministry of Agriculture and Food Security. Such an evaluation may reveal opportunities to increase the effectiveness of the Board and the efficiency with which services are applied to the industry. It may also indicate the minimum level of funding required and the opportunities for the provision of services to the industry under alternative funding scenarios.

The burden of maintaining the factories should be borne by the shareholder, Central Government, and not the farmers. The expenditure already applied to the maintenance of the factories should be considered as a debt that is repayable to the farmers – perhaps through Central Government support of an extended replanting programme.

**8.2.3 Application of the levy to the cashew industry through ARI Naliendele**

Naliendele is generating valuable information on the agronomy of cashew and other aspects of the industry using one third of the funds derived from the export of raw nut. It is a professionally managed research establishment generating well-respected data on cashew that could be of value to other commercial enterprises. The institute does derive some income from consultancy services and it is possible that opportunities for income generation for the institute could be enhanced.

**Recommendation.**

Opportunities for increased generation of income using information generated by Naliendele and the capabilities they have at their disposal should be explored with the aim of enhancing their capabilities still further and of reducing dependency for cashew research on funds raised by export of raw nut. Assistance in this task could be provided by the PESA Project in the form of evaluation of the output of the institute in terms of its marketable value to the wider cashew industry and exploration of the market potential for the products.

**8.2.4 Dissemination of the information generated by Naliendele**

There is a perception that the research work conducted by Naliendele and the information that it generates on cashew production is not being sufficiently widely distributed to the production and processing sectors. It is clearly not being transferred to potential users by the extension services. Since Naliendele is not itself charged with the responsibility of extension, the onus of conveying the knowledge to the industry does not lie entirely with them.

**Recommendation**

The operation of the extension system should be evaluated with a view to enhancing the management of knowledge and its application to the improved production of cashew. Such an evaluation could range across the output of Naliendele, the functions of CBT in respect to extension, and the functions of the District Councils with respect to their obligations and capabilities in the provision of extension services to the industry. Again, the PESA Project could perform the task if requested to do so by the MAFS. The contract could combine the evaluation of CBT with an evaluation of extension services to cashew.

**8.2.5 Levy on the export of kernel**

There is currently a 1% levy on the FOB value of exported kernel. This is equivalent to 52% of the levy on raw nut and diminishes the effect of the barrier against raw nut exports in favour of domestic processing. It is paid to CBT and therefore does not counter the directive against taxing agricultural exports by Central Government. It is a levy and not a tax.

The levy is counter to the policy of promoting the domestic processing of cashew, and the need for the funds by CBT has not been specifically expressed in terms of formerly appraised programme activities.

### **Recommendation**

The levy on exports of kernel should be suspended as an incentive to expansion of the processing industry until such time as the processing industry is well established with sufficient demonstrable buoyancy to tolerate the charge. It should then only be applied to the level that can be justified by the needs of the CBT in promoting the interests of the industry with efficiency.

#### **8.2.6 *Taxes applicable to factory operations***

While countries competing in kernel processing have been providing support to the establishment of cashew processing factories by the provision of capital grants and interest free loans, Tanzania is imposing taxes on employment, and no assistance is available for the establishment of small-scale processing facilities. The imposition of a 6% tax on employment, when viewed in the context of tax concessions through generous capital depreciation allowances on capital equipment, is a disincentive to select manual processing over mechanical, although the stated policy of the Government is to favour employment. However, there are two mitigating factors: 50% of the employment tax is available for application to training for the needs of the industry involved and, secondly, the great majority of the labour employed in factories for semi-skilled operations is engaged on a seasonal or part-time basis and does not therefore attract the employment tax.

The tax on employment has an inhibiting effect on the processing industry but does not have as much effect as may be thought at first sight. It is important that the facility for training provided by the tax is applied to good use by the factory operators.

### **Recommendation**

Concessions on half of the tax could assist in relieving the establishment costs of processing but it may not be justified in terms of the stance by broader Central Government policies on the collection of revenue from nascent industries. However, it is recommended that the benefits available under VETA for training be fully exposed to potential and existing processors to ensure that they gain advantage from the facility.

#### **8.2.7 *District Levies***

The 5% of FOB value levied on sale of raw cashew in the Districts is a disincentive to production. Furthermore it is arbitrarily applied since those earning similar incomes to small-scale cashew growers are not levied on their activities, unless they are producing other agricultural crops that are levied. The application of the funds to the cashew industry or even to supporting services not directly related to the industry is not sufficiently transparent to allow for an assessment of the efficiency or effectiveness of their use. It is also clear that the efficiency of collection of the levies is very low resulting in perhaps as little as 50% of that which is due actually being remitted to the Council accounts. Both non-payment of dues and avoidance of the system altogether are said to be rife, and records in Newala District show that offenders repeatedly fail to submit payments but are, nonetheless, provided with trading licences again in the following season.

### **Recommendations**

Modify the collection procedure so as to collect the dues at a point that must be passed before export is permitted. The point of exit would provide such an opportunity, and the records collected against each payment would allow for redistribution of the funds to the Districts of origin of the produce. Establishment of the system could be arranged by the PESA Project through the commissioning of a systems specialist to advise on its establishment and management.

The names of defaulters should be published in the newspapers and their re-entry into the market should be disallowed by refusal of licences to those who have outstanding debts to the councils.

#### **8.2.8 Contributions**

Farmers expressed their objection to the deductions from their sale price for items to which they had not consented at a meeting with CBT on 22<sup>nd</sup> June 2004. The minutes of the meeting clearly indicate that consent was neither sought nor given by farmers for the contributions. This was confirmed at meetings held by the consultants with farmers in Masasi, Newala Districts and Mtwara/Mikindani Town Council.

#### **Recommendation**

Councils should cease to collect contributions, as directed by Central Government, as soon as a modification to vital funding streams can be put in place. Those funds which are not vital the operation of the industry should not be collected and no coercion should be used to persuade farmers to make voluntary contributions. Means of collecting the Primary Society cess, the Co-operative Union cess and the input fund should be determined and implemented as soon as can be done. No collections should be made from farmers without their freely given consent, which should be traceable to confirmed statements.

### **8.3 Inefficiencies in the system**

See the detailed recommendations and comments in Annex IV connected with findings and recommendations on the collection system.

### **8.4 Institutional structures**

#### **8.4.1 Regulatory Board**

Conflict of interest arises within the roles of CBT that combine representation of the interests of the farmers, processors and buyers in price negotiations with the interests of CBT itself in generating their own revenue stream. Price negotiations, which affect the farmers fundamentally, have more buyer representation than farmer.

#### **Recommendations**

The CBT should be subject to review by a higher regulatory body authorised to investigate its activities as well as its expenditure. The remaining functions of the CBT should be subject to the approval of the higher board and should focus on promotion of the interests of the industry as a whole.

The costs related to CBT's regulatory functions should be borne by the Government and not the farmers, as is the case now.

#### **8.4.2 Farmer associations**

Farmers lack an effective voice in the management of the cashew industry. The majority of cashew growers are small-scale operators and many may just be opportunist gatherers from wild trees. However, their poverty and the extent of their exploitation is a result of their lack of empowerment, which is an impediment to harnessing the instruments of change to the benefit of the industry. The lack of expression of the needs of the farmer may also contribute to the fact that there are very few large-scale commercial growers.

At a meeting on 22<sup>nd</sup> June, 2004 farmers expressed their wish to CBT to be represented at the deliberations on Indicative Price determination. They also made coherent appeals to CBT on a number of other issues, demonstrating a clear comprehension of the issues and a willingness to engage with them in a forum with other representatives in the industry.

### **Recommendation**

NGOs and projects like PESA should concentrate efforts on the establishment of farmer associations with a view to empowering them to provide a voice in the industry to express their needs and to safeguard their position of legitimate income earners in a valuable market chain. They would need to be encouraged to form groups and to elect office bearers to forward their representation to associations. They would require training in the operation of representative groups and in addressing the issues that confront them. They would also need to be exposed to the basic economics of their production context and the issues arising.

Note that such a project is already funded by SNV and managed by Technoserve in Songea District.

## **8.5 The disconnection between Central and Local Governments**

### **8.5.1 *The policy implementation continuum***

Policies expressed by Central Government should be implemented through the tools under the control of District Governments. However, the tools, which are in the form of capability to apply charges to the production engine, are applied with the sole purpose of raising revenue without regard to their effectiveness in implementing policy or the impact on the industry. They are opportunistic rather than strategic.

### **Recommendation**

The hiatus in implementation of Central Government policy and exercising of Local Government powers should be addressed by the proposed regulatory board of the cashew industry, which would be mandated, among other functions, to oversee the implementation of Government policy within the cashew industry.

## **8.6 Alternative means of sponsoring the industry**

### **8.6.1 *Rejuvenation of plantations***

One of the difficulties of ensuring the production of good quality kernels and of increasing total production in the long-run is that more than 50% of the trees are older than the optimum and under efficient commercial management would have been replaced several years ago.

### **Recommendation**

The possibility of enlisting funds from sources such as the Global Environment Fund (GEF) or others for reforestation or carbon sequestration should be explored to determine if there is a means of helping to finance the replanting of cashew, particularly where there is the risk of erosion or deforestation. All means for determining the scope for subsidised replanting or planting of new orchards should be explored.

Consideration should also be given by the Central Government and other shareholders of the factories to subsidising the costs of replanting as a means of repaying the costs of maintaining the factories, which was effectively paid by the farmers.

### 8.6.2 *Processing*

Since processing provides the key to increased farm gate pricing as well as increased earnings from export and employment opportunities, it is well worthwhile to do as much as can be done to facilitate the growth of the processing sector. The factories are being offered for sale at reasonable prices to private sector investors but they contain obsolete equipment and may not represent the best model for expansion of the industry.

#### **Recommendation**

Encouragement to investment in small-scale factories near the production sites should be given where possible by facilitating access to funds dedicated to SME or by investigating the options for and feasibility of providing loan guarantees for entrepreneurs.

The burden of errors in the original decision by the government and its creditors to invest in inappropriate processing technology should not be attached to the current production and processing industry. The maintenance costs should not be borne by the growers through CBT and there should be no obligation incumbent on potential investors in processing to purchase the factories unless they freely decide that they offer the best means of entering the business.

## 9 Annexes

### Annex 1: List of Exporters

1	ABBASI EXPORT	30	KARIBU ENTR
2	AFRIAN GINN.CO	31	KARIMJEE MARKET
3	AFRO ASIAN AGRO PR.	32	KENWOOD ENT
4	AGRO COMMEX	33	KOROSHO (T) LTD
5	AGRO IMPEX	34	LCL COMMODITIES
6	AIZEL	35	M.R. SAMEJA
7	AKO LTD	36	MOHAMMED ENTP
8	AL- HIJRAT GROUP	37	NUTFOODS EASTAFRICA LTD
9	AL- YAMANDA STORE	38	OCEANIC TRADING
10	ALPHA EXPORT	39	OLAM (T) LTD
11	ASIA COMMODITIES	40	ONASH EXPORT
12	AURA (T) LTD	41	PRABHACO LIMITED
13	COSMO TRADING	42	PREMIER IMPEX
14	CUBIX LTD	43	PREMIER CASHEW INDUSTRIES LTD
15	DASHWOOD CORP	44	PRIME INTERNATIONAL LTD.
16	EAGLE IMPEX	45	RADHASWAMI LTD.
17	EAST AFRICA COMMEX	46	SANAA EXPORT
18	EMKE (T) LTD	47	SETSON (T) LTD
19	EURO IMPEX	48	SHIBHO LTD
20	EXPORT TRADING CO.	49	SOUTHERN FISHING CO
21	FIDAHUSSEIN &CO.	50	STE BPS SA LTD
22	GENERIC & SPEN	51	SWANLINKS
23	H.M. LASIDAI	52	TRADE (UK) LTD
24	H.S. IMPEX	53	TRANSWORLD TRADING CO. LTD.
25	INTERNATIONAL COMM	54	TREENUTS EXPORTS
26	JAMBO FREIGHT	55	TROPICAL COMM.
27	JUHUDI TRADING CO. LTD.	56	UNIAFRI CO
28	KANYA KUMARI	57	VIRIAN (T) LTD
29	KARATELA TRADING	58	WILLIAM HUNT & CO

Source: CRT

## Annex 2: CBT Price Determination Calculation, 2003/4

PRODUCER LEVEL							
	Unit	Rate	Unit price	per ha	per tree	per kg	Notes
Trees/ha	Tree			70			Optimal density. (Av. yield 3.5 kg/ tree.)
Yield	Kg Raw nut			840	12	1.00	Recommended fungicide application.
<b>Indicative price</b>	<b>Tsh</b>	<b>kg RN</b>	<b>485.93</b>	<b>408,183</b>	<b>5,831</b>	<b>485.93</b>	Minimum price advertised by CBT.
<b>Pesticide input</b>							
Sulphur	Grams	70,000	1	35,000	500	41.67	Costs calculated by Naliendele. Recommended rates
Karate	Mls	700	37	25,550	365	30.42	Recommended rates
<b>Pesticide application</b>							
Spraying contract	TSh	27,650	1	27,650	395	32.92	With sprayer operation.
<i>Total pesticide application</i>						<i>105.00</i>	
<b>Labour</b>							
Weeding				35,000	500	41.67	
Pruning				10,000	143	11.90	
Harvesting	Tsh/20kg	42		1,764	25	2.10	
<i>Total Labour</i>						<i>55.67</i>	
<b>Others</b>							
Security				5,000	71	5.95	Minimal
Transport from field to godown.				10,000	143	11.90	Average
Spillage						0.00	No allowance for spillage
<i>Total other</i>						<i>17.86</i>	
<b>Total variable cost</b>							
	<b>Tsh</b>			<b>149,964</b>	<b>2,142</b>	<b>178.53</b>	
<b>Gross margin</b>							
				<b>258,219</b>	<b>3,689</b>	<b>307.40</b>	Returns to labour and inputs.
<b>Fixed costs</b>							
Depreciation trees	Tsh	5%	70,000	3,500	50	4	20 year productive life
Depreciation equipment	Tsh	15%	145,000	2,175	31	3	Sprayer on 10 ha
Storm/fire damage	Tsh	5%	70,000	3,500	50	4	No insurance allowance.
<i>Total fixed costs</i>	<i>Tsh</i>			<i>9,175</i>	<i>131</i>	<i>11</i>	
<b>Profit before deductions</b>							
	<b>Tsh</b>			<b>258,219</b>	<b>3,689</b>	<b>296.48</b>	<b>% of profit</b>
Weighted average cess						23.57	7.95
Weighted average contributions						63.02	21.26
<b>Net returns to production (weighted average)</b>						<b>209.89</b>	

Source: Derived from CBT

Table 14 Costs of Production

PRODUCER LEVEL							
	Unit	Rate	Unit price	per ha	per tree	per kg	Notes
Trees/ha	Tree			70			Optimal density. (Av. yield 3.5 kg/ tree.)
Yield	Kg Raw nut			840	12	1.00	Recommended fungicide application.
<b>Indicative price</b>	<b>Tsh kg RN</b>		<b>485.93</b>	<b>408,183</b>	<b>5,831</b>	<b>485.93</b>	Minimum price advertised by CBT.
<b>Pesticide input</b>							Costs calculated by Naliendele.
Sulphur	Grams	70,000	1	35,000	500	41.67	Recommended rates
Karate	Mls	700	37	25,550	365	30.42	Recommended rates
<b>Pesticide application</b>							
Spraying contract	TSh	27,650	1	27,650	395	32.92	With sprayer operation.
<i>Total pesticide application</i>						<i>105.00</i>	
<b>Labour</b>							
Weeding				35,000	500	41.67	
Pruning				10,000	143	11.90	
Harvesting	Tsh/20	42		1,764	25	2.10	
<i>Total Labour</i>						<i>55.67</i>	
<b>Others</b>							
Security				5,000	71	5.95	Minimal
Transport from field to godown.				10,000	143	11.90	Average
Spillage						0.00	No allowance for spillage
<i>Total other</i>						<i>17.86</i>	
<b>Total variable cost</b>	<b>Tsh</b>			<b>149,964</b>	<b>2,142</b>	<b>178.53</b>	
<b>Gross margin</b>				<b>258,219</b>	<b>3,689</b>	<b>307.40</b>	Returns to labour and inputs.
<b>Fixed costs</b>							
Depreciation trees	Tsh	5%	70,000	3,500	50	4	20 year productive life
Depreciation equipment	Tsh	15%	#####	2,175	31	3	Sprayer on 10 ha
Storm/fire damage	Tsh	5%	70,000	3,500	50	4	No insurance allowance.
<i>Total fixed costs</i>	<i>Tsh</i>			<i>9,175</i>	<i>131</i>	<i>11</i>	
<b>Profit before deductions</b>	<b>Tsh</b>			<b>258,219</b>	<b>3,689</b>	<b>296.48</b>	<b>% of profit</b>
Weighted average cess						23.57	7.95
Weighted average contributions						63.02	21.26
<b>Net returns to production (weighted average)</b>						<b>209.89</b>	

Source: Derived from Naliendele records.

**Annex 3: Total of Taxes and Levies paid between 1998 and 2004**

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	Annual Av
CBT export figures	\$ 80,942,288	\$ 94,351,578	\$ 123,792,393	\$ 96,913,812	\$ 34,604,885	\$ 46,267,231	\$ 48,742,243	75,087,776
Av. FOB price \$/tonne	\$ 843	\$ 889	\$ 1,039	\$ 798	\$ 537	\$ 564	\$ 636	758
Cess and Levies at District Tsh millions	6,546,339,469	6,782,000,242	9,960,895,781	11,745,522,612	4,375,602,905	7,852,285,337	6,217,584,723	7,640,033,010
CBT contributions Tsh millions	529,969,631	697,494,039	988,896,965	808,740,915	323,737,350	465,133,723	526,335,805	620,044,061
Cidef Contributions	529,969,631	697,494,039	988,896,965	808,740,915	323,737,350	465,133,723	526,335,805	620,044,061
Research Contributions	529,969,631	697,494,039	988,896,965	808,740,915	323,737,350	465,133,723	526,335,805	620,044,061
Export tax Tsh	1,059,939,261	Abolished	-	-	-	-	-	176,656,544
Stamp duties	635,963,557	Abolished	-	-	-	-	-	105,993,926
City levy Tsh millions	223,824,972	267,325,072	378,637,141	261,444,295	79,781,721	108,536,109	119,592,848	205,591,737
<b>Total cess &amp; cons TSh</b>	<b>10,055,976,150</b>	<b>9,141,807,431</b>	<b>13,306,223,818</b>	<b>14,433,189,654</b>	<b>5,426,596,677</b>	<b>9,356,222,614</b>	<b>7,916,184,985</b>	<b>9,948,028,761</b>
<b>Total cess &amp; cons \$</b>	<b>\$ 15,358,497</b>	<b>\$ 12,366,327</b>	<b>\$ 16,657,037</b>	<b>\$ 17,295,717</b>	<b>\$ 5,800,590</b>	<b>\$ 9,306,711</b>	<b>\$ 7,330,921</b>	<b>12,016,543</b>
Deductions % of exports	19%	13%	13%	18%	17%	20%	15%	16%

Source: Derived from CAT records.

## Annex 4: Detailed Finding

### Taxes and the Cashew Nut Industry

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#### Objective: 1. Taxation Planning and Strategy

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<b>Group</b>	<b>Group Evaluation</b>
<b>1.1 Central Government Taxation Strategy</b>	<p>GOAL: Identify and describe the overall central government tax strategy in terms of focus, structure and implementation.</p> <p>FINDING: The Focus of the taxation strategy needs significant adjustment. The strategic structures do not sufficiently support the revenue assessment, collection and accounting requirement.</p> <p>IMPACT: The current tax implementation regime is not in line with central government strategy. The implementation is less than effective and is unfair. The highest burden of taxation is placed on the segment of society with the least ability to pay.</p> <p>RECOMMENDATION: The district governments should develop new taxation strategies in line with the MTEF and the government policy immediately. The strategy should emphasize higher taxation of raw nut exports in order to provide more incentive for processing.</p>
<b>Details:</b>	<b>Detail Control:</b>
1.1.1 The Strategic Focus	<p>There should be evidence of a clear focus for central government's strategic taxation decisions, i.e. a vision and objective for taxation at all levels.</p> <p style="text-align: right;"><b>Detail Observation:</b></p> <p>We found less than adequate evidence of clear focus that linked the central strategy to region and district implementation strategies.</p>

1.1.2 The Strategic Tax Structure	There should be a framework or structure through which the government will plan and deliver the objectives and vision for taxation' particularly those that apply to key sectors in agriculture.	Cashews are a key sector. We found that the framework through which the government plans and delivers the tax strategy is not adequate to support the task for several reasons.
1.1.3 The Tax Strategy Implementation	There should be an implementation or roll out plan that describes how the government will implement the taxation strategy.	It seems to be understood that the tax structure and the regime of "nuisance" taxes are detrimental to the industry, however its implementation lacks the administrative controls that would be required to reduce the tax burden whilst providing districts the income they are desperate for.

**Group**

**Group Evaluation**

**1.2 CBT Collected Taxation Strategy**

**GOAL:** Identify and describe the overall CBT strategy for collection of levies in terms of focus, structure and implementation.

**FINDING:** The CBT taxation/levy focus is not likely to lead to achieving its stated vision for the industry. The strategic structure in place is not likely to support the effective support for the industry because it is not linked to a monitored and evaluated activity plan. The implementation of the strategy is inefficient and at times detrimental to the industry as it stands. For example the CIDEF portion in particular has had a very negative impact on the cashew subsector.

**IMPACT:** Efforts of what should be a champion for the industry are having little positive effect.

**RECOMMENDATION:** The CBT must create a permanent forum with scheduled meetings for the interests of the industry that it supports. That forum should be backed by more relevant public information such as instruction on timing and cost of the licensing process.

<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
1.2.1 The CBT Levy Strategic Focus	There should be a vision in the organization for the collection and use of the levy.	There is an overall CBT strategy in place. However, it needs an urgent update and some important elements of the strategy such as the CIDEF have been overcome by events.
1.2.2 The CBT Levy Structure	There should be a formal structure for administering the collection and disbursement of the levy.	The CBT has a formal structure. However, there are significant weaknesses in the structure that make the process almost untenable.
1.2.3 The CBT Levy Implementation	There should be a plan to administer implementation of the levy in a way that allows for management of the licenses, reconciliation with the districts, and control of disbursements.	The current system in place does not allow for reconciliation with the districts.

<b>Group</b>	<b>Group Evaluation</b>
<b>1.3 District and Local Taxation Strategy</b>	<p><b>GOAL:</b> Identify and describe the overall district and local levies applied and the strategy for their collection in terms of focus, structure and implementation</p> <p><b>FINDING:</b> The Current District and Local Contribution system is arbitrary, unfair and places the greatest burden of payment on the poorest segment of the population.</p> <p><b>IMPACT:</b> If allowed to continue, it will lead to disaffection of the local population, conflict with central government over appropriate tax levels, and probably the demise of the industry due to a lack of competitiveness.</p> <p><b>RECOMMENDATION:</b> The Districts must develop a more inclusive strategic planning process. The process should turn over control of the voluntary contributions to those who are contributing. The new structure should devise a means of ensuring that consultation is comprehensive.</p>

<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
1.3.1 The Local Levy and Contribution Implementation	There should be a plan to administer implementation of the contributions in accordance with Central Government Guidelines to include reconciliation with the CBT.	The level of consultation is very weak. The guidelines in place are insufficient to support the controls.
1.3.2 The Local Taxation Strategic Focus	There should be a vision for the district that includes the means of redistribution of development funds.	.There is no integrated strategy for collection of revenue. The strategy in place does not adequately include the needs of the districts and is being circumvented by "voluntary contributions."
1.3.3 The Local Levy and Contribution Structure	There should be a formal structure for administering the collection and disbursement of the local levies and contributions.	The formal structure for implementing and administering has many control flaws. The method of collection actually violates the central government rules.

**Objective: 2.Tax Processes**

<b>Group</b>	<b>Group Evaluation</b>
<b>2.1 Buyer Initiated Processes</b>	<p><b>GOAL:</b> Identify and document the processes that are required by a buyer. Describe the taxes, levies and contributions at each stage that are levied. Evaluate the effectiveness of the planning, assessment, collection and redistribution of the taxes, levies and contributions.</p> <p><b>FINDING:</b> We were able to accurately document the process. We have identified and documented the taxes, levies and contributions made in each area evaluated. We found the buyers planning, assessment, participation in collection and accounting to be less than that which would be effective in supporting</p>

the industry on which they draw revenues. The buyers are not fully engaged in the local community; therefore, they have developed an intermediate level of agents who add little value to the product.

**IMPACT:** The added layer reduces the effective earnings of the farmers while adding no value. In fact this agent layer is where most of the loopholes through which buyers are able to avoid paying the district cess originates.

**RECOMMENDATION:** Buyers should be made part of a permanent forum managed by the CBT in which their concerns are aired and at which they can be briefed on the strategy and its implementation.

<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
2.1.1 Buyers License Process	The CBT will be able to control the application process to ensure the best possible environment for competition.	The system used by CBT to control the application does not ensure the best environment for competition.
2.1.2 Buyers Trading License Process	The District Executive will manage a process that is in accordance with the policy of the government and supporting the rules of transparency and fairness of an open market.	The trading license process is not managed in accordance with government policy. The current regime does not support rules of fairness, openness or transparency.
2.1.3 Buyers Permit (Kibari) Process	The District should have in place a system that manages the buyer's permits (kibari) in a way that they can be reconciled with actual purchases and shipments. This is commonly called a back office system of clearance.	The kibari is not a controlled document, nor are they reconciled. There is no back office clearance process.
2.1.4 Bidding Process	The Market Managers at the buying station will have a system of receiving, acknowledging and posting bids to ensure fairness, transparency and an open market system.	The current control over the process is inadequate. It opens the system to fraud and loopholes. There is apparently no investment in developing a market oriented approach and solutions.
2.1.5 Export Licensing Process	The CBT will put in place a system that is fair and transparent and ensures that what is exported has been purchased in accordance with the regulations for taxation, levies and contributions.	The current process can not determine if the licensee has in fact outstanding unpaid district fees from the previous year. This means that nonpayers are rewarded with new licenses.

Group	Group Evaluation	
<b>2.2 Market Initiated Processes</b>	<p><b>GOAL:</b> Evaluate the market in terms of process and infrastructure to support the transactions. Identify the levies that support the cost of market management.</p> <p><b>FINDING:</b> We have found that the process that supports the transaction between cashew nut buyer and seller is not transparent. Planning is poor, organization of the process is chaotic, direction is minimal, and control almost nonexistent. The process is not effectively managed. We were able to identify the levies that are taken to support market development. We found that these funds are not actually spent supporting market development which is why they were collected.</p> <p><b>IMPACT:</b> The current market infrastructure is decrepit and does not reflect in any way that which would be expected to support a USD 75 to 100 million per year industry.</p> <p><b>RECOMMENDATION:</b> A program of market development should be implemented. The markets must be seen as investments.</p>	
<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
2.2.1 Market Planning	The market will have an overall strategy that is in line with a Cooperative Union strategy and considers the region and district issues. The market will plan operations from day to day, administration of resources and finances & market promotion efforts.	We understand that the planning for the buying stations is in line with the Cooperative Unions' strategies. However, those strategies are too basic and do not address the issue of management sufficiently. There is very little planning that goes on and the markets that handle over USD 100 million in produce are almost derelict.
2.2.2 Market Operations	The market managers will have in place procedures for managing buyers' interests and sellers' interests in a transparent and formal manner. The market manager will ensure that information required for good governance is available whilst maintaining the level of confidentiality requisite to market trading.	We found that the operation in the buying centers lacks adequate infrastructure, support and control. For example there is little in the way of market information available.

2.2.3 Market Administration

The market manager should administer financial, human and fixed assets of the market. The market manager should have in place procedures for administering information and market promotion. The market manager should have in place a system of internal audit and compliance required for good governance of markets resources.

We found the management of finance, resources and compliance to be far too basic to support a subsector market of this size.

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**Group Evaluation**

**2.3 Seller Processes**

**GOAL:** Identify and document the processes that are required by a seller. Describe the taxes, levies and contributions at each stage that are levied against the seller. Evaluate the effectiveness of the planning, assessment, collection and redistribution of the taxes, levies and contributions. Evaluate whether voluntary contributions are in fact voluntary.

**FINDING:** Although we were able to identify and document the processes required by the seller, we found that voluntary contributions are not in fact voluntary. We were able to list and document the contributions that are collected on behalf of the seller. We also found that they are being collected, accounted for, and disbursed without the knowledge of those for whose benefit they are contributed..

**IMPACT:** Money is being spent without proper control or accountability. The producers are not willing to join up to any more so called voluntary contribution funds that do not show a real return. Farmers' attitudes are hardening.

**RECOMMENDATION:** Implement a regime of consultation based on the MTEF timing that incorporates the producers into the contributions. Separate the collection from the districts authorities as instructed by central government.

**RECOMMENDATION:** The contributions should be made voluntary. Consultation with the producers should be made a formal task rather than an exceptional activity. If a contribution is said to be voluntary, the contributor's consent should be traceable to a verified statement.

<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
2.3.1 Planning of Seller Process	District extension officers and Cooperative officers would work with the financial offices at the district level to prepare revenue inputs as part of the MTEF process. These inputs would be based on consultation and an annual survey of farmers' expectations and yield.	We found planning to be inadequate to support the level of consultation required to ensure that the contributions are voluntary.
2.3.2 Organizing the Sellers	Cooperative Unions would assist in coordinating farmer's inputs to plan contributions that are voluntary.	Cooperative Unions are not doing enough to organize sellers into a cohesive group. The District extension officers are not focused on market creation, nor at documenting the predicted budget revenue at all.
2.3.3 Controls that protect the transaction	Controls would be in place to insure collection, accounting and disbursement of voluntary funds. The collection of funds should be reconciled against the actual kibari or Produce Delivery Note (PDN).	It is currently not possible to reconcile the sales made by any individual farmer and the aggregate sold at the buying station against the amounts exported. Therefore it would be impossible to target the use of district collected voluntary contributions.
2.3.4 Taxation in place	A list of voluntary collections should be in place and available to the General Public. An accounting of the expenditure should be made available. The taxation should be comparable to other forms of tax in the districts the	All districts had lists of the voluntary contributions they collected on behalf of farmers.  We could not ascertain how this is accounted for in the PORALG accounting system. Nor could we find how the farmers are notified of the use to which these voluntary contributions are put. The districts are not active in formally harmonizing their voluntary contributions.

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**2.4    Regulatory Processes**

**Group Evaluation**

**GOAL:** Evaluate the controls and the objectives of the controls that regulate the transaction process in order to ensure the fairness and transparency of the current market structures.

**FINDING:** We found that the regulatory controls were insufficient to ensure transparent effective assessment, collection, accounting and redistribution of taxes, levies and contributions. We found that the system of taxation places the largest burden on the poorest segment of society and is therefore unfair.

**IMPACT:** The industry is less attractive and therefore less competitive. Poverty is not reduced as fast as it could be.

**RECOMMENDATION:** The districts should implement a strategy that first aligns the current processes with the government strategy and policy. The districts should then remove collection of voluntary contributions from their auspices. Finally the districts should promote a strategy of phasing out voluntary nuisance taxes by implementing an improved collection regime for the 5% produce cess that increases their income.

<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
2.4.1 Oversight of the Buyer and Seller registration	There should be a specific system auditor assigned by the regulator to oversee the market process. That specific audit should have a regime including setting of standards, scheduled reviews, performing no notice inspections, and briefing on the outcome of reviews. The procedures should prevent any buyer who has not paid up completely the previous years levies from securing a license for the year in question.	Oversight is not formal and is rudimentary. Buyers owing considerable amounts are allowed to receive licenses year on year.
2.4.2 Process support such as back office systems	There should be a clearing house process to ensure reconciliation of the kibali with the PDN and the export shipping notes. There should be in place the infrastructure and procedures to ensure security and safety of the transactions. Price information should be captured at the point of transaction and made available to the public.	There is no real clearing house for a market that handles over USD 100 million in sales. This is remarkable. There is little wonder that over half the cess is not collected as less than half the market system is in place.

2.4.3 Policy communication and structure

Policy should be communicated in the form of standard operating procedures for the buying centers and societies. There should be a hierarchy of directives.

There is no hierarchy of directives at the district level to ensure circulars and notices are followed. For example, the central government policy is clear that contributions will not be collected at the same point as the 5% cess wherever this is being done.

**Objective: 3. Tax Procedure**

Group	Group Evaluation
3.4 The District Cess Collection	<p><b>GOAL:</b> Identify how the district cess is planned, collected, accounted for and disbursed.</p> <p><b>FINDING:</b> The planning of the cess is having a negative impact on the industry. The collection is not efficient as up to 40% of the cess remains uncollected. The system by which the cess is accounted for is not in accordance with the standards required. The cess is disbursed with little consultation or impact on the market from which it is drawn.</p> <p><b>IMPACT:</b> Unaccountability is creating the black market by driving producers from the formal market to sell their product. Few members of the public who are responsible for the accumulation of this wealth have anything to do with its expenditure.</p> <p><b>RECOMMENDATION:</b> The planning for the district cess must be made part of an open and transparent MTEF procedure. Districts should begin planning the collection in September by conducting consultation meetings. The amount projected should be published after planning and the actual amount published at the end of the season. Districts should report how the money was spent.</p>

Details:	Detail Control:	Detail Observation:
3.4.1 Planning	The planning will be inclusive encompassing all stakeholders. The planning will be according to government guidelines for MTEF. The fee will be limited to 5%.	
3.4.2 Collection	The collection will be documented in a way that	

- can allow historic analysis of individual buyers. The collection will be receipted using a controlled document. Collection will not be done in conjunction with local contributions.
- 3.4.3 Accounting      The cess will be accounted for using the Integrated Financial Management System procedures and will be loaded into the Epicor system. The Accounting will be in accordance with government specifications. The Collection will be reconciled against the amounts sold at the markets and exported through the ports or sold to the processing factories.
- 3.4.4 Disbursement      Disbursement will be targeted at the industry from which the cess was collected. The disbursement will be planned including stakeholders from the producer community. The community will be informed as to how much was collected and for what it was spent.

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<b>Group</b>	<b>Group Evaluation</b>
3.5    The Local Contributions	<p><b>GOAL:</b> Identify how the local contributions are planned, collected, accounted for and disbursed.</p> <p><b>FINDING:</b> The contributions are not voluntary. They are being collected in the same place as the 5% District Produce Cess. This means that arbitrary payments that are not part of the legal tax liability are being added in violation of the central government policy. The system by which the contributions are accounted for is not in accordance with the standards required or government policy. Contributions are disbursed with little consultation. The planning of the contributions does not include all stakeholders and is not sufficient to ensure buy-in. The collection is not efficient as up to 40% of the contributions remain uncollected.</p> <p><b>IMPACT:</b> Impact on the market from which it is drawn is actually negative; the districts are not in line with government policy. The effect of expropriation of non-voluntary funds is that the industry is less competitive.</p> <p><b>RECOMMENDATION:</b> The District Government should align its strategy with government policy</p>

and adhere to the 5% revenue cap. The voluntary contributions should be made voluntary by providing a series of consultations that are in line with the MTEF. The Districts should cease collecting the contributions and instigate a program to increase the efficiency of collection of the 5% produce cess.

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<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
3.5.1 Local contributions planning	The local contributions should be planned on an annual basis at the direction of the contributors. The planning meeting should include district government representatives. They should be documented. They should itemize the contributions and amounts to be collected. They should be reported to the DED as part of the MTEF process.	
3.5.1 Local Contribution collection	Collection should be independent of the district budget. Collection should not be done at the same location as the district cess. Collection should be done in line with central government procedures.	
3.5.2 Local Contribution Accounting	Local contributions should be accounted for by a body that is independent of the District Council. The accounts should be controlled according to international standards and include accounts payable, accounts receivable and cash flows of the fund.	
3.5.3 Local Contribution Disbursement	Disbursement should all be documented and in accordance with the funds' budgets. The contributors should be informed of all disbursements from the accounts.	

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3.6 The CBT Levies

**GOAL:** Identify how the CBT Levies are planned, collected, accounted for and disbursed.

**FINDING:** The planning of the CBT Levies does not include all stakeholders and is not sufficient to ensure buy-in. One third (the CIDEF fund) of the planned collection is not used for the purpose for which it was defined. The collection is relatively efficient, though we did not test the procedure. The system by which the levies are accounted for appears to be efficient and in accordance with the standards required and government policy. The Levies are disbursed with little consultation or impact on the market from which it is drawn. There is a disparity that is skewed towards raw exports.

**IMPACT:** The CBT disbursement of the 33% of its levy is not being used. The lack of timely reconciliation with the districts means that much of the produce is being exported without having paid district cess and levies.

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<b>Details:</b>	<b>Detail Control:</b>	<b>Detail Observation:</b>
3.6.1 CBT Levies planning	The CBT Levy should be planned on an annual basis at the direction of the CBT. The planning meetings should include district government representatives, farmers and processors. They should be documented. They should be reported as part of the MTEF process.	CBT Planning is to a degree inclusive in as much as they work closely with Naliende and the plan annual indicative price discussions. However, consultation over the budget and use of funds was less inclusive.
3.6.2 CBT Levy collection	Collection should be independent of the district budget. Collection should not be done at the same location as the district cess. Collection should be done in line with central government procedures. Collection and amount should be skewed toward promoting processing.	CBT collection is not reconciled against the kibali from the districts. There is therefore a disparity between the actual exports and the amount of producer cess collected.
3.6.3 CBT Accounting	Levies should be accounted for by the CBT. The accounts should be controlled according to international standards and include accounts payable, accounts receivable and cash flows of the fund.	CBT keeps accurate accounts.
3.6.4 CBT Disbursement	Disbursement should all be documented and in	The reports of disbursement are less than informative.

accordance with the CBT budgets. There should be an annual report informing the public about the detailed use of funds from the accounts. In fact the CIDEF funds that represent 1/3 of the money collected are currently not being used for the purpose for which they are collected.

## Annex 5: The Disconnection between Central and Local Governments

There is a disconnection between the Central and Local Governments in the administration of taxes, levies and fees on the agriculture sector. The Position Paper on the subject, which was prepared by the Ministry of Agriculture and Food Security in June 1995, notes that support to the three main crops-- Cotton, Coffee and Cashewnuts-- falls under four broad areas. These are

- Annual Seed Requirements
- Research Financing
- Inputs Financing
- Extension Financing
- Market Information Services

The Paper points out that since the Government is not a beneficiary of the incomes generated by the crops it will no longer provide funding to the sector. Such funding should come from the respective crops. The funding should be in the form of a crop development levy to be placed in a Crop Development Fund.

In the case of Cashewnuts for the 1995/96 crop season, the amount required to finance the four activities was put at Tsh 500 million. The total deductions were capped at Tsh 10 per kilo of raw cashewnuts levied at export sale level. The table below shows the break down of the levies.

Proposed Levies for Cashew Crop Development Fund				
Levy Items	Levy Rate	Fund Size	Levy as %	Levy as %
	Shs / per kg	In Million	Prod Price	Fob Price
	Shs			
Research	4.95	247.5	1.65	1.18
Inputs	3.85	192.5	1.28	0.92
Extension	1.00	50.00	0.33	0.24
Mark. Information	0.20	10.00	0.07	0.05
Total	10.00	500.00	3.33	2.38
Assumptions: 1995/96 cashew procurement 50,000 raw nuts				
1995/96 producer price –Shs 300 per Kg raw nuts				
1995/96 fob price- \$ 0.75 per kg raw nuts				
Average exchange rate – Shs 560 per \$ 1.00				

The Ministry also outlined the procedures for administering the respective funds. For instance each of the Crop Development Fund was to be *administered by an autonomous Board of Trustees*. The Board would represent the industry participants in terms of contributors and beneficiaries of each of the crop funds. *The major objective of the Board of Trustees in each of the crop funds is to manage the funds in a way that would continue to provide resources for increasing production of the targeted crops.*

### Annex 6: Production and Processing Projection Model

	Theoretical scenarios (assuming constant reliable weather and international demand)															Comments Notes and Assumptions	
	2001/2	2002/3		2003/4		2004/5		2005/6		2006/7		2007/8		2008/9			
	factor	factor	factor	factor	factor	factor	factor	factor	factor	factor	factor	factor	factor	factor			
FOB value	503.78	1.12	562.24	1.21	680.4	1.00	680	1.00	680	1.00	680	1.00	680	1.00	680	2003/4 levels of demand	
A1 Pre-tax BC price	Tsh/kg	338.78	1.18	398.78	1.28	509.70	1.00	510	1.00	510	1.00	510	1.00	510	1.00	510	
A2 Indicative price	Tsh/kg	300	1.20	360	1.28	462	1.06	488.93	1.00	488.93	1.00	488.40	1.00	487.31	1.00	485.57	CBT levy removed from A1
A3 Take-home price	Tsh/kg	231	1.25	289	1.38	399	1.07	427	0.99	425	1.00	423	1.00	422	0.98	414	A1 less all deductions including input cess
B1 Processor indicative price	Tsh/kg	604	1.00	604	1.00	604	1.00	604	1.00	604	1.00	604	1.00	604	1.00	604	2003/4 levels of export demand. No account of shell value.
B2 Processor / farmer take-home price	Tsh/kg	521	1.00	521	0.99	517	1.05	542	0.99	540	1.00	539	1.00	538	0.99	533	B1 less all deductions including input cess.
B3 Proportion processed	%	8%	1.34	10%	0.72	7%	1.34	10%	1.52	15%	1.51	23%	1.30	30%	1.23	37%	
C Wtd. av. Farmer net price	Tsh/kg	253	1.24	313	1.30	408	1.08	439	1.01	442	1.02	450	1.01	457	1.00	458	Increasing proportion for processing with higher RN price.
D1 With CBT levy on RN export	Tsh/kg	18.8	1.00	18.8	1.25	23.41	0.90	21.07	1.00	21.07	1.03	21.60	1.05	22.69	1.08	24.43	To maintain constant income of Tsh 1.5 bn
D2 District cess on all	Tsh/kg	20.0	1.00	20.0	1.21	24.29	0.60	14.57	0.90	13.12	0.90	11.80	0.90	10.62	0.90	9.56	To maintain income of 1.9 bn
D3 Contributions on all	Tsh/kg	56.7	0.98	55.4	0.96	53.3	0.10	5.33	0.90	4.80	0.90	4.32	0.90	3.89	0.90	3.50	To maintain Prim Socs and Coop unions only.
D4 Total deductions	Tsh/kg	101.8	1.00	101.8	0.99	100.998	0.41	40.97	0.95	38.98	0.97	37.72	0.99	37.20	1.01	37.49	Less input fund
E1 Input savings	Tsh/kg	6.3	1.20	7.6	1.28	9.7	4.28	41.6	1.12	46.4	1.05	48.8	1.05	51.2	1.14	58.3	14.75% of sales should be applied to inputs
F With elasticity of		0.72	2.42	1.7	0.34	0.6	5.00	3	1.50	4.5	1.00	4.5	1.00	4.5	1.00	4.5	Increases due to input fund
F1 Produces	tonnes	69,832	1.31	91,480	0.90	82,650	1.23	101,624	1.03	104,853	1.08	113,336	1.07	120,825	1.01	122,512	on weighted average price. Assumes no extra plantings.
F2 Including RN exports	tonnes	64,448	1.27	82,048	0.93	76,493	1.20	91,462	0.97	88,900	0.98	87,269	0.97	84,578	0.91	77,182	Declines as domestic processing increases.
F3 RN processed	tonnes	5,384	1.75	9,432	0.65	6,157	1.65	10,162	1.57	15,953	1.63	26,067	1.39	36,248	1.25	45,329	
F4 Kernels	tonnes	1,158	1.75	2,028	0.65	1,324	1.65	2,185	1.57	3,430	1.63	5,604	1.39	7,793	1.25	9,746	
G1 Total RN value at Prim Society	Tsh m	17,672	1.62	28,660	1.18	33,702	1.32	44,610	1.04	46,352	1.10	51,003	1.08	55,172	1.02	56,115	Farmer disposable income
G2 Total RN FOB value	Tsh	32,468	1.42	46,131	1.13	52,046	1.19	62,194	0.97	60,452	0.98	59,343	0.97	57,513	0.91	52,484	
G3 Yielding CBT levy on RN export	Ths m	1,210	1.27	1,541	1.16	1,791	1.08	1,927	0.97	1,873	1.01	1,885	1.02	1,919	0.98	1,886	
G4 - District cess	Ths m	1,397	1.31	1,830	1.10	2,008	0.74	1,481	0.93	1,375	0.97	1,338	0.96	1,284	0.91	1,171	
G5 - Contributions	Ths m	3,959	1.28	5,072	0.87	4,405	0.12	542	0.93	503	0.97	489	0.96	469	0.91	428	
G6 - Total levies	Ths m	7,109	1.31	9,313	0.90	8,347	0.50	4,164	0.98	4,087	1.05	4,275	1.05	4,495	1.02	4,593	
H1 Effective RN export levy	%	3.73	0.90	3.34	1.03	3.44	0.90	3.10	1.00	3.10	1.03	3.18	1.05	3.34	1.08	3.59	
H2 Effective cess % of wtd av Ind Price	%	6.18	0.84	5.19	0.99	5.14	0.57	2.91	0.89	2.59	0.89	2.29	0.89	2.03	0.89	1.81	
I1 Input fund	Tsh m	440	1.57	692	1.16	802	5.27	4,223	1.15	4,870	1.14	5,535	1.12	6,182	1.15	7,139	
I2 Input levy % of Ind Price	%	2%	1.00	2%	1.00	2%	4.05	9%	1.12	10%	1.05	10%	1.05	11%	1.14	12%	Finally reaches full retrospective requirement
J Effective tax rate %	%	40.2	0.81	32.5	0.76	24.8	0.38	9.3	0.94	8.8	0.95	8.4	0.97	8.1	1.00	8.2	Excludes input fund

The simulation model reflects actual prices and quantities until the present time, and then assumes constant demand and a trend in response to prices by producers and to export tariff barriers by processors in future years. It also assumes that the recommendations as to nuisance taxes contained in this report are adopted so that net cashew farm income is increased and application of fungicides increases with resulting improvements to yields.

The results of the interaction of this set of parameters are graphically displayed in Figures 14 to 21 in the main text of this report.

The model can be applied to testing the sensitivity of the industry to price fluctuation, variation in demand for deductions, externalities such as weather and market variability, yield increase etc.

## **Annex 7: Scope of Work**

### **Scope of Work International Cashew Industry Policies, and Implications and Recommendation to the Tanzanian Government (GOT)**

#### **Summary:**

The exercise will involve an analysis of the policy provisions of other major cashew nut producing and exporting countries with respect to taxation and industry incentives. The analysis will utilize four analytical approaches: 1) Case studies of the major cashew producing countries, 2) comparative statistics from those countries, 3) interviews (and possibly a focus group session) within Tanzania with key stakeholders in the industry, and 4) focus on workable ways to impede local government from taxing cashew beyond central directives, at the same time recommending viable paths to tax/levy loss replacement. From that we will generate an understanding of the policy environment and the options which the Government of Tanzania has at its disposal.

#### **Activities:**

The assignment will have two main phases. The initial phase will be focus on international research, which can best be carried out at the lead consultant's home base, followed by field work with the DAI PESA project, TechnoServe, relevant GOT entities, a tax consultant, and the Cashew industry in Tanzania.

#### **Case studies:**

Undertake desk research and review existing materials and documentation on the agricultural sector with a view to understanding the world cashew industry. Three sets of countries need to be reviewed:

- Top three producers: India, Vietnam, and Brazil, which are the world's three largest producers and exporters of processed cashew kernels;
- Key African producers: Guinea Bissau and the Ivory Coast share the closest direct experience to Tanzania, right now, as leading exporters of raw nuts, so understanding their policies is important. Secondary exporters include Kenya, Benin, Nigeria (many of whose nuts apparently go out through Benin), and Indonesia;
- Neighbouring East African producers: The literature on the experience in Mozambique needs to be reviewed, given its aborted attempt at moving solely towards internal processing.

**Key Question:** How did Vietnam come to a #2 position in both cashew production and processing in so short a period of time?

**Deliverables:** Develop a list of characteristics by which to categorize the relative success of each of these countries, and then rank them on each characteristic. This should be developed into a story line that concisely describes the country producer as on the rise, successful, falling behind, or failed, and then states why.

#### **Comparative statistics:**

For each of the countries named above for which a case study is created, support that study with relevant comparative statistics. The study will identify the capacity of each country's processing industry, processing incentives, taxation, export status (raw nuts and kernels), kernels export incentives and raw

nuts export taxes and strategies for supporting the host country's processing sector. The consultant will be expected to undertake a detailed analysis of the various provisions put in place by each country to support its cashew nut industry. Analyse the following:

- **Production and export status:** production by each country and percentage exports (raw nuts and kernels);
- **Taxation:** highlight the different tax/levy provisions in each of the major cashew producing countries. This should cover among other issues: the different types of taxes/levies collected from farm gate to export, the administration/collection procedures, application of the levies and effectiveness of the levies/or collection system);
- **Incentives: What government support is provided to the industries?** Identify the nature of the support provided to their industry by each respective government;
- **Export of raw nuts:** Export of raw nuts and revenue generated for each country (any incentives or disincentives in each country); and
- **Export of kernels:** export of kernels and revenue raised by each country from such exports as well as incentives to protect the host country's processing industry)

**Key Questions:**

What policies have fuelled the most successful countries, and how might they apply to Tanzania?  
What is the Government of Tanzania's role in promoting the Tanzanian cashew industry?  
Does the Government have the political will to promote the industry and to protect it from unauthorized taxation?

**Deliverables:** An understanding of the impact of government policies on the microeconomics of the farmer and processor (profitable or not, and why?) for each country.

**Interviews and group meetings in Tanzania:**

Armed with the results of the preliminary research, the consultant will visit Tanzania to work very closely with members of the Cashew Nut Association of Tanzania (CAT). He will review the local literature and undertake a series of interviews and site visits with the key stakeholders (small growers, large producers, large exporters, processors, and government officials from the CBT, the Ministry of Agriculture, the Ministry of Cooperatives and Marketing, the CIDEF, and will visit the primary production areas between Dar and Mtwara.

This is to be a collaborative effort, designed to develop a joint understanding of the key issues facing the Tanzanian industry, the competitive position that Tanzania occupies vis-à-vis its leading competitors, develop a vision for where it should be heading and how it can arrive there. As this is largely a political issue, there must be a heavy concentration of effort on facilitation between the key stakeholders and developing a sound model to demonstrate how all the participants will win from the new strategy. This will require several meetings with the stakeholders.

**Key question:** How might a government policy plan to promote the industry be structured and implemented? Should it include incentive targets for stakeholders in the industry, like farmers and processors?

**Deliverables:** A suggested implementation plan. Expected impact of that plan on the industry, farmers, processors and government (tax revenue).

**Tax Directives Enforcement and Replacement of Revenues at Local Government Level:**

Under the supervision of the team leader, the locally employed tax consultant will focus on two aspects:  
1) How to achieve enforcement of maximum taxation of 5% at local levels, and 0% for EPZ status, and 2) How to replace licitly required taxes for local government operations.

**Staffing/ Level of Effort and Timing:**

**Team Leader (TL).** An experienced Cashew industry consultant with current knowledge of international trade and specific knowledge of the Indian, Vietnam and African producer countries in this regard: to provide 10 days of desk work to identify and comparatively review the policy environments from the key cashew growing countries, 20 days of work in Tanzania as team leader and primary author of report deliverables; and up to 4 days travel time to and from Tanzania.

**Tax Consultant.** A tax consultant recruited in Tanzania by DAI PESA will work up to 10 days under the direction of the Team Leader and will provide written inputs within that time frame as required by the TL.

**Technoserve Consultant.** Technoserve has a consultant analyzing the cashew processing industry positions and needs, and will provide related inputs to the TL.

**Research Assistant.** DAI PESA will recruit a local research assistant with current cashew industry experience to support the TL in his or her work. Up to 20 days LOE are allotted to this assignment.

**Timing:** Abt Associates (DAI partner in the DAI PESA Project, funded by USAID) is currently recruiting for the TL position. It is estimated that a person acceptable to the stakeholders and DAI PESA project management will be available for July/August 2004.

## **Annex 8: List of Documents**

- Azam-Ali, S.H and Judge, E.C; FAO, 2001:** *Small-scale Cashew Nut Processing*
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- Dixie, Graham and Jaeger, Peter; July 1999:** *The U.S and European Markets for Cashew Nuts.*
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**Naliendele Agricultural Research Institute; July, 2004:** *Proposed Financing Proposal and Work Plan for 2004 -2005 Season.*

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**Technoserve, Business Plan July,2004.** *Company X Cashew processing Factory, Y*

**Technoserve; Industry Primer, May 2000:** *Cashew nut processing and Marketing.*

**Topper, Dr. Clive P;** *Issues and constraints related to the development of cashew nuts from five selected African countries.*

**Topper, Dr.Clive P. and Professor Caligari, Peter D.S; September 1999:** *Cashew study tour in East Africa.*

**Waithaka, J.H.G; July 2002:***Assessment of the situation and development prospects of the cashew nut sector.*

**Walter, Jake; July 2004:** *Cashew Processing Competitiveness : Key Drivers, Technoserve Mozambique.*

**World Bank/HORUS-Enterprises; July 6 to 8,2004,** *Global Cashew Markets, Regional cashew Competitiveness Seminar*

## Annex 9: List of People Met

Date	Name	Position	Organisation	Place
23.08.04	Tim Piper	Deputy Country Director	Technoserve	Dar-es-Salaam
	David Williams		Technoserve	Dar-es-Salaam
24.08.04	Mark Sanchez	Cashew Exporter	Private sector	Dar-es-Salaam
25.08.04	Ms Hellen Burke		Ministry of Finance	Dar-es-Salaam
25.08.04	Michael Wong	Private Sector Development Specialist	The World Bank	Dar-es-Salaam
	Ravi J Ruparel	Financial Sector Specialist	The World Bank	Dar-es-Salaam
25.08.04	D. D. Thewa	Deputy Director, Real Sector	Bank of Tanzania	Dar-es-Salaam
25.08.04	Ms K Kondo	Branch Manager	Cashew Board of Tanzania	Dar-es-Salaam
26.08.04	Henry S. K. Nsemwa	Executive Secretary	Cashew Industry Development Fund	Dar-es-Salaam
26.08.04	Elaine Baker	Tax Policy Research DFID	MoF	Dar-es-Salaam
26.08.04	E. Y. Msumi	Executive Secretary	Cashew Association of Tanzania	Dar-es-Salaam
26.08.04	Fazal Mushatak	Director	Premier Cashew Industries Ltd	Dar-es-Salaam
27.08.04	Dr Florens Turuka	Director of Marketing	Ministry of Cooperative & Marketing	Dar-es-Salaam
30.08.04	Peter Noni	Director, Economic Policy	Bank of Tanzania	Dar-es-Salaam
	D. D. Thewa	Deputy Director, Real Sector	Bank of Tanzania	Dar-es-Salaam
30.08.04	Nitin Mittal	Branch Manager	OLAM	Dar-es-Salaam
	Sridhar Krishnan	Business Manager	OLAM	Dar-es-Salaam
	Ujwalkantha Senapati	Business Manager	OLAM	Dar-es-Salaam
30.08.04	Charles Igogo	Director, Public Investment Division	President's Office Planning and Privatisation	Dar-es-Salaam
31.08.04	Richard Musingi	Director, Policy Department	PORALG	Dar-es-Salaam
31.08.04	Jason A E. Shoo	Crop Promotion Specialist	Ministry of Agriculture and Food Security	Dar-es-Salaam
31.08.04	Prof Haidari K. R. Amani	Executive Director	Economic and Social Research Foundation	Dar-es-Salaam
	Denis Rweyamamu	Research Assistant	Economic and Social Research Foundation	Dar-es-Salaam
31.08.04	Wilfred Ngirwa	Permanent Secretary	Ministry of Agriculture and Food	Dar-es-Salaam
	Ms Janet Bitegeko	Director, Policy & Planning	Ministry of Agriculture and Food	Dar-es-Salaam
31.08.04	Ezamo Maponde	Ag. Marketing Policy Specialist	Prime Ministers Office	Dar-es-Salaam
01.09.04	Dr. Shamte H. Shomari	Zonal Director	ARI Naliende	Mtwara
01.09.04	Isidore L. Shirima	Regional Commissioner	Mtwara Region	Mtwara
	Alhaj Yahya F. Mbila	Regional Admin. Secretary	Mtwara Region	Mtwara
	Dr. Mleche	Regional Agriculture Officer	Mtwara Region	Mtwara
	Herman H. Amma	Director of Marketing	Cashewnut Board of Tanzania	Mtwara
02.09.04	Severin B. Mganga	District Cooperative Officer	Tandahimba District	Tandahimba
02.09.04	Mr. Ndungwi	District Executive Director	Newala District Council	Newala
03.09.04	Nassor Mnambila	Ag District Executive Director	Masasi District Council	Newala
03.09.04	Mmavelle Eduard Victor	Chairman	Masasi District Council	Newala
03.09.04	I. A. Ngakola	General Manager	Tandahimba /Newala Coop. Union	Newala
03.09.04	Noel N. Mahyenga	District Executive Director	Masasi District Council	Masasi
03.09.04	Totman Libundi & others	Secretary	Mpowara Rural Prim. Society	Ndanda/ Masasi
03.09.04	Ms, Zainabu Ahmad Kwikwega	District Commissioner	Newala District	Newala
03.09.04	Mr. Masali	Operations Manager	National Micro Bank	Newala
04.09.04	A.M. Beno Mhagama	Director General	Cashewnut Board of Tanzania	Mtwara
	Herman H. Amma	Director of Marketing	Cashew Board of Tanzania	Mtwara
04.09.04	Fredrick M Ntakabanyula	Town Director	Mtwara/ Mikindani Town Council	Mtwara
04.09.04	R. Vinil Kumar	Cashewnut Quality Controller	Abbas Exports Ltd	Mtwara
04.09.04	U.I. Kilasa	Legal Officer	-do-	Mtwara
06.09.04	Suleiman A Libubura	General Manager	Masasi/ Mtwara Cooperative Union	Dar-es-Salaam
10.09.04	Ben J. Kasege	Outcome Manager Governance	PORALG	Dar-es-Salaam
10.09.04	M. C. Matunga	Acting Director General	Tanzania Cotton Marketing Board	Dar-es-Salaam
11.09.04	John Kyejo	General Manager	Smallholder Tea Dev. Agency	Dar-es-Salaam
11.09.04	Joseph Mallya	Outcome Manager Finance	PORALG	Dar-es-Salaam
04.09.04	R. Vinil Kumar	Cashewnut Quality Controller	Abbasi Exports Limited	Mtwara
01.09.04	Ujwalkantha Sanapati	Business Manager	OLAM	Mtwara
11.09.04	S. K. Magese	Executive Director	Tanzania Sugarcane Growers Ass	Dar-es-Salaam