



## Improving ginning technologies and reviewing taxes to benefit cotton farmers in the United Republic of Tanzania

### Main Findings and Recommendations

Although cotton is a major export crop in the URT, domestic cotton farmers received lower prices than what they could have potentially obtained between 2005 and 2010. Price disincentives were mainly due to taxes and levies applied to the cotton sector, and to inefficient ginneries. Farm input subsidies and additional support from the Tanzania Cotton Board (TCB) do not fully compensate for these disincentives. MAFAP analysis suggests that the following measures would increase prices for producers:

- ▶ reducing government levies and taxes on cotton producers; and
- ▶ facilitating investments in the cotton sector to modernize ginning technologies.

### SUMMARY

MAFAP analysis shows that producers of raw cotton received prices that were lower than what they would have received without policy interventions and with better functioning value chains. These low prices were associated with taxes and levies in the cotton market. Moreover, cotton farmers would get better prices if the technical efficiency of ginneries was improved. The reasons why only a very small percentage of cotton lint is spun domestically, and levels of additional processing remain persistently low, should be explored further.

### INTRODUCTION

Cotton is the URT's largest export crop after coffee and accounts for 14 percent of its total agricultural exports. Forty percent of Tanzanian's livelihoods are linked to the cotton sector, which also provides livelihoods for over 500,000 rural households. Despite policy makers' efforts to boost production and productivity, yields and the technical efficiency of ginneries remain low. Nonetheless, there is a huge potential for increasing production and exports – especially since the global demand for cotton has been steadily growing.

### KEY ISSUES

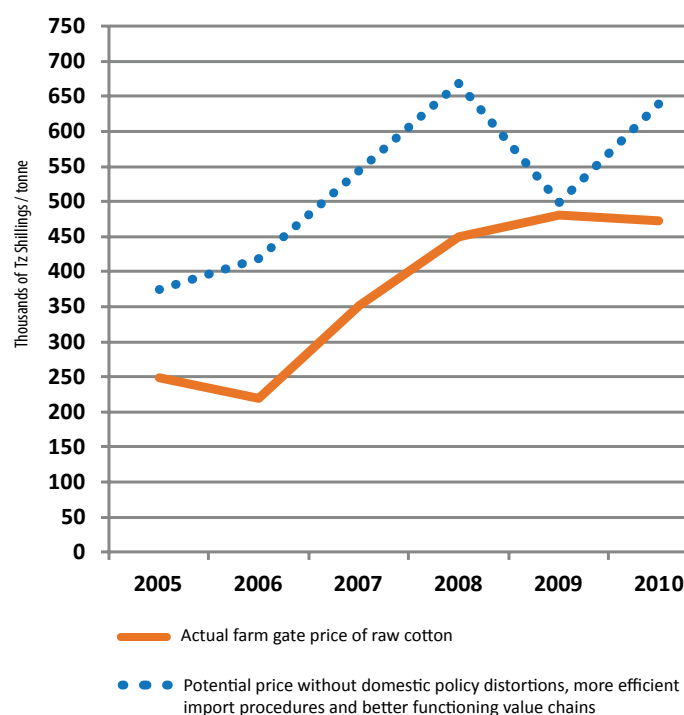
*High taxes and levies have increased price disincentives for farmers.*

The Tanzanian cotton market is subject to taxes and levies imposed at the district, regional and central government levels. Moreover, cooperative unions and societies are also taxed. This heavy taxation, which amounts to an average of 12 per cent of the farm gate price, penalizes farmers. It also has a big impact on farmers' investment capacity. Reducing the current level of taxation, taking into account its impact on producers and ginneries, would be beneficial for the entire cotton sector.

*In addition, the low efficiency of ginneries pushes farm prices downwards.*

The ginning sector's low Ginning Out Turn (GOT) ratio (i.e. the quantity of lint produced by ginneries per tonne of seed cotton) also creates price disincentives for farmers. If the investment environment for the cotton sector was improved, ginneries could be modernized to allow for a GOT ratio closer to world standards. This would increase the quantity of cotton lint produced per ton of raw cotton and subsequently improve

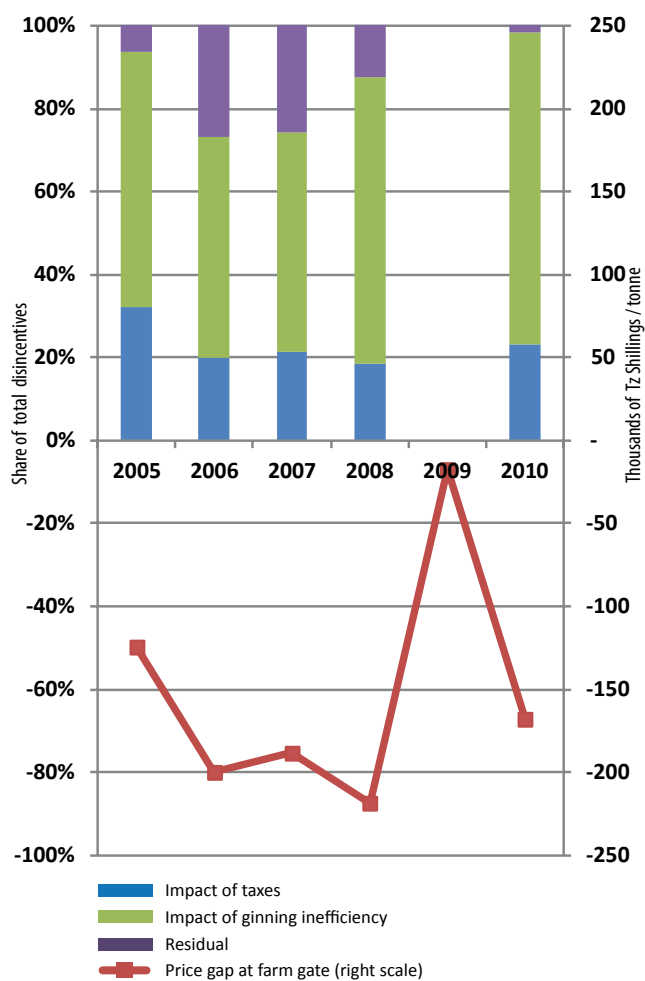
Figure 1. Producer prices of raw cotton in the United Republic of Tanzania (in thousands of Tz shillings/tonne), 2005-2010



the prices farmers receive for raw cotton. The investment environment could be improved by making the current Cotton Industry Implementation Plan focus more on the ginning industry, and not only on farmers and the textile industry.

MAFAP's analysis show that taxes account for approximately 20 per cent of total disincentives while the impact of inefficient ginning is at least three times as high (Figure 2). The remaining gap cannot be attributed to any specific causes.

**Figure 2. Causes of price disincentives for producers of cotton in the United Republic of Tanzania (2005-2010)**



**Government support for farm input subsidies did not fully compensate price disincentives for cotton farmers.**

Public expenditure to support the cotton sector steadily increased from 2007 to 2010 (Figure 3). Types of support include fertilizer and insecticide subsidies, as well as funding the Tanzanian Cotton Board and the Ukiliguru Cotton Research Centre. However, the level of public expenditure to support the cotton sector is low compared to the level of disincentives caused by high taxes and the inefficient ginning industry. Public spending on farm input subsidies should be complemented by policies aimed at strengthening the investment capacity of farmers and ginners. Moreover, it would probably be more efficient to reduce the tax burden on cotton producers and allow them to use the additional income they gain to purchase inputs.

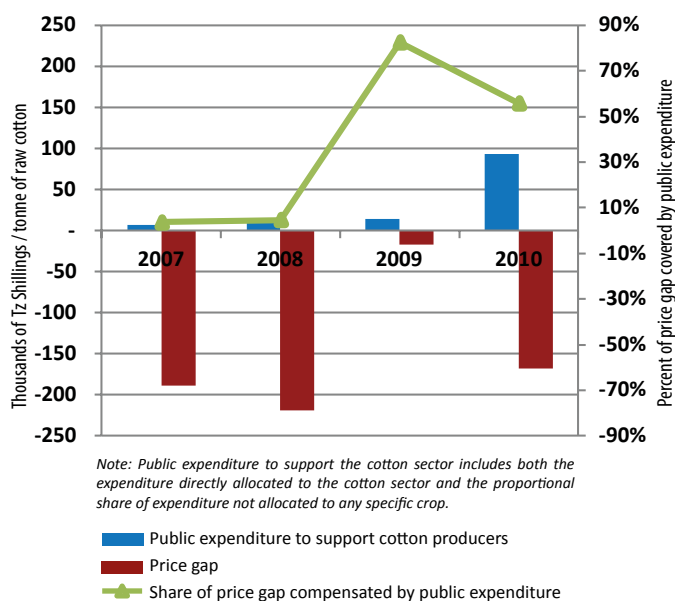
**Competition among ginners (buyers) reduced the level of disincentives for farmers.**

The URT's cotton sector is a good example of free market competition. When production was low, as it was in 2009, the competitive market environment allowed ginners to bid up prices and reduced disincentives for farmers significantly (Figure 1). However, markets operated in a less competitive way when production was not a limiting factor. Indeed, in years when production was relatively high, there were more disincentives not readily explained by taxes or inefficiencies (purple bar in Figure 2).

**CONCLUSION**

Price disincentives for cotton farmers were mostly related to taxation and inefficient ginning technology. The Cotton Industry Implementation Plan and other policies should include objectives aimed at modernizing the ginning industry. A more efficient cotton sector would also increase the volume of cotton processed in the country.

**Figure 3. Price gaps due to taxation and inefficiencies versus public expenditure in the cotton sector (2005-2010)**



Note: Public expenditure to support the cotton sector includes both the expenditure directly allocated to the cotton sector and the proportional share of expenditure not allocated to any specific crop.

**Further Reading**

**MAFAP Technical Note on Incentives and Disincentives for Cotton in the United Republic of Tanzania (2012)**

by Mwinuka, L. and Maro, F.

Available at: <http://www.fao.org/mafap>

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