Policy Prioritizing through Value Chain Analysis (PPVC)

Tracking and assessment: Private sector responses to policy and investment reforms – A case study from Tanzania

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Tanzania Sunflower value chain: 2017 -2022

Tracking and assessing private sector responses and outcomes of policy reforms

- Selection of indicators to track and assess specific policy reforms in an end-to-end value chain approach, i.e. Tracking and assessing within the market space
- Track current/potential 2nd round “spill-overs”
- Adjustment/refinement of recommendation based on responses and market dynamics

Tracking implementation of reforms since 2017 & Private sector responses

2017 — 2018 — 2019 — 2020 — 2021 — 2022

Policy reform 1: Temporary VAT exemption on agricultural processing equipment:

- Solvent extraction processing plants
- Oil refining equipment

Policy reform 2: Temporary VAT exemption on sunflower seed cake

Policy reform 3: Fast tracking of registration of hybrid seeds

June 2018

Policy reform 1:** Extension of VAT exemption on solvent extraction & oil refining machinery

Policy reform 4: Crude & refined palm & sunflower oil import tariff:

- Improve enforcement and monitoring - crude vs refined imports
- Crude oil: From 10% to 25%
- Refined oil: 25% to 35%

July 2019

Policy reform 4:** Extension of tariffs on crude & refined palm- & sunflower oil for an additional 1 year

Tracking implementation of reforms since 2017 & Private sector responses

Policy reform 1: Temporary VAT exemption on agricultural processing equipment:
- Solvent extraction processing plants
- Oil refining equipment

Policy reform 2: Temporary VAT exemption on sunflower seed cake

Outcomes:

- Installation of **2 new solvent extraction** plants & **3 new refining plants**

- Value of Tanzania machinery used in vegetable oil extraction: **+ 133% in 2018 from 2017**
- Increase in **seed cake exports** to Kenya

2017 — 2018 — June & July 2018 — 2019 — July 2019 — 2020 — 2021 — 2022

Policy reform 4:** Extension of tariffs on crude & refined palm- & sunflower oil for an additional 1 year

Policy reform 1:** Extension of VAT exemption on solvent extraction & oil refining machinery

Policy reform 4: Crude & refined palm & sunflower oil import tariff:
- Initial: From 10% to 25%
- From 25% to 35% for one year

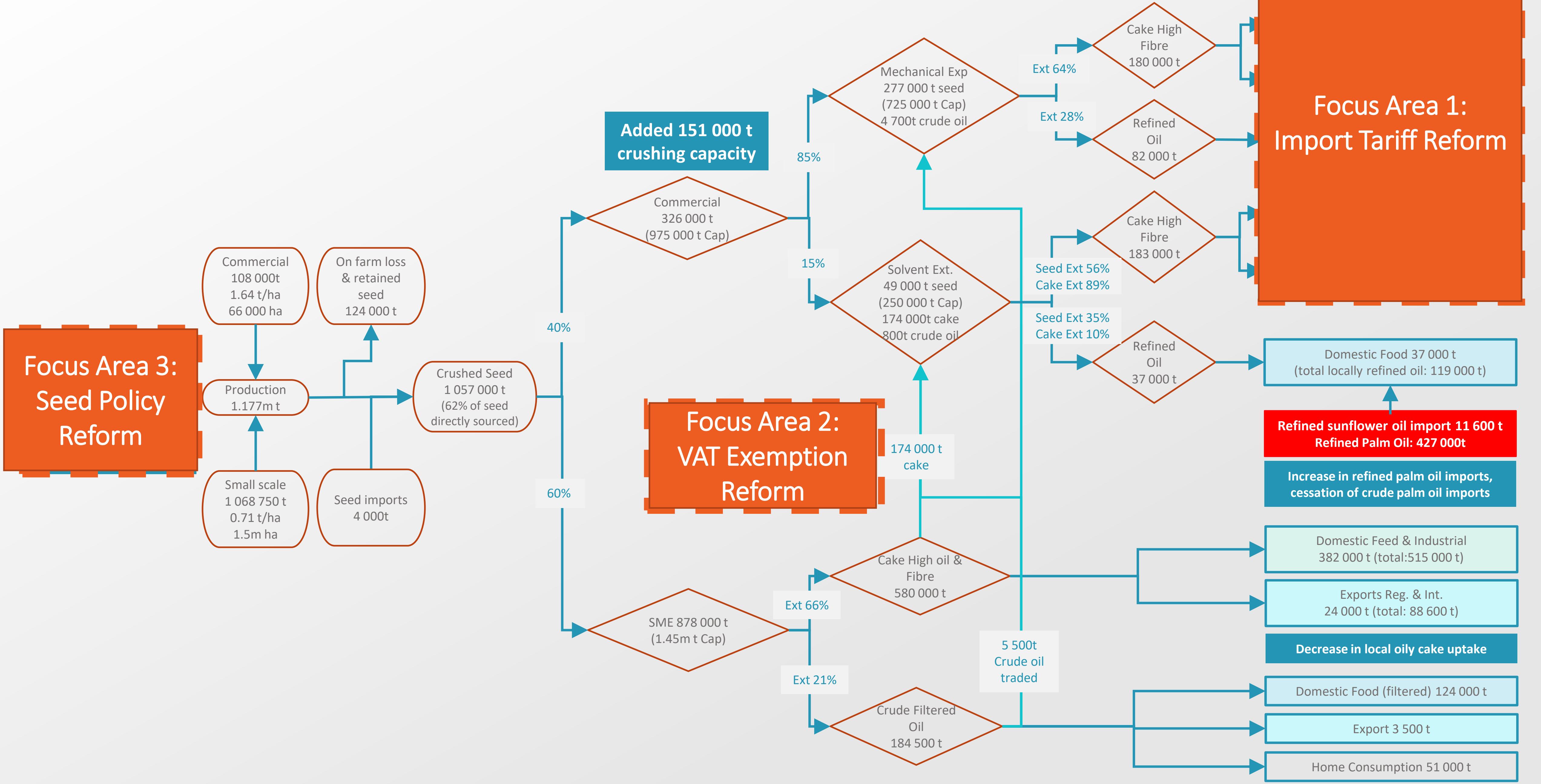
- Evidence of **reduced smuggling** of refined palm oil imports - Increase in **reporting of refined palm oil**
- **60% decline** in crude palm oil imports

Policy reform 3: Fast tracking of registration of hybrid seeds

Outcomes:

+US$200,000 investments in seed breeding & multiplication with 12 hybrid seeds recently being registered, reducing cost of seeds by 44% (cost of domestically produced high-yielding hybrid seed = 50% of imported hybrids. Release of new varieties – from 7 years to 13 months

Tanzania sunflower VC End-to-end VC approach



Tracking & assessment of import tariff reforms

Tracking the role of trade policies as catalyst for development of domestic value chains

PROPOSED INTERVENTIONS

- Import replacement - Trade policy enforcement & monitoring
- Correct classification & implementation of import tariff on crude & refined oil
- Increase in general duty on palm & sunflower oil to improve relative competitiveness of domestic production

ACTIONED REFORMS

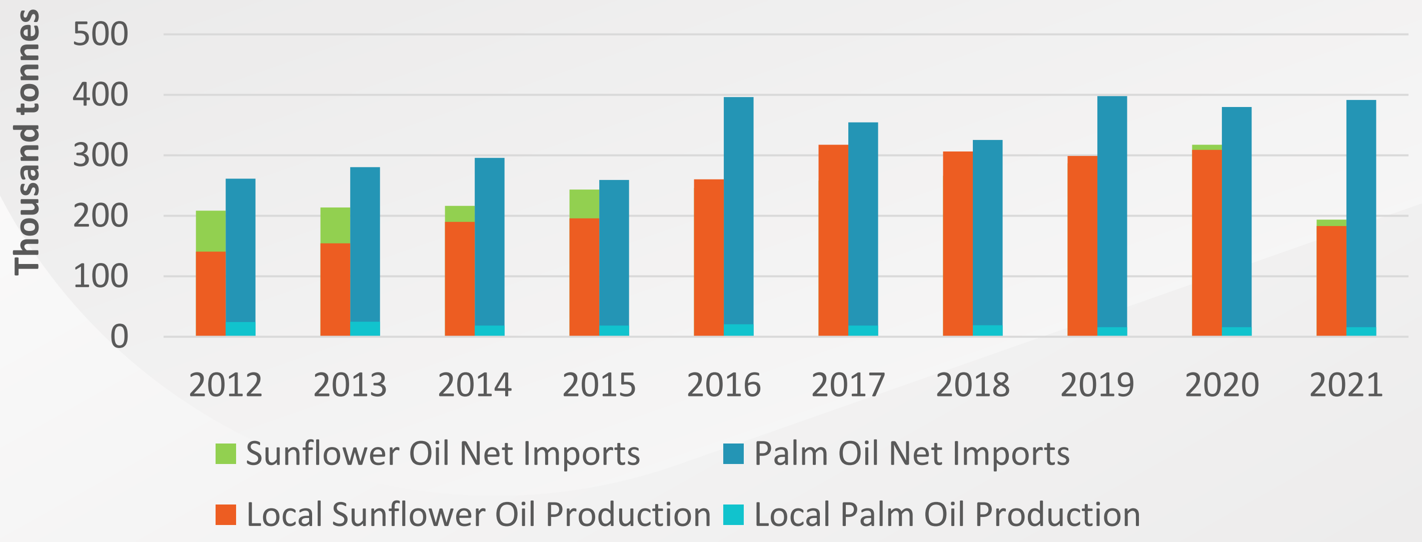
1. Crude & Refined palm oil tariff adjustments - initially to 25% and 35% from 10% and 25%
2. Crude & Refined sunflower oil tariff adjustments to 25% and 35% from 10% and 25%
3. Enforcement mechanisms tightened to ensure correct classification of crude and refined oil imports in port

ASSESSMENT INDICATORS

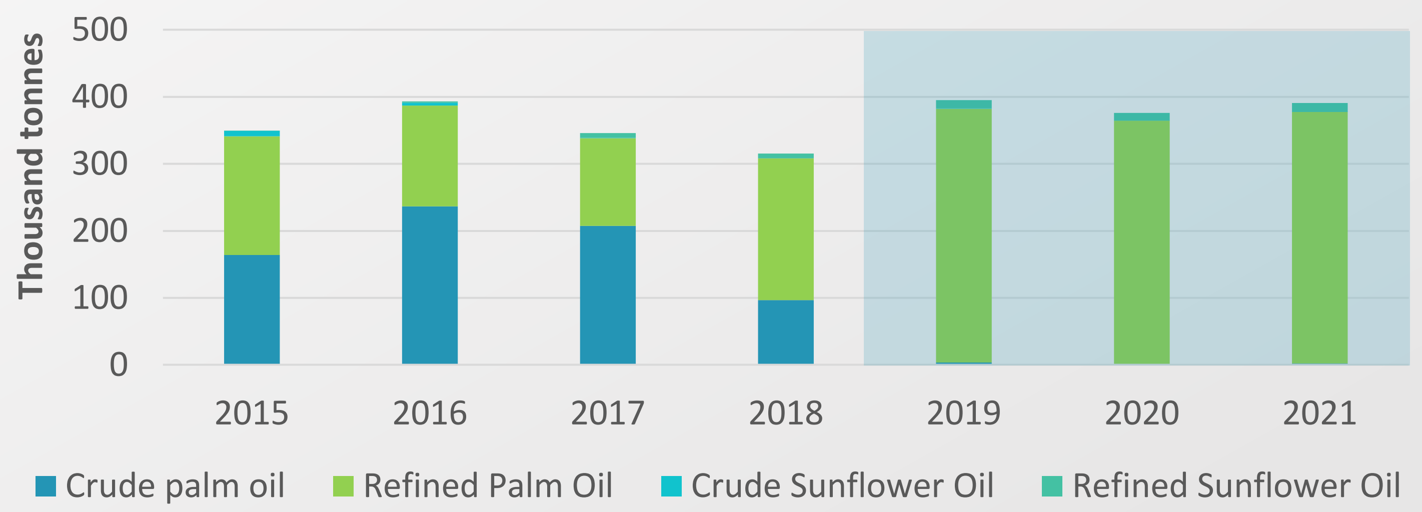
1. Changes in imported volumes post-implementation
2. Changes in composition of imports of crude & refined oil
3. Changes in domestic production volumes of sunflower oil
4. Relative competitiveness – domestic production costs vs import parity prices

Assessment of trade policies – production & trade response

Sunflower and Palm Oil Production and Imports



Palm and sunflower oil import composition



Significant increase in domestic sunflower oil production in recent years – but not sustained in 2021 due to sunflower availability constraints

Despite increasing local sunflower oil production, palm oil imports still largest share of vegetable oil consumption

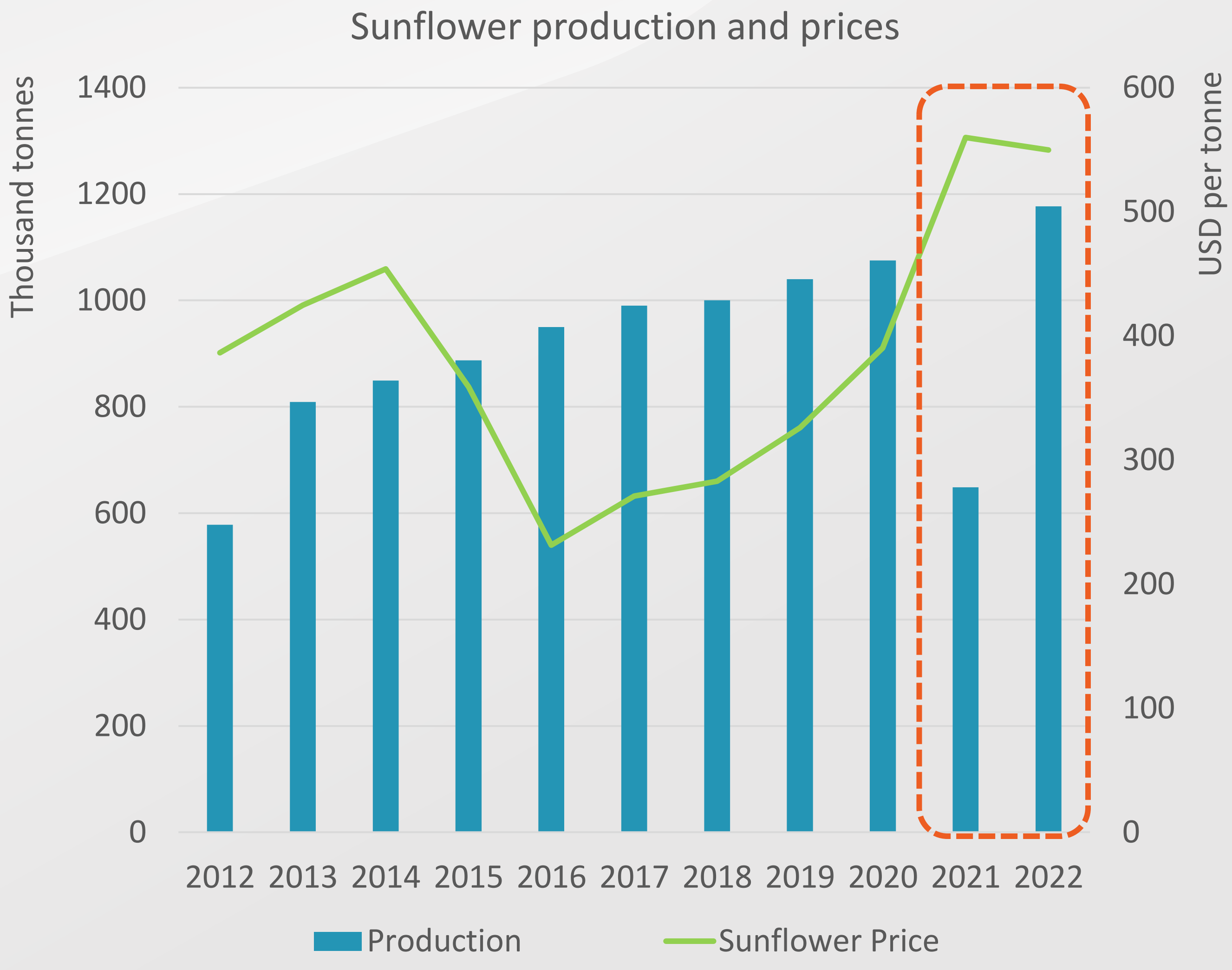
While some success is clear – other policy interventions take time to reflect through value chain – more still to do to ensure sufficient production of sunflower for domestic processing

Enforcement mechanisms & greater equalization between tariffs key to split between crude and refined vegetable oil imports that changed after 2018

Source: FAO, ITC Trademap, local data

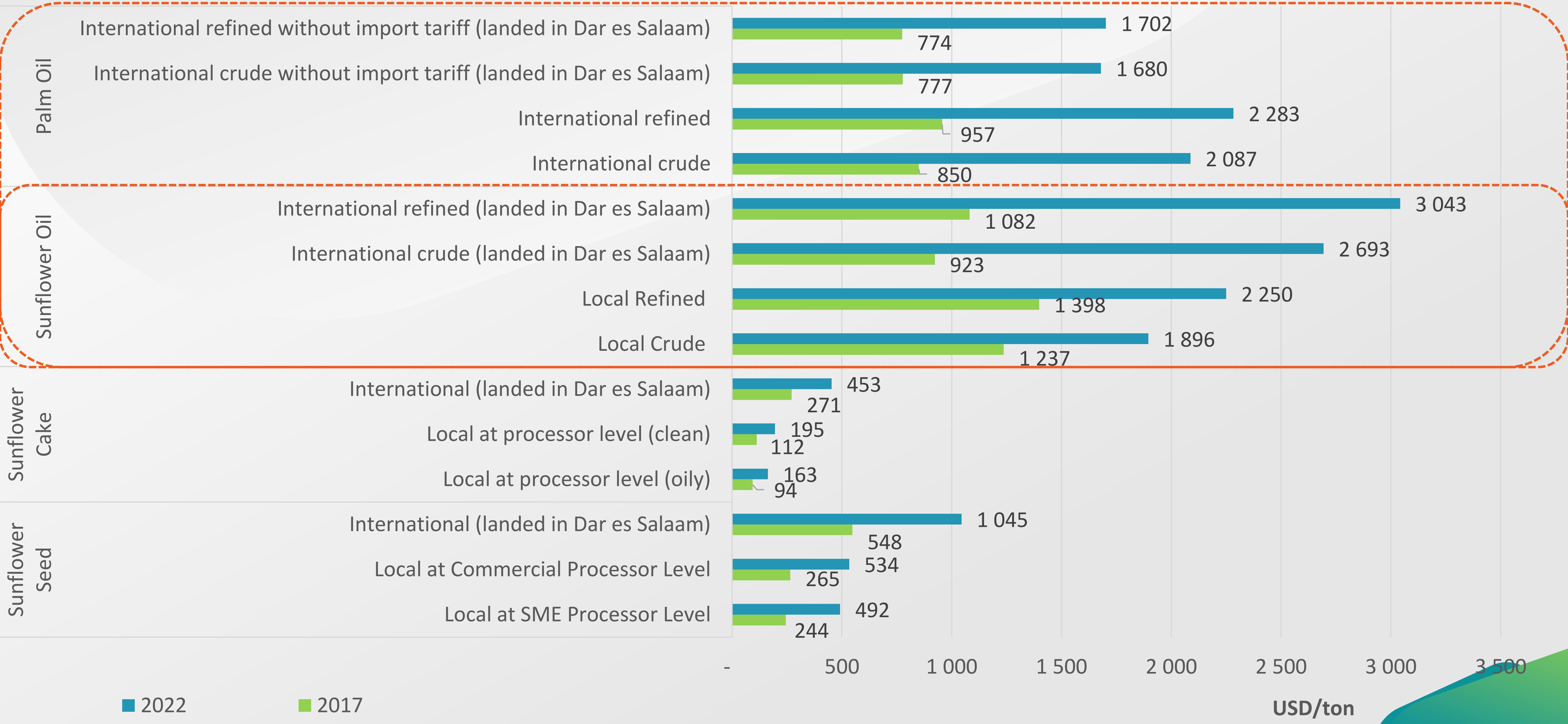
Assessment of trade policies in changing market

- Exogenous market factors also influence outcomes over time
  - Drought conditions influenced domestic production volumes
  - Global market dynamics influenced vegetable oil complex
    - Russia-Ukraine Crisis
    - Weather conditions in key regions (South America, Canada, Malaysia)
- Exogenous factors are acknowledged – resilience to them should also be a policy objective



Source: FAO, ITC Trademap, local data

Relative competitiveness: Domestic vs. import parity prices



Tracking & assessment of VAT reforms

Assessment of policy reforms and examples of private sector led effects on IAT

PROPOSED INTERVENTIONS

- Improved utilization of existing capacity
- Repositioning of SME's - Input VAT removal on crude oil procured from SME processors
- Investment in solvent extraction capacity
- VAT reduction on refined sunflower oil
- Aggregation knowledge generation

ACTIONED REFORMS

1. VAT exemption on agricultural processing equipment:
2. VAT exemption on sunflower seed cake
3. Government intention to zero rate VAT for companies doing both crushing and refining of sunflower oil (Announcement by the MoA on 5th April 2022)

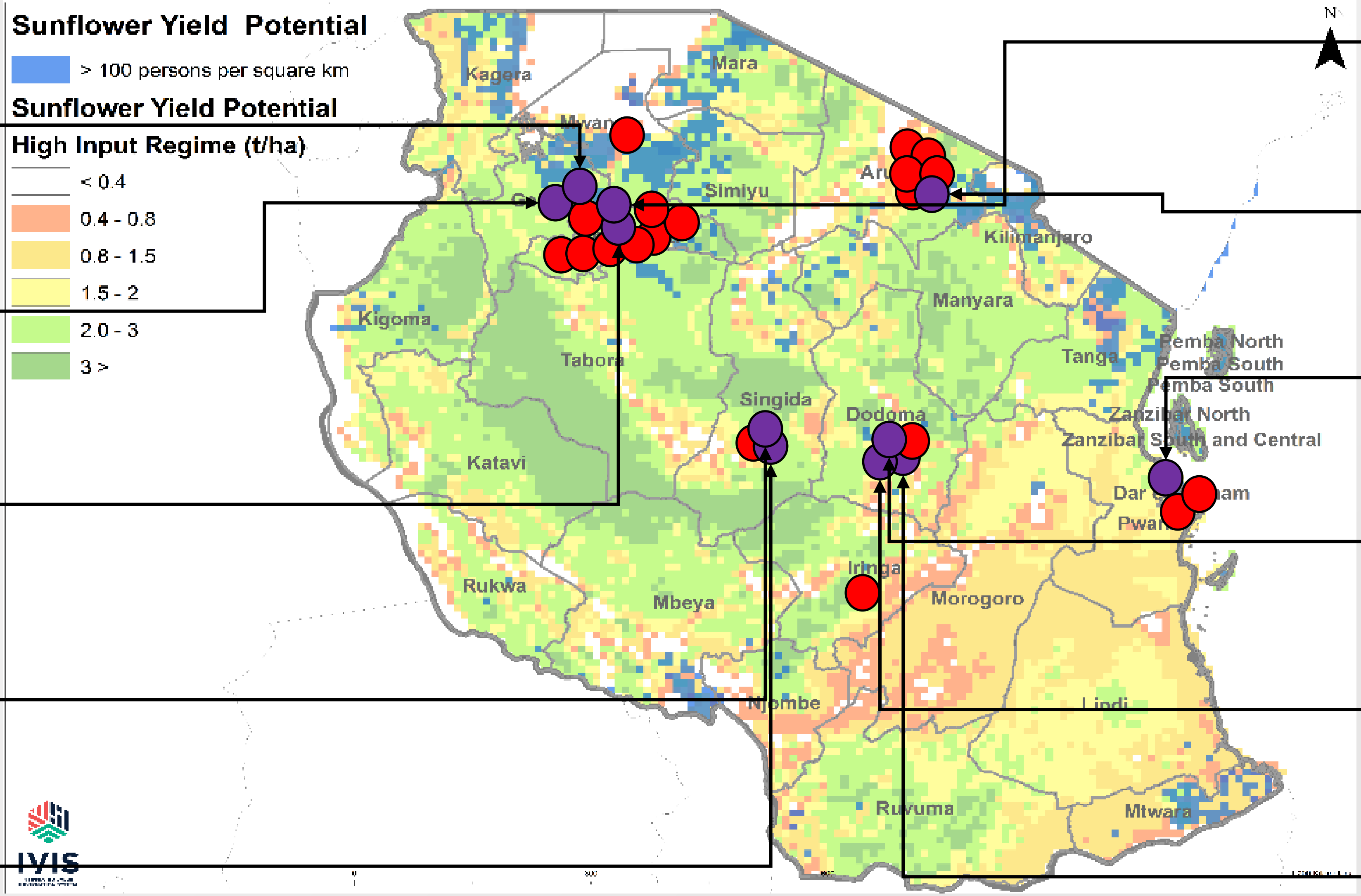
ASSESSMENT INDICATORS

1. Private sector investment in crushing / refining infrastructure
2. Using end-to-end VC flow, assess a change in production flow of oily cake into commercial market
3. Gross margins
4. Utilization rates
5. Secondary effects of reforms implemented by private sector

Investments cluster around Dodoma and the Lakes region (Shinyanga & Kahama), close to production zones

Key

- Existing Plants
- New plants



Company	KCCL
Location	Kahama
Capacity	30 000 tons
Type	Solvent

Company	Nyarusai Ltd
Location	Kahama
Capacity	10 000 tons
Est. Cost	US$2.4 million
Type	Solvent

Company	Gilitu Enterprises
Location	Shinyanga
Capacity	30 000 tons
Est. Cost	US$7 million
Type	Mechanical

Company	QStek
Location	Singida
Capacity	12 000 tons
Type	Mechanical & Solvent

Company	Mt Meru
Location	Singida
Capacity	230 000 tons
Type	Mechanical & Solvent

Company	Bugali Investment Limited
Location	Shinyanga
Capacity	12 000 tons
Type	Mechanical

Company	Mt Meru
Location	Arusha
Capacity	110 000 tons
Type	Solvent

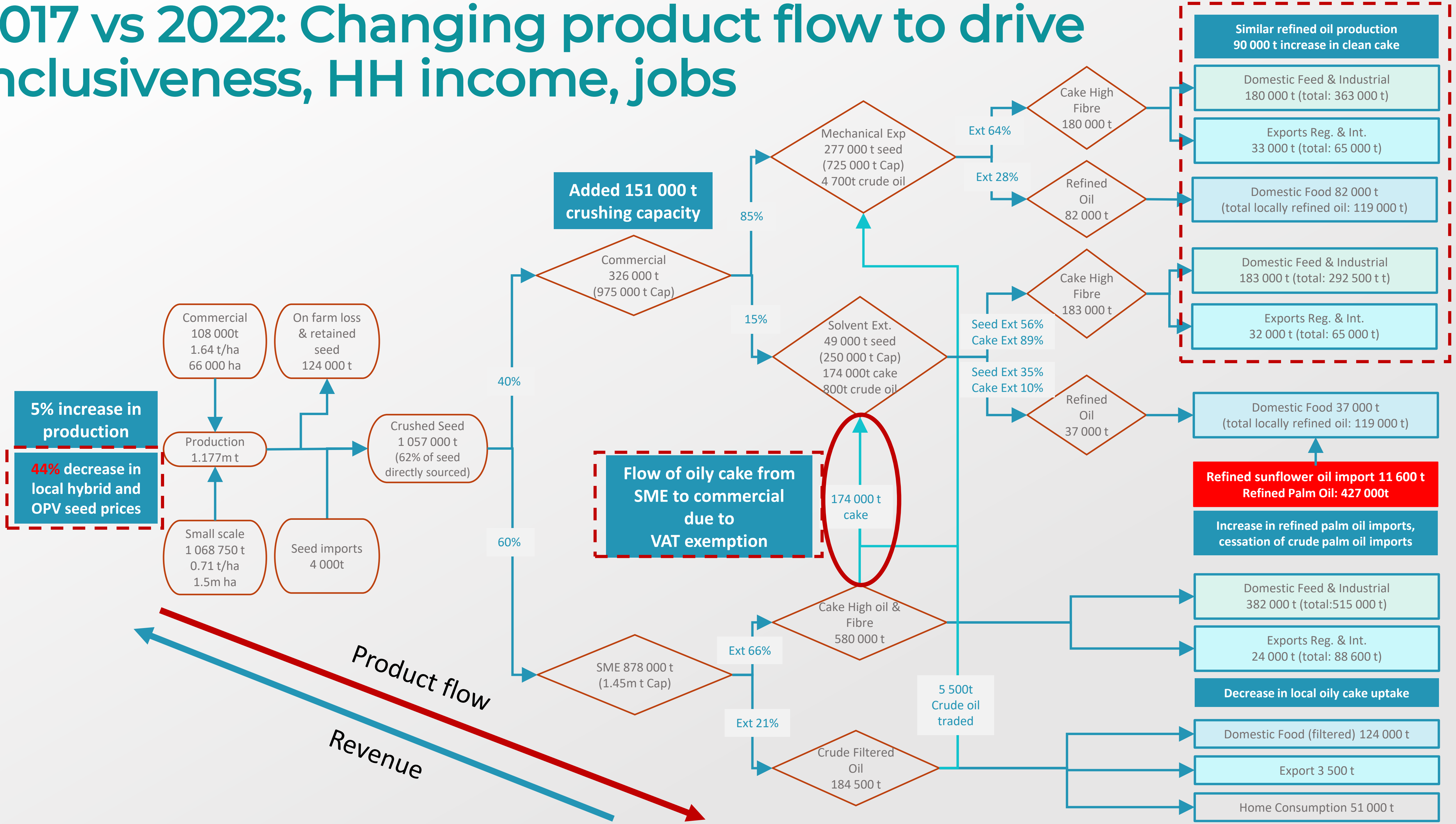
Company	Majinja Logistics
Location	Dar es Salaam
Capacity	30 000 tons
Type	Mechanical

Company	CPB (not operating)
Location	Dodoma
Capacity	6 000 tons
	Mechanical

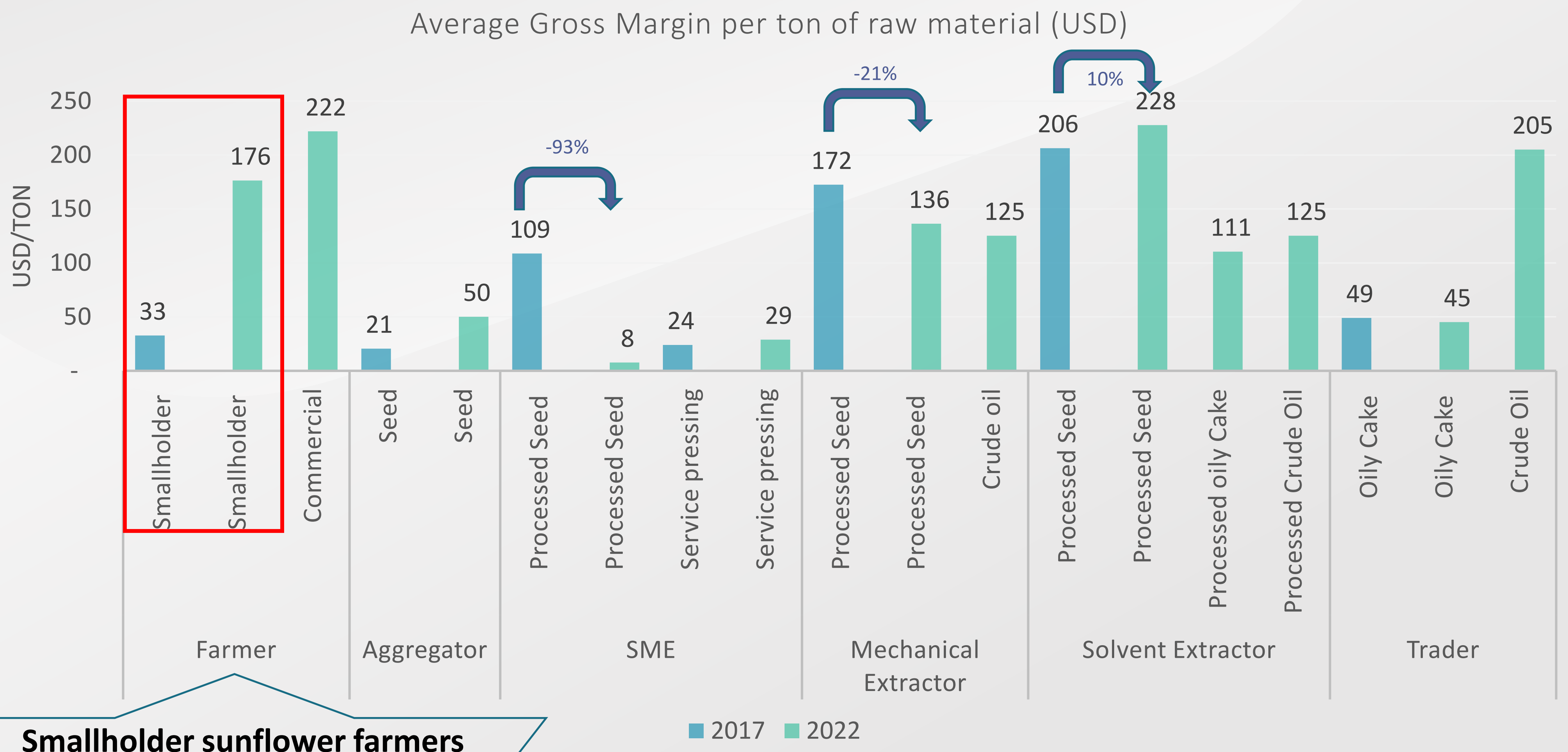
Company	Margin Ltd
Location	Dodoma
Capacity	30 000 tons
Type	Solvent

Company	Pyxus Agriculture
Location	Dodoma
Capacity	21 600 tons
Type	Mechanical

2017 vs 2022: Changing product flow to drive inclusiveness, HH income, jobs



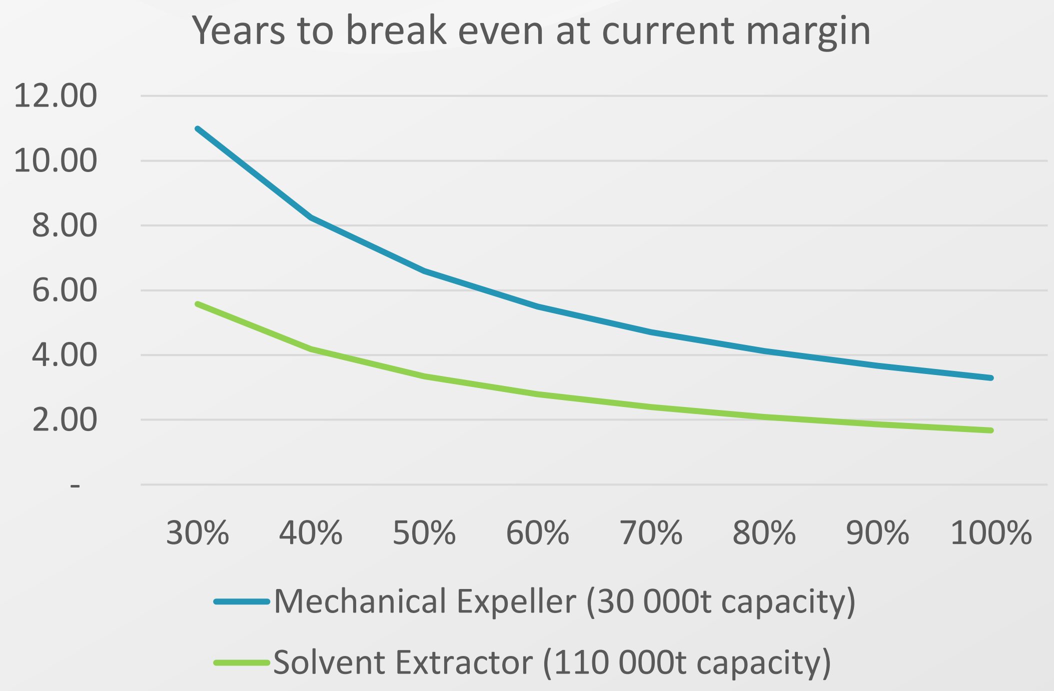
Sunflower VC Relative competitiveness & profitability 2017 vs 2022



Smallholder sunflower farmers
- >400% increase in GM
- 1 million HH in sunflower VC

Sunflower crushing plants utilization remains below LT sustainable levels

	Utilisation		
	2017	Current (2022)	Ideal (2030)
Solvent extraction	0%	19%	70%
Mechanical expeller	31%	38%	71%
SME	37%	49%	69%



- Despite of current positive crushing margins due to vegetable oils price spike, utilization rates remain below levels that will attract further long-run capital investments
- For typical investment period of 6-8 years, utilization rate above 50% is required.
- International benchmark for utilization above 75%
- Many companies actively perusing contract farming models to expand draw base and increase access to seed

Private sector led extension services

Offtake agreements initiating micro finance & improved input access – but challenges remain (e.g. seed practices)

Public sector implementation of extension services

Private sector led technology adoption & mechanization training

Source: Lonagro Tanzania

Rural storage & traceability

Sunflower oilcake

Marketing

Oil refinement & quality control