Implication of Non-Tariff Barriers (NTBs) on Profitability and Market Access among Rice Processors in Tanzania

CARI
Competitive African Rice Initiative
www.cari-project.org

CARI POLICY BRIEF

September 2017

Key Message

Non-tariff barriers (NTBs) reduce rice profitability and limit market access among millers in Tanzania

Non-Tariff Barriers;

i) Reduce rice profitability through increased cost of rice marketing. For example, a processor selling 30MT in towns outside their location but within Tanzania loses up to 5% of their gross profit while those exporting 30MT lose up to 20% of their gross profit due to NTBs. Some of the costs leading to the reduction in gross profit include an average of USD 2 per one way trip[1] (hereafter trip) for clearance by local authorities and USD 80 per trip to acquire health certificates among other clearance charges thereby increasing the cost of rice marketing. This renders rice produced in Tanzania less competitive in domestic and regional markets.

ii) Duplication of roles by government agencies, police roadblocks, bureaucratic customs procedures and multiple weighbridges are the most severe NTBs for traders increasing the time required by rice traders to reach final market destinations by over 50%. This limits market access as more time is required to supply rice in current markets and in exploring new markets.

[1] *Trip in this report is defined as the journey from the point of loading (Mbeya) to a final destination which is a major consumption town such as Dar es Salaam, Arusha etc. or to an export market.*

Kilimo Trust
Transforming Lives Through Agribusiness

german cooperation
DEUTSCHE ZUSAMMENARBEIT

BILL & MELINDA GATES foundation

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

A farmer transporting paddy to a Processor in Mbeya. Photo Credit: Kilimo Trust, 2017

Recommendations

To maximize rice profitability among processors, increase competitiveness of rice produced in Tanzania and enhance market access within and beyond the country borders, the Government of Tanzania should eliminate existing NTBs and curb the emergence of new ones by:

- Fully implementing the Tanzania Customs Integrated System (TANCIS) as a single window business portal to minimize duplication of roles and eliminate multiple charges.
- Introducing and implementing fool-proof authentication technologies such as use of security seals to eliminate multiple inspections of consignments.
- Creating awareness of rice traders simplified modalities of trading across the borders in the "Simplified Trade Regime" under the East Africa Common Market Protocol so that they can take advantage of existing inter-country business agreements among the East African Community (EAC) Partner States.

Summary of findings

NTBs encountered by rice processors in Tanzania include multiple roadblocks, multiple inspections, bribes, multiple weighbridges and cumbersome procedures such as acquiring trade licenses (Figure 1). Ranking the NTBs by their level of severity, multiple police blocks were considered the most severe NTBs by rice processors while clearance procedures at border points were ranked the least severe perhaps because few processors export rice.

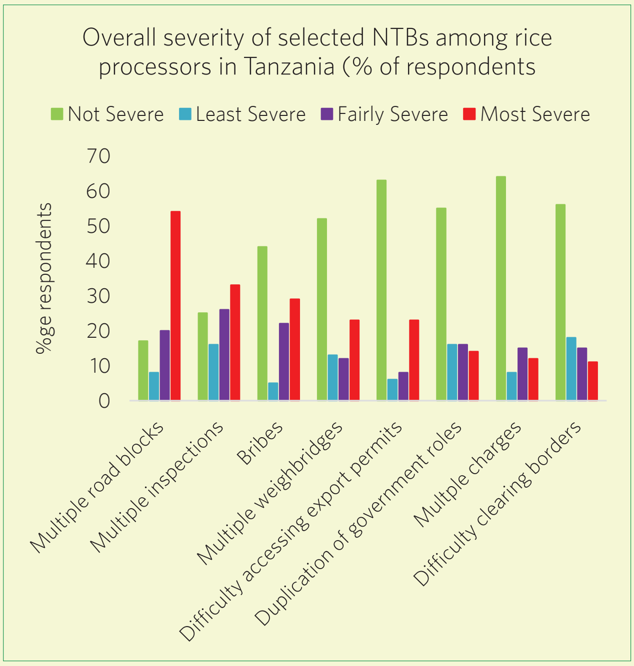

Figure 1: Overall severity of selected NTBs among rice processors in Tanzania.
Source: Kilimo Trust data, 2017

The study also found that; i) NTBs increase the cost of trade through multiple charges. For example, a trader has to pay USD 330 for export permit in addition to USD 80 and USD 90 for health certificates and customs clearance fees respectively per trip; ii) NTBs limit market access as rice processors spend significant amount of their time overcoming the barriers. Duplication of roles by government agencies, police roadblocks, bureaucratic customs procedures and multiple weighbridges increase the time taken to reach final markets by more than 50%.

The evidence

NTBs reduce rice profitability through extra charges.

Costs attributed to major NTBs in rice marketing in Tanzania are summarized in Table 1. To register a rice trading business in Tanzania costs about USD 391, 39% more compared to Rwanda (The World Bank a., 2017) to cater for certificate of incorporation, trade license and legal fees. During transportation of rice, truck drivers pay an average of USD 23 per truck per trip at police road blocks. On average, traders encounter six (6) police roadblocks while transporting rice which means they pay an average of USD 4 per truck per police roadblock. According to Mkuna (2014), some marketing routes in Tanzania record as high as USD 7.5 per roadblock. Further, rice traders part with an average of USD 24 per truck per trip at weighbridges. This finding is consistent with that of Trade Mark South Africa [TMSA], 2013 and Centre for Economic Prosperity, (2011) who reported that the cost

incurred by traders at weighbridges range from USD 4 – 45 per trip in Tanzania. Multiple inspections also increase the cost of rice marketing and especially at border points where trucks are charged USD 200 - 400 per day for parking at the border considering that inspections can take up to three days (TCCIA, 2014).

Table 1: Summary of NTBs in rice marketing in Tanzania and their associated costs

Charge	USD
Business registration per trip	391
Acquisition of export permits per trip	330
Inspections per trip	300
Border and customs fees per trip	90
Acquisition of heath certificates per trip	80
Acquisition of certificate of trade standards per trip	45
Weighbridges per truck per trip	24
Police roadblocks per truck per trip	23
Acquisition of local authority clearance permit per trip	2

Source: Kilimo Trust data, 2017

Other charges include an average of USD 330 per consignment for export permit by exporters. Moreover, exporters pay an additional USD 90 as customs clearance fees per trip, USD 80 for health certificate while local authorities charge a clearance fee of USD 2 per truck per trip (Table 1). A hypothetical case of a processor located in Mbeya and marketing rice in Dar-er-Salaam is used to illustrate the effects of NTBs on profitability of rice in Tanzania (Illustration 1).

Illustration 1:
Effect of NTBs on rice profitability in Tanzania In July 2017, wholesale price of rice in Mbeya was USD 727/MT while that in Dar- er-Salaam was USD 880/MT. Assuming that a rice processor in Mbeya was to transport 30 MT of rice and sell in Dar-es-Salaam, they would incur marketing costs worth USD 1,231 (transport, loading & offloading and local taxes). A processor would then make a gross profit of USD 3,359 (USD 26,400 – USD (21,810 +1,231)) without NTBs. However, a trader in the domestic market would incur an additional USD 655 per trip (from all NTBs other than the export related ones - inspection and acquiring export permit) reducing his gross margins by 19%. Exporters would incur an additional USD 300 and USD 330 for inspection and acquiring export permit respectively further reducing their profit margin by 23%.

Table 2: Effect of NTBs on the time (hours) taken in a one way trip by rice processors

Hours without NTBs	NTBs	Hours with NTBs	% increase in time
18	Roadblocks	44	144%
122	Duplication of government functions	232	90%
8	Difficulty clearing orders	15	88%
33	Weighbridges	58	76%
27	Difficulty acquiring export permits	37	37%
57	Multiple inspections	77	35%
180	Negotiating for bribes	200	11%

Source: Author's computation using Kilimo Trust data, 2017

Table 2 summarizes the average increase in time taken to deliver rice to consumer markets due to specific NTBs. The destination is assumed to be the same per respondent but may change between respondents. Police roadblocks, duplication of functions by government agencies (physical movement from one office to another situated at different locations), cumbersome export procedures and clearance at weighbridges increase the time taken by traders to deliver rice to consumer markets by 144%, 90%, 88% and 76% respectively constituting the most time consuming NTBs (Table 2).

Registering a company in Tanzania involves nine (9) procedures, 90% higher compared to Rwanda. As a result, business registration takes 26 days (420% more) in Tanzania before a trader is issued with a business permit compared to Rwanda. The extra days point to lost business opportunities among processors in Tanzania (World Bank b.,2017). This brief uses duplication of roles by government agencies to illustrate the impact of NTBs on rice marketing (Illustration 2).

Illustration 1:

The nine (9) procedures for business registration in Tanzania are applications for: i) Clearance of the proposed name by Business Registration and Licensing Authority (BRELA); ii) Notarized declaration of compliance by a Notary; iii) Certificate of incorporation by the registrar of companies; iv) Identification number (TIN) by Tanzania Revenue Authority (TRA); v) Obtaining of the TIN by TRA; vi) Business licensing by Local Government Authorities (LGA); vii) Value Added certificate by TRA; viii) Workmen's compensation insurance by Tanzania Insurance Regulatory Authority (TIRA); and ix) Social security number by Social Security Regulatory Authority (SSRA). Clearance with these government take up 96% of time taken to register a business thereby eating into time that otherwise millers would use to market their rice. In Rwanda, procedures i), iii), iv), v), vi) and vii) as listed above are collapsed into two procedures and implemented by the same agency; the Rwanda Development Board, (World Bank, 2017). The overall effect is that business registration in Tanzania takes 26 days compared to Rwanda where it takes 4 days only.

The eventual time rice processors/traders spend due to NTBs depend on the number of NTBs encountered and the actual time spent overcoming each NTB. If a rice trader was to encounter all the NTBs reported in Table 2 above, the average time required to reach the final destination would increase by 481%. The implication would be less time available for rice marketing as well as lost business opportunities.

Methodology

This policy brief is the product of a study conducted by Kilimo Trust in March - August 2017 to assess the effects of NTBs on rice profitability and market access among rice processors in Tanzania.

The study involved two phases: I) review of literature to document existing information on the types of NTBs affecting marketing of food commodities and their effect on rice profitability and market access. Phase I also identified gaps in literature and especially with regard to NTBs that constrain rice marketing. This formed the basis for phase II) that entailed collection of primary data focusing on rice processors around the areas where CARI Tanzania[2] is implemented (Mbeya and Shinyanga) to fill the identified gaps. A semi-structured questionnaire was used to capture data from 63 rice millers/traders who were selected using simple random sampling. Analysis was conducted using STATA (13). Findings from the study were synthesized into this policy brief.

[2] *The Competitive African Rice Initiative (CARI) is a development project with the goal to improve the livelihoods of 120,000 smallholder rice farmers in Tanzania, Nigeria, Ghana and Burkina Faso. CARI-Tanzania will contribute to the project goal by reaching at least 30,000 rice farmers in Tanzania with a daily income below USD 2. The project aims to work with rice millers and traders as value chain anchors who provide the much needed "pull" to stimulate higher rice production. Secondary beneficiaries of the project are rural service providers such as agro-dealers. CARI-Tanzania is implemented by Kilimo Trust using rice millers as the link between consumers, producers and service providers in the rice value chain through a consortium model where rice farmers and a miller work together as equal agribusiness partners for mutual benefits (Kilimo Trust, 2017).*

References

Center for Economic Prosperity, 2011. Road blocks on main truck transit routes. Are all check points i n Tanzania necessary?

Mkuna E., 2014. East Africa Community (EAC) Non-Tariff Barriers and Their Effects on Tanzanian Small and Medium Agro Enterprises Cross Border Trade.

Odongo M., 2017. Elimination of non-tariff barriers to trade in East Africa. Accessed at https://www.oecd.org/aidfortrade/case stories/casestories-2017/CS-72-TMEAElimination-of-non-tariff-barriers-totrade-in-East-Africa.pdf.

TCCIA, 2014. http://www.tccia.com/tccia/wpcontent/uploads/2011/07/TOP-5-NTBs-IN-TANZANIA.pdf.

Trade Mark South Africa [TMSA], 2013.http://www.trademarksa.org/news/tanzania-money-still-changing-handsweighbridges.

The World Bank a., 2017. Doing Business; starting a business. http://www.doingbusiness.org/data/exploreeconomies/tanzania/starting-abusiness

The World Bank b., 2017. Doing Business; starting a business. http://www.doingbusiness.org/data/exploreeconomies/rwanda/starting-abusiness

World Bank, 2017. Doing Business Comparing Business Regulation for Domestic Firms in 190 Economies 2017. Available at http://creativecommons.org/licenses/by/3.0/igo.

Definition of Important Terms

Non-Tariff Barriers (NTBs) - forms barriers to trade other than tariffs e.g. duplication of roles by government agencies.

Tanzania Customs Integrated System (TANCIS)-is a system built on hi-tech principles with a view to increasing effectiveness, efficiency, transparency, and reliability in the Customs administration. Being a web based system TANCIS progressively facilitates paperless operations leading to a significant reduction in costs of doing business. TANCIS has replaced the previous customs management system – ASYCUDA++ that has been in use in Tanzania since 2005.

Simplified Trade Regime- under the EAC Customs Union, the Simplified Trade Regime (STR) is a special provision aimed specifically to ease the process of trading across the EAC borders for small traders who regularly transact in low value consignments-below USD, 2000.

Multiple inspections-Inspections within a country such as for verification of quality and quantity that consignments have to go through before reaching final market destinations.

Kilimo Trust Head Quarters
Plot 42 Princess Anne Drive, Bugolobi
P.O.Box 71782, Kampala Uganda
Tel: +256 392 264 980/1 , +256 200 926 498
Email: admin@kilimotrust.org

Website: www.kilimotrust.org

Kilimo Trust Tanzania
Plot 455, Avocado Street, Kawe
P.O.BOX 106217, Dar-es-Salaam, Tanzania
Tel: +255 22 278 1299
Email: admintz@kilimotrust.co.tz

Kilimo Trust Kenya
Ravine Road, opposite Kenya Medical Supplies Authority (KEMSA) Nakuru Depot
Office: Smallholder Dairy Commercialization Programme - Programme Coordination Unit
P.O. Box 12261-20100, Nakuru, Kenya
Tel: +254 721 748 056 | Email: admin@kilimotrust.org

Kilimo Trust Rwanda
Magerwa Street, KK 6 Avenue
House NHOB 10 -NAEB Premises
P.O Box 5448 Kigali – Rwanda
Tel: +250 788 874 901
Email: admin@kilimotrust.org