



The United Republic of Tanzania
Agriculture Sector Lead Ministries

4TH ANNUAL AGRICULTURAL POLICY CONFERENCE [AAPC]

Integrating Food and Nutrition Security into Economic Transformation and Industrialization Agenda:

How can agriculture be the driver rather than follower of economic transformation in Tanzania?



New Dodoma Hotel, Dodoma

14th - 16th February, 2018



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FROM BULK SUPPLIES TO BULK PROCUREMENTS: A PARADIGM SHIFT FOR IMPROVING SMALL SCALE FARMERS ACCESS TO QUALITY FERTILIZERS FOR INDUSTRIAL TANZANIA

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Presentation outline

1. Introduction and background
2. BPS legal and institutional framework
3. BPS at importation level
4. BPS at domestic distribution level (wholesale and retail)
5. BPS at farm level
6. BPS success stories and case studies
7. BPS hiccups and the road map



Introduction

Fertilizer is one of the most important inputs for increasing crop yield. In observation of this, over more than half a century, the Government of Tanzania has deployed a variety of approaches in overcoming the challenge of high prices that inhibits access to fertilizers by small scale farmers (SSF).

Some of the approaches were:

1. Input subsidies (Transport, direct price subsidies etc.)
2. Input loans by crop buyers (Factories, millers, agribusiness men etc.)
3. Input loans by banks through guarantees from crop buyers and/or cooperative unions



The BPS value chain links

Supply side (5 links. For the sake of cost minimization, BPS aims at reducing the links to 3 or 2 depending on demand side farming scale and purchasing power):

1. Manufacturers
2. Importers (take fertilizer DSM from manufacturers)
3. Distributors (take fertilizer from importers to regional HQ and some LGAs)
4. Wholesalers (take fertilizers from distributors to LGAs HQ and some ward commercial centers)
5. Retailers (take fertilizers from wholesalers to retail shops where farmers purchase)

Demand side:

- Small scale farmers (SSF)
- Medium scale farmers (MSF)
- Large scale farmers (LSF)

The Bulk Procurement System process

The fertilizer Bulk Procurement System (BPS) was established by the Minister of Agriculture Hon. Dr. Charles J. Tizeba (MP) following the Fertilizer (Bulk Procurement) regulations, 2017 published in the Government Notice – GN) No. 49 of February 17, 2017.

Through these regulations, all importers submit their requirements to the regulator (TFRA). After submission of requirements, a tender is announced and one prequalified successful bidder imports all the fertilizer on behalf of others using his own source of funds.

The first BPS tender was opened on July 21, 2017 for importation of basal fertilizer (DAP) and top dressing fertilizer (Urea). The first cargo arrived in September, 2017



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Indicative Prices

As a way of making SSF realize the BPS volume discount, TFRA set indicative prices according to section 4(1)(u) of the Fertilizer Act, 2009 and regulation 56 of the Fertilizer (Amendment) Regulations, 2017.



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Fertilizer indicative prices: stakeholder participation

The fertilizers under indicative prices were calculated for fertilizers that were imported through BPS (DAP and Urea). Indicative prices for other fertilizer types will be announced later.

The indicative prices were calculated by TFRA by considering the costs identified by the fertilizer stakeholders (FST – Fertilizer Society of Tanzania)



Fertilizer indicative prices: Cost build up

The following costs were considered in the indicative price structure:

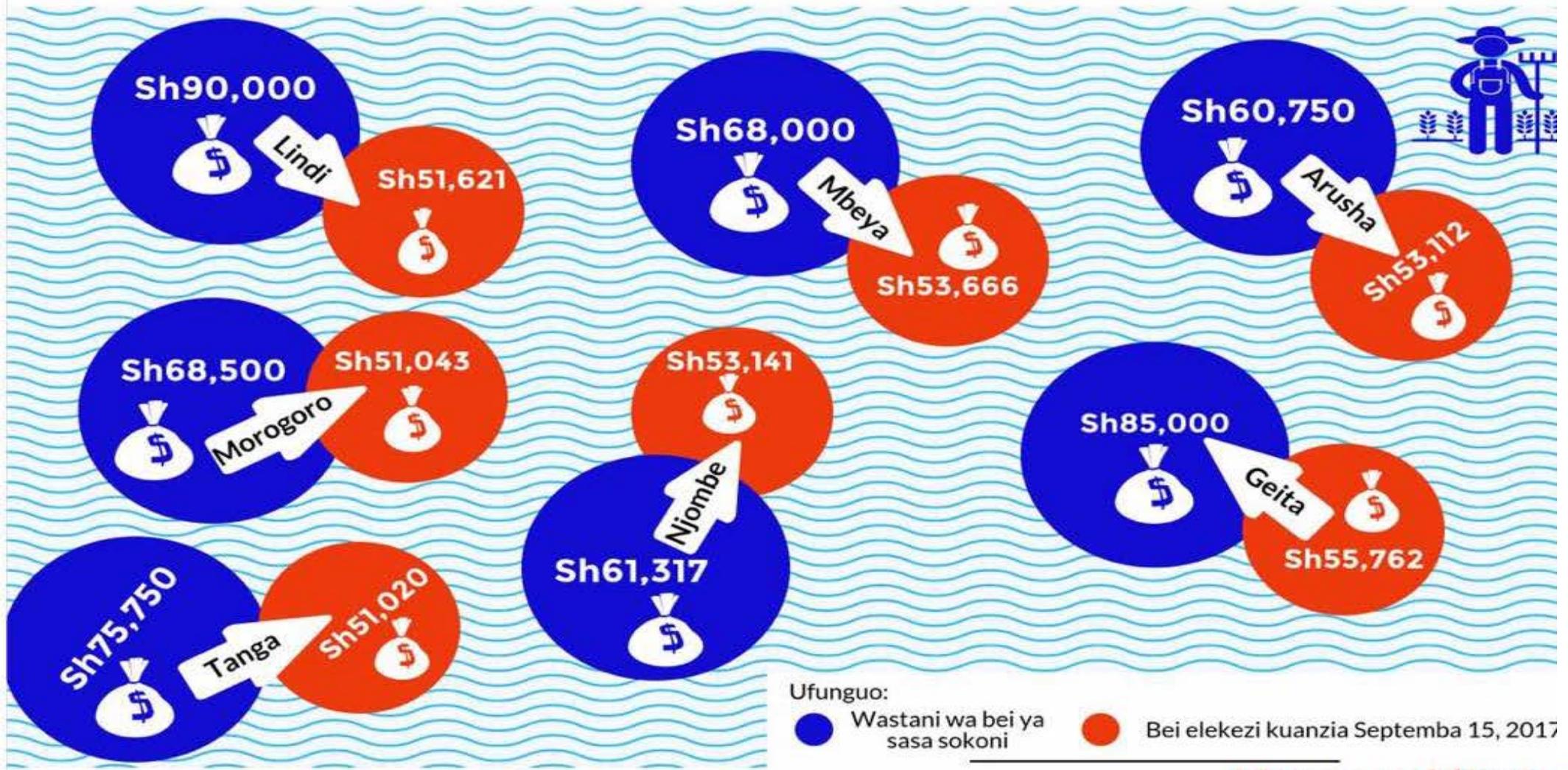
1. FOB as offered by the successful bidder
2. Marine costs
3. Port charges
4. Inland transport costs
5. Marketing margin for distributors, wholesalers and retailers



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Summary price reduction around the country





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BPS success stories: A relief for farmers



Source: *DAILY NEWS*, August 24, 2012



BPS success stories: Domestic distribution savings

How fertilizer bulk transportation contributes to farm gate price reduction through application of the "economies of scale" principal

Case: Transport cost from DSM to Makambako by fertilizer cargo size

Distance 647 km

Number of 50kg bags	Weight (Tones)	Means of transport	Transport cost		Volume discount
			Total	per bag	
1	0.05	Bus	10,000	10,000	-
70	3.5	Canter	350,000	5,000	50%
200	10	Fuso	700,000	3,500	65%
600	30	Semi trailer	1,350,000	2,250	78%



BPS success stories: Int'l and local Price reduction

BPS significantly reduced the import and farm gate prices while increasing fertilizer utilization.

For instance, the DAP from Morocco FOB price was US\$ 365 per MT on the tender date (Argus, July 21, 2017) but the successful tender bid was US\$ 307 (16% reduction).

This reduction was transmitted to farm gate. Coupled with the market access cost (MAC) based indicative prices, the reduction was 11 – 40%



BPS success stories: Demand side risk management

Besides the volume discounts inherent with BPS, demand side financed cargo movement leads to reduced costs due to the fact that transport related risks (**accidents, traffic fines, spoilage, customer unreliability etc.**) are transferred to the demand side and when they are avoided, they add up to the retailer marketing margins; thus become incentives for them to minimize retail prices.

Conversely, when risks are on the supply side, they fixed and are part of the price offered by wholesalers to retailers. Further, the demand side may negotiate for transport cost reduction directly or using returning cargo approach



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Demand driven supply chain: fewer links, less price, more profit

Urea value chain segments	Location	Indicative Price	Bulk Supply System (BSS)	Bulk Procurement System (BPS)	Remarks
Free On Board (FOB) price	Russia			21,692	As on July 21, 2017
Marine costs, port charges etc.				11,787	
Importer	DSM	33,480		33,480	
Transport + off/loading + marketing margin		1,339			
Distributor	DSM	34,819			
Transport + off/loading + marketing margin		6,589			
Wholesaler	Mwanza	41,408	43,001		Retail price at retailer purchase source is used if the cargo bought is below the bulk threshold of 5MT
Transport + off/loading		2,044	2,000	5,500	Under BSS , the cargo is bought in Mwanza at a regional wholesale price and transported to retail point at Tshs 2,000 per 50kg bag
Total cost			45,001	38,980	Under BPS , the cargo is bought in DSM at an ex-warehouse price and transported in a bulk cargo at Tshs 5,500 per 50kg bag in 30MT truck
Retailer	Geita TC	43,452	43,452	43,452	
Marketing margin			(1,549)	4,473	



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BPS at the farm level: more vibrant market, less price, more fertilizer

The Ministry of Agriculture has mobilized the fertilizer business community to participate in BPS while enhancing making small scale farmers improve their fertilizer purchasing power through reduced prices

THE BPS SUCCESS STORIES: More fertilizer utilization

The Urea utilization for the last cropping season was 88,752 MT. The utilization for this cropping season (Up to January, 2018) was 105,400 MT (19% increase)

Carryover stock from 2016/7	33,400 MT
Imports before BPS	40,000 MT
BPS imports	32,000 MT

More BPS fertilizer import permits are being processed. Up to the end of the 2017/8 cropping season, the total Urea utilization is expected to be 45% as compared to the utilization in 2016/7 season

BPS HICCUPS AND THE ROADMAP

Like any new system replacing another one in place for a long time, BPS has been faced with the following challenges

- 1. Weather related transport cost increase:** This was overcome by authorizing Regional and District authorities increase fertilizer prices so that it reaches farmers without causing financial losses on fertilizer traders
- 2. Previous fertilizer supply systems hangover:** Retailers waiting for wholesalers to move the fertilizer to them. Being risk managers to retail level, they sold the fertilizer at prices which were disincentives for retail business

This was combated through sensitization sessions for retailer to form groups through which they procure and transport fertilizers in bulk.



BPS HICCUPS AND THE ROADMAP

- 3. Illegal exports:** The relatively higher fertilizer prices (Tshs 70,000 – 80,000/= per 50kg Urea bag) in neighboring countries (Zambia, Malawi) attracted illegal exports which lead to local scarcity.

This was overcome through stock movement control whereby the fertilizer cargo from DSM to the retail level was monitored on weekly basis.

- 4. Potential fertilizer scarcity** due to reduced prices: This will be overcome by importing bigger fertilizer amounts to cover the whole of the next season and also sensitization for construction of more fertilizer storage facilities in rural areas



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Scaling up for food security in Africa