Effects of Produce Cess/Crop levy on Trade of Selected Crops in Zambia

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Presented at the Validation Workshop of the two Trade Studies

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Motivation [1]

- Produce Cess/crop levy was introduced in Zambia after the Local Government Act was revised in 1992
  - Introduced after major revenue sources were withdrawn from the councils by Central Government
  - Decentralization policy introduced in 2002
- However, there were variations in crop levies by various councils
- In 2008, Local Government and Housing issued a Statutory Instrument to standardize the crop levy
Motivation [2]

- Generally, the introduction of the crop levy brought a lot of resistant from agricultural stakeholders
  - Increases the cost of doing business
  - Reduces the competitiveness of the agricultural produce from Zambia
- By 2010, the government suspended the collection of the crop levy
- However, in 2015, crop levy was again reinstated by all councils after MLGH told all councils to do so
  - Because the suspension of crop levy collection was not supported by any law
Motivation [3]

Against this background, the study examined:

- The type level of agricultural fees/crop levies currently being implemented by local authorities in Zambia
- The impact of crop levy to local councils budget
- Burden and perception analysis on the agricultural sector for the selected crops (maize, soybeans and rice)
Outline

Overview of the crop levy
Data and methods
Key findings
Recommendations
Overview of the implementation of crop levy

- Crop produce cess is a levy imposed on agricultural commodities that are being transported from one district to another
- The produce cess is administered by local authorities
- Targeted agricultural commodities include crops, livestock, birds (tradeable agricultural produce)
Previous analytical studies

Study areas and methods [1]

Mixed methods
- Secondary data
- Key informant interviews
- Focus Group Discussions

Study areas
- Southern: Kalomo, Choma, Monze
- Eastern: Nyimba, Petauke, Lundazi
- Muchinga: Chama, Mpika and Chinsali
- Copperbelt: Chingola, Kitwe, Lufwanyama, Mpongwe and Masiti
## Study areas and methods [2]

### Number of sample by actor

<table>
<thead>
<tr>
<th>Actors</th>
<th>Number interviewed</th>
<th>Provinces</th>
</tr>
</thead>
<tbody>
<tr>
<td>FGDs with farmers</td>
<td>9</td>
<td>Southern, Eastern, Muchinga and Copperbelt</td>
</tr>
<tr>
<td>Traders (small/medium/large)</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Councils</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>
Key Findings
Views from Key Informants
Views from Key Informants [1]

Farmers

- Not good because, councils charge even before commodities are sold
- Lack of transparency about the way the money raised is used
- Would like councils to invest part of that money in rural communities especially in maintaining feeder roads
Views from Key Informants [2]

Grain Traders

- Adds to already high tax burden
- Increases the cost of doing business and reduce profits
- Councils charge twice for the same crop in some districts (farmers pay and then traders also pay)
- The crop levy is too high
- Depending on competition, a cost is absorbed or passed to the farmers
- No transparency in the way the income raise from levies are utilized
Views from Key Informants [3]

Councils

- Views on agricultural crop levy differed based on agricultural disposition of the district
  - In Agricultural districts crop levy was considered as a very important source of income for the council
- Councils rely on the goodwill of traders in declaring correct information
- Lack of compliance from some traders/farmers (tax evasion)
- Costly to administer the crop levy (certain districts too porous)
- FRA does not pay any crop levy
Councils

- To ensure compliances some councils have negotiated with traders/farmers and reduced crop levy paid by traders/farmers when transporting the crop (eg, 450/30Mt truck and ZMW280/30Mt truck)

- Other councils engaged private agencies to collect levies on their behalf.
Fees and levies imposed by councils
# Fees and levies imposed by councils

<table>
<thead>
<tr>
<th>S/N</th>
<th>Description</th>
<th>Institution paid to</th>
<th>Trader Type</th>
<th>Range (ZMW) or percent</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trading licensing fee</td>
<td>Council</td>
<td>All</td>
<td>1,500 - 2,000</td>
<td>per year</td>
</tr>
<tr>
<td>2</td>
<td>Fire certificate fee</td>
<td>Council</td>
<td>Medium/Large</td>
<td>550 - 600</td>
<td>per year</td>
</tr>
<tr>
<td>3</td>
<td>Health certificate fee</td>
<td>Council</td>
<td>Medium/Large</td>
<td>550</td>
<td>per year</td>
</tr>
<tr>
<td>4</td>
<td>Crop levy</td>
<td>Council</td>
<td>All</td>
<td>200 - 540</td>
<td>per 30 metric tons (MT) truck</td>
</tr>
<tr>
<td>5</td>
<td>Livestock levy</td>
<td>Council</td>
<td>All</td>
<td>5 - 20</td>
<td>Per animal</td>
</tr>
<tr>
<td>6</td>
<td>Bird levy</td>
<td>Council</td>
<td>All</td>
<td>1</td>
<td>Per bird</td>
</tr>
<tr>
<td>7</td>
<td>Toll gate fee</td>
<td>Central Government</td>
<td>All</td>
<td>150</td>
<td>per 30 MT truck per toll gate</td>
</tr>
<tr>
<td>8</td>
<td>Corporate tax</td>
<td>Central Government</td>
<td>Medium/large</td>
<td>35 percent</td>
<td>Per year</td>
</tr>
</tbody>
</table>
Share of crop levy to the cost of procuring and transporting 30 Mt of maize, soy beans and rice

<table>
<thead>
<tr>
<th>Items</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of procuring crop grain</td>
<td>86.8</td>
</tr>
<tr>
<td>Transportation charge</td>
<td>9.4</td>
</tr>
<tr>
<td>Wages/salaries</td>
<td>0.9</td>
</tr>
<tr>
<td>Fee for a middleman</td>
<td>0.8</td>
</tr>
<tr>
<td>Crop levy</td>
<td>0.6</td>
</tr>
<tr>
<td>Hired labour for loading</td>
<td>0.5</td>
</tr>
<tr>
<td>Packaging bags</td>
<td>0.4</td>
</tr>
<tr>
<td>Toll gates</td>
<td>0.2</td>
</tr>
<tr>
<td>Storage</td>
<td>0.2</td>
</tr>
<tr>
<td>Unofficial payment to law enforcers</td>
<td>0.1</td>
</tr>
<tr>
<td>Cell phone charges</td>
<td>0.1</td>
</tr>
<tr>
<td>Labour for rebagging</td>
<td>0.1</td>
</tr>
<tr>
<td>Licensing fee</td>
<td>0.03</td>
</tr>
</tbody>
</table>

- Cost of procuring is the largest cost by traders 87%
- Then followed by transportation costs by 9%
- Crop levy is just less than 1% (0.64%)
### Effect of increased yield on crop levy 
farmer level

<table>
<thead>
<tr>
<th></th>
<th>Maize</th>
<th>Rice</th>
<th>Soy beans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield (kg/ha)</td>
<td>2.2</td>
<td>1.8</td>
<td>2</td>
</tr>
<tr>
<td>Price (ZMW/Mt)</td>
<td>2.0</td>
<td>2.5</td>
<td>3</td>
</tr>
<tr>
<td>Gross revenue (ZMW)</td>
<td>4,400</td>
<td>4,500</td>
<td>6,000</td>
</tr>
<tr>
<td>Variable costs (ZMW)</td>
<td>3,248</td>
<td>3,830</td>
<td>6,176</td>
</tr>
<tr>
<td><strong>Crop levy (ZMW) at prevailing yield</strong></td>
<td><strong>23</strong></td>
<td><strong>25</strong></td>
<td><strong>36</strong></td>
</tr>
<tr>
<td><strong>Crop levy (ZMW) paid if yield decreased by 20%</strong></td>
<td><strong>14</strong></td>
<td><strong>19</strong></td>
<td><strong>29</strong></td>
</tr>
<tr>
<td><strong>Crop levy (ZMW) paid if yield decreased by 10%</strong></td>
<td><strong>18</strong></td>
<td><strong>22</strong></td>
<td><strong>32</strong></td>
</tr>
<tr>
<td><strong>Crop levy (ZMW) paid if yield increased by 10%</strong></td>
<td><strong>26</strong></td>
<td><strong>28</strong></td>
<td><strong>40</strong></td>
</tr>
<tr>
<td><strong>Crop levy (ZMW) paid if yield increased by 20%</strong></td>
<td><strong>29</strong></td>
<td><strong>32</strong></td>
<td><strong>43</strong></td>
</tr>
</tbody>
</table>

- Since crop levy is dependent on volume, it influences the value of crop levy
Central Government is the main source of income for councils

Crop levy ranges between 0.4 – 7%

The share of crop levy is higher for agricultural oriented districts
Conclusions

- Crop levy is one of the **several revenue sources** for the councils. Generally the share of revenue from crop levy is low hovering around 4% to the total council budgets.

- In some districts, the **same crop has been taxed twice**, and this indirectly affects the price paid to the farmers.

- **Resistance** to pay crop levy is mainly attributed to lack of consultation between councils and key stakeholders.

- Despite being a source of revenue, **it is burden in doing business** as it increases the cost and makes agricultural trade uncompetitive.
Recommendations

- Since Government has considered agriculture to be the **centre of economic growth** and also **decentralization policy for the councils**, taxes introduced should be one that support both agendas (one that does not make agricultural sector uncompetitive but supports the decentralization policy)

- The fee has to be **minimal** and be administered under **e-payment or mobile phone** payment platform to remove abuses of the resources

- Crop levy reduction could enhance compliance (reduced by half)
Recommendations

- Part of the income raised from crop levy should be **reinvested back** in the community.
- Strengthen councils’ capacity in public financial management:
  - Especially in strengthening internal controls.
- Councils can promote **private agencies** to collect produce cess/crop levy.
- Therefore, councils need to consider potential revenue **alternative which include**, land tax, develop infrastructure such as guest houses, develop bus stations and promote agro processing in the long run.
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THANK YOU