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High Prices for NAADS inputs: What are the cost drivers?

Overview

The National Agricultural Advisory Services (NAADS) is a 25-year programme implemented in 2001 with a purpose of contributing to the transformation of subsistence agriculture to market-oriented and commercial production through increased access to knowledge, information and technology.

Eligible farmers may access two types of Technology Uptake Grants in kind: Food Security Grant and the Market-Oriented Enterprise Promotion Grant. The support for Food Security Farmers (FSF) is on average Ugshs 100,000 while the Market Oriented Farmers (MOF) accesses on average Ugshs 750,000.

In FY 2010/11, inputs were distributed to 100 FSFs and 4 to 8 MOFs per Parish in all districts of Uganda. Evidence from Budget Monitoring and Accountability Unit (BMAU) field visits noted the value of inputs distributed to be much less than would have been received basing on prevailing market prices.

This problem was attributed to inefficiencies in the procurement process as well as withholding tax (WHT) and other tax regimes that are added by input suppliers during the procurement process resulting in over-pricing of inputs. A 6% WHT is levied on input procurements that are Ug shs 1 million and above.

A study was commissioned by the NAADS Secretariat to establish the cost drivers among other things. This paper gives the main factors influencing prices for NAADS inputs.

Key Issues

- 1) The cause for NAADS input prices being higher than the prevailing market rates is wrongly overly attributed to With Holding Tax.
- 2) The key cost drivers are:
 - the long distances travelled by suppliers to deliver inputs due to absence of local stockists
 - the premium charged because NAADS delays payments to suppliers and during the time lag the price of inputs increase; and
 - the With Holding Tax that is treated as a consumption tax and therefore passed on by suppliers to the unknowing farmers.

Methodology

The study was limited to the interventions that were undertaken since the commencement of NAADS Phase II under the Agricultural Technology and Agribusiness Advisory Services in FY 2010/11.

The sample included 60 districts and 12 municipalities representative of the four regions of the country. From these, a total of 312 parishes were selected.

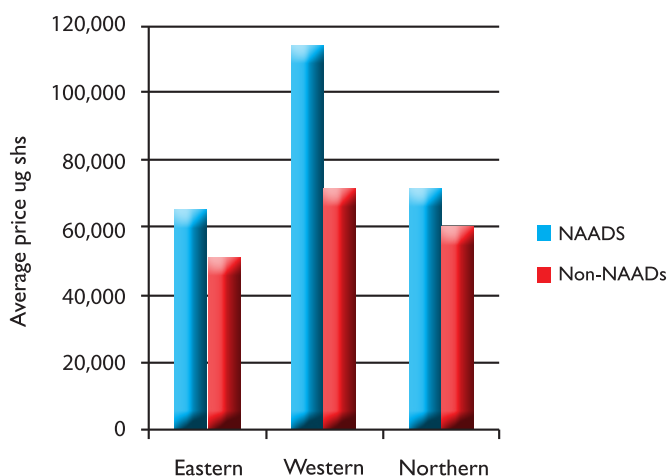
A total of 2,655 farmers (MOFs and FSFs); 131 input suppliers (NAADS and non NAADS) and 224 commercial farmers were interviewed.

The study established the magnitude of the impact of taxes on input costs as the proportion that the latter contribute to the difference in prices between NAADS and non NAADS suppliers of a given input.

Key Study Findings

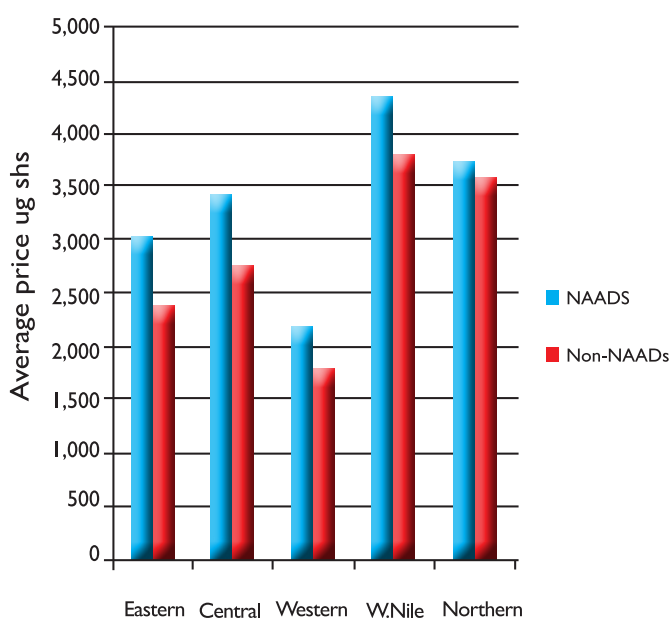
1. The study established that on average NAADS inputs are more expensive than the non NAADS inputs. This was true for livestock and crop inputs as shown in examples below.

Figure 1: Average price for 4 months female piglets by region (Ug shs)



Source: Field findings

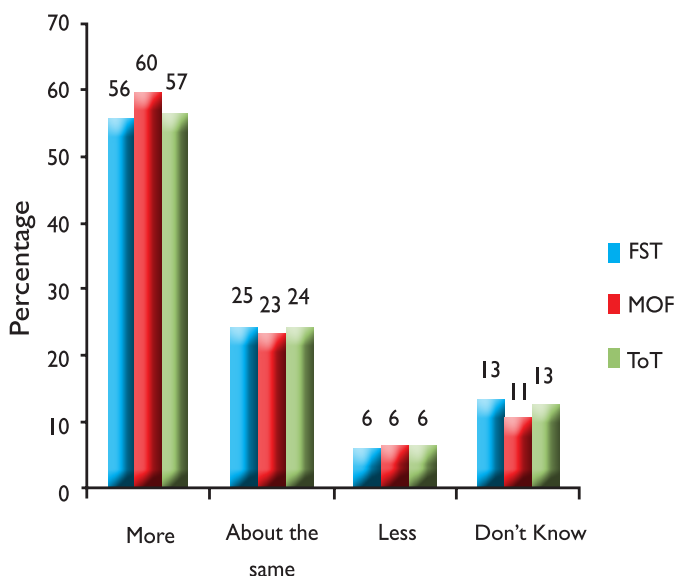
Figure 2: Prices of a kilogramme of beans by region (Ug shs)



Source: Field findings

Many farmers noted that if cash had been provided to them, they would have gotten more inputs from the observed market prices.

Figure 3: Ability to purchase if allocation was in cash by type of farmer



Source: Field findings

- In all study areas, only one tax directly affects the NAADS programme – the Withholding Tax (WHT).
- There are various factors influencing the pricing of inputs and technologies (table 1). The major ones were: limited competition among suppliers; long distances traveled by suppliers, the long time taken by the NAADS programme to effect payments; as well as Withholding Tax.

Suppliers considered limited transport means and long distances moved to deliver inputs. This was because local suppliers were few in many parts of the country. The NAADS programme paid late so for many suppliers, inflation had to be inbuilt within the quoted prices to cater for losses during long time lags in settling payments.

Table 1: Factors raising costs of agricultural inputs and technologies purchased under NAADS (%)

Factors	Central	Eastern	Northern	Western	Total
Stockists /suppliers are not available locally (Limited competition)	23.5	23.3	31.9	33.3	28.6
Suppliers have to travel a long distance to deliver inputs	41.2	40.0	44.4	40.6	41.7
Premium as NAADS take a long time to pay	19.6	11.7	9.7	11.6	12.7
Other	15.7	25.0	13.9	14.5	17.1
Total	100.0	100.0	100.0	100.0	100.0
Cases	51	60	72	69	252

Source: Field findings

Despite the influence of limited competition among suppliers and the premium on NAADS late payments on input pricing, the WHT was fronted as the key cause (table 2). Many district officials noted that the WHT did influence pricing of inputs. In fact many suppliers noted this tax to be a cost that reduces their profit margins, and therefore called for its abolition. Although WHT is an income tax, many suppliers included it in their price quotations to NAADS. The With Holding Tax therefore was perceived to increase the prices charged by suppliers of agricultural inputs to NAADS.

Table 2: Supposed impact of withholding tax on prices charged by suppliers of agricultural inputs in sub-counties (%)

Impact of withholding tax on prices	Central	Eastern	Northern	Western	Total
Prices are lower	14.8	0.0	5.6	2.7	5.4
Prices are unchanged	11.1	20.7	16.7	10.8	14.7
Prices are higher	74.1	79.3	75.0	86.5	79.1
Don't know	0.0	0.0	2.8	0.0	0.8
Total	100.0	100.0	100.0	100.0	100.0
Freq	27	29	36	37	129

Source: Study Findings

The study therefore quantified the contribution of the WHT to the NAADS input prices. In this analysis, three major factors were considered and each given an equal¹ share of 0.33: namely

1. Suppliers not available locally and therefore travelling long distances to deliver inputs
2. With Holding Tax, and
3. Premium as NAADS takes long to pay suppliers

If the WHT contributed more than 33 percent to the difference in prices of a given input between the NAADS and non NAADS suppliers, this was significant and vice versa.

The analysis reviewed impact of WHT on local goats, improved local chicken, female piglets, 2-year calf heifers, maize seeds and beans.

For improved local chicken, piglets, and maize seeds the WHT was found to have limited influence on supplier prices across all regions. In all the regions the WHT contributed less than 30 percent to the difference in the prices between NAADS and non NAADS suppliers.

However, the With Holding tax had a significant impact on the price of local goats in the eastern, western and south western regions; calf heifers in the western region and beans in the west Nile and northern regions.

Conclusions

The With Holding Tax did not overly influence the differences in prices between the NAADS and non NAADS suppliers. Of the 25 incidences of price variations across the regions, the tax contributed to more than 30 percent in the differences for only 6 cases.

The other factors, therefore, the long distances travelled by suppliers to deliver inputs due to absence of local stockists and the premium charged because NAADS delays payments to suppliers **are more important concerns. These two are the cost drivers for high prices of NAADS inputs.**

Policy Recommendations

1. NAADS should make timely payments to suppliers to limit the premiums being charged for delays.
2. NAADS should support local farmers within communities to become stockists or suppliers
3. Provide tax education to help the farmers and suppliers understand income tax laws, in particular the WHT and the rights of smallholder farmers. This requires a closer working relationship between NAADS Secretariat and Uganda Revenue Authority in preparing NAADS implementation guidelines and awareness campaigns.
4. The implementation approach of WHT in the agriculture sector should be reviewed and improved to remove the distortionary practices by the suppliers and local government officials.

Reference:

Report on Effects of Withholding Tax and other Tax regimes on Agricultural commercialization in the NAADS: November 2012

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¹ Assuming equal importance in influencing NAADS input prices