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REPOA Brief

Strengthening Agricultural Financing and Budget Allocation for Inclusive Growth

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Key Messages

- Scale up public and private financing for agriculture to unlock productivity growth, accelerate commercialization, and strengthen rural incomes.
- Rebalance agricultural spending toward irrigation, research, climate-smart agriculture, and rural infrastructure to generate higher returns on public investment.
- Expand inclusive agricultural finance through innovative credit models, risk-sharing instruments, and value-chain financing to close persistent financing gaps facing smallholders, women, and youth.

Introduction

Agriculture remains one of the most important sectors for Tanzania's inclusive economic growth, food security, employment creation, and poverty reduction agenda. The sector employs more than 65 percent of the labour force (URT, 2025/26), provides livelihoods for a majority of rural households, contributes approximately 26 percent of Gross Domestic Product (GDP), and generates roughly 30 percent of export earnings (URT, 2026). Agriculture also maintains strong backward and forward linkages with manufacturing, trade, transport, and agro-processing, making its performance central to broader economic transformation.

Despite its importance, Tanzania's agricultural sector continues to operate below its full potential. Agricultural productivity remains low by international standards, with farmers achieving less than 40 percent of global average yields, fertilizer application rates of only 19.3 kg per hectare compared to a global average exceeding 150 kg per hectare, and continued dependence on rain-fed production systems (Shamte, 2017). Post-harvest losses remain high at an estimated 35–40 percent, while only 6.5 percent of rural households have access to credit, limiting farmers' ability to invest in improved inputs, mechanization, irrigation, storage, and value addition.

Financing has emerged as one of the most critical constraints to agricultural transformation. Both public expenditure and private investment play complementary roles in supporting agricultural development through infrastructure, research and development, extension services, financial services, irrigation, and market systems. However, agricultural financing remains considerably below sector requirements, while budget allocations continue to fall short of continental commitments under the Maputo and Malabo Declarations.

This policy brief examines long-term trends in public budget allocations and credit facilities supporting agriculture, forestry, and fisheries in Tanzania and identifies policy priorities for mobilizing financing at the scale required for sustainable agricultural transformation.

Methodology and Data

This policy brief synthesizes evidence from national budget statistics, agricultural finance reports, development partner financing data, and policy reviews covering the period from the 1980s to 2025. The analysis draws primarily on data from FAOSTAT (2025), the Bank of Tanzania (BOT), the World Bank Agriculture Public

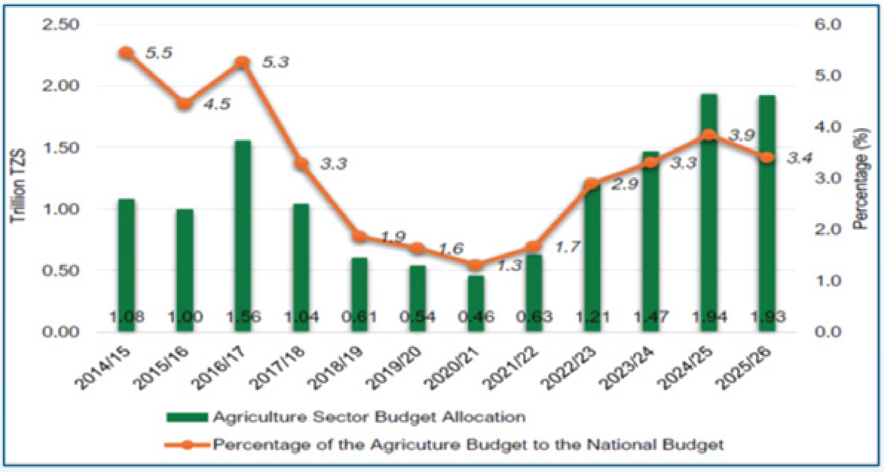
Expenditure Review (2022), the Agricultural Sector Development Programme II (ASDP II), and reports from development finance institutions and financial sector stakeholders.

The assessment examines trends in government expenditure on agriculture, forestry, fisheries, and agricultural research and development (R&D), as well as patterns of formal credit allocation across sectors of the economy. Particular attention is given to the balance between recurrent and development expenditure, the composition of agricultural spending, and the evolution of agricultural lending by banks and development finance institutions. The analysis further reviews barriers to agricultural finance from both supply and demand perspectives, including collateral constraints, infrastructure gaps, risk perceptions, financial exclusion, and institutional weaknesses.

Findings

The analysis reveals a significant mismatch between the strategic importance of agriculture and the level of financial resources allocated to the sector. Public expenditure on agriculture has historically remained below regional and international commitments (Figure 1) contrary to Tanzania's obligations under the 2003 Maputo and 2014 Malabo Declarations which commit the country to allocate at least 10 percent of its national budget to agriculture.

Figure 1: Trends in budget allocation to agriculture in Tanzania



Source: Tanzania's Ministry of Finance, several years

Recent years have seen modest improvements in agricultural financing. Government expenditures increased after 2021, largely driven by fertilizer subsidies, food security interventions, and allocations to the National Food Reserve Agency (NFRA). Nevertheless, spending remains heavily concentrated in recurrent expenditures.

According to the World Bank (2022), nearly two-thirds of central agricultural expenditures have historically financed operational costs rather than productive investments capable of generating long-term growth.

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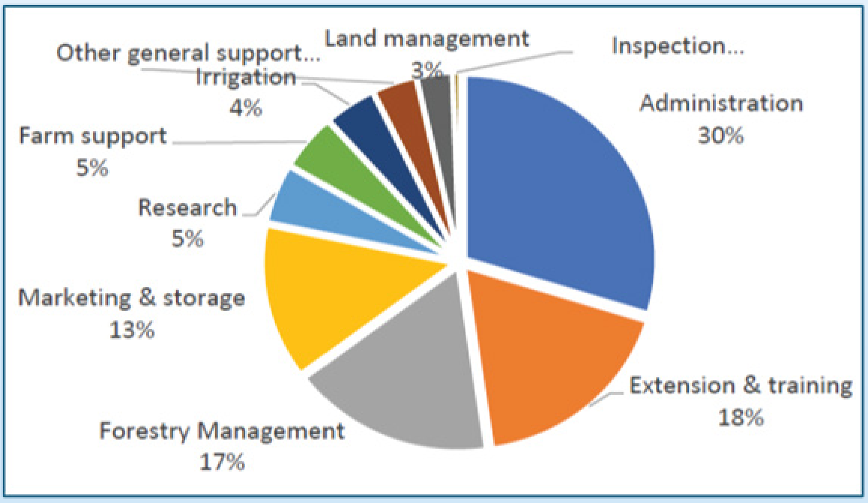
Figure 2: Functional composition of budgetary transfers to agriculture (average 2017/18-2024/25)

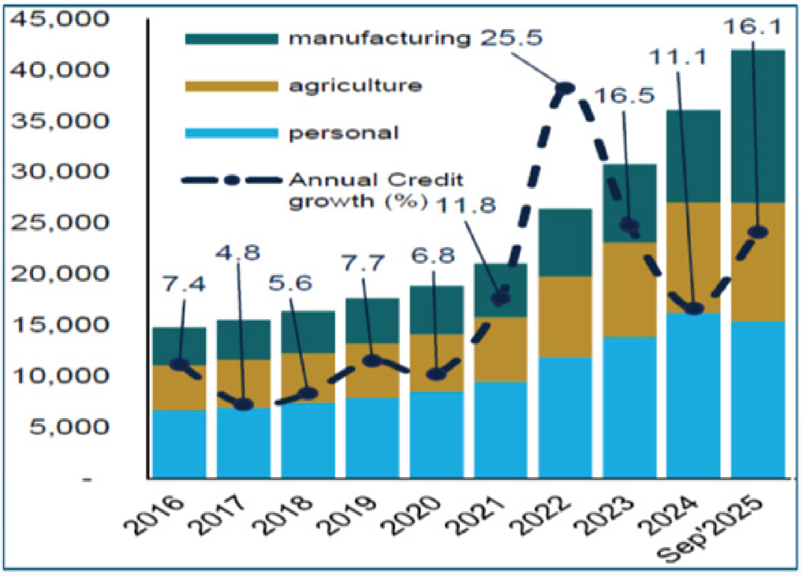


Source: Ministry of Agriculture and World Bank (2022)

While public financing remains constrained, formal agricultural credit has expanded over time. Bank lending to agriculture, forestry, and fisheries has increased substantially since the early 2000s. However, agriculture continues to attract only about 9 percent of total formal sector credit, compared with 26 percent for industry and 14 percent for services (Figure 3 below).

This disparity persists despite agriculture employing the majority of the labour force and supporting most rural livelihoods.

Figure 3: Private sector credit decomposition, TZS billions and percent



Source: World Bank (2026).

Financial exclusion remains particularly acute among smallholder farmers. Limited land titling, collateral requirements, high transaction costs, inadequate rural infrastructure, and climate-related risks discourage lending to agriculture. Banks continue to view the sector as high risk and costly to serve. On the demand side, many farmers lack financial literacy, credit histories, or awareness of available financial products.

Development finance institutions, particularly the Tanzania Agricultural Development Bank (TADB), have helped expand financing for agricultural value chains, mechanization, storage, and agribusiness development. However, financing needs continue to exceed available resources. Development partners have also played an important role, contributing approximately one-fifth of agricultural budget support in recent years, although donor financing has declined considerably since the completion of ASDP I.

Overall, financing constraints remain one of the most significant bottlenecks limiting agricultural modernization, commercialization, and competitiveness in Tanzania.

Conclusion

Tanzania's ambition to transform agriculture into a modern, productive, and commercially competitive sector will depend fundamentally on its ability to mobilize substantially greater levels of finance. Although public expenditures and agricultural lending have increased in recent years, financing remains insufficient relative to the sector's economic importance and development potential.

Current expenditure patterns indicate an imbalance between operational spending and strategic investments that drive productivity growth. Critical areas such as irrigation, agricultural research, climate resilience, mechanization, rural infrastructure, and value chain development remain persistently underfunded. At the same time, access to formal credit remains limited, particularly for smallholder farmers, women, youth, and agribusiness SMEs. The evidence suggests that closing Tanzania's agricultural financing gap will require stronger public investment, deeper private sector participation, innovative financing mechanisms, and a more enabling policy environment.

Policy Recommendations

1. Increase and Rebalance Agricultural Public Investment

Progressively raise agricultural spending toward the 10 percent Malabo commitment while shifting resources toward high-impact investments in irrigation, research and innovation, rural infrastructure, mechanization, and climate-smart agriculture. Greater emphasis on productive investments rather than recurrent expenditures would enhance long-term sector growth and resilience.

2. Expand Inclusive Agricultural Finance and Risk-Sharing Instruments

Scale up agricultural credit guarantee schemes, blended finance mechanisms, and concessional lending facilities to reduce risks faced by financial institutions and improve access to finance for smallholder farmers, agribusiness SMEs, women, and youth.

3. Promote Value Chain–Based Financing Models

Strengthen financing arrangements that link farmers, cooperatives, aggregators, processors, warehouse receipt systems, and buyers. Value chain finance can reduce transaction costs, improve loan recovery, enhance market access, and stimulate private sector investment across agricultural value chains.

4. Accelerate Financial Inclusion and Literacy through Digital and Collateral Innovations

Expand the use of digital financial services, alternative credit-scoring systems, mobile banking, warehouse receipts, and land formalization initiatives to overcome collateral constraints and increase the reach of financial services in rural areas.

5. Strengthen Climate Resilience, Research, and Extension Services

Increase investments in climate-smart agriculture, agricultural research and development, weather-indexed insurance, and modern extension systems to improve productivity, reduce climate-related risks, and support sustainable agricultural transformation.

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