Terms of Reference

CSISA-MEA

## OVERVIEW

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| --- | --- |
| **Consultancy title** | **Towards Sustainable Agro-Mechanization: Tax, Incentive Barriers in Bangladesh** |
| **Position type** | Short-term Consultancy  |
| **Tentative Contract Period** |  15 May – 15 July 2024 |
| **Reporting** | **Project Leader, CSISA-MEA, CIMMYT** |
| **Location** | Jashore, Bogura, Chattogram, Dhaka and some other relevant locations if needed |
| **Task summary** | The task is about analyzing current policy challenges of tax, VAT, tariff and **tax incentives (financial and non-financial)** in agro-machinery, spare parts and associated raw material business, specially faced by Agro-based Light Engineering Enterprises, Agro-Machine Manufacturer, Importer Lead Firms, Dealer Shop, Machine Service Providers and some farmers. Based on previous policies and related studies, media report and key stakeholder consultation, a draft **policy narrative (policy engagement goal statement, refers to a specific policy discourse/problem, how it came about, how can we put that right/options) which** will be prepared for further stakeholder consultation and validation at different level (districts, Dhaka/national). Finally, a study report finding will be shared for advocacy and a policy brief will be co-developed and handed over to AMMA-B to peruse with NBR and legitimate Ministry. The evidence generation will include - the implementation challenges of 10 years tax break policy of the government on targeted agri machine and its related parts. It will priorities machines and parts with **harmonized system codes of National Board of Revenue** to relate with advance tax withdraw, or tax exemption strategy of government on the import or domestic manufacturing. Assess revise structure of farm machinery import and local manufacturing, explore government’s tariff strategy/instructions (NBR) on import and scope tax VAT tariff context of some future target machines.  |

##### **PROJECT BACKGROUND**

The Feed the Future Bangladesh Cereal Systems Initiatives for South Asia-Mechanization Extension Activity (CSISA-MEA) is a USAID-funded Feed the Future initiated, five-year project implemented by CIMMYT and its partners: iDE and Georgia Institute of Technology (GT). Working in Bangladesh’s Feed the Future (FtF) zone, the first phase of CSISA-MI unlocked smallholder farmers’ access to cost- and resource-saving crop sowing, irrigation, and harvesting machinery. This was achieved by facilitating rural entrepreneurship and leveraging more than $6 million of private-sector investments, in an efficient mechanization value chain. However, for a sustainable mechanization, enabling issues such as – tax, VAT, incentives in different form yet to be supportive and pragmatic.

**In Phase I (CSISA-MI)** – private sector imports and markets new mechanization technology in response to demand created by CSISA-MI through support given to machinery promotion events and machine users (LSPs). At R & D and market start up stage subsidy, tax, VAT incentives were discussed at national level but a lot to explore in this area.

In **Phase II (CSISA-MEA)** – private sector increases production to meet demand for new mechanization technology through improvements in production efficiency and quality of products that are facilitated by CSISA-MEA. The project enables companies to invest in new manufacturing machinery, equipment, tools, factory layouts and manufacture of new types of agricultural machinery and equipment. Allows companies selling agricultural machines and equipment to use their capital and bank finance to expand their businesses and invest in new machines, production facilities and support services for customers and makes machines more affordable and accessible for Local Service Providers (LSPs), Lead firms, MSMEs to start or expand agricultural mechanization service businesses. Some solutions (import, local manufacturing) on tax, VAT, tariff and incentives were executed but was very inadequate in terms of policy and enabling support for the sector.

## ABOUT THE ASSIGNMENT

Import, export, local manufacturing, assembling of new agro machines and related spare parts, need enabling policy environment for the rapid growth of the ag machinery sector. Policies need to be formulated to ensure that agricultural machinery parts are encouraged to manufacture in the country and have the capacity to be produced, or assembled in the country. Need to define how taxation of locally manufactured parts and machines compares with imported ones. Current tax incentives issues around the agro-machinery sector need review with the change of context. With R & D phase of new machines and govt subsidy led introduction of targeted machines, the market preparedness stage of ag machinery business in Bangladesh is moving towards growth. Various initiatives have been taken to strengthen the fragmented ag machinery market. However, a lot to do at enabling environment (tax, incentives, standard, quality assurance etc.) of the ag machinery market system which need policy advocacy support. A balance on tax, incentives on **import, local manufacturing and assembling** to be better strategies based on current challenges and future prospect.

We understand, policy changes or formulation takes long time or bit opportunistic. Considering this fact, current assignment will focus on creating evidence and engaging with mechanization networks (AMMA-B, dealer, MSP network etc.) to achieve the targeted policy outcome. Policy enactment and implementation on the basis of recommendation may take more time. Therefore, recommendations will be designed so that the implementation of the recommendations can be continued by the Agricultural Machinery Manufacturer’s Association (AMMA-B) which will be pursued by Agricultural Machinery Manufacturer’s Association – Bangladesh (AMMA-B) beyond the project period. The study will have two main parts -1) Generating evidence on how CSISA MEA wants the tax incentive environment should be? having more than 5 years of experience in the ag mechanization sector and 2) Arranging series of consultations to sensitize relevant target audiences and secure attention for improved tax incentives rules, process, decision. Special **benefits for the Farmers, Agro-based Light Engineering Enterprise’s (ABLE’s) and Lead Firms to be encouraged or prioritized and incentives for climate smart machines and inclusivity aspects (giving benefits to the disadvantaged areas) are to be covered.**

**Stakeholder analysis:** It is mandatory for the study that the consultant will selectrelevant institutions/Ministries, departments, financial institutions and private sector for the study and arranging consultation including validation. Their current role and future new role related to tax incentives expected to be elaborated for the following institution to be covered.

* Ministry of Industry and Commerce, Ministry of Agriculture, Ministry of Fisheries & Livestock, Ministry of Power and Energy, Ministry of Environment.
* Agricultural Machinery Manufacturer's Association*–*Bangladesh*(AMMA-B).*
* Bangladesh Engineering Industry Association (BEIOA)
* National Board of Revenue (NBR)
* Bangladesh Agro-Prpcessors Association (BAPA)
* Bangladesh Dairy Farmers Association (BDFA)
* Bangladesh Bank
* Bangladesh Standard Testing Institute (BSTI)
* Ministry of Finance
* Machine and spare parts impetrating and manufacturing top five private sectors (Metal Agri Ltd, Abedin, Janata, Alim, Bangla Mark etc.)
* BARI – Bangladesh Agricultural Research Institute.
* BRRI
* BFRI- Bangladesh Fisheries Research Institute
* Bangladesh Livestock Research Institute (BLRI)
* Bangladesh Agricultural Research Council (BARC)

CSISA-MEA is looking for a competent consultant with demonstrated long experience in undertaking evaluation of agricultural, industrial mechanization sector specially in tax incentives, subsidy and market system knowledge and experience. The consultant is expected to involve the CSISA-MEA expert team on commenting on the design of the study methodology, workplan and consultation target, deploying survey, KI and other tools.

The study will target Dhaka, Jashore, Bogura and Chittagong/Cox’s Bazar.The assignment is expected to be completed between 1st February to 3o Apri which includes completion of all tasks in the assignment along with submission of the final product.

## OBJECTIVES OF THE ASSESSMENT

The imported machines and spare parts are minimally taxed whereas imported raw materials such as steel is heavily taxed. This means that domestic manufacture of parts and machines is more expensive that imported machines and parts inhibiting the development of the national light engineering manufacturing sector. This has a detrimental impact on employment of youth in regional / rural areas resulting in migration to Dhaka for employment. It also means that Bangladesh will remain dependent on the garment industry for national income. The purpose of this study will be to determine if this is a correct assessment of current taxation measures on imported finished products and imported raw materials and that this is a correct assessment of the impact of these taxation policies on the national economy. If it is then the study will suggest appropriate new taxation policy for the light engineering sector. This will be based on consultation with relevant private sector and government and non-government bodies. The study results will be verified at a national workshop on taxation policy.

1) Assess the 10 years tax break policy implementation challenges of the government on targeted agri machine and its related parts in Agri machinery sector in Bangladesh

2) Recommend machines and related parts with HS codes (Harmonized system code) of product related to advance tax withdraw, tax exemptions strategy of government on the import or domestic manufacturing/ of rice transplanter, agri-dryers, sprayers and potato planters and some potential machines

3) Assess revise structure of farm machinery (includes definition and specific code of target agri spare parts & machines, raw materials, associated inputs) imports in Bangladesh

4) Explore government’s tariff strategy/instructions (NBR) on import of certain spare parts to support domestic manufacturing (for example for - power tiller, power thresher, power reaper and seeders)

5) Scope tax VAT tariff context of some future target machines (include climate smart, gender sensitive or inclusive machines – battery driven power tiller, solar irrigation, solar pond aeration, solar chiller for fish, fruit, vegetables, solar charging station etc.) and some dairy, fish related machines in post-harvest, agro-processing, packaging area.

## SCOPE OF WORK

An existing national committee working on preparing a road map on agro-mechanization including list of tax exemption of targeted agro-machinery products (Please contact/check with AMMA-B). This proposal will be vetted by Ministry of Industry, Ministry of Power/Energy and Ministry of Agriculture, then will be proposed to National Board of Revenue and other relevant authorities for approval. We can access the draft document, connect experts and list of proposed machines, spare parts, accessories, infrastructure and can add update the product list if required as a part of our proposed study. USAID funded CSISA MEA had a list of some targeted machines and parts produced by our target domestic lead firms and Agro-based Light Engineering Enterprises (ABLEs), could be updated and future demand of local manufacturing (machine & spare parts) could be assessed to relate to this tax incentive study.

Government notice from the Ministry of Industry, dated 29 Sep 2022 acknowledged VAT, tax, incentive issues on **raw material, capital machinery, spare parts and infrastructure**. We are aware from media reports that the government is planning to offer a 10-year tax exemption for agricultural machinery manufacturing to support farmers' growing appetite for machines and cut labor-shortage induced higher production costs. **The government also plans to withdraw the advance tax (AT) levied on the import of rice transplanters, agricultural drier machines, all types of sprayers, and potato planters in the upcoming national budget aiming to modernize the agriculture sector.** Currently, these four types of farm machinery are subject to a 5% advance tax at the import stage. Additionally, 50%-70% govt. subsidy is being executed on selected agro-machines till 2025 under the govt. national agro-mechanization project is a big context with lessons and. Challenges for the current study to define a long-term pathway of this sector.

As same machine and spare parts are used for multiple purpose legal definition of **“agriculture machine and spare parts”** could be reviewed, which will help to define the boundary for approving tax exemption and incentives. Agro-machine sub-sector is a part of broader light engineering sector with other machines and parts is a challenge to execute tax and incentive issues. Therefore, the existing list of machines, spare parts, raw materials and infrastructure to be updated for such exemption, restriction and incentives. With identity crisis (lack of standardization, certification of products) some local manufacturers are using “Made in China” sticker in their locally produced machines and parts which confused tax executers. They need trade mark, registration or patent right to use label -“Made in Bangladesh” in their machines. Certification/trade marking process may have to be assessed to some extent in this regard. The study will recommend how to restrict importing some machines and parts to allow domestic **manufacturing and assembling** of it locally. Or what part /portion of the imported new agro machines could be made mandatory to manufacture locally. Incentives can be designed for manufacturing **intermediate goods** locally of international standard. Import tax of **base metals** to be assessed to create better access to raw materials for local manufacturing of machines and spare parts.

Some indicative study questions -

* What are the field implications challenges of 10 years tax break policy on some agro machinery and related spare parts?
* How to expand the Ag machinery market beyond 14000 crore BDT? How to project a target of increasing the growth from current 10%per annum? How local firms (large and small) can manufacture 75-80% of the demand of spare parts of some popular machines? Or can assemble new machines or can go for joint venture initiatives?
* How can we increase the use of rice transplanter and combined harvester to cover 20-30% than current status of 1-3%? Or What could be the growth next 5 years?
* Define the scope of sale of reconditioned or 2nd hand machines and spare parts including assembling of old machines with new parts?
* Which spare parts will come under 1-2% tariff on import to support domestic manufacturing and assembling of machines?
* What is the latest situation of domestic manufacturing incentives of spare parts of combined harvester, rice transplanter, power tiller, tractor, fodder chopper, pond aerator, jute fiber extraction machine, fruit drier and irrigation machines etc.?
* How the Light Engineering Policy 2022 define the incentives and tax issues?
* How CSIS-MEA can suggest to revise the tax, import duty structure of some potential agri-machinery?
* What incentives can be provided for manufacturing of climate smart machines and gender sensitive, inclusive and integrated machines?

**STUDY METHODOLOGY**

A brief on the methodology is provided below. However, a more detailed and coherent methodology is expected to be co-developed with the consultant. To achieve the objectives of this study and advocacy the methodology should be based on – evidence generation, mapping networks /links and institutions, stakeholder consultation and validation, and connection with a national champion (preferable from Bangladesh Agricultural University- BAU) influencer for the Ministry of Industry and Commerce, Ministry of Agriculture and Agricultural Machinery Manufacturer's Association*–*Bangladesh*(AMMA-,* Bangladesh Engineering Industry Association (BEIOA)*and* National Board of Revenue (NBR).

This type of study analyze – control sphere/level such as rules, tactics, regulations, guidelines, instructions, result or outcome level such as – change in behavior of market actors, roles, relationships, impact level- such as domestic manufacturing of machinery and spare parts etc.

The study should include both qualitative and quantitative approach using primary and secondary data. It will include a desk review of the literature in sector-specific documents, policies, websites, project and media reports, national and international journals, recent books, etc.

The consultant is expected to conduct - semi-structured interviews, key informant Interviews (KIIs), focus group discussions (FGD) and observations/consultation with relevant value chain actors and stakeholder such as - Agro-based Small and Medium Light Engineering Enterprises (MSMEs), spare parts shops, mechanics, raw material suppliers/importers, lead firms (machine importers) machinery service providers (MSPs), government officials, dealers/retailers, TVET, University, civil society, representatives of Bangladesh Engineering Industry Owners Association (BEIOA), Agricultural Machine Manufacturing Association of Bangladesh (AMMA-B), Chambers of Commerce, market actors. Steps of the study -

* Review of available secondary documents, policy, media report, study report, research, implementation guidelines information of the sector. The consultant is expected to check with DAI, IFPRI and IFDC if they are doing anything related to policy advocacy on agricultural mechanization.
1. Based on the literature review, propose a sampling plan which is representative of the sector focusing on Dhaka, Bogura, Jashore, Cox’s Bazar and Chittagong with above mentioned stakeholders.
2. Develop data collection tools for FGDs, KIIs and survey questionnaires for the market assessment.
3. Develop a policy narrative (policy referenced problem/what was wrong, how it came, how to put that right?) in a form of policy brief for stakeholder consultation at regional/district level.
4. Arrange four stakeholder consultation workshops to collect counter narrative on the narrative shared.
5. There will be consultation workshops at evidence generation and validation stage. However, main sharing of key recommendations will be shared by the project where consultant can be invited.

## EXPECTED DELIVERABLES

The consultant is expected to deliver the following listed deliverables:

1. **Deliverable 1 - Detailed work plan and study tools/process:** After having consultation with project expert’s consultant will present a detail workplan and tools for the evidence creation.
2. **Deliverable 2 – Context analysis presentation - desk review on policy references, media reports, project reports, National Board of Revenue (NBR) Ministry of Agriculture, Ministry of Finance and Ministry of Industry & Commerce reports**
3. **Deliverable 3: Number of primary consultations/meeting/workshops in three areas.**
4. **Deliverable 4 – Draft a Policy Brief co-developed with two target associations**
5. **Regional consultation 5**: Draft brief will be consulted in 4 districts/regions to collect and collate feedback on recommendations and actions. A report will be submitted on 4 workshops.
6. **Deliverable 4 -** *Raw Tools*: The consultant will have to share the raw data, cleaned data, and data analysis plan with CIMMYT after they have completed each of the tasks.
7. **Deliverable 5 -** Final report and a Policy Brief: The policy brief and a final report will be shared with the CSISA-MEA team for review. Depending on the quality of the report, it will be decided if additional rounds of review will be required.

## MAJOR RESPONSIBILITIES OF THE CONSULTANT

The major responsibilities of the consultant are as follows:

* Collect relevant programme documents from CSISA-MEA, clarify ToR and prepare a work plan with a timeline;
* Develop a methodology including a sampling plan and key questions to be answered;
* Develop data collection tools in consultation with the CSISA-MEA team;
* Collect, clean data and prepare the transcript;
* Share data analysis plan with CSISA-MEA team;
* Analyze data and key findings presented to the CSISA-MEA team;
* Develop a table of contents and prepare a draft report; and
* Incorporate CSISA-MEA team’s feedback on the draft report and provide a Final version.

## MAJOR RESPONSIBILITIES OF CSISA-MEA

CSISA-MEA will provide the consultant with the necessary support to undertake and implement the assignment and execute the tasks outlined in this Terms of Reference. Such responsibilities include the following:

* Provide initial briefing and existing work overview;
* Provide relevant documents and technical support;
* Support to finalize the methodology of the study;
* Provide feedback and approve data collection tools;
* Supervise data collection and arrange a presentation on analyzed data
* Provide feedback on the draft report;
* Approve the final report; and,
* Disburse payment as per the agreed schedule.

TENTATIVE TASK SCHEDULE

CSISA-MEA project requires the assignment to be completed by 15 July 2024. The following table gives the deliverables along with the deadlines. The deadlines can be adjusted upon mutual consent.

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| --- | --- | --- | --- | --- | --- |
| **Sl No.** | **Activity** | **May** |  | **June** | **July** |
|  | W1 | W2 | W2 | W4 | W1 | W2 | W3 | W4 | W1 | W2 | W3 | W4 |
| 1 | Contract signed |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 | Work plan and methodology submitted and approved, related study/literature review |  |  |  |  |  |  |  |  |  |  |  |  |
| 3 | Field testing and data collection |  |  |  |  |  |  |  |  |  |  |  |  |
| 4 | Networking, meeting with stakeholders Bank, Ministry |  |  |  |  |  |  |  |  |  |  |  |  |
| 5 | Dhaka & district level field work |  |  |  |  |  |  |  |  |  |  |  |  |
| 6 | Study findings presentation |  |  |  |  |  |  |  |  |  |  |  |  |
| 7 | Development and submission of draft policy brief and the final report  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8 | Feedback incorporation and submission of final report and final policy brief |  |  |  |  |  |  |  |  |  |  |  |  |
| 9 | Stakeholder validation workshops # 4(Final sharing national level workshop excluded here) |  |  |  |  |  |  |  |  |  |  |  |  |

**APPLICANT ELIGIBILITY CRITERIA**

General experience and expertise requirement for consultant applying:

* The consultant must have at least 07 years of experience of conducting assessment on access to finance or impact of financing or financial instrument/guideline preparation for any relevant sectors using both qualitative and quantitative methods;
* The consultant must have rigorous experience of conducting studies. Clear understanding of market research methodologies and experience in using different qualitative, quantitative and policy research tools and techniques;
* The consultant should have prior experience of working on the light engineering, tax/subsidy and financial sector in Bangladesh. They must have proven experience in market assessments and value chain analysis with private sector engagement; and
* The consultant must be familiar with the donor funded works specially USAID funded results framework.

## GUIDELINES FOR PROPOSAL SUBMISSION

These guidelines shall ensure uniformity of proposals submitted by all applicants and transparency of the evaluation process. The proposal must include the following items:

* Cover letter (maximum one page)
* Technical Proposal
* Financial Proposal
* Copy of necessary legal documents
* VAT Registration Certificate,
* TIN Registration, and
* Trade License (if applicable).

The language of the proposal should be English. The proposal must be submitted in PDF format, maximum of 8 pages (not sheets) excluding Cover Page, Abbreviations, Glossary, Table of Content, Additional Documents, and Annexes. Page size A4.

The financial proposal should include expert and data enumerator’s fees and expenses (including travel costs, accommodation & food expenses, etc.).

***Note: Government VAT and tax regulation will be applied, and these costs must be included in the financial proposal.***

## PAYMENT DETAILS

**Milestones and deliverables:**

| **Milestone** | **Deliverable** | **% Payment** |
| --- | --- | --- |
| **Milestone 1**Signing of the contract and work plan | Soft copy of the work plan | 20% |
| **Milestone 2**Study tools design, context analysis & presentation, field visit, interview conduction, meetings etc. and draft finding sharing with recommendations and move forward plan | Documents, Presentation, and draft Report | 40% |
| **Milestone 4**Submission of draft report and presentation and plan for validation meetings at regional level | Draft report on the study and plan for validation process | 20% |
| **Milestone 3**Submission of Consultancy report along presentation deck (after incorporating validation feedback through regional workshop) | Final report on the feasibility study  | 20% |

**Payment and Condition:**

The payment will be done as per the milestones through online transfer to the account details provided by the service provider. Around 10% will be deducted as tax.

**Obligation:** All the images, reports, documents, papers, or any other related materials produced under the agreement will be the property of CIMMYT and consequently confidential; and should be handed over to the organization. Therefore, the outputs/deliverables or any part of it will be strictly prohibited to share, sell, use, or produce/reproduce by any means without the prior permission of CIMMYT. The organization's written consent will be required to utilize the findings or any other related matters for/by any other purposes or institutions.

**Reporting:** The service provider will report to the contact person mentioned in this TOR.

**Contact person for the EOI Submission:**

**Md. Kafil Uddin**

Email:k.uddin@cgiar.org

**Mr. Dhon Raj Lama**

Email: d.lama@cgiar.org

**Ms. Shahida Khatun**

Email: shahida@cgiar.org

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## BID SUBMISSION

Interested and qualified consultants are asked to submit their Technical and Financial Proposals **to** k.uddin@cgiar.org and **copy to** d.lama@cgiar.org ; shahida@cgiar.org . Please write “Towards Sustainable Agro-Mechanization: Tax, Incentive Barriers in Bangladesh” in the subject line. The proposals should be submitted by 5:00 PM BST, 30th April 2024. We are only able to consider electronic submissions.