



Making the United Republic of Tanzania's Coffee Sector More Competitive

Main Findings and Recommendations

Although coffee is the URT's second most important agricultural export, coffee growers receive prices which are lower than those they could potentially obtain. Lower farmers' prices mainly relate to a few companies' dominance of the main auction market in Moshi. MAFAP analysis suggests that the following measures would improve prices received by farmers:

- ▶ strictly enforcing the one license system to prevent agents from acting both as buyers and sellers at the Moshi auction;
- ▶ revising the pricing system at the auction to allow farmers, traders and exporters to share risks when large differences between prices paid at the farm gate and prices obtained at the time of export occur; and
- ▶ reducing transport and processing costs from the farm gate to the point of export.

SUMMARY

MAFAP analysis shows that from 2005 to 2010, coffee farmers (Figure 1) and traders (Figure 2) in the URT received relatively lower prices than those they would have received without policy interventions and with better functioning value chains. Disincentives mostly occurred between the farm gate and the auction. These were related to buyers' excessive market power at the auction and the high transport costs at the port of Dar es Salaam.

INTRODUCTION

Coffee is the second most important agricultural export commodity in the URT after tobacco. It accounted for 14

percent of agricultural exports between 2004 and 2009. Over 90 percent of the coffee in the URT is produced by smallholder farmers. The coffee industry provides direct income to more than 400,000 households and livelihoods for more than 2.5 million Tanzanians. Coffee is grown in the northern, western and southern areas of the country and marketing is centralized via an auction in Moshi. As part of the country's Agricultural Sector Development Programme (ASDP), the government has launched the Coffee Industry Development Strategy 2011–2021. This strategy aims at increasing coffee production from 50,000 to 100,000 tonnes. and improving its quality by increasing the share of premium coffee production from 35 to 70 percent of total production by 2016.

Figure 1: Producers' price of coffee in the United Republic of Tanzania (in 1000s of Tz Shillings/ tonne), 2005-2010

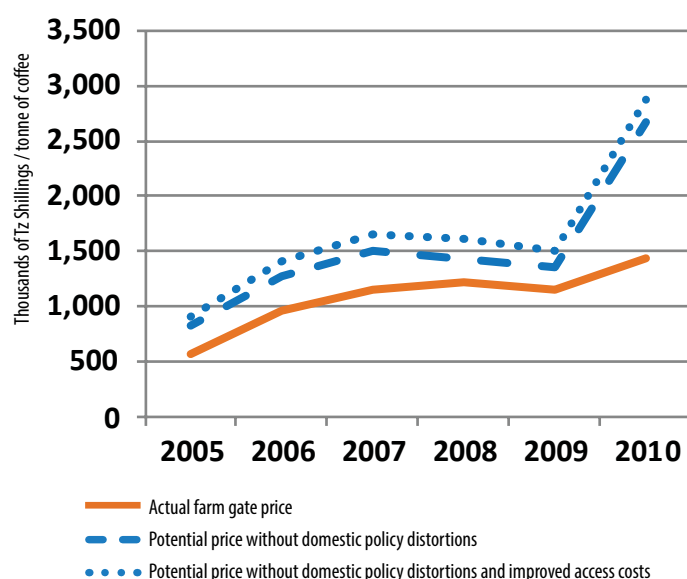
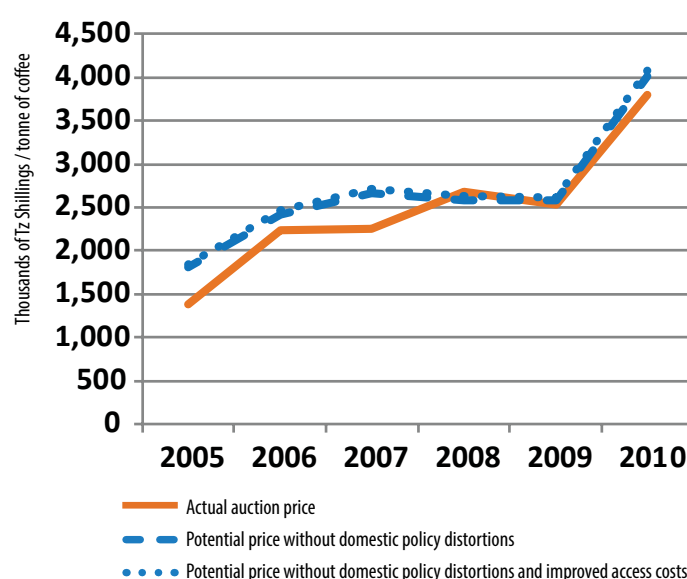


Figure 2: Auction price of coffee in the United Republic of Tanzania (in 1000s of Tz Shillings/tonne), 2005-2010

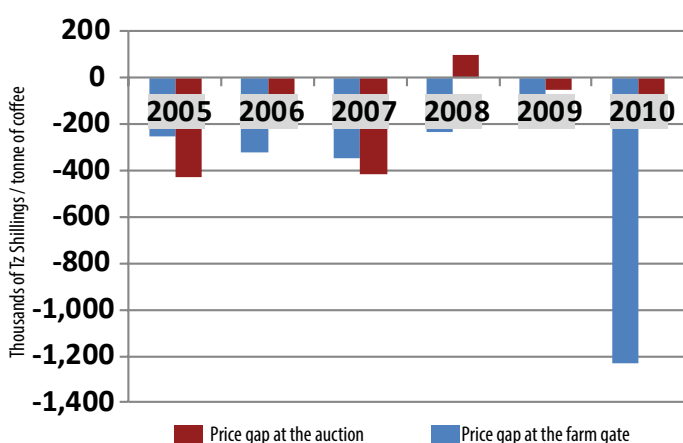


KEY ISSUES

The one licence system needs to be more strongly enforced by the government

MAFAP results show that, especially since 2008, disincentives in the value chain have increased for farmers while they have remained lower and more stable at the auction (Figure 3). The difference between the export price and the auction price is partly explained by fees paid to the Tanzania Coffee Research Institute and the Tanzania Coffee Board. The remaining gap relates to the high cost of transporting coffee from producing areas to the port of Dar es Salaam.

Figure 3: Price gaps of coffee at the farm gate and at the auction (in 1000s of Tz Shillings/tonne), 2005-2010



The difference between the domestic price and the potential price that would prevail without current policies and better functioning value chains was much higher at the farm gate than at the auction market (Figure 3). This would suggest that traders have more market power than farmers. MAFAP generally estimates normal profit margins at the auction to be around ten per cent of the farm gate price. The price difference indicates that profit margins were close to 25 per cent, although margins decreased when production in the URT was low (Figure 4). The URT introduced the one license system which requires each person to act either as a buyer or as a seller at the auction to improve competition among buyers. However, the system needs to be more strictly enforced to prevent companies from circumventing it.

Farmers have not fully benefited from increasing coffee prices

MAFAP analysis shows that, although export prices of coffee have been steadily increasing since 2005, farm gate prices have increased at a lower rate (Figure 5). This suggests that farmers have not fully benefited from increasing international coffee prices. Although the current system protects farmers when international prices are stable or decreasing (2008-2009), it also limits their capacity to benefit from higher prices. To some extent, trade liberalization has helped improve the sector, but smallholder farmers could potentially receive even higher prices.

MAFAP analysis also suggests that the pricing system at the main auction could be revised to allow farmers and exporters to share risks when large differences between auction and export prices occur. For example, in 2010 prices had increased by nearly 60 per cent by the end of the year. Thus, prices that farmers received were based on the lower quotations at the beginning of the year. These prices were far lower than what farmers could have potentially received if they had sold their coffee at the end of the year. However, traders who sold coffee later in the year, greatly benefited from higher prices.

Figure 4: Implicit traders' margins between the farm gate and the auction market (%), 2005-2010

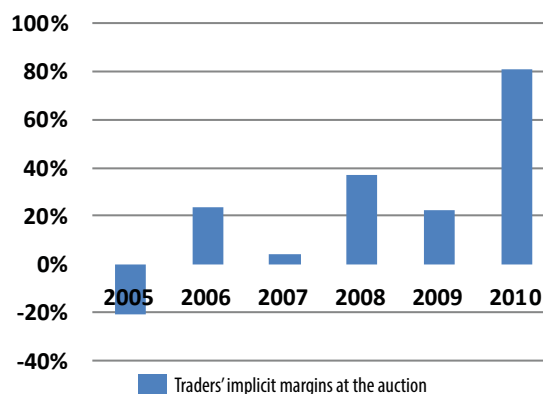
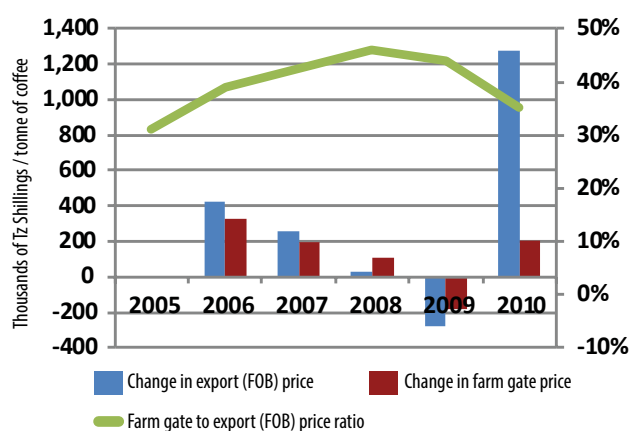


Figure 5: Share of farm gate to export (FOB) prices and changes in farm gate and export (FOB) prices (in 1000s of Tz Shillings/tonne), 2005-2010



Further Reading

MAFAP Technical Note on Incentives and Disincentives for Coffee in the United Republic of Tanzania (2013)

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