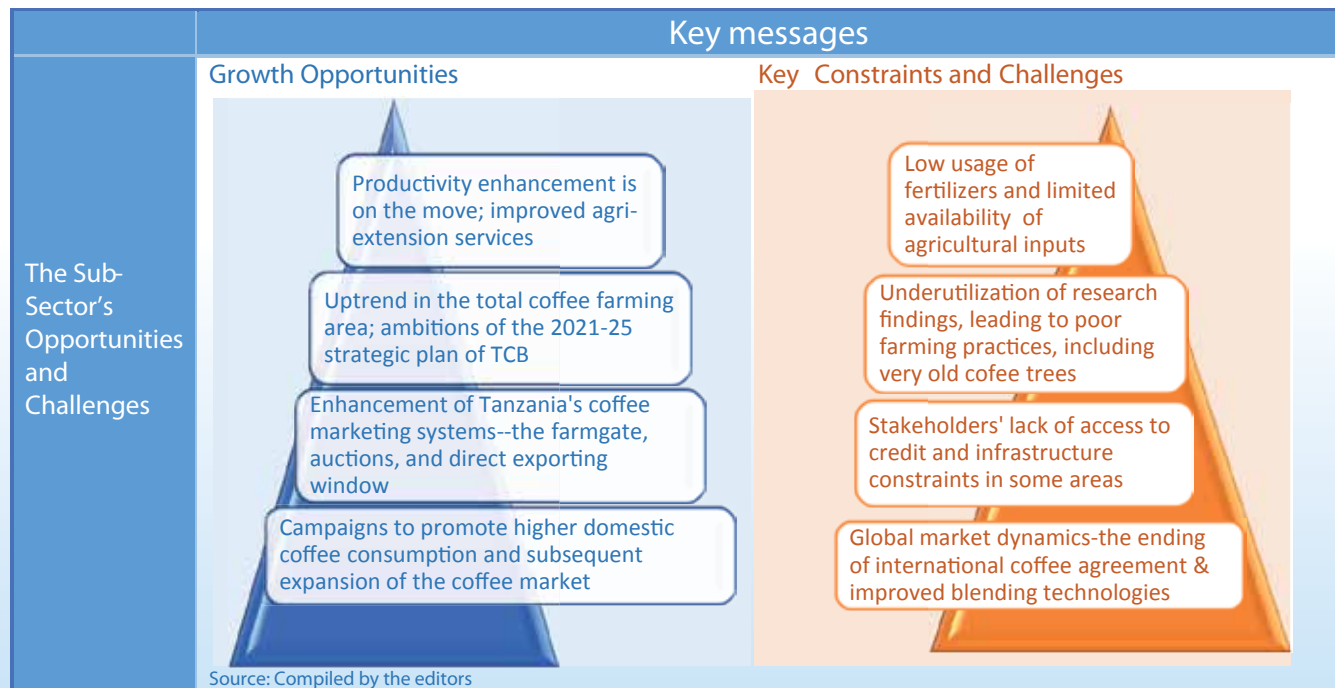


## Building Productive Capacities in Tanzania—Opportunities and Constraints in the Coffee Sub-sector

By Ahmed Ndyeshobola and Donald Mmari



<b>Objective</b>	To explore the underlying opportunities and constraints for enhancing the expansion of productive capacities in the coffee sub - sector for industrial and trade expansion.
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**Baseline definitions on productive capacities and productivity growth are drawn from the relevant multilateral agencies:**

Baseline Definitions – Productive Capacities and Productivity Growth	
<b>UNCTAD</b>	Defines productive capacities as the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop
<b>NEPAD</b>	Defines productive capacity as the ability to produce goods that meet the quality requirements of present markets and to upgrade in order to tap future markets—to ensure a sustainable participation in the new global production system based on production networks
<b>World Bank</b>	Defines productivity growth as the key driver of sustainable income growth and poverty reduction the efficiency with which societies combine their people, resources, and tools and is the central driver of the development process
<b>UNIDO</b>	Defines productivity as the ability to transform inputs into outputs — a key to poverty reduction as it generates skilled jobs which are sources of income and social participation.
<b>OECD</b>	Productivity is considered a key source of economic growth and competitiveness .

### The significance of the coffee sub-sector

Tanzania has a long tradition of coffee growing. It is Africa's fourth biggest producer of coffee behind Ethiopia, Uganda, and Cote D'Ivoire. Coffee is one of Tanzania's primary agricultural export commodities, accounting for about 5% of total exports value, and generating export earnings averaging USD 100 million per annum over the last 30 years. The industry provides direct income to more than 400,000 farming households thus supporting the livelihoods of an estimated 2.4 million individuals. An estimated two million additional people are employed either directly or indirectly in the Tanzania's coffee industry.

That notwithstanding, the global market for coffee has undergone radical changes that have shaped the competitiveness of the coffee sub-sector in Tanzania.

The three main factors affecting coffee production include:

The collapse of the International Coffee Agreement's quota system since 1989.

Liberalisation of coffee marketing in Tanzania in the 2000.

Technological advances in roasting and blending the coffee.

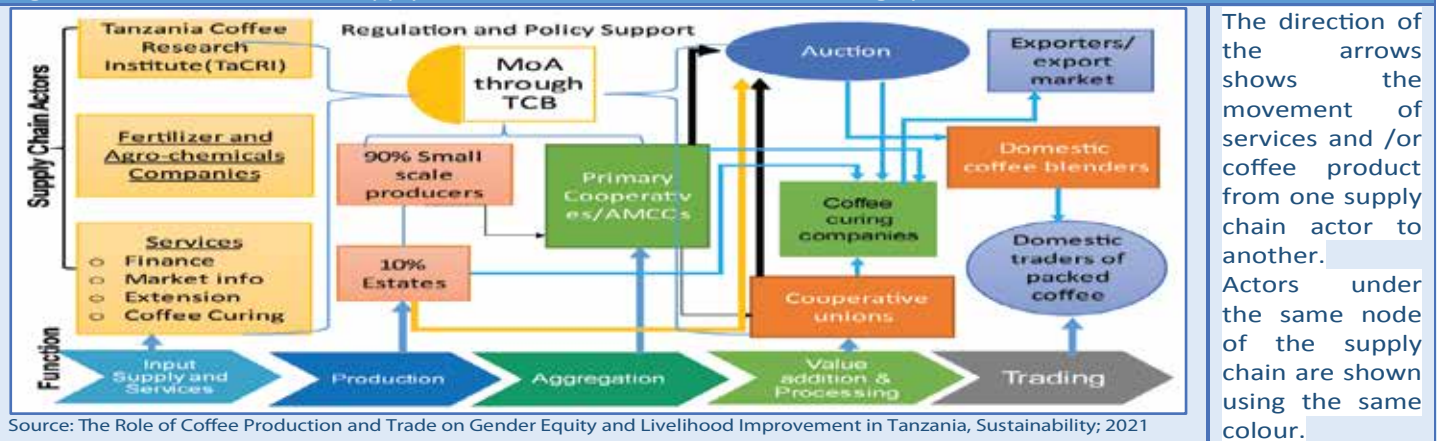
The main growing regions of Arabica and Robusta coffee are:

	<b>ARABICA</b>	<ul style="list-style-type: none"> <li>• - Iringa</li> <li>• - Mbinga</li> <li>• - Arusha</li> </ul>	<ul style="list-style-type: none"> <li>- Kigoma</li> <li>- Ngara</li> <li>- Ruvuma</li> </ul>	<ul style="list-style-type: none"> <li>- Mbeya</li> <li>- Morogoro</li> <li>- Songwe</li> </ul>	It is estimated that over 400,000 smallholder farming households are responsible for between 90% and 95% of the coffee production in the country; with the remaining 5-10% of all coffee produced by some 110 estates.
	70% of total coffee production in the country	<ul style="list-style-type: none"> <li>• - Manyara</li> <li>• - Usambara Mountains</li> </ul>	<ul style="list-style-type: none"> <li>- Kilimanjaro</li> <li>- Matengo Highlands</li> </ul>		
	<b>ROBUSTA</b>	<ul style="list-style-type: none"> <li>• - Kagera</li> <li>• - Eastern Arch Mountains</li> </ul>			

### Tanzania’s coffee supply chain structure and marketing system

Around 90% of the farmers are organised in cooperatives - such as the Kilimanjaro Cooperative (the first one historically), the Arusha Cooperative, Bukoba and Karagwe Cooperative Unions, etc. They are agricultural and marketing cooperatives. As such, they deal with the production, processing, transport, and marketing of coffee. In addition to cooperatives, there are also private companies processing coffee for both domestic consumption and exports. This is shown in table 2.

Figure 1: Tanzania’s Coffee Supply Chain Structure, Actors and Marketing System



Source: The Role of Coffee Production and Trade on Gender Equity and Livelihood Improvement in Tanzania, Sustainability; 2021

The direction of the arrows shows the movement of services and /or coffee product from one supply chain actor to another. Actors under the same node of the supply chain are shown using the same colour.

Table 1: Best Global Coffee Beans in 2020

THE BEST COFFEE BEANS IN THE WORLD IN 2020	Rank	Name	Origin
	1.	Tanzania Peaberry Coffee	Mt Kilimanjaro, TANZANIA
	2.	Hawaii Kona Coffee	HAWAII, UNITED STATES
	3.	Nicaragua Mandheling Coffee	NICARAGUA
	4.	Sumatra Mandheling coffee	Sumatra, INDONESIA
	5.	Sulawesi Toraja Coffee	Sulawesi, INDONESIA
	6.	Mocha Java coffee	Java, INDONESIA
	7.	Ethiopian Harrar Coffee	Harra, ETHIOPIA
	8.	Ethiopian Yirga Cheffe Coffee	Yirga CheffeE, ETHIOPIA
	9.	Guatemalan Antigua Coffee	Antigua, GUATEMALA
	10.	Kenya AA Coffee	KENYA



Source: Tanzania Coffee Board, 2023 (also: espressocoffeeguide.com)

Tanzanian arabica is classically associated with the washed coffee profile: clean, bright, and floral. Northern coffees tend to have a pleasant aroma, a rich acidity and mouthfeel, and a sweet, balanced taste—derived from the mineral nutrients found in the region’s mountainous volcanic soils—have good fruity and floral aromas and flavours.

The three coffee marketing systems (shown in Figure 1) of internal sales at the farm gate, auctions, and direct exporting are being improved. TCB also opened a Tanzania Mercantile Exchange (TMX) for various crops including coffee, a move that could reduce substantially the country’s coffee held in stock to 520,000 bags as of 2021/2022. Tanzania’s coffee auction is dominated by companies with an international outlook. Four of the biggest coffee buyers are Ibero (T) Ltd, Taylor Winch (T) Ltd, Dorman (T) Ltd, and Cotacof Ltd, which purchase 23%, 23%, 21%, and 12% of the coffee on auction each year, respectively, or some 80% in total. Other companies active in the coffee auction include Kagera Cooperative Union, Karagwe Estates Ltd, Amir Hamza (T) Ltd, CETCO Ltd, Mambo Coffee Ltd, and Olam (T) Ltd. Tanzania is known for producing one of the best quality coffees, especially the Columbian mild arabica—the Peaberrycoffee that is more flavourful, sweet, and lighter—mostly produced in the rich volcanic soils in the slopes of Mount Kilimanjaro. This is demonstrated in table 1

Table 2: Coffee processing factories in Tanzania

Region	Coffee Processing Factory	Processed Coffee
Kagera Robusta Coffee	Tanganyika Instant Coffee Public Limited Company (TANICA PLC)	Pure Instant Coffee—the Kilimanjaro blend— And Roasted Beans.
	Buhaya Coffee	Processing and selling of roasted ground coffee, and roasted coffee beans.
Kilimamjaro Arabica Coffee	Choice Coffee Co. Ltd	Specialty Green Coffee and Roasted Coffee trading
Arusha Arabica Coffee	Tanzanite Coffee Limited	Coffee roasting, grinding, and packing.
	Arusha Coffee Mill /Coffee Exporters Ltd	Milling of P1, P2, P3 and Cherry Mbuni; Warranting and promoting for sale at auction; Storage of coffee before shipment.
Mbeya Arabica Coffee	Mlowo Coffee Industry	Processing / curing of parchment coffee.
Songwe Arabica Coffee	Mbozi Coffee Curing Company	Processing / curing of parchment coffee; Warehouse service to coffee buyers after the auction.
Morogoro Arabica Coffee	Mambo Coffee Company Limited	Coffee sourcing from small farmers / cooperatives and Coffee Auction (Moshi); Storage of coffee before shipment for export.

<b>Dar es Salaam Arabica &amp; Robusta Coffee</b>	AFRITEA & COFFEE BLENDERS 1963 LTD	Coffee products include: Africafe Pure Instant Coffee (Tins); Africafe Pure Instant Coffee (Sachets); Africafe 3 in 1 mix; Africafe Gold; and Africafe Safari.	
<b>Songea Arabica Coffee</b>	Magic Bean Coffee Factory—Café Business Consult Ltd.	Roast and Ground Coffee	

*Source: Compiled by the Editors*

### Tanzania's capacity to export coffee

Tanzania's coffee exports generally declined from the mid-1990s following liberalization of coffee marketing, with some modest increase but fluctuating between 2011 and 2020. As figure 2 shows, during the 2021/22 coffee season, Tanzania's coffee exports increased by 34% to 1.38 million bags valued at \$396 million, the highest since 1995. This increase was attributed to an increase in the production of good quality coffee induced by the improved marketing systems. The relaxation of Covid-19 restrictions in Tanzania and other countries also supported the rebound in coffee trade.

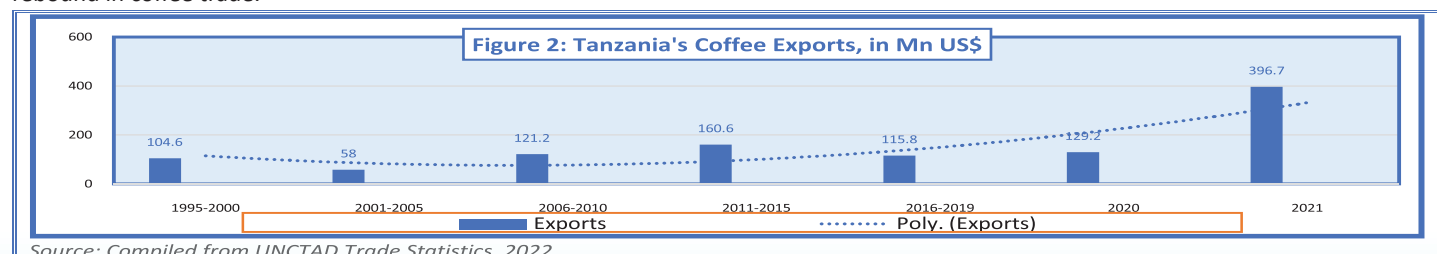
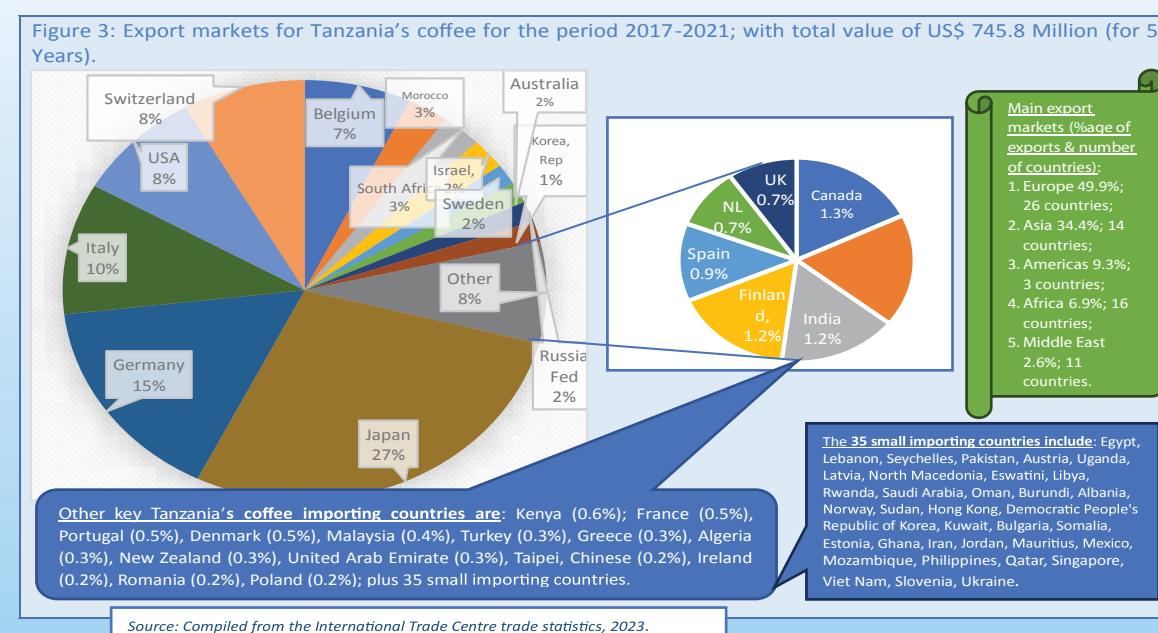


Figure 3 shows Tanzania's current major coffee export markets, which includes Japan, with a share of the total shipments at 27%; Germany, at 15%; Italy, at 10%, USA at 10%, Switzerland at 8%, and Belgium at 7%. Other buyers of Tanzania coffee include Morocco, South Africa, Israel, Sweden, Korea Republic, Australia, Canada, Finland, India, and Russian Federation, each with an export market share ranging from 1–6%.



### Growth opportunities for developing productivity capacities in the coffee sub-sector

Despite the emergence of big producers and exporters of coffee such as Vietnam, the coffee sub-sector has the potential to expand and compete effectively in certain segments of the market, especially niche markets if the opportunities are harnessed. Table 3A provides a summary of the opportunities for enhancing productive capacities in the coffee subsector.

Table 3A: Growth Opportunities for the Productive Capacities in the Coffee sub-sector	
<b>Productivity enhancement is on the move</b>	Analysis indicate that productivity enhancement is on the move and, as a result, production is growing due to: increased use of fertilizers, as more growers gain access to credit from financial institutions. better operations among coffee marketing co-operatives.
<b>Supporting expansion</b>	Factors supporting expansion are improved; support from the government's agricultural extension services. The timely entry of new coffee trees into the most productive period of their two-to-three-year yield cycle.
<b>Marketing systems</b>	Three coffee marketing systems of internal sales, auctions, and direct exporting are being improved. TCB recently introduced two new auction sites-- that may have increased the speed and efficiency of coffee transactions at the auctions in Tanzania.
<b>Domestic reforms and international demand</b>	Farmers are now motivated to grow quality coffee thanks to new regulations that allow them to directly enter contracts with foreign buyers to eliminate middlemen, thereby increasing profitability for growers. Foreign buyers often require growers to adopt practices such as stumping, pruning, weeding, mulching, and fertilizing to help ensure quality production; as these practices proliferate in Tanzania, yields will rise.
<b>2021–25 TCB strategic plan</b>	Four thrusts were identified under this strategy: Increased productivity, Enhanced internal marketing process and business environment, Improved quality, and Development of new markets.
<b>Activities of various NGOs</b>	The activities of various NGOs and Donor agencies including Vi-Agroforestry; Hanns R. Neumann Stiftung; Solidaridad; Mark Up; and ANSAF that are implementing a number of smallholder support projects.

**Table 4B: Key Productivity Challenges and Constraints facing the Coffee sub-sector**

<b>Low usage of fertilizers</b>	Low usage of fertilizers and limited agricultural inputs (fertilizers, pesticides, fungicides)—fertiliser and pesticide use are low, leading to issues with pests and diseases.
<b>Research findings</b>	Underutilization of research findings—leading to poor farm maintenance practices such as insufficient pruning and stumping of trees.
<b>Lack of access to credit</b>	Low usage of fertilizers and limited agricultural inputs (fertilizers, pesticides, fungicides)—fertiliser and pesticide use are low, leading to issues with pests and diseases.
<b>Coffee wilt disease</b>	The arrival of coffee wilt disease in 1997 and poor management of pests and diseases, resulting in the irreversible death of some coffee plants.
	Since the late 1990s, coffee wilt disease and several other environmental challenges have meant that individual plant yields have decreased in some areas.
<b>Low farmgate prices</b>	Farmgate prices in Tanzania remain low. Highly volatile coffee prices and other factors cause dramatic fluctuations in Tanzania's coffee production.
<b>Aged coffee plants</b>	Coffee plants are broadly very old with low yields—many older coffee trees in Tanzania are not capable of realising their full potential of yields.
<b>Infrastructure</b>	A lack of access to mechanised irrigation systems is one of the biggest challenges facing smallholder farmers. Further, some areas are quite isolated and transport is difficult (roads, railways).
<b>Agricultural practices</b>	Tanzania suffers from poor agricultural practices in many cases because of a lack of extension services and technical support; shortage of skills among extension workers for better agricultural practices.
<b>Lack of a local coffee culture</b>	Most Tanzanian coffee is exported, and very little remains for the underdeveloped internal market—due to the lack of a prominent local coffee culture.
<b>Lengthy transaction times</b>	Lengthy transaction times affect competitiveness—if processing and grading are required, it can take 3–6 months from buying dry cherry at the farmgate to being paid for graded exportable beans.
<b>The complex and high tax structure</b>	Taxes are relatively complex and high at 10-20% which decreases further investment in the sub-sector and continues to erode a significant portion of the gains made by the industry.
<b>Intrusive licensing</b>	Licensing procedures are too intrusive and heavy administrative fees does undermine trading capacities.
<b>Lack of public support for growth of the coffee market</b>	Government has become too involved in the coffee market, contributing to its inefficiency. In many cases, farmers do not feel ownership and control of their own cooperatives and their respective business affairs.
	Lack of strong support from government and development partners in terms of GAP training to raise productivity and quality, to improve marketing systems and to strengthen farmer organizations.
	Hence, the coffee sub-sector lacks a policy champion, who can raise the profile of coffee and attract resources to develop the sector at levels that are comparable to what has been achieved by other high-growth sub-sectors like horticulture or the multi-donor-supported SAGCOT initiative.

## Conclusion and policy recommendation

Through a combination of efforts by co-operatives and the government, Tanzania's national average yield is expected to increase from the current 250kg/ha to 600kg/ha as productivity initiatives take shape. Therefore, farmers, buyers and relevant institutions are currently all under pressure and must face complex issues to ensure the good development of the coffee industry. The key outputs of these efforts include higher productivity, better quality, better incomes for farmers and buyers - at national and international level. Under the current political context, dialogue and collaboration between the different actors seem necessary to find the best suitable solution to sustainably enhance productivity and high-quality coffee.

It is recommended that this framework of analysis is adapted to inform policy analysts, private sector practitioners, and decision makers in public institutions responsible for promoting economic growth; agriculture and cooperative development; investments, trade, and industrial development; private sector development, and providing the requisite political champion for the coffee sub-sector. It is the ability these actors to address the various constraints to productivity growth that Tanzania can sustain its growth momentum, realize its development potential and competitiveness in the high-quality niche markets, raise incomes of coffee farmers, and achieve significant poverty reduction.

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