

Unlocking the Global Markets and Investment for Tanzanian Agribusiness Industry

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Summary

Tanzania is among the regional leading producer of a number of agricultural commodities such as coffee, tea, cashew nuts, cotton, sisal, pyrethrum, forest products, meat products and fish products just to mention few. However, the traditional practice and narrative has been on producing and exporting raw agricultural commodities without substantial value addition. The current government regime is determined to change the narrative towards agro-industrialization and value addition. Indeed, the introduction of Tanzania Agricultural Development Bank (TADB) in the past five years has accelerated the pace of industrialization and value addition by providing highly demanded long term and short-term loans for agro-processing industry. The capital injection in the industry by TADB and partners institutions has created both new challenges and opportunities. Specifically, access to affordable finance has led to improved use of technology, farm inputs and processing technology, which are more likely to push the envelope of agribusiness outputs into the higher frontier. Such improvement in output and emergence of new value added agro products calls for new markets and expansion of the current market. In addition, the need for long-term capital is ever increasing which calls for strategic search and solicitation of private capital from the global market. In order to effectively push the agenda of agro industrialization, access to affordable long-term capital and global market for our produce is critical. This is where the Ministry of Foreign Affairs and East African Community (MFAEC) could play a unique role in national development by using her global footprint to open and both the market for our produce and negotiate for capital inflow in collaboration with TADB. Going forward, it is recommended have a desk officer responsible for marketing and attraction of FDI in all the key strategic countries such as China, Middle East, Japan, North America and West Europe. Also innovation around diaspora bond could help to unlock diaspora savings abroad into local economic development.

1. Introduction

“Good prospects: Africa’s food and beverage markets are projected to reach \$1 trillion by 2030. By way of comparison, the current size of the market is \$313 billion, offering the prospect of a three-fold increase, bringing more jobs, greater prosperity, less hunger, and significantly more opportunity enabling African farmers to compete globally” (World Bank, 2013).

As articulated in the statistics above from the World Bank, agribusiness industry in Africa holds enormous growth potential. Tanzania among other African countries stand a better chance to leverage the growth opportunity. Indeed, the government of his excellence Dr John Pombe Magufuli is determined to change the narrative of the country from focusing on

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producing and exporting raw agro-produce into an industrialized value added producing country. Optimizing along the entire value chain of across agricultural commodities will help to increase the proportion of the profit which would not been captured locally without value addition. Such profit in most cases are on average well above 70% compared to what primary produces fetches at farm gate price. Simply put, the idea of developing the local capacity and supportive environment for the integrating local producers into the agricultural value chain is critical conditions towards agricultural transformation. It entails integration production process and services from seed multiplication to the final processed product ready for local consumption or export. While it plan sounds like an ambitious goal but it is not impossible to achieve. Indeed, a number of policy instruments has been put in place to make it happen. The empirical evidence shows that investing in agriculture have is among the most effective pro-poor growth strategy there could be.

According to the World Bank, 2008 welfare gains from growth originating in agriculture are substantially larger for households in the poorer five expenditure deciles. Every one percentage increase in GDP originating from agriculture increases the income of the poor between 2-6 folds compared to non-agricultural induced GDP growth. Hence the intervention focusing on agricultural led growth will have more impacts to poverty reduction, increased food security and positive externalities from both forward and backward linkages. It is against same ethos our current present is insisting on transformation of agricultural sector from subsistence farming to commercially viable agribusiness enterprises as he was quoted below during the launch of ASPD II



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To transform agriculture from subsistence farming to agribusiness through increasing productivity in farming, livestock and fisheries and stimulating investment in the entire value chain.

H.E. DR. JOHN MAGUFULI

One of the key instrument is for agricultural transformation is the formation of Tanzania Agricultural Development Bank (TADB) to catalyze agribusiness financing and promote the availability of long-term and medium term finances for agro processors, off takers, and farmers.

However the magnitudes of the financial resources required and necessary agricultural infrastructure which need to be in place is a way beyond the capacity of TADB and the government itself. Thus for industrialization and value addition to be achieved, there is a critical need to loop in the global public, semi-public and private capital to finance agricultural transformation in the country.

Indeed, the past three years of active agribusiness financing, TADB has accelerated the pace of industrialization and value addition by providing highly demanded long term and short term loans for agro-processing industry. This has created both new challenges and opportunities. Specifically, access to finance has led to improved use of technology, farm inputs and processing technology. The second order effect is more likely to push the agribusiness output envelope into the higher frontier. Such improvement in output and emergence of new value added agro products calls for new markets and expansion of the current markets. In addition the need for long term capital is ever increasing which calls for strategic search and solicitation of private capital from the global capital and local markets. In order to effectively push the agenda of agro industrialization, access to affordable long term capital and global markets for our produce is critical. This is where the ministry of Foreign Affairs and East African Community (MFAEAC) could play a unique role in national building by using her global footprint to unleash the market for our produces and negotiate for capital inflow in collaboration with TADB. It is recommended that, there is a need for a desk officer responsible for marketing and attraction of Foreign Direct Investment (FDI) in all the key strategic countries such as China, Indonesia, Middle East, Japan, North America and West Europe. The capital could be in terms of patient capital, equity, debt, grant, technical assistance or a combination of any of these variants.

2. Key strategic agribusiness value chain and potential market outlet

Tanzania is endowed with a vast agricultural land with favorable agro-ecological zones for most of commercial and cereals crops. The TADB has selected about 17 values chains spread across six zones countrywide. The initial value chain financing focused on cashew nuts, cotton, paddy, coffee, tea, sunflower, maize, sugar cane, and dairy and meat industry. A total of 17 different value chain has been financed in the past four years. Such increased access to affordable funding is likely to push the productivity of primary produce to higher levels and increase the quantity and quality of value added goods. The implication is emergence of the immediate need for additional and new markets for value added goods. Putting it in perspectives using coffee as an example, the total coffee production has historically remained

stagnant for the past three decades to around 50,000MT annually. But with TADB intervention, the production is expected to increase in four folds to about 400,000 MT within two to three years (Fig. 1). These will entail aggressive marketing to effort to accommodate additional produce.

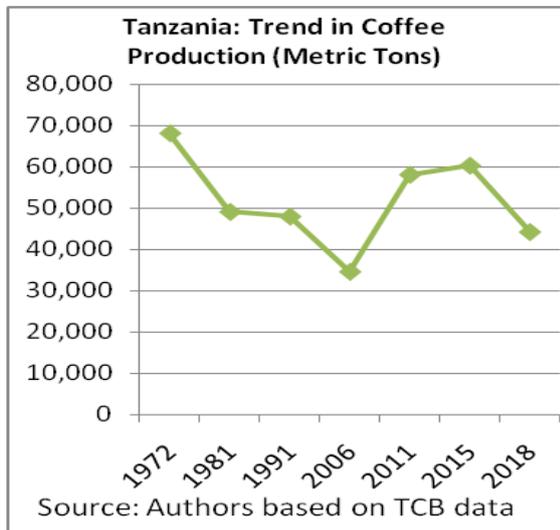


Fig. 1(a): Country wise Coffee Production for 1972 -2018

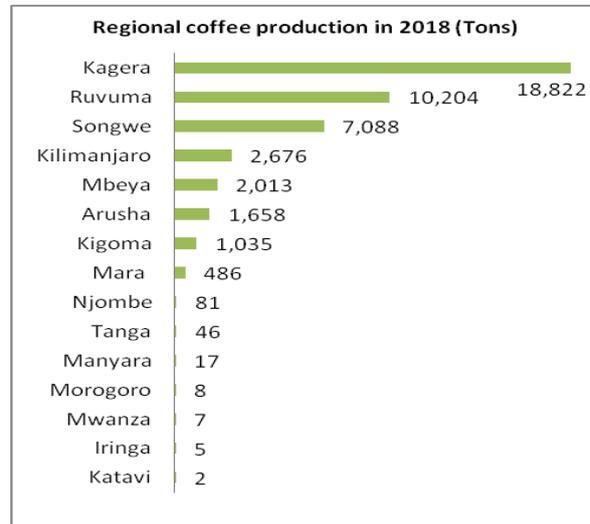


Fig. 1 (b) Regional wise Coffee Production in 2018

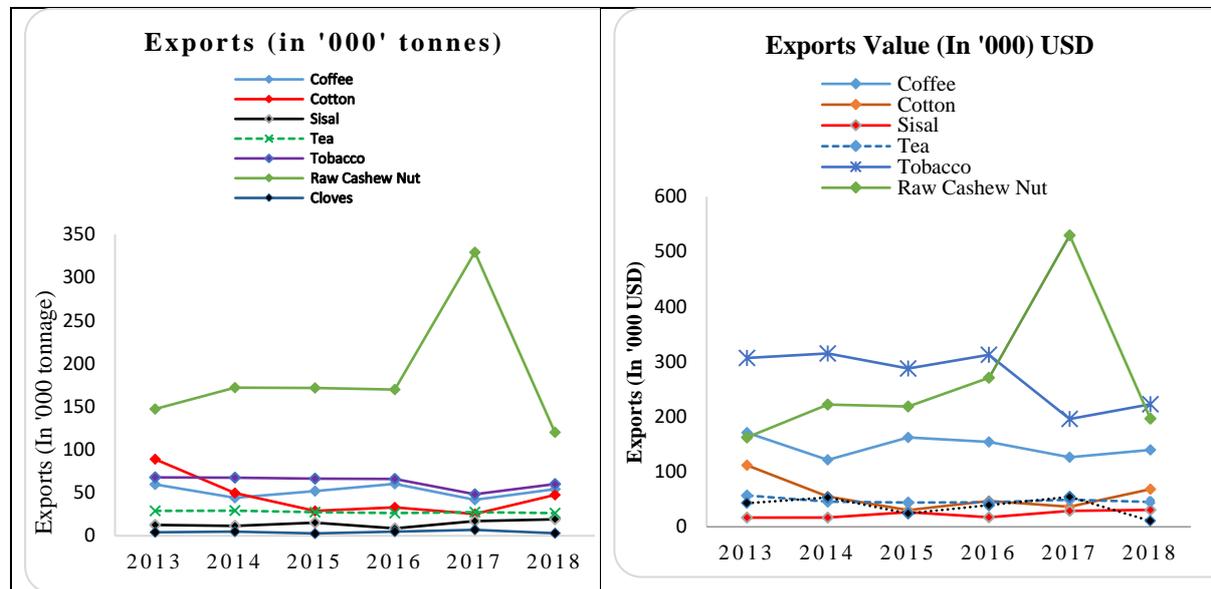
Since the coffee is mainly export crop this means the MFAEAC has an upper hand through her foot print to act as a gateway to global and regional market of our produce. This is just one case and similar patterns may be unfolding across the remaining value chains.

The export markets for both raw and process goods is critical importance for three majors reason: absorption of excess capacity, fetching higher prices and improving our terms of trade as a source of foreign currency, learning by export which is an important positive externalities for exporting industry. The major potential for agro exports from Tanzania includes: meat and dairy products, cereals, horticultural products, leather, textile and apparel, cashew nuts and its derivatives. Other major export crops includes: Sisal, coffee, tea, tobacco, pyrethrum, forest products and logging, fish and fish products, pulses, cloves and spices. Processed cashew nut markets and investors in cashew processing are urgently required given the recent policy change towards cashew nut sub sector. Figure number 2 below demonstrates major export crops in quantity and value.

Looking on historical data cashew nut is leading crop in terms of value of exports followed by tobacco and coffee (see figure 2 below). Unfortunately all top three exports are exported as raw produces denying the farmers and the countries significant rent if they were processed and exported as finished goods. The effort towards industrialization and value addition will spur the local job creation, increased income, and improved welfare of more than 70% of Tanzanian

depending on agriculture and indirectly by all the Tanzanian through tax benefits and multiplier effect to the rest of the economy.

Figure 2: Quantity and value of different cash crops exported from Tanzania



Source: Bank of Tanzania Economic Bulletin Vo.4 2018.

We believe that the Middle East market, Japan, China, Indonesia, Europe and North America holds a significant potential to absorb the agricultural produce from Tanzania. Using the Tanzanian embassy foot prints across these countries to solicit and negotiate the market and investment deals is critical to support the industrialization agenda.

3. The potential for financing and investment needs

The demand for agricultural infrastructure such as irrigation facilities, mechanization, and processing industries is huge and is beyond the capacity of TADB and the government itself. Good news is that the potential for profitable equity investment are significant which makes a good investment case. On the next five years the minimum required amount for implementing ASDP II is around US \$6 billion compared to the current TADB lending portfolio of US\$275 million. Such a financing gap will need a convergence of public, semi-public and private capital to fill the gap. In particular capital inflow in term of debt, equity, grant, and aid will be critical to unlock the productive potential of agribusiness industry in Tanzania. One of the low hanging fruit is establishment of diaspora bond for agricultural development. Such a bond will help to unleash the savings of Tanzanian working abroad to spearhead local development at home. Countries like India, Israel are leading in such initiatives.

4. Conclusion

There is an increasing demand for food and fibers globally, Africa and Tanzania in particular is well positioned to leverage the increasing demands if the appreciate investment is made in strategic value chains. The financing required agribusiness investment is beyond the local capacity which need strategic engagement with internal partners to unlock the potential. The MFAEC has a significant potential for unlocking the market for agricultural produce and attract the international capital into the country. The Tanzania embassy across different countries could play a key role as a gateway of global market capital inflow for agricultural sector.

5. Call for actions

The Tanzania government should ensure policy certainty and investment friendly environment for local business to flourish and attract the much needed foreign capital. The innovation around diaspora bond if well designed could help to unleash significant capital inflow from the Tanzania working abroad.

TADB should work close with MFAEC to solicit the additional capital required in term of debt, equity, aid and grants. Apart from conventional sources of capital there is a need to consider the possibility of diaspora bond for agricultural development.

Also different crops and livestock boards along with the ministry of marketing should aggressively work towards securing export markets for different agricultural produce in the country. Starting with ling having fruits such as meat, coffee, sisal, tea, horticultural produce, and cereals will be a good place to start.

