

Tanzania Agribusiness Report Q3 2011

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Date: July 2011

Pages: 52

Price: US\$ 1,175.00 (Single User License)

ID: T390B5DB2BAEN

Abstracts

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BMI View: Over our forecast period, we anticipate positive production growth for all of Tanzania's agricultural subsectors. Production growth is predicted to be especially strong in the case of sugar, coffee, rice and sorghum. To a large degree, growth within these subsectors will reflect the increased investment which is coming from both public and private-sector sources. Positive production growth will also reflect the creation and opening-up of new markets for key export crops. Key risks to our production forecasts for maize and sorghum include climate change and the onset of increasingly dry weather periods.

Meanwhile, the biggest downside risks for cash crops such as coffee and sugar are fluctuating commodity prices and access to markets. Our five-year growth forecasts also envisage strong consumption growth for sugar, rice, maize and sorghum. Although maize, rice and sorghum already comprise major staple foods in Tanzania, future demand growth will be driven by the country's expanding population and by rising living standards. Rising living standards will also contribute to the increased consumption of sugar.

Key Forecasts

A significantly reduced production forecast for coffee envisages a 19% fall in output in the 2011/12 crop year; this will see production drop to around 45,000 tonnes (equivalent to 756,000 60kg bags). The fall in output for this major cash crop and key export will be due to the drought which has affected several key growing areas. In the five years to 2014/15, production will increase by 52%, largely in response to export-driven demand and efforts to boost output.

A revised forecast for sugar production envisages a 6.7% increase in output in 2010/11. In the five years to 2014/15, production is predicted to grow by 38%. Growth will be driven by efforts to expand the amount of land under cultivation, as well as the country's sugar-processing capacity. Meanwhile, sugar consumption will expand by 32.5% to 2015, underpinned by population growth and improved living standards.

Despite slight alterations to our rice production forecast, we retain our expectation that output will grow by 4.4% in 2010/11 and by 31% to 2014/15. Growth will partly be driven by foreign companies which cultivate rice for shipment to their home markets. Rice consumption continues to be greater in the diets of high-income consumers in urban areas; we maintain our prediction that consumption will grow by 17.5% to 2015.

We maintain our prediction that Tanzania will grow its maize output by 2.9% in 2010/11 and by 15% in the five years to 2014/15. Maize will remain Tanzania's most widely produced and consumed grain at a national level. Just as production will continue to be negatively affected by climate change, the next few years will see a move among farmers to plant more drought-resistant crops.

We maintain our view that sorghum production will grow by 7% in the 2010/11 agricultural year to reach 908,000 tonnes. Our new long-term forecast envisages sorghum production growth of 40% in the five years to 2014/15; growth will benefit from government initiatives to boost productivity, including increased plantings of the grain.

2011 Real GDP Growth: 6.2% (down from 6.4% in 2010; predicted to average 6.0% between 2011 and 2020).

Consumer Price Inflation: predicted to average at 6.4% year-on-year in 2011, down from 7.0% in 2010 (predicted to fall to an average of 7.0% between 2011 and 2020).

Key Views

Coffee is an important export crop for Tanzania and is expected to become more so over the next few years. However, the production of coffee will remain vulnerable to variations in rainfall. The latest figures from the Tanzania Coffee Board (TCB) envisage a significant drop output in the 2011/12 crop year; this is due to the impact of drought in several key growing regions. As a result of these reduced growth expectations for the 2011/12 crop year, BMI's long-term forecast for Tanzania's coffee industry has also been lowered. A further development which could negatively affect production in the coming year is the emergence of increased supply from Brazil towards the end of 2011.

This could lead to a correction in the international price of coffee, with implications for the price for Tanzanian produce.

Despite these potential setbacks, we remain optimistic about the longer-term prospects of Tanzania's coffee sector. An improving macroeconomic outlook, as well as the introduction of several new initiatives aimed at boosting production should continue to benefit the sector. However, it remains to be seen whether the government can achieve its plan to boost coffee output to 80,000 tonnes by 2016 and 120,000 tonnes by 2020.

Increasingly, Tanzania's authorities will need to strike a balance between developing the country's agricultural land as a source of food and cash crops for export, and using the land as a commodity which can be leased to foreign companies. In May 2011, Bangladeshi firm, Bhatibangla Agrotech, became the latest foreign company to announce a possible land-lease deal to produce crops in Tanzania. It is understood that Bhatibangla initially wants to lease 30,000 hectares of land for 99 years with per annum cost of BDT135 (US\$0.17) per hectare. However, the company has a long-term plan to cultivate between 2mn and 2.5mn hectares of land in Tanzania. Although land lease deals with foreign companies provide the government with a potential source of income, the country's authorities will also need to ensure that food security strategies are not jeopardised as a consequence of such deals.

Agriculture is hugely significant to Tanzania's economy and is therefore poised to become a major driver for economic growth. The sector accounts for up to 40% of Tanzania's GDP, employs more than 80% of the population and makes up 60% of the country's exports. The relative importance of agriculture to Tanzania's economy means that it is vulnerable to major disruptions to agricultural productivity.

However, investments aimed at boosting productivity and promoting adaptation also have potential to greatly improve economic growth and living standards. Specific areas which will continue to receive attention include the development of new seed varieties, the improvement of soils, the promotion of better access to markets and the enhancement of rural financial services for farmers. Both public and private sector investors are expected to continue targeting these areas in 2011 and beyond.

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