

IMPACT OF COVID19 ON TANZANIA COFFEE SUB-SECTOR

Global cashew market amidst of the situation.

Tanzania produces above 60,000 MT annually and exports about 55,000 MT mostly to Japan, Italy, The US, German and Belgium in that order. The regression framework estimated by IMF (2020) indicates that GDP growth and coffee consumption tend to correlate with 1% drop in GDP growth resulting into 0.95% decline in growth of coffee consumption. These results suggest that even a modest decline in GDP growth as a result of the covid-19 pandemic could have a significant impact on global coffee demand.

Findings

- Computable General Equilibrium (CGE) modeling results with assumption of a drop of 50% on world price for coffee, 3.2% drops in Tanzania export is observed for coffee in year 2020. The CGE findings suggests that even the slight economic shocks of coffee sub-sector have significant negative multiplier effects to the economy as a whole.
- According to World Bank Commodity Market outlook (CMO) Arabica and Robusta coffee prices have followed diverse paths during the past several months. Arabica prices, which changed little in 2020Q1 from the previous quarter (q/q), are nearly 12% higher than a year ago. Arabica and Robusta prices are expected to decline 3 and 8%, respectively, in 2020 before they recover modestly in 2021.



Figure 1 Coffee market price trend (source: WB Commodity Market Outlook)

- According to IMF (2020), advanced economies GDP will shrink by 6.1%: the growth of GDP of Japan (a major export market for Tanzanian coffee) is projected to shrink by 5.2%. Consumers in Japan

have been hit by the dual impact of the coronavirus and a sales tax hike to 10% from 8% in October 2019 severing their disposable income. Japan did not go into full national lockdown, but issued a state of emergency in April 2020 that affected consumption demand, supply chains and businesses.

- However, it is imperative to assess other coffee export markets as well. The economic effects of the pandemic are different in countries around the globe depending on response measures. In other Tanzanian coffee markets prospects are positive as there have been growth of online channels such as Amazon are selling much more coffee to the household consumers.
- In Germany, another Tanzanian coffee importer, coffee and beverage shops have remained open. US market has now reopened is consuming more coffee now. Brazil, which is the largest coffee producer and major coffee exporter to in the world, including the markets (e.g. Japan: Figure 21) is being ravaged by the pandemic. Despite of coffee consumption in major markets falling generally and in others recovering, and some big exporters such as Brazil have their export share contracted, there are opportunities to capture new such markets. This endeavor requires a high-level market intelligence to capture such markets. For example, Tanzania faces stiff competition in its traditional coffee export markets i.e. Japan, German and Italy from Uganda and Ethiopia – that both sell more coffee than Tanzania in those markets. However, Uganda and Ethiopia are landlocked, hence logistically challenged compared to Tanzania that can take advantage of its seafront to deliver coffee quickly to overseas markets.

Recommendations for policy

- While participating in global value chains, it is urged to strike a strategic balance by strengthening domestic supply and consumption base, and regional integration to cushion the economy against global economic disruptions.
- High level market intelligence and monitoring situation COVID19 measures that may affect supply and logistics and having standby alternatives if deemed necessary.
- In spite of constrained budgetary resources, important productive sectors such as agriculture should still receive commensurate public investment attention.