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Postpandemic Outlook on Tanzanian Rice Trade: Opportunities and Pitfalls

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Key messages

- As a result of disrupted trade flows due to Covid-19 and massive domestic rice stocks, fertilizer costs sharply rose, and rice market prices dipped in Tanzania.
- While inflation rates remained low and the economy has been rapidly recovering from the pandemic, low rice prices harm producers and threaten food and income securities.
- Rice farmers have shifted to low-investment and low-return farming, which challenges the achievement of rice subsector strategies regarding doubling production.
- Immediate attention is required on addressing the high input prices and supporting rice traders for guaranteed purchases and prices in the value chain oriented toward export.

Introduction

As the global economy is recovering from the effects of the Covid-19 pandemic, Tanzania holds its vision to become a lead rice producer and exporter in Africa. Rice is the second most significant staple food after maize and a commercial crop and a strategic policy priority for the contribution of the agricultural sector to economic growth (USAID 2021). During the first year of the pandemic, Tanzania's economy has not been impacted as much as the other Eastern African Community (EAC) countries: though growth decelerated to 2.1 percent in 2020 from 6.8 percent in 2019 (AfDB 2021), the country has nevertheless maintained an average growth at 7 percent in the last decade, above the 6 percent in Africa and 4 percent worldwide (FAO 2021). In fact, at the peak of the pandemic in May 2020, the country recorded a trade surplus, with the export of high-value minerals such as gold rising by more than 100 percent (Bank of Tanzania 2020; UNECA 2021).

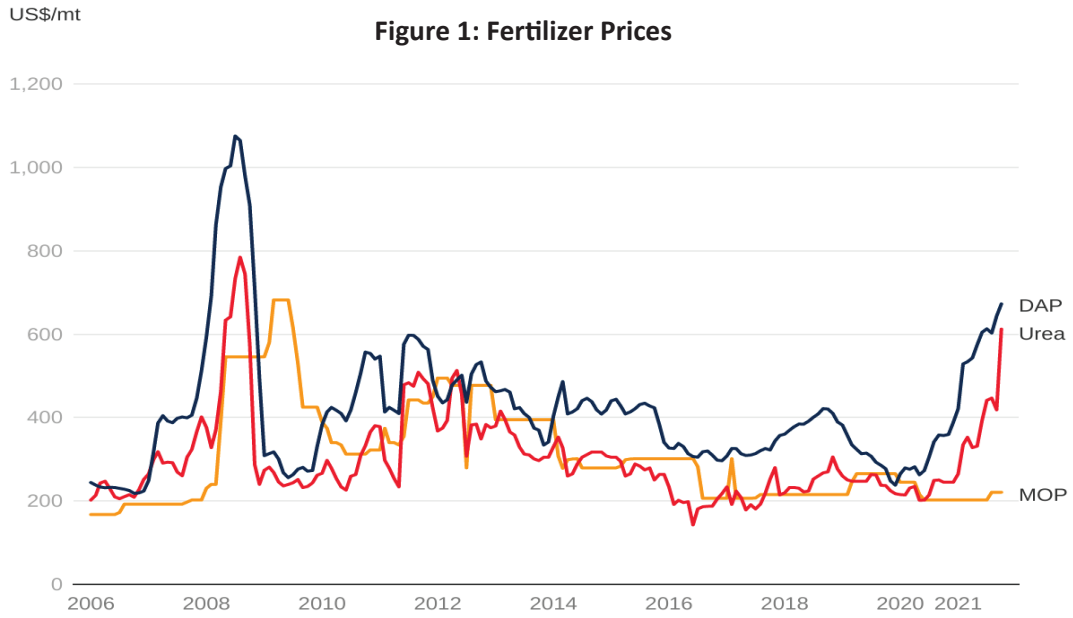
Despite the overall reasonable economic performance in tackling such a serious crisis, the number of Tanzanians living below the poverty line rose due to the weakened employment potential in agriculture, among other sectors, as a result of Covid-19 (AfDB 2021). With growing nonagricultural sectors, such as manufacturing, the share of the agricultural sector in the national GDP decreased from 42.6 percent in the 1990s to 26.7 percent (World Bank 2020a). Nevertheless, agriculture still employs 65 percent of the population (World Bank 2020a). Moreover, though World Bank (2020b) declared Tanzania's successful transition from a low- to lower-middle-income status in 2020, poverty and under nutrition remain critical (FAO 2021). About half of the population (49.4 percent) lives on less than $1.90 a day, especially in rural areas where the majority of the population is based. The AfDB (2021) estimates that the pandemic pushed an additional 500,000 Tanzanians below the poverty line, while inequality widened further. As this paper seeks to point out, declined rural income and employment were likely triggered by the dramatically increased input costs and the low-ranging prices of staple food, including rice, threatening rural settlers and undermining commercialization. The paper draws data from research conducted as part of the EU-ACP TradeCom II Program at REPOA.

The Fertilizer Price Crisis

Agriculture is one of the few sectors where Covid's economic impact has been relatively limited (UNECA 2021).[1] Still, significant disruptions in the importation of agricultural inputs have influenced production and trade adversely worldwide. During the first quarter of 2021, fertilizer prices started rising dramatically, reaching peak levels in November first time since the 2008–09 global financial crisis (Figure 1) (World Bank 2021). As of October 2021, the costs were $672.9 per ton for DAP and $612.5 per ton for Urea, two of the substances that rice farmers widely rely on (World Bank 2021). Economists expect this price surge to inflate food prices and warn about rising food insecurity (World Bank 2021).

[1] Except for commodities such as coffee affected by the closure of gastronomy spots worldwide.

Figure 1: Fertilizer Prices



Note: Last observation is October 2021. DAP = diammonium phosphate. MOP = muriate of potash.
Source: Bloomberg, World Bank.

Inflation and food security concerns are also relevant for Tanzania. The disruptions in regional and international trade impaired shipments of agricultural inputs into the country, which has been a problem since Tanzania highly depends on input imports: 80 percent of fertilizers, 60 percent of seeds, and nearly all agrochemicals are imported (AGRA 2020). From 2019 to 2020, inflation decreased from 3.5 to 3.3 percent due to a steady decline in food prices (AfDB 2021), but it may rise again due to soaring domestic fertilizer prices and production costs.

A recent study found that YARA fertilizer prices increased steeply, undermining rice production in Usangu in the Mbeya Region (Ires 2022). YARA is a Norwegian fertilizer giant which has dominated fertilizer supply in Tanzania upon constructing a fertilizer terminal at the Port of Dar es Salaam for mass import and becoming an executive partner at the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) in 2011 (Ires 2022, 2021). This brand is actively promoted by governmental extension officers and widely preferred by rice producers across Tanzania due to its alleged better quality than the other existing and cheaper brands. Farmers are recommended by these officers and YARA agents to use multiple bags of fertilizers and follow a specific use formula to sustain and potentially increase the paddy yield. This formula is developed by taking into account the highly infertile soil in most parts of Mbeya, a region historically farmed intensively under rice monocropping. The advised formula requires farmers to use two units of YARA Mila Otesha (TZS184,000), two units of YARA Vera Amidas and YARA Bela Sulfan each (TZS288,000), and two bottles of booster (TZS40,000). In total, rice fertilizers cost about TZS500,000 (almost $217) in October 2021.

The DAP price increase globally significantly influenced the cost of YARA Mila Otesha—one of the most critical inputs for boosting plant growth for yield that is intensively used in Mbeya. It is a polyphosphate fertilizer special for grains and consists of three nutrients, nitrogen (N), phosphorus (P), and potassium (K). These nutrients are usually combined and referred to as NPKs—a compound version of DAP (diammonium phosphate) which also releases N and P. Its price went from TZS52,000 before Covid-19 and TZS92.000 after October 2021 (Ires 2022), putting rice farmers at a disadvantage.

Though producers of all varieties of rice tried to follow this fertilizer formula, not everyone could afford it. While farmers had considered fertilizers already too expensive before the pandemic (Ires 2021), peaked fertilizer prices increased production costs above TZS1.5–2,5 million. This cost increase was the underlying driver for the leaders of all farmers' organizations in Usangu to gather in October 2021 to discuss an exit strategy. This effort was especially relevant due to the low-ranging domestic rice prices resulting from slowed-down export due to Covid-19.

Rice Storage Incapacities and Markets

As Covid-19 disrupted rice exports, a significant challenge accompanying high input costs was low-ranging domestic rice prices. Though Tanzanian borders remained open throughout 2020, importing countries went into lockdown; rice orders were canceled by buyers, which influenced revenue generation by Tanzanian traders adversely (UNDP 2020). In cases where export was possible, traders needed much longer time than was before to fulfill several Covid-19 requirements such as PCR tests and special monitoring measures on the borders. As a result, revenue loss was substantial. Scholars found that rice exporters to Malawi and the Democratic Republic of Congo had a total loss in export revenue and those exporting to Kenya, Rwanda, Uganda, and South Sudan between 40 and 60 percent (Mdoe, Mlay, and Boniface 2020). Only at the Namanga border, Tanzania and Kenya lost about $38 million per week due to delays caused by truck impasses and prolonged border-crossing (BlueBox GmbH 2020).

Interrupted trade flows coupled with a bumper harvest and a large carryover from the previous year led domestic rice stocks to reach beyond the maximum storage capacity and rice prices to dip (UNDP 2020)—good for consumers but detrimental for producers. Mbeya farmers had complained about wholesale paddy prices being low, at the average of TZS750 per kilogram ($0.32) in June 2017 (Ires 2021). But the average price decreased even further to TZS450 per kilogram ($0.17) in June 2020 and TZS500 per kilogram ($0.22) in June 2021 (Ires 2022). Retail prices of rice (milled) in Morogoro declined from TZS2,000 ($0.86) per kilogram before COVID-19 to TZS1,450 ($0.63) after and, in Mbeya, from TZS1,400 ($0.60) per kilogram before to TZS1,000 ($0.43) per kilogram after COVID-19 (Mdoe, Mlay, and Boniface 2020). Though prices were higher in some regions as reported by Kilimo Trust officials (Ires 2022), interrupted rice trade flows in the value chain and the widespread absence of contract farming for guaranteed purchases compelled smallholders to sell their crops to rural buyers at lowest prices (AGRA 2020). Income generated by producers and retailers substantially declined.

As a result of high production costs and low prices, some farmers shifted to low-investment and low-return farming, waiting for this situation to change: because one bag of fertilizer costs more than one sack of paddy (100 kilograms) in 2021, they did not desire to invest in fertilizers to increase yield, as a focus group discussion found (Ires 2022). This was partially due to the widespread lack of access to loans: though the government supports national banks to give out agricultural loans, both smallholders and small and medium-scale traders cannot access them due to insufficient collateral. This makes a continued engagement in rice farming difficult, while the employment loss and food insecurity concerns of economists are justified. These problems are likely to hinder the success of the National Rice Development Strategy II (NRDS II) (2019–30), including its goals regarding doubled production (URT 2019) unless necessary measures are taken.

Conclusion and Recommendation

Though the National Rice Development Strategy II (2019–30) emphasizes increased fertilizer use for doubling rice production, success is unlikely unless high fertilizer costs and low-ranging rice prices are successfully addressed. Beyond increasing export revenues, food security and rural welfare are at stake. The Tanzanian government should pay urgent attention to making fertilizers affordable. One potential avenue is conventional options, such as temporary fertilizer subsidies and reducing import duty on non-urea fertilizers. Another avenue is seeking cheaper alternatives. According to the Citizen (2021), the government has already taken steps to sell alternative NPS and NPS Zink fertilizers at prices that are almost the same as before Covid-19. However, even though other fertilizers can release N and P content and thus replace DAP, every new substance and brand must be tested on different soils before promoted to farmers as alternative. Under rapidly changing soil acidity and fertility, even similar substances may not suffice to ensure yield. The government needs to allocate budget for agronomical research for this purpose and also ensure supply capacities considering that counterfeit fertilizer imports have impacted thousands of farmers. Moreover, public and private investments are needed in improving storage and logistics capacities to minimize postharvest losses during periods when trade along the value chain is disrupted and domestic stocks reach beyond these capacities. Lastly, it is critical for the government to shield farmers from further rice price drops by avoiding non-tariff barriers such as export bans.

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