



## POLICY BRIEF

Advocating for effective regulation of  
the cashew nut industry in Tanzania



# Executive Summary

Over many years the Tanzanian cashew sector has been a lost opportunity despite the presence of numerous factors necessary for the development of the sector. The sector has been successful in the production of cashew nuts but has not reached levels of development that might be expected. The Government has, through close regulation and some innovation attempted to create conditions in which the sector would reach its potential. The Tanzanian cashew sector is in fact the most regulated cashew sector in the world but despite this it remains largely a producer of in shell cashew nuts for processing in Asia. Like the rest of the African cashew sector, it is characterized, by low levels of productivity and low levels value addition losing at least US\$550m in value addition alone over the past five years.

This brief seeks to share the findings on the cashew sub-sector and the relationships between stakeholders with the objective of improving the regulatory system and the marketing of this important crop produced by some of the resource poor smallholder farmers. It brings forward key policy proposals and regulation improvements for the purpose of transforming the cashew nut sub sector; and explores the opportunities available and avenues for benefits to smallholder farmers and local investors.

The cashew nut sector is among the key commodities that earns the country's foreign exchange. The sector is at a point in its development where the opportunity to modernize and industrialize is ripe. In the past five years it is estimated that the losses to the sector annually amount to US\$ 110 Million from exporting in shell cashew nuts. Tanzania must therefore process its cashew crop at home. The country has lost opportunities for 45,000 people who could have been formally employed in the sector.



Cashew plant

# Statement of the Problem

In the cashew season 2011/12 a serious crisis developed in the marketing of cashew nuts from Tanzania. At one point this seemed to pose a systemic threat to the sector and to the financial supporters of the sector. This crisis was averted by developments in the market in West Africa where poor weather and political instability impacted supply and brought cashew nut buyers back to Tanzania, but for five months in 2012 it looked as if the Tanzanian cashew sector was facing an insurmountable challenge which would have had severe repercussions hurting most at the level of the farmers who produce this valuable crop. This crisis was symptomatic of deep rooted structural and regulatory issues in the cashew sector in Tanzania.

Over the years, Tanzanian cashew sector has been yearning for the development of a thriving cashew nut producing and processing sector. The sector has been successful in the production of cashew nuts but has not reached levels of development that might be expected given the product quality and the existing seasonal advantages. The Government has, through close regulation and some innovation attempted to create conditions in which the sector would reach its potential.



Cashew processing plant in Mtama, Lindi.



# The Policy Options

## ***Cashew nut Market***

The Tanzanian cashew nut industry suffers from a lack of good quality information. It is typically driven by myth, rumour and adversarial relationships which often times create responses, both in the institutional and commercial spheres, based on inaccurate perceptions of the market and market actors. It can be rightly argued that the Tanzanian cashew sector as a provider of in shell cashews to India could benefit from processing in country competitively provided the ability to retain its productivity at current levels is scaled up and becomes strong. Failure of the Tanzanian cashew nut industry to process as a significant part of its activity casts doubt on the competitiveness of the cashew processing sector and its sustainability over the longer term.

## ***Production, Inputs and Costs***

Production of cashew nuts in Tanzania over the past ten years has been characterized by variable production with the low level being 75,000 tonnes on two occasions and the high being the 158,000 tonnes produced in 2011/12. Climate and soils are well suited to the growing of cashews bearing in mind that cashews are grown where other crops will not thrive. Inputs despite Government subsidies are overpriced and that access to the right inputs at the right time of year is limited by a failure to administer efficiently on the part of local government and the primary cooperative societies. The failure of the marketing and distribution system for inputs is a perennial threat to the crop in Tanzania. There is sufficient evidence that the costs involved in evacuating the cashew nuts from the farm gate to the warehouse receipt system and on to the ports for export are not competitive and cost the farmer significant income in any given year.

## ***Farm Gate Prices***

Like the auction itself the sales prices and analysis is opaque. Based on the research findings, at first glance the farmer does well receiving between 67% and 80% of the auction sale price. Looking more closely and adding costs for moving the cashew nuts from the warehouses to the port, stuffing, and loading onto containers the figure is diluted due to the high level of those costs. At cooperative union/Warehousing Receipt System (WRS) level the costs are estimated by the cooperatives themselves at TZS 286/kg and the onward logistical costs are estimated at \$60 per tonne. In comparison with other countries producing cashew nuts, Tanzania has the highest handling costs with estimated at US\$ 260 per tonne. The percentage the farmer receives drops to between 57% and 65%. Farmers actually receive about 15% less than the Cashewnut Board of Tanzania (CBT) indicative farm gate price due to high levels of costs in the system primarily with cooperatives and due to high margins from exporters and traders of in shell cashews driven by volatility in the market place. In addition, Tanzanian farmers are not receiving a price which is in line with the quality they produce as compared to their counterparts in West Africa who function in an open market.

## ***Processing***

The mechanized factories built in the mid-1970s and 1980s never worked and were probably never likely to work regardless of developments in domestic supply. Thus, the value addition taking place within Tanzania has been negligible (about 10%). The opportunity cost in terms of lost value and employment is therefore very high. It would not be accurate to condemn the regulatory environment as wholly responsible for the problems of the industry. However the heavy regulation has created a business culture which has not been conducive to the development of an outward looking, market oriented approach at any level except the in shell export trade. This culture is responsible for the position whereby value added processing has not developed and the in shell export market is dependent on a single destination, India. Therefore regulation of the sector must be tempered with an approach that is supportive of development at all levels and above all it must recognize that markets have changed and will continue to change in the dynamic market conditions which are likely to persist into the foreseeable future.

Tanzania has all the factors necessary for the development of a processing industry in terms of quality product, scale, location, seasonality, tradition and history of processing. However development is constrained by:

- The auction system means that processors have to compete for supplies with Indian processors at a time of year when Indian processors are most in need of product
- The fact that all cashew nuts have to be routed via the cooperative unions and auction system means that the processor has no security of supply and cannot develop normal supply chain relationships with farmers and farmer groups
- The costs of routing product through the cooperative unions and auctions are too high
- The current status quo of auction system is based on speculations and is rumored to be corrupt and prone to political interference.
- The “legacy” factories (These are the processors who own the factories which they bought in the 1990’s from the Government of Tanzania), in which so much hope and discussion has been invested) are not fit for the purpose of processing.
- Small scale processing is not suitable for export to the international markets unless it is tied to a larger scale factory which can offer buyers sufficient volume, food safety and quality product.
- Tanzanian investors and entrepreneurs find access to financial services limited and prices high.

#### ***Regulation and Institutions***

The current structure gives the board enormous powers at all levels of the value chain. As much as farmers are supported by government, but they still remain heavily taxed. Tanzania has the highest export taxation regime in the world for cashew nuts; the auction system which is combined with the public, state guaranteed warehouse receipt system and the cashew nut board (CBT) which mainly regulates and safeguards state interests. There is nowhere else in the world where the systems work this way. It is a unique arrangement that needs revision.

#### ***Government Policy***

Government has clearly shown the interest to develop the cashew sector both in value addition and in production and to enhance earning at all levels of the sector. Policy moves have been consistent with these objectives. However cashews are also used for political purposes and are viewed by some as a way of extracting money from the system with farmers as pawns in the game. Much of the regulation could be effective but it is so highly politicized as to render the institutions charged with management of the sector unable to listen to the market but obliged to listen to short term political factors especially from local politicians.

#### ***Farmers’ representation***

Farmers are poorly represented in the sector. Due to the nature of the auction they have no access to buyers, have only one marketing channel via the primary cooperatives and have no representation at the auctions. There are concerns that farmers are not benefitting from the current WRS system where normally the second instalments are not effected promptly, timely and fairly; neither do they benefit when the market has a better price for their crop.

#### ***Other***

There are many other areas where existing policies do not seem to be adequate to effectively address the challenges and transform the cashew nuts industry in Tanzania. These areas include input subsidy; the role and functioning of primary agricultural cooperatives and cooperative unions; the warehouse receipt system/auction; extension services. Extension services are not properly resourced but evidence from Naliendele research institute indicate that with the current tree establishment, Tanzania can produce up to 250,000 tonnes of raw cashew nuts.

# Conclusions

Farmers' organization both as cooperatives as well as non-cooperatives have an important role to play in the marketing of cashew nuts in Tanzania. Cashew production is a small holder activity which is widely geographically dispersed throughout the rural areas. Small holder farmers can reduce their cost of marketing, strengthen their bargaining power in the market and procure inputs more effectively by organizing themselves into strong organisations with professional management and leadership that is accountable to members.

However these organizations are weak in both their structure and their management. As a result these organizations have not been as effective in protecting the interest of the farmers and providing marketing services as they might have been. In addition institutions which are supposed to serve the farmer in marketing, promoting and strengthening farmer organizations have largely failed due to a mix of poor structures, poor management, high costs and under resourcing.

Farmers see these problems but the absence of real accountability at a number of levels and representation in the value chain mean that their frustration is more likely to be expressed by adhoc measures that are not sustainable and well-grounded leading to further marginalization.

## Recommendations

Taking all issues into consideration, the following recommendations are made:

- (a) The Cashew nut sector is important to the economy of Tanzania and is at a point in its development where the opportunity to build a modern industry is present. In the past five years Tanzania, by exporting in shell cashew nuts instead of processing them, has lost US\$551 million in value addition. Tanzania must process its cashew crop at home by 100%.
- (b) The sector will continue to be dependent with the in shell trade whilst its processing capacity is being enhanced so it will continue to be important to maintain and increase the current marketing channels while working on the processing plants.
- (c) Explore and urgently open new markets for raw and processed cashew in Brazil and Vietnam reducing reliance on India and ensuring competitiveness.
- (d) Build better information systems at all levels and market understanding within Cashew Board of Tanzania, Coop unions and farmers associations developing an understanding of the dynamics of the market for in shell cashews.
- (e) Decentralize the tendering process for cashew inputs and support LGAs to organize them and purchase from a range of traders.
- (f) Strive for transparency in the auction system allowing the informed participants to assess the market and the options without political interference
- (g) Improve warehouse and drying practices and talk to buyers about their needs for quality cashew nuts.
- (h) The Tanzanian cashew sector is driven by internal considerations and the interests of internal actors whether political or commercial. In order to develop a more valuable industry a market orientation is needed
- (i) The most effective way to increase farmer incomes in the cashew nut sector is to educate farmers on growing cashews to bring yields up from the very low levels. Simple practices such as
- (j) when and how to prune trees can have fast and effective impact. If a farmer can grow one more kilo per tree it means far more than a rise in the price he is paid. This has been well demonstrated in West Africa where a mixture of new planting and better practices has doubled production in Cote D'Ivoire in a decade.

### Some questionable findings from discussions with farmers;

- There are two grades for cashew in Tanzania; In the World, there is only 1 grade!
- The unions represent a few farmers as a majority of the cashew nut farmers are not part of the cooperatives registered.
- The supplier of inputs is a single source from Saudi Arabia. Local suppliers are not able to tender due to the strict conditions in place by CBT.
- Shrinkage percent is normally 1-1.5% but currently, the cooperatives are charging up to 3%.





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Systems that work for the Poor*

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