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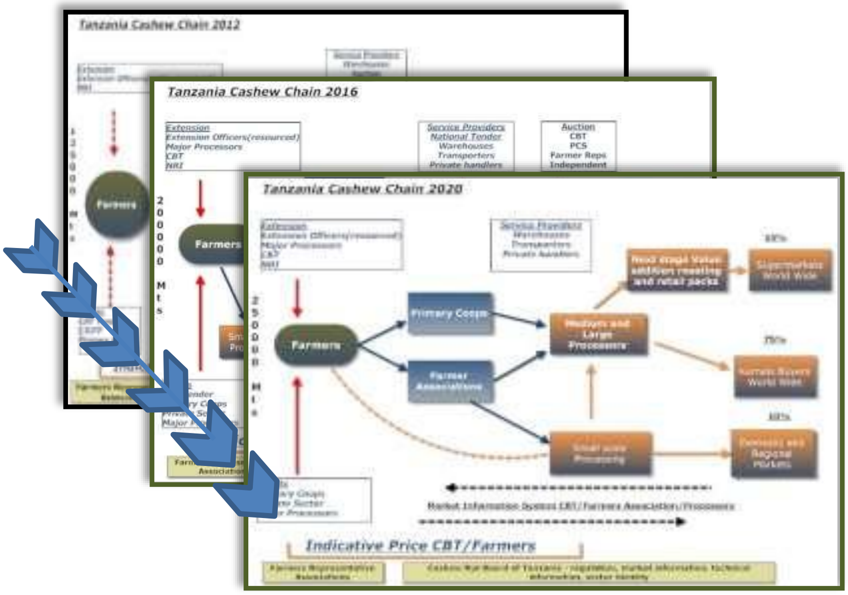
Advocating for effective regulation of the Cashew Nut Industry in Tanzania



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1. Executive Summary

1.1 Purpose and scope

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 backers of the sector. The crisis was averted by developments in the market in West Africa where poor weather and political instability impacted supply and brought buyers back to Tanzania but for five months in 2012 it looked as if the Tanzanian cashew sector could face an insurmountable challenge which would have had severe repercussions not least 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 many years the Tanzanian cashew sector has been a serial under achiever despite the presence of many of the factors necessary 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 seasonal advantages present. 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. It is characterised, like the rest of the African cashew sector, by low levels of productivity and low levels of value addition sacrificing at least US$550m in value addition alone over the past five years.

ANSAF is an advocacy network that seeks to advocate for pro-poor development and an agricultural policy conducive to that development. ANSAF promotes dialogue and constructive engagement among sector stakeholders, analysing existing policy and suggesting policies and practices around pertinent issues in the agricultural sector. ANSAF herein seeks to analyse 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 poorest people in the country.

This was done by a detailed analysis of the Tanzanian cashew sub-sector and its place in the wider international cashew market. The study utilised an innovative approach which involved not only a review of existing studies, literature, policy and law but also a series of face to face interviews with a wide range of stakeholders both national and international ranging from the growers to coops to warehouse keepers, traders, exporters, processors, public servants, politicians , input suppliers all the way through to the processors who buy Tanzania raw cashew nuts and the packers who pack cashew kernels from Tanzania and elsewhere.

A total of 101 people were interviewed for this study, more than 50 studies were assessed, 21 statistical sources were utilised and six trade publications were used for historical trends on prices and trade. In addition the author's database built up over twenty five years in the industry was galvanised to check and cross check data gathered.

Interviewees

Representatives of	**Number**
Farmer Associations including growers	6
Primary Cooperative Societies including growers	20
Public servants	11
Advocacy organisations and Trade associations	10
Warehouse keepers & logistics	5
NGO	5
Investors	5
Politicians	2
Traders/brokers including inputs	7
Journalists	1
Processors	18
Co Operative Unions	6
Bankers	5
Total	101

Country	**Number**
Tanzania	85
India	5
Vietnam	1
Ghana	1
Cote D'Ivoire	1
USA	4
Brazil	1
Netherlands	1
Germany	1
Bangladesh	1

The assessment of the policies, strategies, legislation, regulation and functioning of the cashew market in Tanzania is framed within the impact of the overall competitiveness of the sector. In doing so it is important to recognise that the cashew sector throughout Africa is in fact two chains which do not always operate in a cohesive manner but which are really only linked at one end at the farm gate and at the other on the retail shelf. The analytical framework is to consider the Tanzanian cashew sector within the framework of its competitiveness as a pointer to the impact of current and past policy and regulation. This was executed as stated above by a close reading of the existing studies and by interview, discussion and debate with a range of stakeholders. Through this methodology the objective is to assess stakeholders, analysts and reporters propositions for the improvement of the sector and to suggest some propositions for policy and regulation improvement.

1.2 Description of Findings

1.2.1 The Tanzanian Cashew Market

- The cashew nut industry Worldwide suffers from a lack of quality information. It is typically driven by myth, rumour and adversarial relationships. The Tanzanian sector is no exception to this rule and we found that many myths persist and often 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 for processing is competitive in so much as its ability to retain its market share at current levels is strong. It can also be argued that the failure of the sector to sustain cashew processing as a significant part of its activity and to retain market share casts doubt on the competitiveness of the cashew processing sector and its sustainability over the longer term.

- Advocating an approach to regulation then entails assessment of the impact of policy and regulation on the competitiveness of the two chains identified as follows:
    1. The in-shell cashew chain is difficult to categorise. It is termed a "trader" driven chain, an oligopsony dominated by a few trader/ buyers supplying or representing the processors in India
    2. The cashew kernels chain on the other hand is "buyer driven" by roasters, packers and distributors whose concerns are reliability, food safety, quality and traceability.

- Tanzania in the International cashew market
    1. Tanzania is not unusual in Africa in exporting in-shell cashew nuts for processing elsewhere.
    2. The outlook for demand is healthy and the cashew kernels market is likely to grow substantially in the coming years.
    3. The supply/demand balance is tight now and increased production is needed if prices are not to move up sharply. The increase in production can only realistically come from Africa.
    4. The tight supply/demand balance is leading to price volatility and risk.
    5. There is increasing interest in processing on the continent of Africa both from indigenous and international investors

Production, Inputs and costs

- The production of cashew nuts in Tanzania over the past ten years has been characterised 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 always bearing in mind that cashews are grown where other crops will not thrive.

- There is evidence in Tanzania that inputs, despite Government subsidies are high priced 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 an annual threat to the crop in Tanzania

- There is also good 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. At first look 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/wrs level the costs are estimated by the coops themselves at TZS286/kg and the onward logistical costs are estimated at $60 per tonne (trade sources). The percentage the farmer receives drops to between 57% and 65%.

- Farmers actually receive about 15% less than the CBT indicative farm gate price due to high levels of costs in the system primarily with coops and due to high margins from exporters and traders of in shell cashews driven by volatility in the market place. The level of costs compare very unfavourably with similar costs in other countries

- When we consider the price at which the nuts are eventually sold in India the farmer's share falls to an unusually low level in the context of the international market. Through a combination of high taxes, remarkably high costs at coop/wrs level and high export margins/costs for exporters who buy at auction. At these levels it appears that 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: Competitiveness of the kernels chain

- The mechanised factories built in the 1980's never worked and were probably never likely to work regardless of developments in domestic supply. Therefore every care must be taken in basing any future development of value added activity on these plants.

- It is important to recognise that the sector has from the outset been the most regulated cashew sector in any country Worldwide. This has brought some notable successes and some failures. 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 level where it was driven by expediency. This culture more than any of the conspiracy theories or victimisation stories we heard so often 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 recognise that markets have changed and will continue to change in the dynamic market conditions which are likely to persist into the foreseeable future.

- In Tanzania today there appear to be four groups of processors or potential processors:

    1. Operating medium scale processors: These processors are Olam, Export Trading, Mo Cashew and Cashew Company Mtwara. These companies between them account for the bulk of the processing industry in Tanzania.
    2. Legacy processors: These are the processors who own the factories which they bought in the 1990's from the Government of Tanzania. Some of the owners of the factories recognise that the equipment remaining is only of scrap value whilst others cling to the hope that the factories will one day operate. They often have political connections and in some cases were used as collateral for significant borrowings well in excess of the actual value of the buildings and equipment.
    3. Small scale and microprocessors: There are small scale "cottage industry" processors operating outside the organised economy as evidence at the crossroads of every major town testify as sales people offer shelled cashews. There is also a more organised effort toward micro processing among farmer groups supported by aid agencies.
    4. Promoters of /investors in new large scale processing.

Constraints on processing

Tanzania has all the elements 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:

1. 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
2. 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.
3. The costs of routing product through the cooperative unions and auctions are too high.
4. Investment in the sector would rely on the outcome of auctions which are not trusted at any level of the supply chain. Investors are unlikely to invest millions of dollars in processing facilities when their supply is decided by an auction which is rumoured to be corrupt and prone to political interference.
5. The "legacy" factories, in which so much hope and discussion has been invested are not fit for purpose.
6. 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.
7. Tanzanian investors and entrepreneurs find access to financial services limited and prices high.

Summary

In summary the constraints on the processing of cashew nuts in Tanzania largely arise from the economic environment, structure and regulation of the sector in Tanzania .There are however opportunities for the development of the cashew industry at all levels**.** Tanzania grows high quality cashew nuts in quantities sufficient to support a national processing sector which would be welcomed by buyers and offer a supply of fresh product at a time of year when it would be in demand. The impediments to the development of processing have been due to poor policy decisions, the mistaken idea that rehabilitation of the legacy factories is the answer, lack of financial services and a supply chain which thinks short term and does not have linkages to the international kernels markets.

1.2.2 Regulation and Institutions

Policy, The CBT and the auction

- The cashew sector in Tanzania is characterised by heavy regulation and an adversarial set of relationships. Tanzania has the highest export taxation regime in the World for cashew nuts, the only auction system which is combined with the only public, state guaranteed warehouse receipt system and the only remaining cashew nut board, The Cashew Nut Board of Tanzania. The intent of these complex regulatory systems was to protect farmers from what was seen as predatory traders/middlemen. It was also intended to stimulate value addition and to recover the position of Tanzania as a major processor of cashew nuts.

- There is little evidence that in 2012/13 Tanzanian farmers will receive a better net price, given the quality of the product, than their competitors elsewhere in Africa. There is evidence that they receive a lower price than their competitors in India and Vietnam. This situation is partially due to failure in the system in Tanzania (high costs, poor marketing, poor market knowledge) but is also due to the fact that from 2008 onwards i.e. for the life of the wrs/auction the cashew market changed dramatically. It moved from over supply to deficit supply to structural shortage based on growing demand and supply that could not keep up.

- Government policy is clearly 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 politicised 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.

- There is a common policy without a coordinated execution which weakens the sector and opens opportunities for over charging and profiteering. Given this lack of coordination the sector is left with a series of systems, regulations and regulatory bodies which are too cumbersome for a time of volatile markets and fast growth.

- The Tanzanian cashew sector was left with a marketing system (wars/auction) which was in many ways ideally suited to the market environment of 2001-2007 but which was not suited to the situation 2008-2012 and the foreseeable future. This included an inflexible pricing structure, a closed tender auction, a high cost evacuation mechanism and a high export tax which, given that there is only a small national processing sector to protect, is effectively a tax on farmers.

- Processing capacity today is lower than five years ago. The auction system does not incentivise domestic processing even though the policy and regulation is in place to protect processing. Processors are not in a position to source from farmers in a market which demands that they can trace their procurement back to the farm gate. For an entrepreneur or investor this adds up to a lack of security of supply which is the biggest single deterrent from an investment in the sector.

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. At present the system which purports to promote farmers interests in the cashew sector appears to deny them representation if not actively then by the omission of providing a forum for farmers in the cashew sector.

Agricultural inputs system

The government subsidises inputs for the cashew sector mainly sulphur and pesticides. The subsidy is a good way to fund inputs the delivery mechanism is not functioning in a timely manner. Farmers need to have imports during the right window when for example sulphur application will work and at prices which they can afford. Again it seems that a well-intended and conceptually sound idea is poorly coordinated making it ineffective through the involvement of no fewer than seven government bodies for the supply of inputs.

Primary Agricultural Cooperatives and Cooperative Unions

The Government Cooperative Policy of 2003 defines cooperatives should be run based on cooperative principals of equality The Government has a Reform and Modernization Program with the objectives of developing cooperatives that are voluntary, democratically led and managed on commercial and sustainable basis. The program requires a very strong public education and cooperative management training. Funding has been the reasons given for lack of vigorous implementation of the program.

The warehouse receipt system/auction

- The warehouse receipt system and auction was introduced in 2007 to prevent exploitation of farmers and to enhance competitiveness of processors. Similar systems had operated in other commodities but crucially the auction element operated differently in those cases.

- The Tanzanian warehouse receipt system for cashews working as it does in a market where information is poor, bidding is closed and non-transparent, delivery is ex warehouse interior, payment is after success without bond and storage facilities are relatively good is an ideal environment for the trader who brings finance from external sources and sells in a market which has many different clients.

- The WRS and auction is a disincentive to domestic processing investment.

- There is only one legal channel for marketing products so that there is no competition for the provision of services to farmers who are tied to the one buying outlet. Costs in the Tanzanian system are high which is most likely due to a lack of incentive to keep costs under control within this buying system.

Extension services

Given the opportunity for expansion, the availability in Tanzania of the best cashew research facility in Africa at Naliendele Agricultural Research Institute and the necessity of replacing aging trees, extension services should be high priority. Execution of the policy is poor according to farmers, NGO's and associations. The extension services are poorly resourced meaning that extension officers are not available to farmers.

1.2.3 The farmer's perspective

The cashew marketing and inputs system is a basic issue for farmers and their families. The stories the farmers told were about the negative impact of the delayed onset of the marketing season and impact of the low profitability of the crop due to low prices or higher input cost. They complained about failing to pay school fees on time, failing to meet their medical costs and having to borrow or sell their crops to middle man prior to the beginning of the official marketing season.

Input Supply

Individual farmers who are members of primary cooperative societies interviewed are very negative on the system. Farmers' difficulties with the input system lie in three areas:

- Cost of inputs and cost of administration
- Access to inputs in a timely manner. If inputs are not available at precisely the right time of year the impact is reduced or negated.
- Quality: despite the fact that the Tanzanian Bureau of Standards approves importers and the products they propose to import farmers complain that the products are not of good quality.

The tender system which is intended to create competition at the level of imports will only have an impact if there is also competition at the level of distribution. It is clear that there are too few companies supplying inputs to engender real competition and choice for farmers as buyers. It is also clear that some of the companies involved work together to support prices.

Extension Support Services

The responsibility for extension falls entirely on the government services. Reports from the trade and institutional services interviewed indicate that there is a system of extension officers but they are few and are under resourced. Farmers complained that extension services from the Government are not available to them. Local Government authority officials complain of lack of budgetary resources to effectively facilitate the delivery of extension services through recruiting adequate field staff and equipping then with necessary working tools

Cashew Nut Prices and Marketing System

- Farmers complained not so much about the prices they receive for their crop, but more about what we concluded are the inefficiencies in the marketing system that deprives them of a fair share of the farm gate price for their raw cashew nuts. Farmers generally receive the minimum indicative price less deductions made by cooperative unions, primary cooperatives and warehouse keepers.
- Farmers have also indicated that they could have better prices had it not been for the high marketing costs that are deducted from the farm gate price by the Cooperative Unions as is demonstrated in this study.
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- Farmers just like processors and many observers complain that the auction of the crop in the warehouse receipt system is not transparent. The "auction" is not an auction as such but a closed tender procurement system that is conducted in private and is not reported
- Farmers have also complained that other forms of farmers' organization are unfairly banned from competing with primary cooperative societies and unions in supporting farmers to market their crop. They are completely barred from participating in the marketing systems despite the fact they are legally qualified in accordance with law that regulates the warehouse operating system to collect cashew nuts on behalf of farmers and sell them on behalf of farmers through the warehouse receipt system.

Summary and Conclusion

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 farmers are small holders who are geographically dispersed. Small

holder farmers can reduce their cost of marketing and strengthen their bargaining power in the market by organizing themselves into strong organizations with professional management and accountable leadership.
In reality Primary Cooperative Societies are weak in both their bargaining power and their management skills. As a result these organizations have struggled to protect the interest of the farmers.

1.3 Summary of recommendations for effective regulation of the industry
The way forward: Practical and Policy recommendations Part I Marketing and Value Addition

1.3.1 Processing and value addition

- 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.
- In the period 2007-2012 since the inception of the Warehouse Receipt /Auction system over 461,000 tonnes of in shell cashews have been exported. We have seen above that the cost of handling that volume through the system has been TZS286 (US$181) per tonne based on 2012 values in total US$85m. These costs are in effect paid by farmers. National processing combined with fair and transparent marketing would mean that these costs would be built into sales prices charged for export effectively the overseas buyer would pay the cost
- It is estimated, based on studies undertaken in West Africa by USAID and the African Cashew Initiative that the processing of the entire 2012 Tanzanian cashew crop would create 45,000 jobs in the sector based on current methods of processing.
- Cashew Farmers in countries where processing of cashews is carried out locally are paid higher prices than cashew farmers in countries where the in shell nuts are exported for processing elsewhere.
- The result of processing the entire crop over five years would be an inflow of value to the rural communities of over US$750M which is equivalent of a 3% increase in GDP for the country. The processing of the cashew crop can have an impact on the economy of Tanzania and a massive impact on the economy of the southern regions.

The actions required to stimulate processing are:

1. Encourage investment in processing by increasing access to financial services for domestic entrepreneurs and encourage partnerships with international entrepreneurs.
2. Build a secure supply chain where Tanzanian processors can develop normal supply chain relationships directly with farmers and primary cooperatives without having to deal with the bureaucracy and high cost structure of the auction system.
3. Support investment in processing with matching investment in the supply chain by using the existing research which is among the best in the World to improve yields at farm level and replace older trees.
4. Reward processors who develop their workforce with tax incentives and support services.
5. The use of modern shelling , peeling and grading machines will not stop large numbers of jobs being created in the sector but will mean that processors can be more flexible in their approach to labour relations as the industry develops. The importation, installation and development of technology should be facilitated by the government of Tanzania.
6. Remove barriers to trade, corruption, lack of information, excessive bureaucracy.
7. Become a customer oriented sector.

Dealing with constraints on processing:

Constraint: 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.
Action: Processors must be allowed to legitimately develop direct sourcing relationships with farmers and primary coops. This does not mean that the warehouse receipt system is redundant but that it must

compete with the processors for product. There is no evidence that processors exploit farmers on a large scale in fact there is evidence that processors pay better prices to farmers than export traders.

Constraint: The costs of routing product through the cooperative unions and auctions are too high and reduce the competitiveness of the processing sector as a whole.

Action: We have shown that the cost of export handling by the cooperative unions is the highest cost system for export in Africa. This cost is effectively paid for by the farmers who receive lower prices as a result. Tacking this cost structure is an essential pre requisite for the development of the cashew sector in Tanzania. The District tax, cess should be waived on all cashews sold to licensed processors.

- **Constraint:** Investment in the sector would rely on the outcome of auctions which are not trusted at any level of the supply

  Action: Processors must be permitted to source outside the auction system and the auction system must be transparent like auction systems on other products in Tanzania and abroad. Publishing the results of the auction every week cannot damage the sector in any way it can only stop accusations of corruption whether these are false or justified.

- **Constraint:** The "legacy" factories, in which so much hope and discussion has been invested are obsolete and not suitable for the demands of the modern market.

  Action: Policy to develop the sector cannot be based on these factories alone but they could be incorporated so long as they are competitive and produce by a method and to a specification which enhances the overall reputation of Tanzanian cashew kernels.

- **Constraint:** 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.

  Action: Encourage small scale processing but incentive small scale processors and large processors to work together.

- **Constraint:** Tanzanian investors and entrepreneurs find access to financial services limited and prices high. The banks that are committed to the cashew sector via the warehouse receipt system are unlikely to want to extend their risk in the sector which currently functions as a provider or in shell cashew nuts for processing in India.

  Action: There is little evidence that the warehouse receipt system enhances the prices paid to farmers in 2012. The enhanced prices paid to farmers in recent years are a result of a major turnaround in the cashew sector Worldwide. Farmers in West African countries where there is no warehouse receipt system have also received much better prices in recent years. In fact there may be evidence that prices are lower because the product is delayed coming to the market at a time when supply of in shell nuts globally is extremely limited.
  The warehouse receipt system has a constructive role to play especially in times of quiet trading but it should be unlinked from the auction system and should function as a financing mechanism for farmers who want to participate and for processors who want to buy in the season and finance or part finance their inventory at competitive rates and in secure warehouses.

- **Constraint:** Oil and gas exploration in Mtwara may limit the availability of workers for the cashew sector

  Action: Cashew processing can be located across the region and the technology which has become available in recent years and is improving every month should be utilised to the full. Labour practices and conditions in cashew factories should be proper and wages in line with local standards.

What type of processing and processing technology?
The future is in modern, food safe processing plants which offer buyers viable volumes in line with the kind of relationships necessary in the current food ingredients market. Therefore the sector needs a series of medium to large scale factories located throughout the producing areas which will meet buyers' requirements. These factories must be linked to farmers to ensure traceability and must be linked closely with customers abroad.

Small scale processing experience in other countries indicates that small scale processing only succeeds when there is a significant domestic market or when the small scale processors are linked to larger units. Even when they are linked to larger units there remain major challenges in terms of food safety, contamination, breakage and pilferage in transit.

Access to technology is important and has become easier to achieve in recent years. The African Cashew Initiative and the African Cashew Alliance may have accessible databases on this aspect.

1.3.2 The in shell export trade recommendations

- The sector will continue to be dependent on the in shell trade whilst processing capacity is established so it will continue to be important to maintain and improve the RCN trade.
- Urgently open new markets in Brazil and Vietnam reducing reliance on India and ensuring competition.
- Build better information and market understanding with the Cashew Board of Tanzania developing an understanding of the dynamics of the market for in shell cashews.
- Strive for transparency in the auction system allowing the informed participants to assess the market and the options without political interference
- The costs of routing product through the cooperative unions and auctions are too high.
- Encourage the involvement of processors abroad directly in the auction by making the system easier to use and encouraging the development of companies offering services to local buyers. One such action could be to change the auction terms from "ex warehouse" to "FOB" once the cost issues at cooperative level have been resolved.
- Improve warehouse and drying practices and talk to buyers about their needs for quality cashew nuts.

1.3.3 Marketing Cashews, what do buyers want?

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 viable industry a market orientation is needed. The following actions would bring the sector more closely into alignment with the market as a whole:

1. In shell: The marketing of Tanzanian cashews to Indian buyers only through indigenous exporters/traders is narrow and should be broadened. Not only should the usual buyers be invited to participate in the auction but also buyers from other countries should be invited.

2. In shell and kernels: If Tanzania is to make the most of its competitive advantages then a good market information system must be put in place.

3. In shell: Throughout the sector in Tanzania there is an adversarial approach to the current buyers of in shell cashews – "the Indians" are blamed for everything that goes wrong. The CBT and other stakeholders must do more to understand their buyers. Indian buyers are not one united mass determined to buy cheap cashews from Africa. There is competition between processors. There are many new processors especially outside the traditional processing areas who are potential customers but are excluded by the current distribution chain.

4. Kernels: Health and food safety – Tanzanian authorities as a matter of urgency must put in place a national cashew quality brand (as was done many years ago). Food safety is a major issue in the

cashew sector now and is not being met by processors elsewhere. A genuine reputation for food safety and trace ability will bring buyers for kernels.

Actions which will not work

1. A ban on export of RCN is not a good idea.
2. Delaying the export of in shell nuts as done in Mozambique is unlikely to work.

Target markets for kernels

1. Target growing markets in the Middle East and Asia as well as traditional markets in Europe and the USA. European buyers are especially interested to diversify their supply chains following threats to supply in India and Vietnam
2. Ideas of close regional markets with the exception of South Africa do not work as all these countries either produce cashews themselves or are just not at an income level to afford cashew nuts.
3. Branding as “food safe, clean and traceable” will work.
4. India is a significant buyer of in shell nuts from Tanzania. India protects its kernels market with high levels of duty. The Indian authorities should be approached for a derogation of import duty for Tanzanian cashew kernels especially broken and pieces.

1.4 The way forward: Practical and Policy recommendations Part II Developments in Tanzania

Grow more cashews – work with the existing farmers.
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 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.

Secondly, tree densities are low in Tanzania. Farmers could plant and manage more trees on their existing land if they had access to seedlings or seed and if they were assisted in developing their knowledge in developing more trees.

Based on evidence from other countries it is possible that Tanzania could achieve a 25% increase in the crop by concentrating on working with existing farmers to improve their practices both for growing and for post-harvest handling of the cashews. A regular annual crop in the range of 200,000 tonnes is possible without any addition to the land usage or spread of the crop to new areas.

Inputs – effective delivery and access is more important than price.
The cost of inputs is an important issue availability and access to inputs is a far greater issue. We have seen for example that the cost of sulphur in Tanzania is probably double the World market price but far more damaging than the high price is the situation where sulphur is not available for application at the right time or even at all.

Therefore the Cashew Board of Tanzania and the Government of Tanzania must either introduce competition into the sector to stimulate competitive delivery or it must ensure that not only is a national tender carried out but that the delivery of the sulphur and other inputs to primary cooperative and farmer is effective.

Reward quality
Tanzanian farmers are not incentivised or rewarded for producing better quality nuts. This system does not encourage better quality and without a processing industry to promote better quality, an effective extension service to educate farmers or a market information service to inform them they continue to be underpaid for the better quality product.

The Co Operative Unions
The co-operative unions which handle the cashew nuts are among the most successful organisations in the sector.

However do the coops especially the Unions do what they say they will do for the farmer? The initial evidence is that they do not.

Action

1. The entire Primary society and Cooperative Union Cashew activity should be audited annually.
2. Farmers should receive statements which details their costs and deductions
3. The costs that co-operatives pay and charge should be public and open to review.
4. The Government should reconsider the appropriateness of an organisation such as a cooperative being the warehouse keeper, purchaser and marketer of the product if the current system is to continue.

Financial services

1. The Tanzanian banking sector is well committed to the cashew sector through the warehouse receipt system under guarantee from the Government. This participation whilst welcome may be acting as a disincentive to lend competitively to the private sector for investment. A discussion as to how banks manage risk in the sector needs to take place to ascertain the truth or otherwise, formally or informally of this proposition.

2. Lack of financial services for processor/investors is a primary impediment to the development of the processing industry and leads to excessive dependence on the state for initiatives which will stimulate processing and value added activities in particular.
3. Recent reports of the establishment of a national Agricultural Development Bank if true could be significant for the cashew sector.

The Warehouse Receipt System and Auction

Over the past five years it is quite likely that farmers overall would have received higher prices with or without the wars/auction system. We believe that it is time to reassess the current system in the light of this development and to ensure that it will be connected to the market in future.

Efficiency

The level of costs has to be controlled and linked to market prices in order for farmers to obtain a fair market price.

Market information

The auction as a marketing system without a fully supportive market information system and more importantly a full understanding of how the market works at all levels will not function properly. The Cashew Board of Tanzania and the sector as a whole need to build understanding and market information as a matter of priority.

Transparency

The lack of transparency in the auction system leaves it open to accusations of corruption and price fixing which is not good for the CBT or other stakeholders. An auction designed to enhance value to farmers and through which almost all in shell cashew are obliged to flow should be public with the winning bids published.

Processors and access to farmers

The logic of some regulated control system for the export of in shell cashew nuts is clear although the operation of the system as it stands is open to question. However the implementation of the wrs/auction system for domestic processors is a disincentive to investors, threatens security of supply for would be processors and stops the building of market linkages between processors and farmers/primary coops.

In a case where a domestic processor is allowed to buy directly from farmers (other than the small scale own processing which currently exists) that processor must <u>not</u> also be an exporter of in shell cashew nuts.

Marketing of in shell nuts

Under the present system (apart from the few processors) there are licensed buyers who buy for their own account and sell to processors in India and there are buyers who buy on account of India processors as handling agent. Other buyers are reluctant to become involved due to bureaucracy and myths around the system which enforces the role of the Tanzanian exporter who makes a high margin for simply arranging the transport to the port and shipment to destination. Ultimately the farmer pays the price for this.

The current system of licensing traders to buy at auction is archaic and seems simply to be a way of collecting fees at two levels (CBT and local operator). The licensing system could be done away with enhancing competition.

Warehouse keepers
a. There is evidence that the current warehouse keepers have no incentive to move the product out of their warehouses as they earn income from storing it.
b. Quality and weight is not properly controlled in the warehouse. Under recording quality when it is known to the end buyer can create a large margin for that buyer and is a form of corruption where large gains are made for very small expenditures.

Action on the wrs/auction

- An accurate, timely and appropriate market information collection and delivery system must be put in place for use at tender committees and in making fundamental decisions at the outset of each season.
- The auction must be opened up to function as a real auction with bids and offers, volumes and successful prices published so as to bring transparency and thus confidence.
- The auction and the warehouse receipt system should be separated. The wrs should be seen as a system which brings competitive finance under Government guarantee. It should continue to offer this to the cooperatives for product routed through the auction system but it should also be extended to farmers and processers who choose to operate through the wrs system as part of their marketing strategy. We see the concept of the wrs system as a finance mechanism as valid but the marketing system as severely flawed in the circumstances of the market in 2012 and beyond.
- Domestic processors must be permitted to source cashew nuts directly from farmers. This will connect them to farmers bringing benefits as mentioned throughout this study.
- The wrs/auction system could continue for the export market if the reforms as suggested were put in place and if the system were adapted to the current market conditions. In which case if the domestic processing is separated from the export auction and foreign buyers of RCN are invited to participate directly then the terms of the auction should be changed from ex warehouse to FOB Mtwara/Dar es Salaam. This would give greater access to buyers from abroad and make it easier to trade directly.
- Costs of running the system must be audited and reviewed every year and the results published.
- New markets in Vietnam and Brazil must be opened for in shell cashew nuts.
- Primary cooperatives and cooperative unions provide services to farmers at varying levels of efficiency but they do not represent farmers and are not advocates for farmers' views. If the auction system is to regain the confidence of farmers then farmers must be encouraged to form functional representative bodies and these bodies must be allowed access to the auction system

The Cashew Board of Tanzania

Tanzania is an important cashew country and should be represented in a confident and assertive manner which certain individuals do as individuals but the Board fails to do as an organisation. We also believe that the Cashew Board of Tanzania has not developed a market knowledge and understanding fitting of its role representing the Tanzanian sector abroad and promoting growth and development at home. The Cashew Board of Tanzania is difficult to contact. Senior staff are reluctant to meet and when they do meet they do not display knowledge of the sector abroad or the market. Symptomatic of this malaise is the strategic plan of the

Cashew Board of Tanzania. It is not connected to any reality in its description of the World market – estimates of the World crop and of World consumption are very inaccurate and can only be based on old data

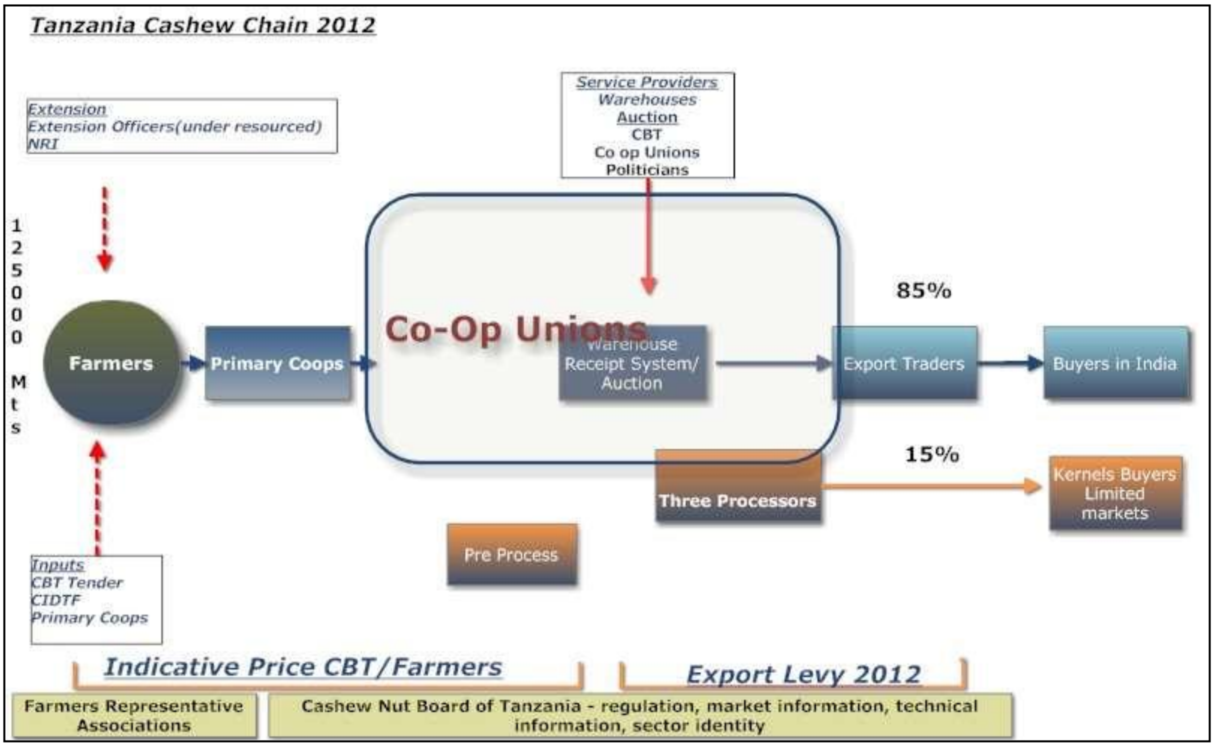
Actions

1. The Cashew Board would benefit by a better more developed market information system with a global reach. Achieving this requires enlisting some support from market sources in the international market.
2. The target markets are now fast moving and volatile both for in shell and kernels. The marketing and decision making process should be more flexible in line with the movements in the marketplace.
3. The CBT has many and varied roles which overlap with other institutions and agencies. The CBT should be more focussed on its coordination and marketing role
4. we are not aware of any method currently in place to measure the impact of CBT actions for example prices to farmers have risen but this is a market factor not a CBT factor in fact perhaps the CBT could have lifted prices higher if it had promoted Tanzanian cashews in other markets.
5. The development of processing is essential for the sustainable and growing sector the CBT has to take a central role in promoting processing, bringing market news and new processing technologies to Tanzania.

How can we build an industry?

1. Bring the regulatory and institutional interventions into line with the current market situation
2. Build a vision of 100% processing
3. Centre support programmes around the growers. Continue and expand input and education programmes for growers
4. Educate growers on looking after the trees and drying the nuts at harvest.
5. Encourage processing and build links between the processors and the growers.
6. Link the Tanzanian Cashew sector to the World market by opening up alternative destinations and developing a market information system
7. Reduce costs to competitive levels – it is not just about the costs in Tanzania it is about unfair margins, inefficiency and corruption.
8. Develop financial services including the warehouse receipts system to assist with value addition activity.

Factsheet 1: The Tanzanian Cashew Sector 2012



Tanzania 2012

- *2011/12 Producer of 158,000 tonnes of quality cashew nuts in shell.*
- *Third in Africa by volume; Second in Africa by quality of the major producers.*
- *Less than 15% processed in country: US$110 m in direct value addition lost every year.*
- *The most regulated cashew market in the World.*
- *The only functioning cashew warehouse receipt system / auction system in the World.*

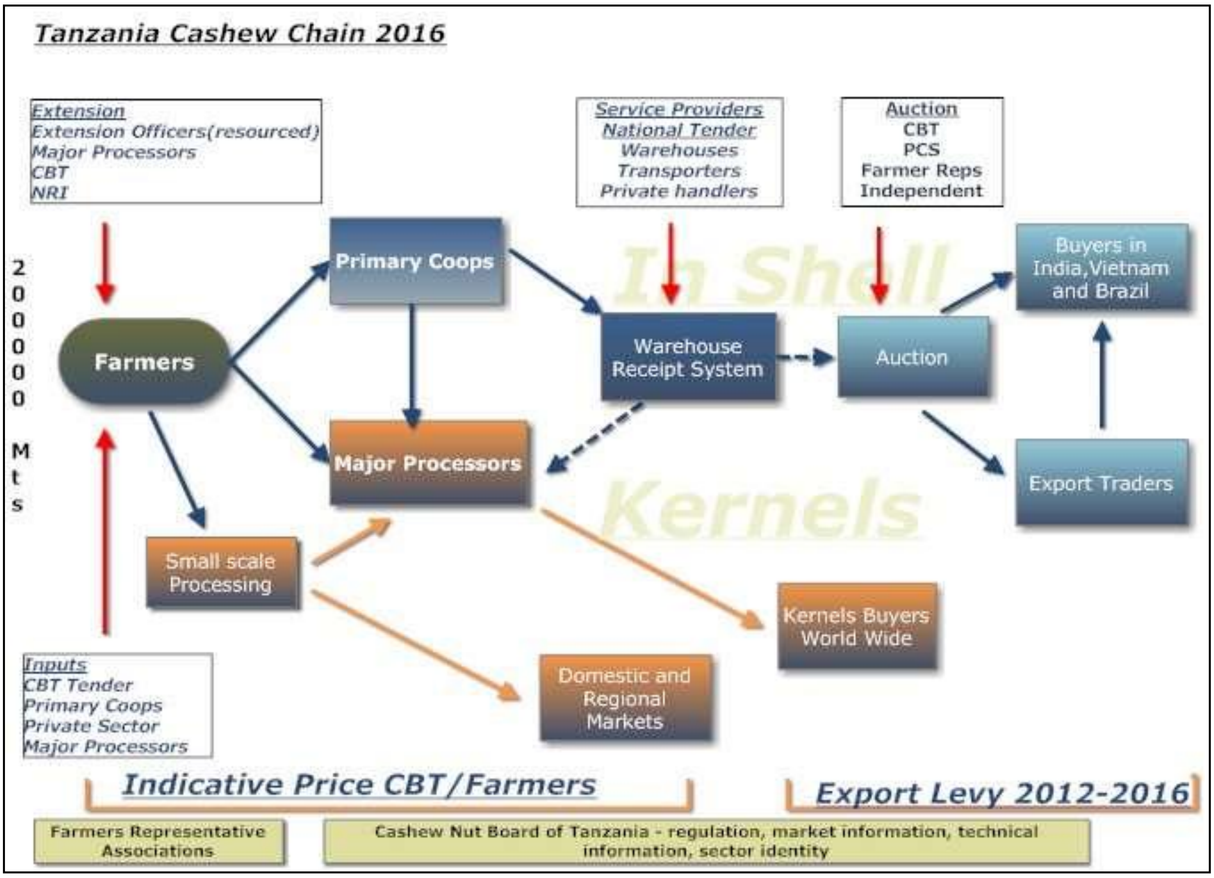
Problems

- *The international market has changed necessitating changes to the regulatory system.*
- *Auction system is a disincentive for processors.*
- *Co Operative Unions high costs reduce returns to farmers.*
- *Lack of transparency at the auction and in the warehouse receipt system.*
- *Lack of transparency in Co Operatives dealings with farmers.*
- *Poor market information and understanding at all levels.*
- *Failure of the crop inputs distribution system.*

Opportunity

- *Cashew consumption is growing.*
- *The World needs more cashew nuts from Africa as much as 8% more every year.*
- *The investment climate and interest from cashew buyers is greater than ever before.*

Factsheet 2: The transition: 10 ways to change the sector

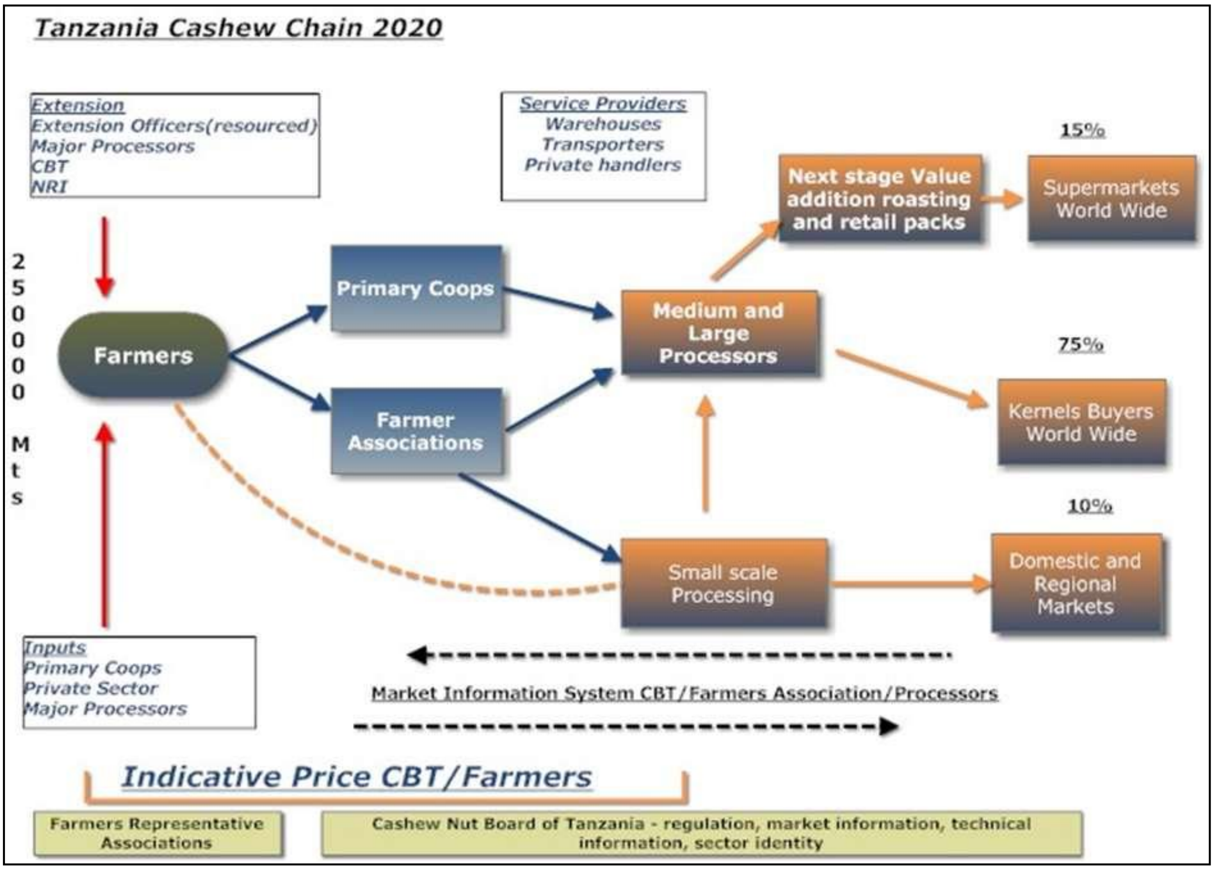


1. *Prioritise value addition/processing through modern processing linked to farmers and linked to small scale processors.*
2. *Build a market information system for kernels, in shell & processing equipment.*
3. *Introduce transparency in the auction system.*
4. *Separate the wrs and the auction.*
5. *Rationalise costs in the marketing system especially Cooperative Unions*
6. *In shell exports continue through the wrs/auction: Tanzanian processors can source directly from farmers, associations and primary coops.*
7. *Open new markets for in shell.*
8. *Prioritise cashew brand Tanzania as food safe and reliable.*
9. *Properly resource extension services.*
10. *CBT concentration on coordination in the sector.*

2016

- *Processors can deal directly with farmers and primary coops.*
- *The WRS separate from the auction as a financing mechanism for stakeholders.*
- *The auction concentrates on in shell export, is transparent and is well informed.*
- *Buyers from all over the World know about Tanzanian cashews.*
- *Competition in the crop inputs market*
- *Farmers have access to representation at all levels*

Factsheet 3: Vision 2020



- ✓ *All cashew grown in Tanzania are processed in the in Tanzania*
- ✓ *75% exported to international markets: 10% to domestic and regional markets: 15% is further value added for supply packaged to supermarkets in major markets.*
- ✓ *Competition for supply between major and medium processors.*
- ✓ *Small scale processing links farmers directly to the domestic market.*
- ✓ *Cashew Tanzania brand is established.*
- ✓ *Processors are now supplying packed as well as bulk kernels.*
- ✓ *Production is 250,000 tonnes.*
- ✓ *Competition in input supply.*
- ✓ *CBT role is information, technical support, representation and development.*
- ✓ *Farmer associations offer farmers an alternative to Primary Cooperative societies.*
- ✓ *The chain is characterised by value addition, quality and good information.*
- ✓ *Next objective 25% value added roasting and 350,000 tonnes production.*

Actors & Actions

1. Processing & Value Addition

	Encourage Investment & Access to Financial Services	Supply Chain reform including WRS and Cost Structure	Supporting Investment in processing	Improving Agricultural practices crop size and yield	Modern processing methods	Remove barriers to trade, excessive bureaucracy	Become a customer oriented sector
Cashew Board of Tanzania	✓	✓	✓	✓	✓✓		✓
Min. of Agriculture	✓	✓✓✓	✓	✓✓	✓		✓
Min. of Finance	✓✓✓		✓✓			✓✓✓	✓
Tanzanian Investment Centre	✓		✓✓				✓
Naliendele Research Centre				✓			✓
Private Sector		✓		✓	✓		✓
NGO				✓	✓		✓

Actors & Actions

2. The In shell Export Trade

	Build better information and market understanding	Transparency in the auction system without political interference	Control costs for movement of cashews	Encourage the involvement of processors abroad	Improve warehouse and drying practices and talk to buyers about their needs for quality cashew nuts
Cashew Board of Tanzania	✓✓✓	✓	✓✓	✓✓	✓✓
Min. of Agriculture	✓	✓✓✓	✓✓		✓✓
Min. of Finance		✓	✓		
Tanzanian Investment Centre					
Naliendele Research Centre					✓
Private Sector	✓		✓	✓	
Cooperatives		✓	✓✓✓	✓	✓✓

Actors & Actions

3. How can we build an industry?

	Bring the regulatory and institutional interventions into line with the current market situation	Build a vision of 100% processing	Centre support programmes around the growers	Educate growers on looking after the trees and drying the nuts at harvest	Encourage processing and build links between the processors and the growers.	Link the Tanzanian Cashew sector to the World market	Develop financial services including the warehouse receipts system
Cashew Board of Tanzania	✓✓	✓✓	✓✓	✓	✓✓	✓✓✓	
Min. of Agriculture	✓✓✓	✓✓✓	✓✓	✓✓	✓✓	✓	✓
Min. of Finance	✓✓						✓✓✓
Tanzanian Investment Centre		✓				✓	✓✓
Naliendele Research Centre			✓✓	✓		✓	
Private Sector		✓✓	✓		✓✓	✓	✓
NGO	✓	✓	✓				

<u>Advocating for Effective Regulations for the Cashew Nut Industry in Tanzania</u>

Chapters