

Monitoring and Analysing Food and Agricultural Policies (MAFAP)

Increasing value addition and the competitiveness of Tanzania's cashew nut industry

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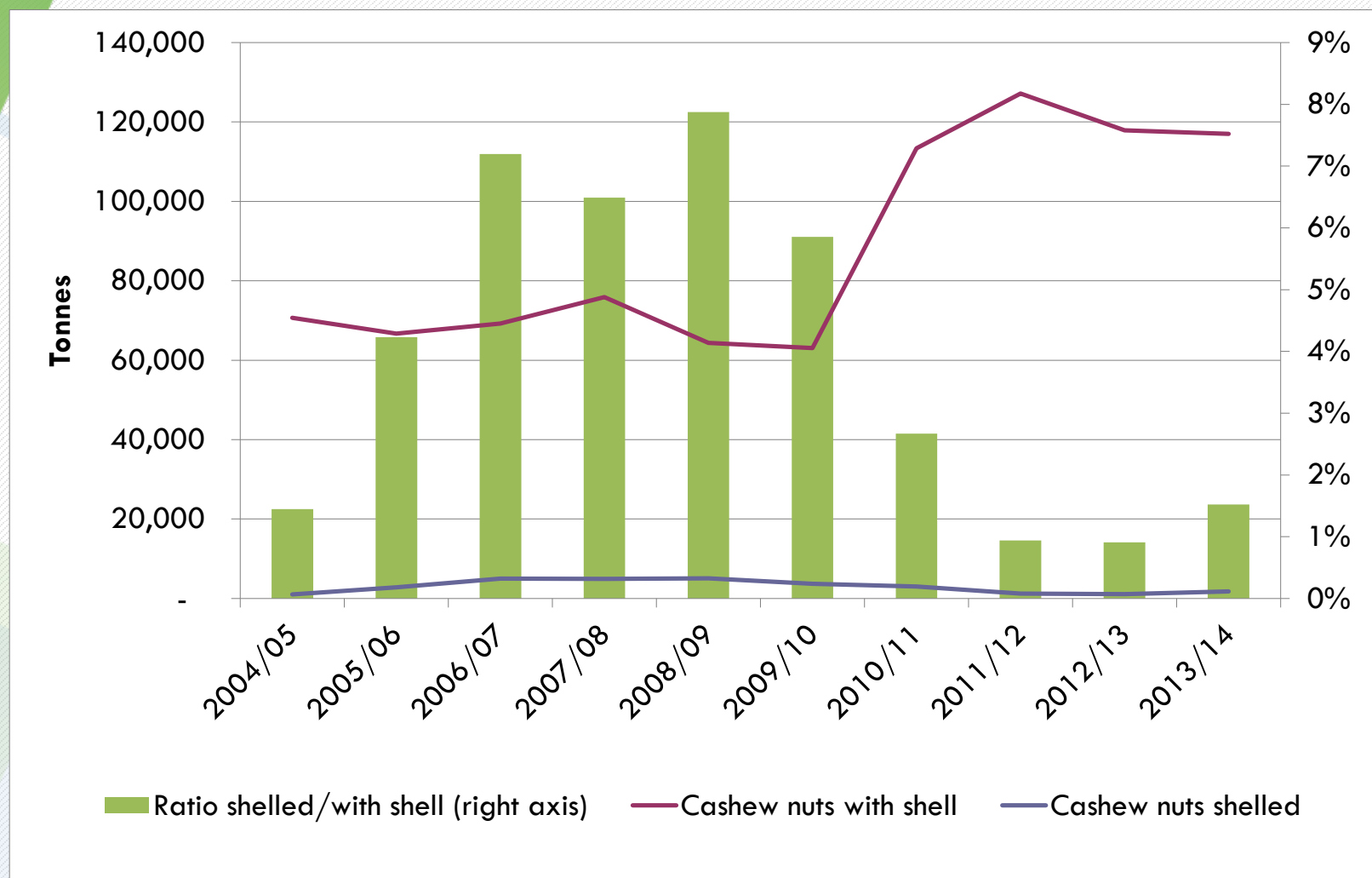
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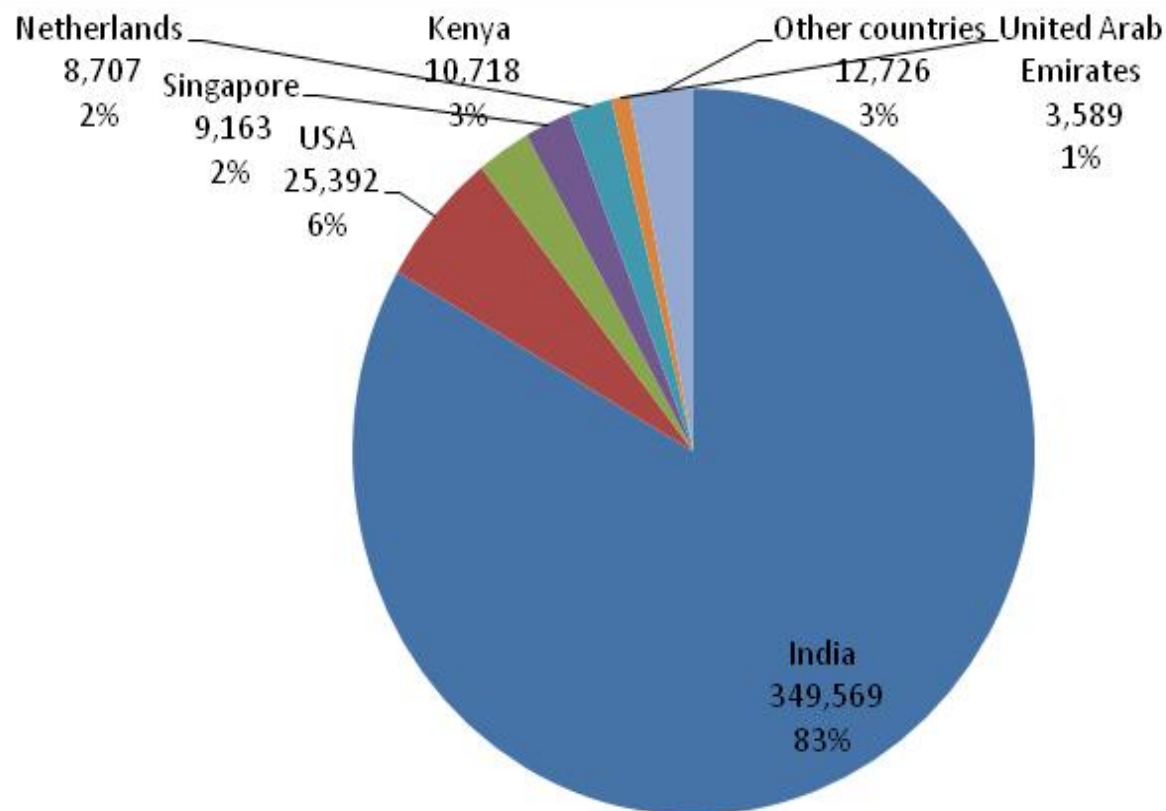


Processed vs. unprocessed exports



Source: CBT, 2014

Export destinations



Source: UN Comtrade

Processing still is not competitive in an international comparison

- Difficult for processors to obtain loans that allow them to acquire inputs
- Skilled workers are not sufficiently available and throughout the year
- Most processors suffer from the high cost of energy, lack of technological and managerial capacity and frequent power and water cuts
- Hygienic standards due to manual processing poses a serious challenge
- The potential of efficiently producing and marketing by-products has yet to be exploited



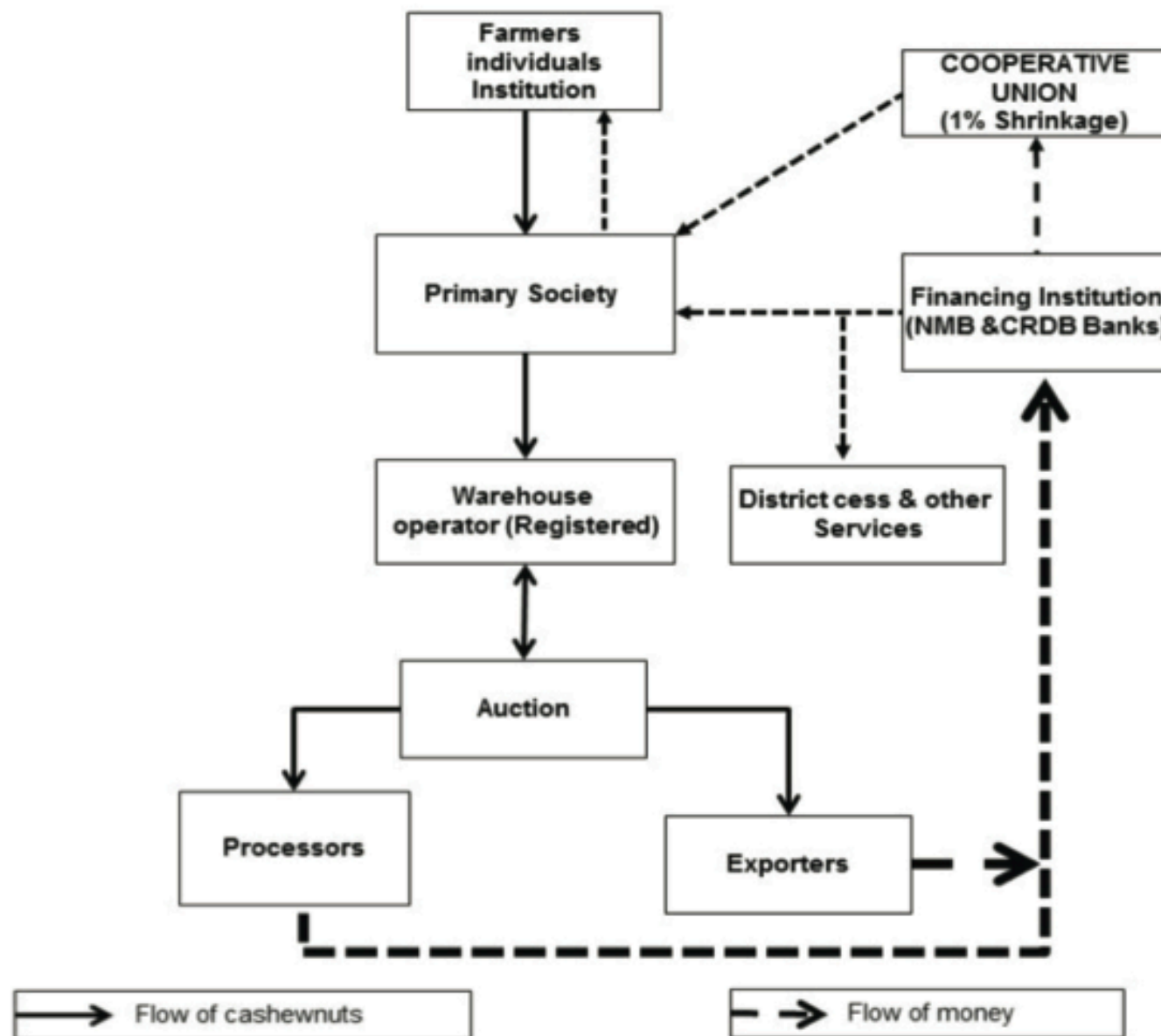
Cashew nut marketing under a liberalized system

- The marketing system was liberalized in 1991, allowing farmers to sell to any buyer
- Cashew nuts were primarily sold via primary societies, who acted as agents for private buyers
- Exporters/buyers kept farm gate prices by delaying purchasing from farmers
- Attracted a large number of intermediaries, leading to higher marketing costs

Warehouse Receipt System (WRS)

- Established in 2005, the WRS involved three major changes to the marketing system:
 1. Farmers were required to sell their cashew production to primary societies and AMCOS, which obtain credit from cooperative unions
 2. Cashew nuts were used as collateral for the loans, which are further secured by government guarantees
 3. All cashew nuts had to be sold via blind auction markets managed by the CBT

Marketing cashew through the WRS



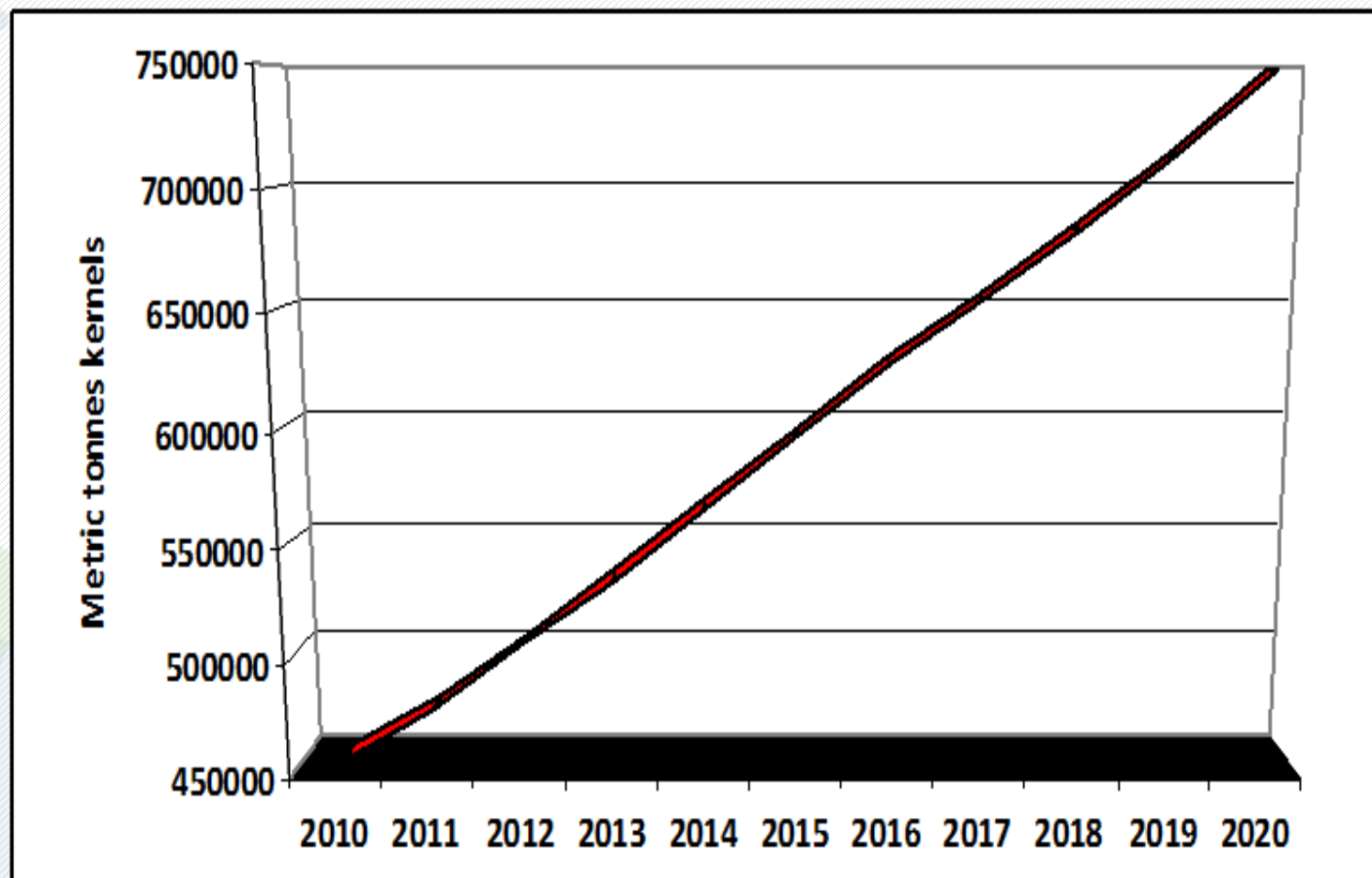
Value chain governance and power dynamics

- Market power is concentrated among a few main buyers in India, opening opportunities for fixed prices
- Cashew processors must now compete at auction with exporters, who have a much faster return on investment and better access to credit
- The auction system is not transparent, as the price at which lots were sold and the winning bidders are not published

Value chain governance and power dynamics (continued)

- The value chain is characterized by a “market-based” type of governance, with loose relationships between actors
 - Buyers and suppliers generally do not exchange information (e.g. on quality)
 - No sustainable contractual relationships between processors and farmers / cooperative societies
- Governance of the chain under the WRS is often considered cumbersome, bureaucratic and costly to producers

Demand and export opportunities for cashew kernels are increasing



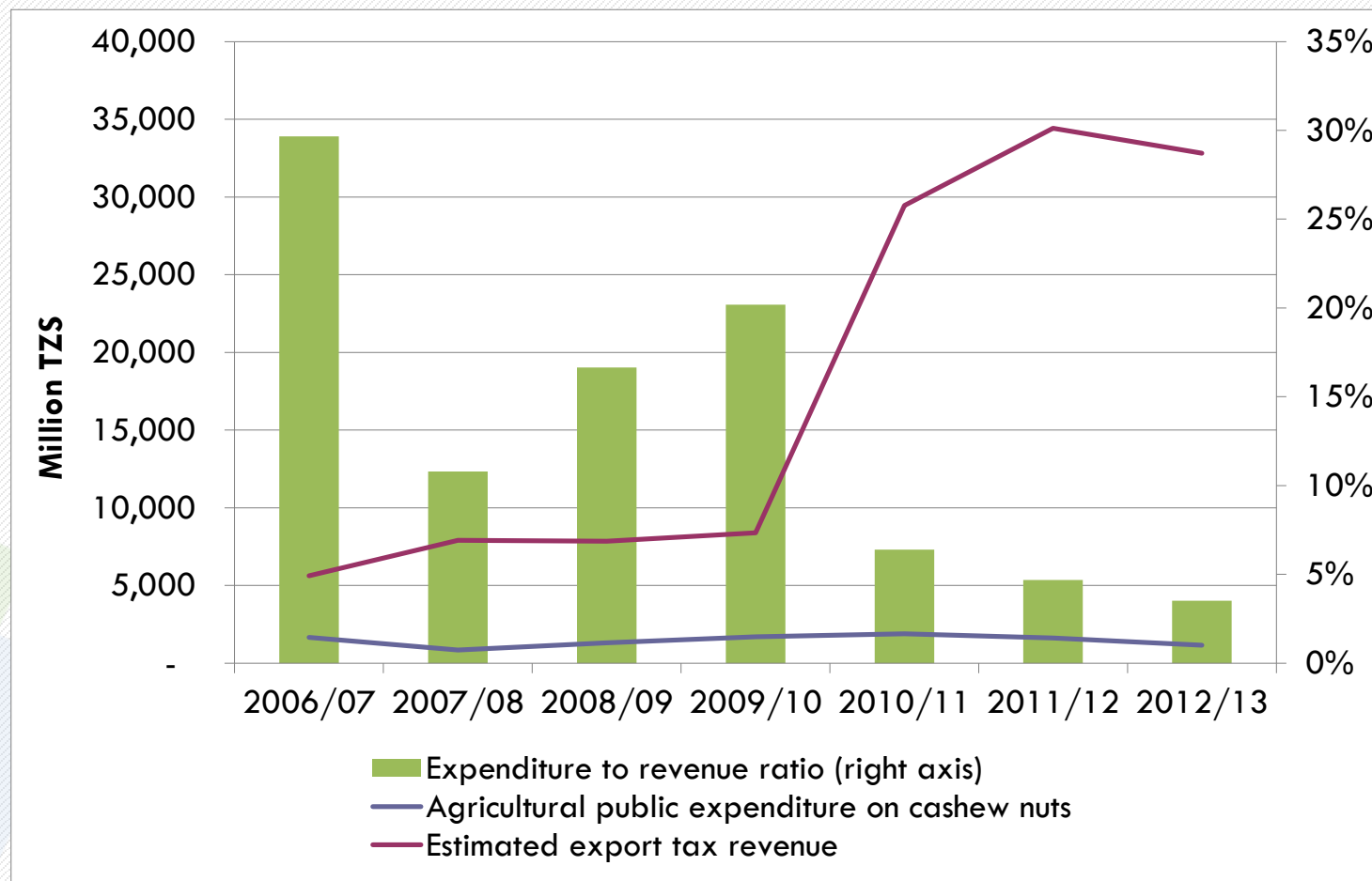
Source: ANSAF (Fitzpatrick, 2013), "The Cashew Club, 2012"

Processing value opportunity

2008-2012	Tonnes	Value
Exports of Cashew Nuts with Shell	461,319	US\$ 573,915,000
Kernels Equivalent	128,169	US\$ 1,059,043,754
Cashew Nut Shell Liquid	115,329	US\$ 51,898,050
Cashew Shell	230,659	US\$ 14,070,199
Total value	564,700	US\$ 1,125,012,003
Total Value Addition lost	US\$ 551,097,003	
Value addition lost each year	US\$110,219,401	

Source: ANSAF (Fitzpatrick, 2013)

Revenue from export tax vs. public expenditure on the cashew sector

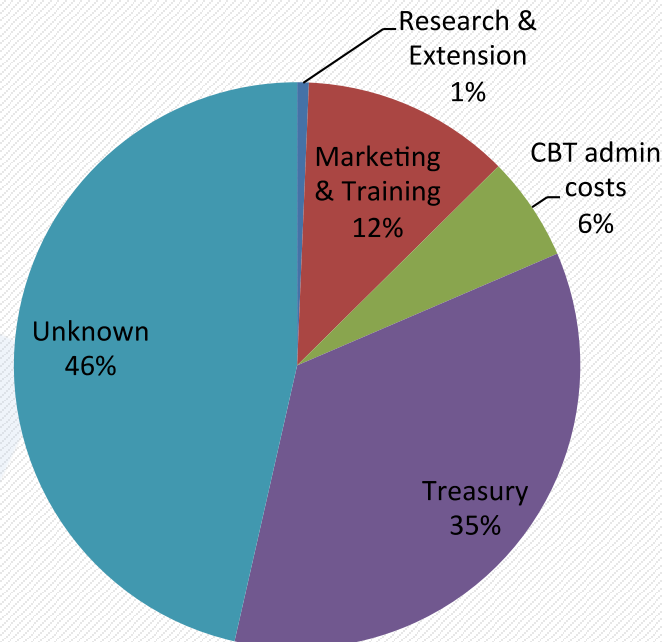


Source: MAFAP, 2014 and CBT, 2014

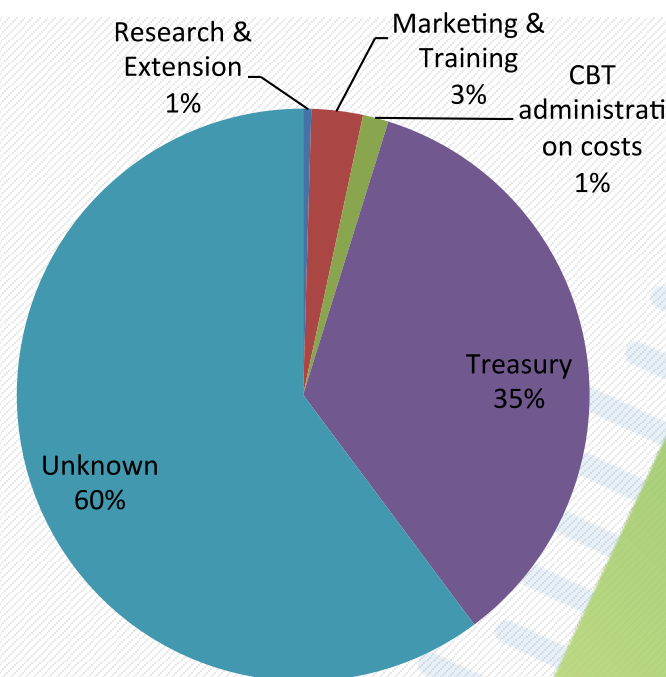
Distribution of revenue from export tax

Year	2006-2009	2010-2014
Tax Rate (% of FOB)	10%	15%
Distribution (allocations as % of total tax revenue)	Treasury (35%) Inputs (55%) Research (10%)	Treasury (35%) Agrochemical subsidies (35%) Research (7%) Marketing and branding (7%) Administration costs of the CBT (7%) Cashew Development Trust Fund (7%) Local Government Authorities (3%)

Source: UNIDO, 2011 and CBT, 2012

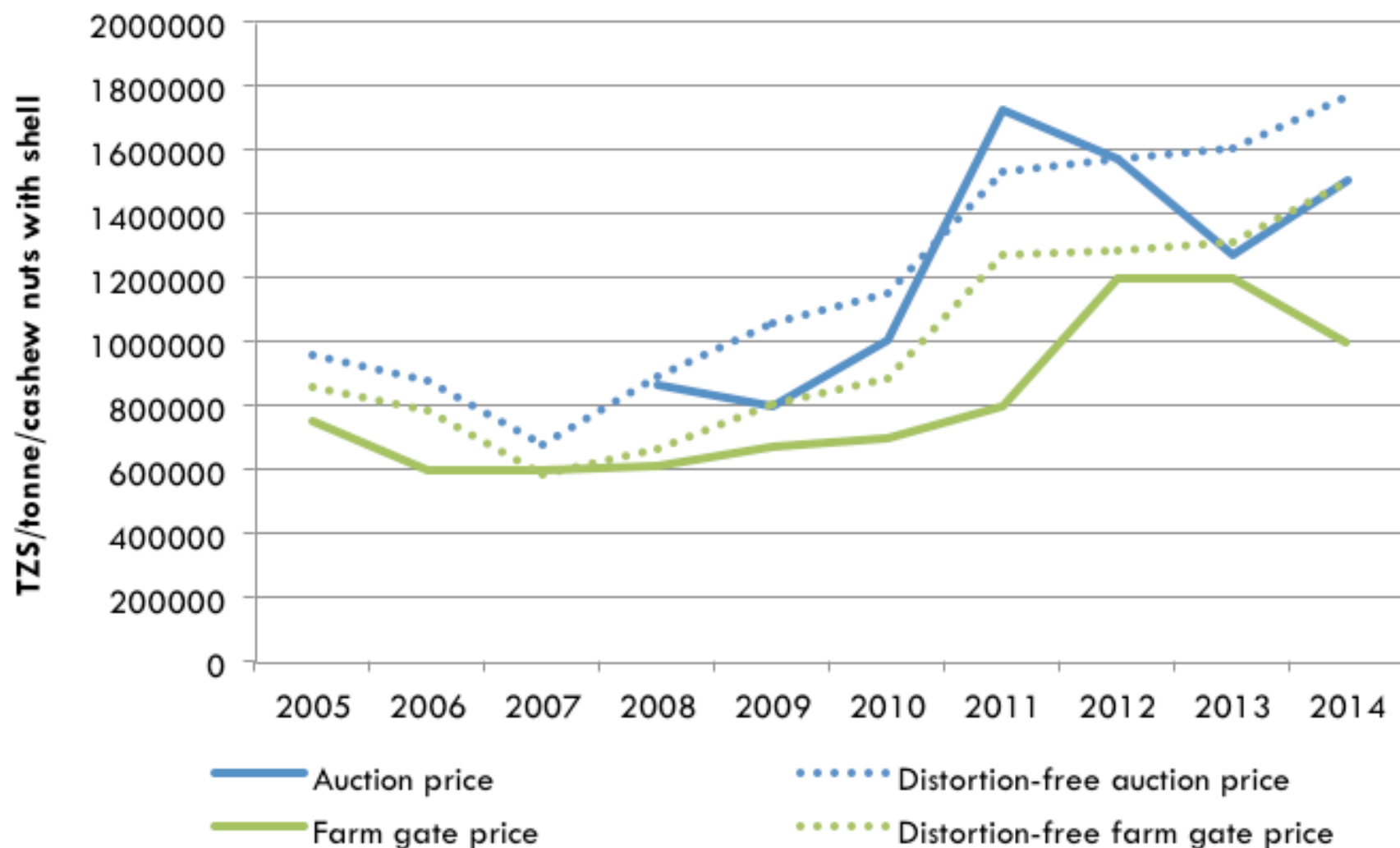


Average 2006/07-2009/10



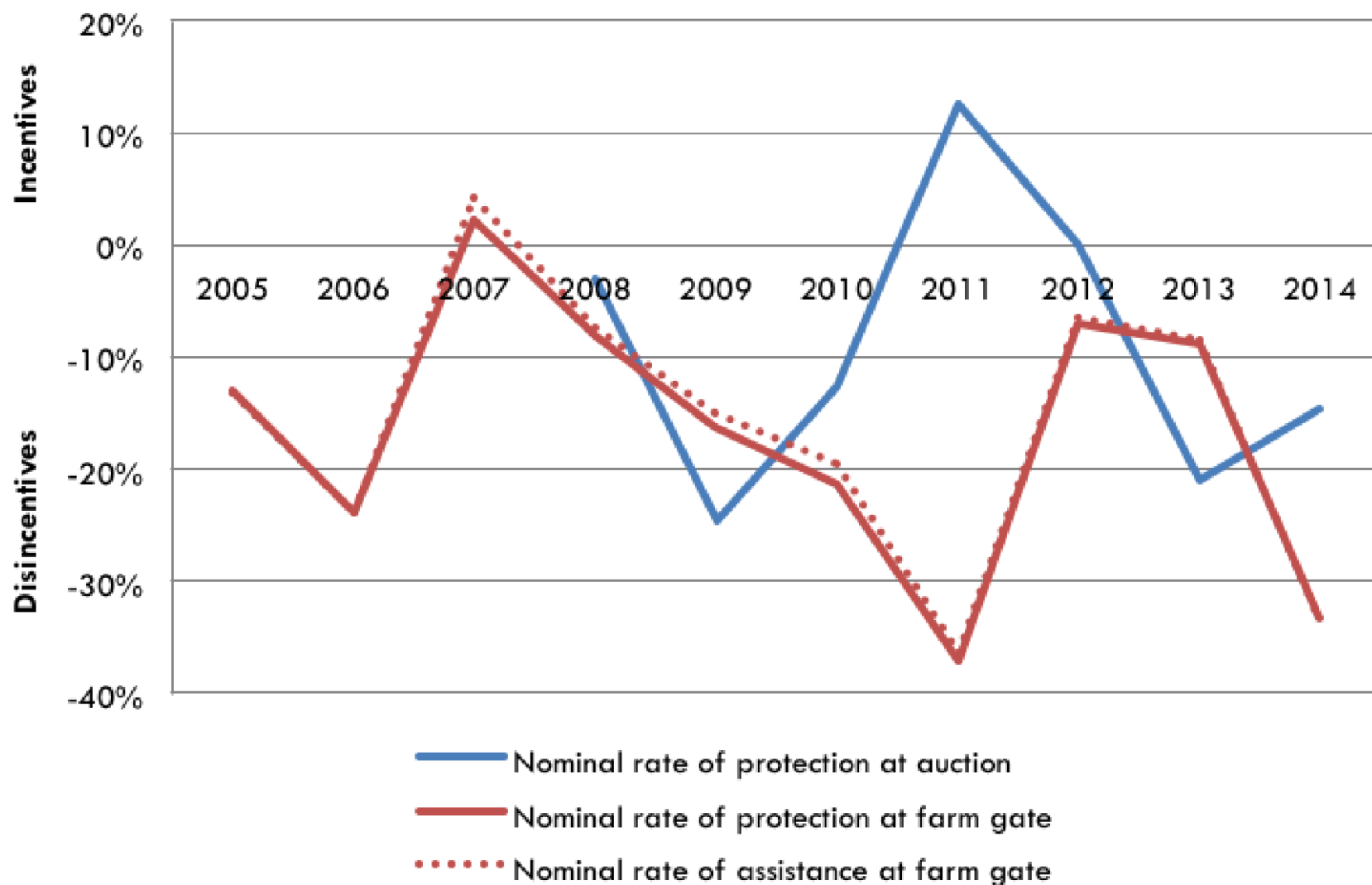
Average 2010/11-2012/13

Observed domestic price vs. distortion-free domestic price



Source: MAFAP, 2014

Price incentives for cashew nuts at auction and farm gate



Source: MAFAP, 2014

Factors driving price disincentives

1. Export tax on raw cashew nuts
2. Auction and pricing system, which may result in lower prices for farmers
 - auction system is not transparent
 - concentration of market power among a few main buyers in India
3. Value chain inefficiencies
 - VAT levied by the Tanzania Port Authority
 - District cess
 - High profits obtained by intermediaries between farm gate and auction

Main message

- Although the international demand for processed cashew nuts is growing and will continue to grow in the coming years, Tanzania is not fully capitalizing on expanding market opportunities
- Evidence shows that the export tax on raw cashew nuts has not been effective in increasing value addition and has led to higher price disincentives for the sector
- Only a marginal share of the total revenue generated from the tax is channeled back into the sector, providing almost no support to producers

Policy recommendations

- Reinvest the export tax revenue back into the sector, specifically to support the development of medium- and large-scale processing
- Encourage private sector investment in processing by increasing access to financial services for domestic entrepreneurs and building partnerships with international entrepreneurs
- Develop a secure supply chain, where processors can establish direct sourcing relationships with farmers and cooperatives
- Reduce the costs of routing cashew production through the cooperative unions, as these costs raise auction prices, which decrease the sector's competitiveness in the international market

Policy recommendations

- Diversify export markets and encourage the entry of new buyers at cashew auctions to increase competition and potentially improve prices for producers;
- Disconnect the WRS from the auction system, so that it functions as a financing mechanism for farmers who want to participate and for processors who want to buy in season
- Remove barriers to trade such as local taxes and fees along the value chain to increase producer prices
- Increase transparency of the auction, possibly by establishing a market information system so that farmers and buyers better understand where and at what price lots are sold

- To access MAFAP's report (available in Jan. 2015), visit...

<http://www.fao.org/in-action/mafap>

- To access ANSAF's report, visit...

<http://www.ansaf.or.tz>