

Research Findings from the Food Security Project in Mozambique
MAP-Direcção de Economia*

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The Cashew Debate in Mozambique: *Are There Alternative Strategies?**

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Introduction

The bill entitled: **Proposed Bill for the Cashew Sub-Sector Re-Industrialization in Mozambique** has been submitted to Parliament, and discussions will take place for its modification or approval during the current session. Approval of this bill into a law as it is currently designed will have major short, medium and long term impacts for all participants of the cashew sector in Mozambique. The bill proposes to ban the export of raw cashew nuts, that priority be given to first supplying the local processing industry, and that market prices be set at the producer level. This bill results from a long debate on economic measures adopted by the Government in 1995, namely the liberalization of raw cashew nut exports. With liberalization, a medium and long-term development strategy was established for the sub-sector aiming toward the re-establishment of the country as one of the world's major cashew nut producers and exporters.

A main development objective for the cashew sector is to promote the smallholder (family) sector to increase cashew nut production, while the domestic

processing industry would increasingly add value before export of processed cashew nuts. At the moment, the most fundamental question is whether approval of the bill will effectively contribute toward such objectives, and if not, what are the best alternatives to promote sub-sector development.

This flash evaluates the short, medium and long-term effects of the proposed bill on smallholder cashew producers, industrial processors, and government, while providing some insights about alternative strategies to establishing an export ban.

Brief History

The cashew sector is an important component of the country's economy. Recent estimates show that the sector benefits about a million smallholder farmers, whose food security partially depends upon it¹, as well as about 10,000 workers, who up to 1997 were employed in the processing sector (GTC 1999). In addition, cashews provide foreign exchange earnings from annual exports of both raw and processed cashew nuts. These benefits, however, have significantly declined over the past years with the reduction of cashew nut production and quality. Cashews are produced mostly by smallholders, and recovery of output has been particularly slow due to the incidence of the *Oidium Anacardium* disease on existing cashew trees, the lack of mechanisms to control the problem, weak incentives for farmers to invest in new plantings, and the lack of genetically improved seedling material. At the processing stage,

* The views expressed in this document are exclusively those of the authors, and do not necessarily reflect the official position of the Ministry of Agriculture and Fisheries (MAP) in Mozambique.

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1 Strasberg, P., P. Mole, and M. Weber. 19- -. Analysis of Smallholder Cashew Tree Ownership, Production and Marketing Patterns in Mozambique Using TIA/96 Data. MAP/DE/FSP/MSU Working Paper, *work in progress*.

the main constraints to development in the sector have been technological inefficiencies and lack of ability to be competitive in a world market based on quality and scale.

Before independence, when Mozambique reached its cashew production peak, the country exported both raw and processed cashew nuts. At the time, Mozambique had an industry with considerable processing capacity, and it still exported significant quantities of raw cashew nuts (see Figure 1). Thus the country has both a cashew nut processing and raw nut export history. Yet, sub-sector problems worsened with the decline of cashew production soon after independence. **One measure taken in 1978, for which there is already experience and evidence of its impact, was to prohibit exports of raw cashew nuts. Even with the export ban, production constraints in the smallholder sector and in the processing industry persisted.**

In 1995 new measures were taken to reverse this situation. The export of raw cashew nuts was again allowed, opening the sector to international trade in an attempt at raising producer prices, and thereby creating some of the required incentives for new plantings and improvement of the existing trees. These measures confronted the domestic processing industry with its most direct competitor in the world market --- the Indian processing industry. The Indian

processors import annually quantities of raw cashew nuts from Mozambique, particularly during the period of December through March. During this time, the harvest in India is still months away. Yet Indian processors can import at higher prices than Mozambican processors can afford, pay shipping costs to India and still process efficiently to compete in the world market for processed kernels. The Mozambican industry feels uneasy with liberalization of raw cashew nut exports, and complain about high producer prices and not being able to compete with exporters.

However, while some actors in the industry argue that they need time to adjust to the new economic conditions, positive signs of change are already taking place in the sector. For instance, data in Figure 2 from the Agricultural Market Information System (SIMA) shows that, after liberalization, prices both at the producer and wholesaler levels rose in the districts of Nampula Province. **Producer prices increased from 8 to 15% between the 1997/98 and 1998/99 harvest seasons. Smallholders started to spend more time in pruning and cleaning their cashew trees.** With respect to world markets (see Table 1) smallholders received, as a percent of world price, an increase from 44.8% in 1996 to 52% in 1997 and to 48% in 1998. In the industry, while some factories with high investment and operating costs are closing down, there is evidence that other factories are restructuring and

Figure 1. Exports of Raw and Processed Cashewnuts in Mozambique, 1961-98.

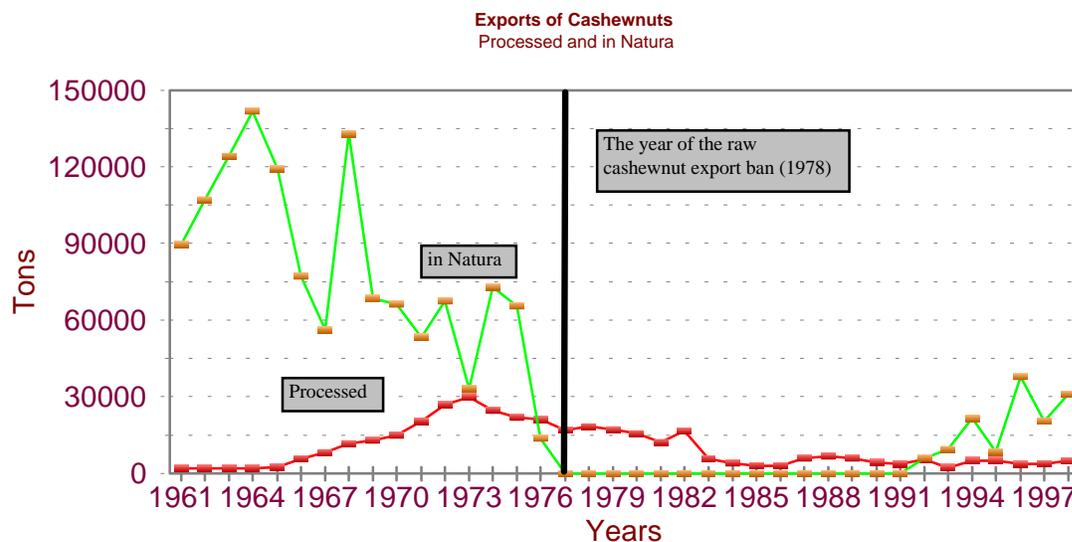
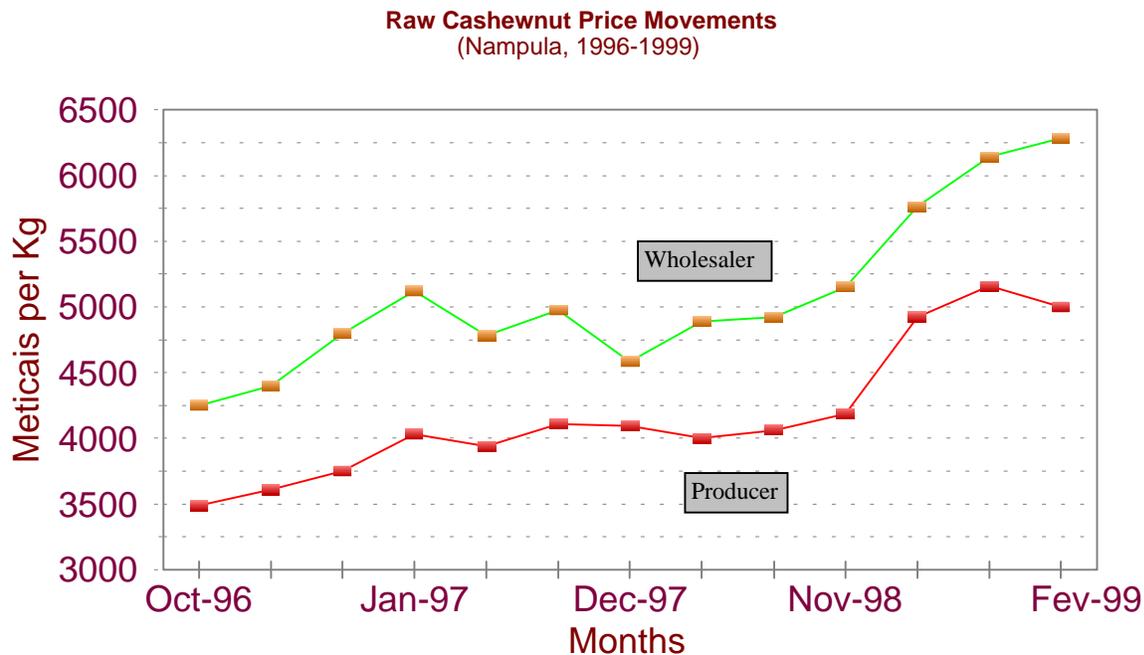


Figure 2. Producer and Wholesaler Cashewnut Prices in Nampula Province, 1996-99.



there are also new factories entering. (see Table 2).

Some factories are facing difficulties in finding raw material. Export of raw cashew nuts is having a strong price increasing effect, particularly in exceptionally low production years (when adverse climatic conditions had major effects on crop harvest as it did in the last season). However, while some factories complain about the lack of raw material to work with, smallholders in some areas of the country have difficulty marketing their output due to buyers liquidity constraints (Noticias, 4/3/99). This suggests that the export of raw cashew nuts is not the only reason for the lack of raw material for domestic processing. In the future, it seems that efforts must be directed toward searching for new on farm production technologies, that reduce production variability to allow a better balance between domestic processing and raw export opportunities.

Export Ban and Producer Price Control Effects in Mozambique

The proposed ban on exports of raw cashew nuts and the re-introduction of producer price controls will directly affect the well-being of smallholder cashew

producers, the processing industry, exporters, and ultimately government tax and revenue receipts. Gains and losses resulting from these measures must be viewed as part of alternative short, medium, and long term development strategies.

One short term strategy can be characterized by a domestic processing industry that wins with the export ban while about a million smallholders are hurt by both the ban and producer price control. Under this strategy, banning exports of raw cashew nuts results in the following:

- Eliminates the export market as an attractive option for cashew marketing agents. Since the domestic price is below the export price, the requirement that marketing agents must first supply the local processing factories, increases their marketing risk. That is, by only exporting after sales to the local industry, Mozambican exporters will likely miss the Indian “window of opportunity”. By the time any Mozambican excess supply is made available for export, the Indian processing industry may be supplied by their own local production. This will reduce prices and the incentive for farmers to market cashews in Mozambique. Furthermore, the producer price control will worsen these effects on smallholder

Table 1. Producer and Export Prices of Cashewnuts in Nampula, Mozambique, 1996-99.

Years	Prices per Kilograma of Raw Cashewnuts		% of producer price over the export price
	Producer	Export	
1996-7	3720.00	8310.00	44.80
1997-8	4035.00	7752.00	52.00
1998-9	4666.00	9662.00	48.30

Source: Agricultural Market Information System (SIMA).

Note: The prices are in local currency and the exchange rates used are 11230.00 Mts/USD, 11400.00 Mts/USD e 12230.00 Mts/USD for 1996/7, 1997/8 and 1998/9, respectively. Differences result from rounding calculations.

incomes and food (in)security. Note that cashew income represents an important source of food purchases for poor households in rural areas during the hungry season.

➤ Administrated prices have an increased probability of being relatively low (and unsustainable) and therefore reduce smallholder incentives to invest in new technologies and improved management practices, which could expand cashew production and improve nut quality. This is particularly true because during this time of economic recovery, the government would not likely have the required resources to subsidize prices and maintain sufficient production incentives. Losses are even greater because smallholders would no longer profit from the land and labor investments already made in existing cashew trees, which would be worth less as a result of relatively low prices.

➤ The industry would benefit as the direct consumer of raw cashew nuts. The benefits translate into keeping some level of processing in operation. However, these benefits cannot persist in the medium and long run if the low investments in expanding raw cashew nut production prevail. High operating and management cost will force factories to close because they cannot compete with Indian processing factories that have different and more efficient and cost effective technologies and high conversion rates of raw cashew nuts into processed kernels (out turn).

➤ The government loses the export tax receipts, which affect its general budget. Even more important,

the cashew sector will be deprived from a source of income that supports its institutional and rehabilitation activities. Recall that the cashew export tax is one source of income of the recently constituted and approved INCAJU – the Cashew Institute – that is aimed at developing and promoting cashew activities in Mozambique.

➤ Finally, society in general loses with restrictions on trade liberalization. This is a social opportunity cost deriving from the subsidy which government gives to consumers by imposing restrictions on free trade.

Even more critical is the fact that trade restrictions are called for when Mozambique is searching for a trade role within SADC. Here Mozambique needs to provide confidence to its partners on its commitment to open trade, particularly in products such as cashews, in which it has excellent agro-ecological conditions, and historical international trade experience. The proposed bill challenges the credibility of Mozambique's commitment to free trade. The country talks about open borders, but at the same time closes its doors to international trade.

Fulfillment of government objectives in the cashew sub-sector requires time and resources. Time is required so participating agents can realize their potential by investing in productive activities and improved management. This can lead the sector to the desired position, a place where Mozambique has already been. In the medium and long run, all participants could benefit with the improved

Table 2. The Structure and Technology of the Cashew Processing Industry by Province in Mozambique, 1999.

Factory	Technology	Investment status	Current Annual Capacity	Operational Status	Ownership capital (If foreign owned)
Cabo Delgado			2000		
CaboCaju	Manual	new	2000	operational	yes
Nampula			24,000		
Entreposto					
Monapo	Oltremare	new/Rehabilitated	8,000	closed	yes
Nacala	Oltremare	new	6,000	closed	yes
AGT/Gani Inducaju	Manual e Indiana	Rehabilitated	3,000	closed	no
Enacomo/Gani Angoche(Angocaju)	Shock	Rehabilitated (in perspective)	5,000	closed	no
JFS Geba	Manual and Indian	Nova	2,000	operational	yes
Sofala			5,000		
Caju de Beira	Shock and Indian	Rehabilitated	2,000	reconverted	yes
Africaju	Manual and Indian	Rehabilitated	3,000	reconverted	yes
Inhambane			3,500		
Procaju	Shock/Manual	Rehabilitated	2,500	closed	no
AdL	Shock	new	1,000	closed	no
KMC	Shock/Manual	new	-	closed	yes
Gaza			14,500		
Invap	Manual	new	2,000	operational	no
Procaju(Manjacaze)	shock	Rehabilitated	4,500	closed	no
Mocita	Oltremare	new	8,000	operational	yes
	(in prespective)				
Maputo			9,000		
Mocaju(Machava I)	shock	old	5,000	closed	no
Policaju(Chamanculo)	shock	old	2,000	closed	no
Madecaju (Iaulane)	Manual	new	2,000	closed	no

Source: State Secretariate of Cashew (SEC).

productivity of the smallholder cashew sector as well as in the cashew processing industry. However, with the proposed bill coming into law, these benefits cannot be achieved because:

- smallholder quantity and quality of output will not increase because of the weak incentives to invest in and improve management of cashew trees;
- processing factories will continue operating at high

costs relative to competitors in the world market, and operating at low processing capacity due to lack of raw material resulting from low smallholder production, and;

- unemployment, which now constitutes the major concern in the processing sector, will be even higher in the long run, because the few workers currently employed will lose their jobs.

The remaining question is whether Mozambique will then have any comparative advantages and essentially still be able to compete in strategic products such as cashews.

An Alternative Strategy: Everyone Gains

All the participants now recognize the employment crisis in the cashew sub-sector. However, it is important to ask the question of how to conceive a strategy that in the short run can provide incentives to smallholder cashew producers to increase cashew production and quality while domestic processors obtain assistance to increase productivity and improve their competitive ability in the world market. While some components of this strategy, such as the foundation of INCAJU, are underway, more practical ways are still needed to make an alternative strategy operational.

Two fundamental themes need to be considered. The first theme is related to how to increase cashew production in the smallholder sector quickly. The government needs to play its role as facilitator by creating a legal and favorable environment for partnerships between smallholders and factories conducive to more productive investments from both. Smallholders should feel the need, and be able spontaneously to form groups or associations in order to engage in legally recognized and enforceable contracts with factories. In such partnerships, factories could provide inputs and/or technological packages and extension services to the associations in exchange for sales of raw cashews at agreed upon prices. We are not referring to a *concessionaire* system, as the one currently in use in the cotton sub-sector. With regard to the partnership mentioned above, **the government role as a facilitator would greatly help in combating the major constraint in cashew production in Mozambique – *Oidium Anacardium***.

This can be done under smallholder conditions. Figure 3 shows the evolution of cashew production in Mozambique and in Tanzania during 1961-98. Tanzania, a neighboring country where cashew is also a major crop, had similar production problems to those currently faced in Mozambique. However, by the end

of the 80s Tanzania experienced a quick recovery, as a result of a significant government funded research and eradication program against the cashew borer. In Mozambique, on-station trials similar to those in Tanzania are currently underway². However, results of such trials will only bring benefit if inputs can be guaranteed for its implementation. The government could help by supporting and improving programs such as the KR2, which could help motivate private firms to supply inputs for massive smallholder adoption of technological packages like those under trial to combat *Oidium*. Programs with such scope and nature would have a greater impact and higher response from both the smallholder and business sector.

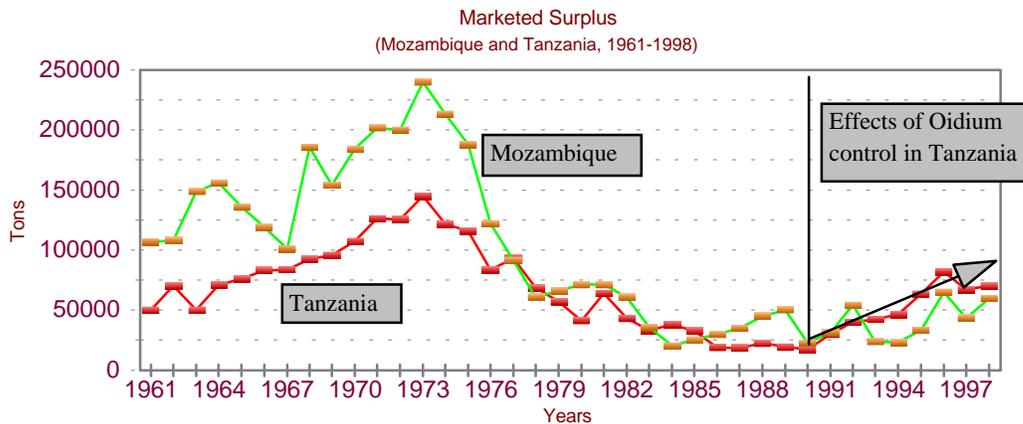
In the meantime, a second theme to examine is how to direct effective **support and not protection** to the processing sector. In this context, two actions could be undertaken.

➤ A detailed economic and financial assessment of each cashew processing factory should be undertaken to establish a profile of factory worthiness and competitiveness. It is crucial to identify the sources of inefficiency to establish effective mechanisms for its solution. It may be necessary for the government to ease some labor or fiscal laws to provide incentives to factories with potential to compete by adopting more efficient and cost effective technologies. The World Bank's initiative in this direction should be welcomed.

➤ Once the assessment is complete, the government should work closely with the financial sector to guarantee availability of credit to the factories at the beginning of the cashew marketing season. This allows them to compete for raw material.

With progress in these two areas, the export of raw cashew nuts could be seen as a short term strategy to provide incentives to both the smallholder and domestic processing industry sectors for productive

2 Topper, C. P. 1998. Development of a Trial Programme to Test Pest Management Strategies on Cashew in Mozambique. A report of his visit to Mozambique from 3 to 21 of October, 1998.

Figure 3. Marketed Surplus in Mozambique and Tanzania, 1961-98

investments in new technologies and improved management practices to increase economic efficiency and capture a larger portion of the world market.

Final Comments

There are no doubts about the sensitivity of the problems and the national interests in the cashew sub-sector in Mozambique. It is also true that both smallholder cashew producers and the industrial processors, in the long term, face the risk of wasting time if the policymakers do not realize the importance of the basic economic concepts of production and processing in a competitive world market. This flash presents the advantages and disadvantages of approving the bill calling for a ban on exports of raw cashew nuts and the re-introduction of producer price controls in Mozambique. An alternative strategy is discussed that focuses on the role of the government as a facilitator of partnerships between smallholders and industrial processors. Under this setting, exports are conceptualized as a pressure device for the different agents but bring long-run benefits to the sub-sector as a whole.

In conclusion, there is danger that the approval of the proposed bill will worsen the poverty condition of smallholders, who are scattered throughout the country, (dis)organized, mostly poor and food insecure. Even more seriously, in the short-run the bill will discourage producers from investing more in cashew production, postponing further the long-run solution to the fundamental problems of the sub-

sector that are preventing Mozambique from capturing a position among world leaders in cashew production and export. Therefore, what in the short-run seems to be a win-lose strategy for some in the industry, the proposed bill to ban exports of raw cashew nuts and reintroduce producer price control will result in a lose-lose strategy in which, in the long-run, no one wins.

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