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No PB 21/2023 November 2023

REPOA Brief

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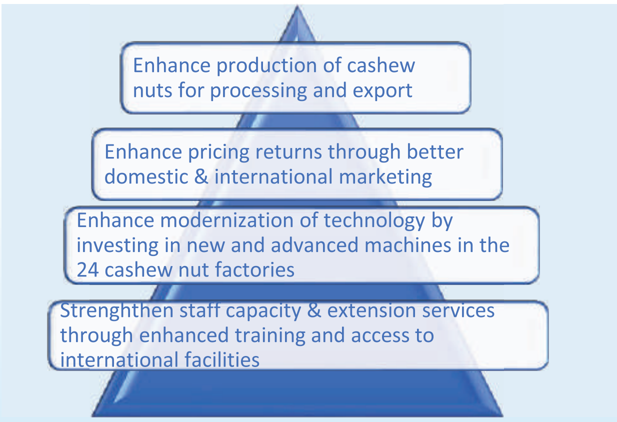
Building productive capacities - opportunities and constraints in the cashew nut sub-sector

By Ahmed Ndyeshobola and Donald Mmari

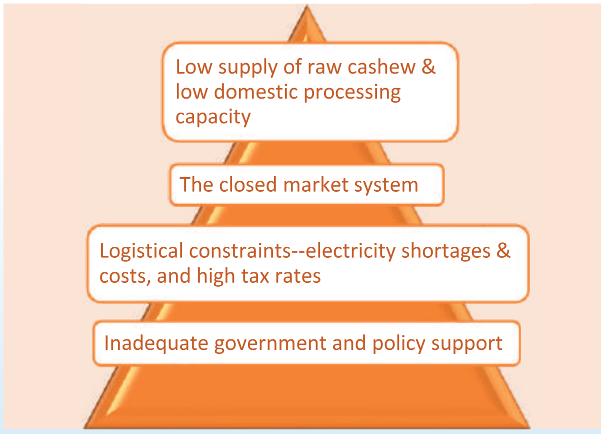
Key messages

Opportunities and Challenges

Growth Opportunities



Key Constraints and Challenges



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Objectives	➢ To explore the underlying opportunities and constraints for enhancing the expansion of productive capacities in the cashew nut sub-sector

Baseline definitions on productive capacities and productivity growth are drawn from the relevant multilateral agencies:

Baseline Definitions – Productive Capacities and Productivity Growth	
UNCTAD	Defines productive capacities as *the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop*.
NEPAD	Defines productive capacity as *the ability to produce goods that meet the quality requirements of present markets and to upgrade to tap future markets—to ensure a sustainable participation in the new global production system based on production networks*.
World Bank	Defines productivity growth as *the key driver of sustainable income growth and poverty reduction—the efficiency with which societies combine their people, resources, and tools—and is the central driver of the development process*.
UNIDO	Defines productivity as *the ability to transform inputs into outputs—a key to poverty reduction as it generates skilled jobs which are sources of income and social participation*.
OECD	Productivity is considered *a key source of economic growth and competitiveness*.

THE SIGNIFICANCE OF THE CASHEW NUT SUB-SECTOR

Tanzania is well known for its cashew nut production. The nuts are nicknamed "*grey gold*" due to the high return on investment associated with the sub-sector. Cashew trees were first introduced in Tanzania in the 16th century by the Portuguese for soil conservation and reforestation and is now widely cultivated. The country's production has been increasing in recent years and reached about 155,245; 265,238 and 313,826 tons for the years 2015/2016, 2016/2017 and 2017/2018, respectively. However, only 12.7% of the raw cashew nuts are being processed locally. The other 87.3% are exported in raw form to mostly Vietnam and India for value addition before reaching consumer markets of Europe and America.

Tanzania is one of the largest cashew producers in Africa. It is the eighth-largest grower of cashew nut in the world and ranks fourth in Africa. The country provides 20% of Africa's cashew nut and only trails in production to Nigeria, Cote D'Ivoire, and Guinea-Bissau, according to figures released by the FAO. In Eastern Africa, Tanzania accounts for 75% of the region's crop.

Cashewnut and Fruit Products includes:

- The cashew seed, often simply called a cashew, that is widely consumed;
- It is eaten on its own, used in recipes, or processed into cashew cheese or cashew butter;
- The shell of the cashew seed yields derivatives that can be used in many applications including lubricants, waterproofing, paints;
- The cashew apple is a light reddish to yellow fruit, whose pulp can be processed into a sweet, astringent fruit drink or distilled into liquor.

Cashew nuts have been grown on a commercial scale in Tanzania since the 1950s. Due to low development of infrastructure and lack of alternative employment opportunities in the southern region, cashew cultivation was highly favoured. The zone was also previously used as part of the failed Tanganyika Groundnut scheme. In Tanzania, cashew nuts are gaining more and more popularity. Cashew nuts are one of the six traditional cash crops after coffee, tea, sisal, tobacco, and cotton. Several efforts are being made to increase cashew production and local cashew processing.

The Tanzania cashew nut industry mainly has seven locations as indicated here-

CASHEW NUT	- The Southern Region -- Mtwara (70%), Lindi (18%), Ruvuma (4%) and Songea Regions
CASHEW NUT	- The Coast (Pwani) Region (8%)
CASHEW NUT	- Other Regions incuding Tanga (1%), Iringa, Dodoma (small estates & farms)

TANZANIA CASHEW VALUE CHAIN AND MARKETING SYSTEM

Processing: Cashew nut processing involves several stages including cleaning, soaking, roasting, shelling, sorting, grading, and packing. Cleaning is usually done manually to eliminate unwanted extraneous materials such as stones, sand, and leaves before any further processing. Soaking of nuts in water helps to avoid scorching during the roasting operation. Roasting of nuts makes the shell brittle and loosens the kernel from the shell. The next step is shelling which is the removal of the roasted outer cover. Separation of cashew kernels from broken shell pieces and unshelled kernels is the next stage. A sorting operation is required to segregate the kernels into whole, broken and splits. Cashew kernels are finally graded based on size, colour and other standards and then parked for storage or transportation. Table 1 summarizes the cashew nut processing capacity in Tanzania.

- Tanzania has lagged behind making in-roads into world processed cashews markets due to bottlenecks in its processing capacity.
- More than 85% of the farmers are smallholders and have an average farm size of 1 hectare.
- Table 1 summarizes the cashew nut processing capacity in Tanzania.
- The current capacity to process cashew nuts is **12.7%** only – **87.3%** is exported unprocessed.
- Since October 2021, Mtwara is home to the first East-African Fairtrade certified cashew nut processing company—**Mama Cashew**—cashew nut sourcing, processing, and exporting operations.

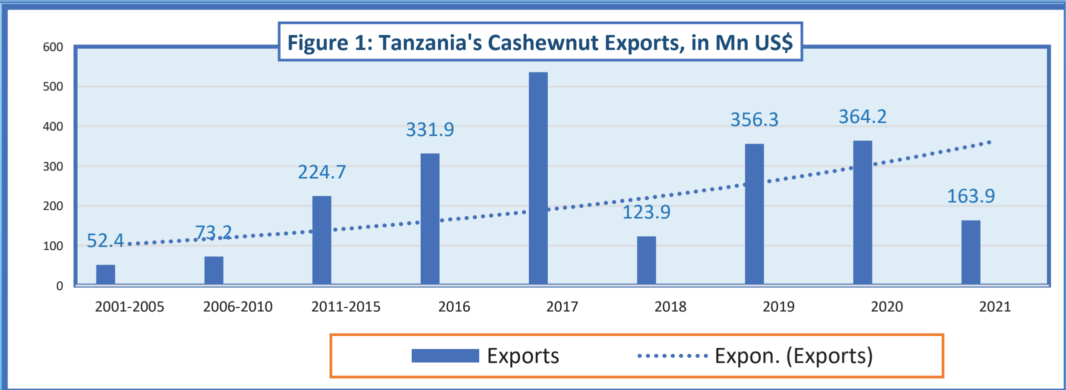
Table 1: Cashew Nut Processing Capacity in Tanzania as of 2019

Region	Name	Ownership type	Area (Hectares)	Capacity (MT/Year)	Status
Lindi	Al-Handalus Company Ltd	Private	2.80	6,000.00	Working
	WAIGERO Ltd	Private	9.60	1,750.00	Working
	WAKORU Cashew nut Processors	Cooperative	0.50	80.00	Working
	UWABAKONA (Association of Nachingwea Cashew nut Processors)	Cooperative	1.00	25.00	Working
	Nangowe Cashew Processing Small Scale	Private	0.36	80.00	Working
Ruvuma	Micronix System Ltd (Korosho Africa Ltd)	Private	6.00	5,060.00	Working
Mtwara	Mtwara Cashew nut Company (2005)	Private	12.00	2,500.00	Working
	Micronix System Ltd (Korosho Africa Ltd)	Private	6.00	2,000.00	Working
	Hawte Investment Ltd	Private	1.00	1,500.00	Working
	Naliendele Agricultural Research Institute	Public	1.00	250.00	Working
	Yalin Cashewnut Company		4.00	6,000.00	Working
	AMAMA Farm	Private	11.60	4,000.00	Working
	Kitama Farmers' Group	Cooperative	1.50	2,160.00	Working
	Kiwanda Kidogo Cha Kubangua Korosho	Cooperative	0.72	75.00	Working
	Micronix System Ltd (Korosho Africa Ltd)	Private	9.07	3,500.00	Working
	Perfect Kernels Tanzania Ltd	Private	0.50	925.00	Working
Pwani	Mkemi Agrix Co. Ltd	Private	0.60	400.00	Working
	Fuzzy International General Trading	Private	1.50	2,000.00	Working
	Kiwanda Cha Kubangua Korosho	Cooperative	1.60		Working
	Boon Ltd	Private	0.20	120.00	Working
	Terra Cashew (TANITA)		12.00	3,600.00	Working
	UVUKI Cashew nut Factory	Cooperative	1.60	8.00	Working
		Total Capacity		**42,073.00**	

Source: TIC

As figure 1 shows, Tanzania's cashew exports were growing steadily until 2017, after which they declined dramatically in 2018, with only a modest and fluctuating growth thereafter.

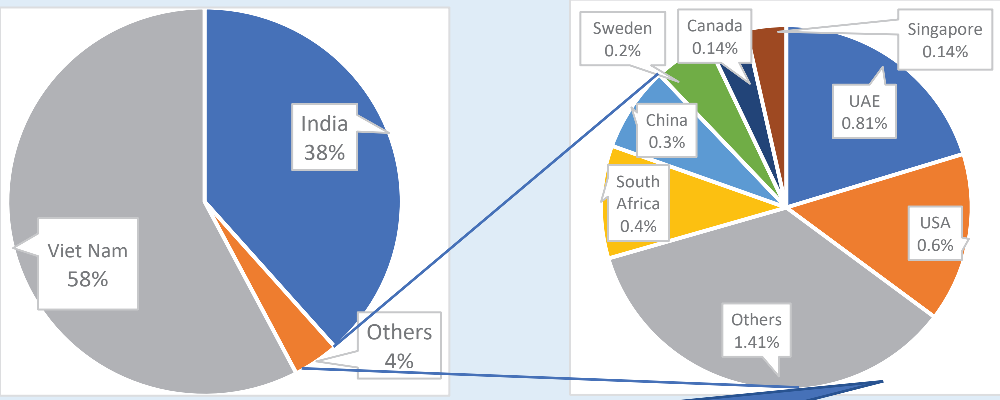
- Tanzania has a competitive advantage on the global market as the harvest time for Tanzanian and Mozambique cashews are in the off season for cashews from India and West Africa and, therefore, is sold when the market prices are higher.
- Tanzania has one of **the largest sized nuts** and has a very high natural yield per hectare.



Source: ITC Trade Statistics, 2022

Figure 2 shows the destination and expansive markets for Tanzanian cashew nuts.

Fig 2: Export markets for Tanzania's Cashew Nuts for the period 2017-2021; with total value of US$ 1,544.6 Million (for 5 Years)



Main export markets (%ages of imports & number of countries):

1. **Asia** 96.53%; 8 countries;
2. **Middle East** 0.96%; 11 countries;
3. **Americas** 0.74%; 2 countries;
4. **Europe** 0.71%; 16 countries;
5. **Africa** 0.56%; 10 countries.

Other key importing countries are: Netherlands ((0.11%), Russia (0.11%), Slovenia (0.10%), Egypt (0.07%), Turkey (0.06%), Germany (0.06%), Sri Lanka (0.05%), Kenya (0.05%), Saudi Arabia (0.05%), Belgium (0.05%), UK (0.04%), Lebanon (0.04%), Zambia (0.04%), Belarus (0.04%), Taipei, Chinese (0.04%); plus 23 small importing countries.

The 23 small importing countries include: Spain, Tunisia, Qatar, Morocco, Oman, Kuwait, Iran, Denmark, Bahrain, Poland, Jordan, Burundi, Japan, Austria, Bulgaria, Israel, Italy, Republic of Korea, Latvia, Seychelles, Eswatini, Uganda, Ukraine.

Source: Compiled from the International Trade Centre trade statistics, 2023.

Growth Opportunities for the Productive Capacities in the Cashew Nut sub-sector.

Table 2A summarizes the opportunities for productivity growth and raising cashew nut exports.

Table 2A: Growth Opportunities for the Productive Capacities in the Cashew Nut sub-sector	
a. **Productivity growth for processing and export**	Tanzania should capitalize upon its competitive advantage through, *inter alia*, increasing yields, improving the efficiencies of the system at all levels, diversifying buyers, and markets;
	The number of processing firms has increased from 10 to 24 in the 2021/22 and processing firms have been allowed to enter contract farming with cashew farmers.
b. **Cashew nut processing**	Enhancing domestic processing remains the topmost country's priority;
	The implementation of the Cashew Act (August 2021), which allows local processors to buy raw cashew direct from the farmers, provides an excellent opportunity to improve cashew nut processing;
	Tanzania Association of Cashew nut Processors (TACP) supports the government's target to increase domestic processing from 12.7% to 60 percent by 2025.
c. **Marketing systems**	Enhancement of Tanzania's cashew nut marketing systems is targeted by the authorities, to enable farmers and traders to effectively penetrate the domestic and foreign markets;
	Striving for enhancing transparency in the auction system, and building marketing centres;
	Improving warehouse and drying practices to raise the quality of cashew nuts;
	Authorities are exploring new markets in line with the expansive export market potential as per *figure 2 above* with the view to reducing reliance on India and Vietnam.
d. **Policy Support**	Government has shown interest to develop the cashew sector both in value addition and production;
	TARI-Naliendele, SIDO and CBT have the potential to train both processors and sellers on modern technology and business and marketing skills to enable them to compete in all markets;
	The government through the Ministry of Agriculture, MIT together with CBT should provide the policy champion and support processors and cashew farmers across all segments of the value chain.

Key Productivity Challenges and Constraints facing the Cashew Nut sub-sector

Table 2B summarizes the main constraints to the sub-sector.

Table2B: Key Productivity Constraints and Challenges facing the Cashew Nut sub-sector	
a. **Inputs, prices and information**	Unpredictable supplies of Raw Cashew Nuts (RCN);
	Inputs are overpriced and access to the right inputs at the right time of the year is limited by the failure to administer efficiently by the local government and the primary cooperative societies;
	In comparison with other countries producing cashew nuts, Tanzania has the highest handling costs which are estimated at US$ 260 per tonne.
b. **Processors facing key constraints**	The mechanized factories built in the mid-1970s and 1980s never worked—thus, the value addition taking place within Tanzania has been negligible (about 10%);
	Processors are required by custom's law to provide certificate of radiation test that costs up to 0.2 percent of the Free on Board (FOB) costs;
	Failure of the Tanzanian cashew nut industry to process as a significant part of its product casts doubt on the competitiveness of the cashew processing sector and its sustainability over the longer term.
c. **Lack of access to credit**	Local banks continue to charge high interest rates, making the price of Tanzania kernels higher than from rival exporting countries;
	Tanzanian investors and entrepreneurs find access to financial services limited and costs high;
	There is an overarching insufficiency of investment in smallholder cashew nut farmers; the difficult question is where the additional funding should come from.
	The auction system, which is combined with the public, state guaranteed warehouse receipt system (WRS) and the cashew nut board (CBT)—is a unique arrangement that needs review to assess its benefits and challenges;

e. Marketing practices	Tanzania's WRS differs from many similar systems in that farmers do not have a choice—they must participate in this system; therefore, 100% of cashews officially sold go through the WRS system;
	The Tanzanian Cashew Auction is a closed bidding system, the sales prices and analysis are opaque;
	The lack of competition in both the WRS and Auction system eliminates the market drive for efficiency, via the invisible hand of competition.
f. The complex and high tax structure	An excessive and complicated tax regime is a continuing growing concern to the cashew nut industry;
	Processors are facing multiple taxations and levies some of which discourage processing;
	Tanzania has the highest export taxation regime in the world for cashew nuts—a 15% export tax placed on the ex-Auction price—the export tax hurts the farmers, not the buyers as intended and has done little to stimulate domestic processing.
g. Lack of public support for growth of the cashew nut sub-sector and market	Government has become too involved in the cashew nut market, contributing to its inefficiency;
	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 and Vietnam;
	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;
	Farmers' organizations are weak in both their structure and their management—as a result these intermediary organizations have not been as effective in protecting the interest of the farmers and providing marketing services as they might have been.

CONCLUSION AND POLICY RECOMMENDATION

The captioned and several other underlying constraints and challenges for effectively building productive capacities in the cashew nut sub-sector, if resolved, could bridge this productive capacity gap and break the cycle of low investment, prices and yields for smallholders and processing firms. As also indicated under table 2A (above), bridging the productivity gap and breaking this vicious cycle can be addressed by, *inter alia*:

- Improving the economics of cashew farmers taking into account its relative importance;
- Structuring appropriate financing to address the significant risk, upfront costs and long payback periods;
- Addressing service efficiencies related to coordinating and managing smallholder supply and marketing;
- Exploring new markets for raw/processed cashew in EU and USA reducing reliance on India and Vietnam;
- Striving for sustained transparency in the auction system and better infromation system at all levels;
- Improving the productivity capacities, warehousing and drying system and practices.

It is recommended that this framework of analysis is adapted to inform policy analysts, private sector practitioners, and decision makers in the public institutions responsible for promoting economic growth, industrial development, investments, trade expansion, private sector development, and providing the requisite policy champion for cashew nut sub-sector. It is the ability of these actors to address the various constraints to productivity enhancement that Tanzania can sustain its growth momentum, realize its development potential, and achieve significant poverty reduction.

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REPOA HQs
157 Migombani/REPOA streets, Regent Estate, PO Box 33223,
Dar es Salaam, Tanzania.
Tel: +255 (22) 270 0083 Cell: +255 (0)784 555 655
Website: https://www.repoa.or.tz
Email: repoa@repoa.or.tz

Branch Office
2nd Floor Kilimo Kwanza Building
41105 Makole East, Kisasa,
Dodoma, Tanzania