Community-level Cashew Processing in Tanzania

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Key features

UNIDO together with local partners in Tanzania has promoted the setting up of pilot community-level units for the pre-processing of cashew nuts. The pilots shall demonstrate how pre-processing can be made a viable business which helps farmers and rural people to gain higher shares in the value that is generated in the cashew value chain. Following the idea of integrated value chain development the project foresees to support community-level groups to engage in the first phase of the process, the pre-processing of kernels, and then support the end-processors located in the same geographic region to finalize the processing and sell the kernels on the international market. Especially the pre-processing part of the transformation is labour intensive however it is financially and technically viable to outsource this process to community-level groups which process the nuts they produce in their own plantations (reduced working capital) and use family and community labour who do not need to move far to find jobs. The project, still in its initial phase developed viable business and management plans for 8 community level units, benefiting 800 workers directly and several thousand farmers indirectly. However, if the model is further up-scaled to the country level it would be of benefit to 700,000 farm households, most of them currently living below the poverty line.
1. Context and background

The described case forms part of the Accelerated Agribusiness and Agroindustry Development Initiative (www.3ADI.org). Inaugurated at the Abuja Conference on the Development of Agribusiness and Agro-industries in Africa in March 2010 by request of the Commission of the African Union, the 3ADI program targets the expansion of agribusiness and agro-industries with a view of increasing food security by upgrading agricultural (subsistence) activities and transforming them into attractive and sophisticated agribusiness operations. Affirming its emphasis on value addition in the agricultural sector, the Tanzanian government in 2010 has selected two value chains – cashew and red meat/leather – for development under the 3ADI.

A value chain analysis conducted in 2011 revealed that there is a substantial potential to extend production and increase the amount of cashew nuts processed in Tanzania beyond the current 20% while also making use of by-products. More than half a million Tanzanians could benefit from such development. Currently there are 700,000 farm households plus an undefined number of farm workers engaged in cashew nut production while only some 5000 to 8000 workers are employed in processing of cashewnuts.

While Tanzania's cashew nut sector, due to a combination of seasonality and price, is well positioned in the international market for raw cashewnuts its processing sector still remains underdeveloped and uncompetitive. Reasons for this can be found in a combination of factors including the lack of technical and managerial experience of most processors, the difficult business environment characterized by overregulation and inappropriate infrastructure, deteriorated machinery and equipment, limited access to appropriate financial products (for processing), costs for labour, services and inputs, as well as the lack of coordination between the various actors in the value chain. Advanced automated processing technology has been brought to the country in the 1980s but largely rests idle and deteriorates. Meanwhile new processing initiatives, many of them small-scale, favour half-automated labour-intensive technology solutions from India.

The diagnostics further revealed that the organization and governance of the value chain as well as the articulation of its stakeholders is still in its initial stages and much coordination would be required to establish viable supplier-processor-buyer relationships. Such relationships also bear the potential for creative funding solutions that go beyond the “all-purpose loan of 18-22% interest” that are currently available at the market. The Cashew Board of Tanzania may need to be strengthened in order to be able to play its role as a provider of market information, advisory services and regulation functions in a more pro-active way. The function of cooperatives and their unions in internal marketing may be revised emphasizing particularly the urgency to improved services provision to cooperative members.

Finally the diagnostic suggests that the Government and development agencies should engage in an integrated value chain development support program that would foster the development of and value addition in the cashew industry.

In response to this suggestion UNIDO, drawing from the OneUN Fund of Tanzania, engaged in a value chain development support program that foresees the development of the community-level processing function within the value chain.

2. Underlying business model

The project engaged in what became known as "the 8+2 model". The assumption is that due to reasons of scale, organization and capacity to comply with quality standards community processing units will not be able to reach the international markets to where the processed kernels are sold. Several

Following the idea of integrated value chain development the project foresees to support community processor to engage in the first phase of the process, the pre-processing of kernels, and then support the end-processors located in the same geographic region to finalize the processing and sell the kernels on the international market. The model is already carried out by one international cashew trading company present in Tanzania which outsources labour intensive pre-processing using Indian semi-automated technology to private companies that use a sweat shop like form of organization drawing from cheap labour. The challenge in the "8+2 model" thus was to combine the benefits of division of work with decent labour standards and fair payment. The project supported the setting up and operation of 8 processing units on the community level owned by farmers groups, women groups, and entrepreneur groups. The 8 units engage in the "dirty" processing steps of cashew transformation up to the level of un-peeled kernels (see flow chart below). The 8 pre-processing groups will also be able to gradually upgrade to market cashew products to local markets and maybe, one day, international markets.

The "clean" processing steps starting from peeling, sorting, grading and packaging are conducted by 2 larger end-processing companies which are linked to domestic and export markets and are also able to comply with food safety regulations. These two end-processors, one of them a private company and one of them an NGO, do already operate, package and sell kernels. They are, however, interested in outsourcing the rather labour and working capital intensive pre-processing of cashew nuts.
The choice of the groups has been based on the entrepreneurial spirit of the groups and the organizational level that the group has reached. While one of the 8 processing groups has 257 members the others start with a core of 10 to 20 people only. However, in the development of the project it is believed that each of the groups could give income and employment to around 100 workers. The project does not impose the building of legal entities such as cooperatives at this stage but leaves it to the time that businesses have been matured to let community members decide if they rather want to form a cooperative or a small enterprise.

The project activities mainly focused on supplying the 8 groups with equipment and train and coach them to be able to operate successfully on the basis of sustainable management and business plans. This includes both technical and management training provided by the Small Industries Development Organization (SIDO), a semiautonomous small industry development organization under the Ministry of Industry and Trade. The business plans have been developed by national finance and processing experts. The African Cashew Alliance (ACA) evaluated the separation of pre- and end-processing (the 8+2 model) using semi-automated Indian technology and considered it financially and technically viable. The integrated model using advanced industrial cashew processing technology from Italy or Japan is deemed financially non viable or only under certain conditions currently not in place in Tanzania. The end-processors also receive support from the project with regard to packaging facilities, training and management advice. Finally, the project facilitates fair contractual arrangements between the 8 processors and the two end-processors.
3. Evolution of the initiative

One constraint has been that according to the current legislation processing units have to buy raw cashew-nuts from the warehouse-receipt system and are not allowed to process the cashew nuts produced by the members of the community. To overcome the problem of working capital and be able to buy cashew nuts the project now engages in working out bankable projects that allow processors to receive funds from the Tanzanian Investment Bank’s preferential loan scheme and other sources of funding.

However, via the policy dialogue that the project has been initiating on the national and province level opportunities for processing community-owned raw cashew nuts may soon become available. Such opportunities are given for communities with own processing facilities in order to process their own cashew nuts.

4. Impact

The overall goal of the project was to build capacity of primary cashew producers and cashew processors to participate in value added within the cashew value chain. The main outcomes set by the project is a 20% increase in the export of processed cashew nuts and the improvement of incomes of existing processing and the generation of income and employment for 1000 rural poor (half of them women, half of them youth) via value addition operations in 10 rural enterprises. Indirectly there would be also another 5000 community members that are able to bring their cashew nuts to the processing units of the community and get a share in the value added through a higher price than provided by the warehouse receipt system.

The project was able during its 1st year of operation to complement appropriate technical equipment for the 8 community level cashewnut processing units, train 200 workers on good cashew processing practices, train 20 managers on administration and business planning, develop 8 business and management plans and link pre-processors with end-processors. The plans will now be tested for the first time in the 2013/14 season when processing operations will start. The project also contributed to an improved framework for cashew processing. Key results from the organisation of series of public-private policy dialogues at a provincial and national level were the opening up of the Government to support a better business environment and the willingness of banks to support community processors at the pre-processing stage.

5. What are the key implications for scaling inclusive business?

The project constitutes a pilot case for the community-level processing of cashew nuts which in this form is conducted in Tanzania only by one international company with few benefits to the rural poor. Proving the viability of the model that focuses on value addition on the community-level will have a large impact on poor communities where cashew nuts are produced. For such a scaling up of the project activities the following requirements exist:

- Resources are required to induce the professionalization of entrepreneurs and entrepreneurial community groups with regard to technical management of processing units and their administration. The idea here should not be to transform farmers into processing entrepreneurs but to find, form and support forward-looking and capable entrepreneurs. Raw cashew nuts are expensive and successful entrepreneurs will need to source raw cashew nuts from community members and to manage the enterprises effectively in both their operational and financial activities.
- Support is required for the development of concrete and bankable business plans of community enterprises. It needs to be assured that they will actually get the loans for the working capital.
- Processing enterprises will need support to set up good business relationships with the producer networks in their communities. Here punctual and fair payment of raw cashew nuts is important. Sustainable business relationships also need to be facilitated between processors and end-processors. This, at a later stage, can also be combined with support to packaging, marketing and branding to target local markets.
- In some cases entrepreneurial community groups that want to engage in pre-processing will not be able to raise the capital to buy the required equipment to process the nuts. Raising a credit may also not be an option due to a lack of collaterals as e.g. a processing building. In such situations, Government and development agencies may be able to complement the equipment to reach critical size and completion.
- The currently perverse incentives in the government legislation and the warehouse receipt system that favour direct export of raw cashew-nuts over processing them locally have to be adjusted. This must come with giving more flexibility to communities to use their nuts for own community processing units.