

AID-FOR-TRADE CASE STORY

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Strengthening the Competitiveness of Export Oriented Agro Value Chains Cashew Nut Value Chain in Mozambique

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Region: Africa

Country: Mozambique

Type: Technical cooperation (building productive capacity)

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Table of Contents

Executive Summary	2
1. Issues Addressed	2
2. Objectives Pursued	3
3. Design and Implementation	3
4. Success Factors	4
5. Results Achieved	4
6. Lessons Learned	5
7. Conclusion	5

Executive Summary

70 % of poor people live in rural areas and are dependent on agricultural products for their living. Hence, increasing the volume of agricultural exports can make an important contribution to poverty alleviation. With the aim to strengthen agricultural value chains, SECO supports producers to create added value through processing of high quality and speciality products by implementing eco- and social-friendly processes, quality standards and label certification and to enhance their market access through compliance with international norms and standards, marketing support, matchmaking and export/import promotion. Taking the example of the cashew value chain in Mozambique, this case story illustrates SECO's approach towards strengthening the competitiveness of export oriented agro value chains.

The overall goal of the cashew nut value chain project in Mozambique was to enhance employment and income, both for the primary producers of cashew nuts and by adding employment and income for workers in cashew nut processing factories. In 2002, Mozambique exported 50'000 tons of cashews in raw form only. This moment of zero domestic value addition was the reference point of SECO's cashew nut value chain project. Thanks to the introduction of a quality management system and improved management structures and processing methods, cashew nut production in Mozambique increased significantly and adapted to meet international demand. As a result, sales have been ensured and bank guarantees afforded on more favorable terms. In 2008, nine new processing businesses generated an operating profit of USD 1.3 million (compared to zero in 2002). 5,000 new jobs have been created and around one million households in rural regions have been able to increase their incomes by selling cashew nuts. With their higher wages, cashew nut farmers and factory workers stimulated the local economy.

The overarching conclusion is that export stakeholder initiative is crucial. While the existence of comprehensive poverty alleviation strategies is important, two additional conditions are necessary: (i) an explicit political will to make trade integration a driver of poverty alleviation, and (ii) the recognition that private sector stakeholders must take the lead in this endeavor. Interventions need to be shaped as a logical response, by assigning technical assistance tasks to implementers with a practical track record of interacting with such stakeholders directly.

1. Issues Addressed

According to the World Bank's *World Development Report 2008* (WDR 2008) on "Agriculture for Development", 70 % of poor people live in rural areas and are dependent on agricultural products for their living. For many developing countries, particularly in Africa, this means a strong dependency on commodity markets. Increasing the volume of agricultural exports is not only a huge opportunity, but also a crucial need.

Sub-Saharan African exporters still face difficulties in competing with its well-established global competitors. Producers and exporters continue to face three key constraints: substandard quality at production and processing levels, lack of required certifications, and insufficient and unreliable volumes to meet major buyers' orders and market demand.

To strengthen agricultural value chains SECO supports producers to

- a. create value-added through **processing** of high quality and speciality products by implementing eco- and social-friendly processes, quality standards and label certification,
- b. provide **market access** through compliance with international norms and standards, marketing support, matchmaking and export/import promotion.

Value addition by processing often causes prices per unit weight or volume to leap by 100% or more while the presence of local processing facilities tends to raise farm gate prices for

primary products due to enhanced competition in the producing areas. The emergence of (partly private and commercial) standards that focus on food safety, produce traceability as well as social and environmental compliance can successfully be introduced in developing countries. SECO has a solid track record in this area (see also Switzerland's Case story on *The Impacts of Certification for Sustainable Production*).

2. Objectives Pursued

On a general plane, the overall goal of the cashew nut value chain project in Mozambique was to enhance employment and income, both for the primary producers of cashew nuts and by adding employment and income for workers in cashew nut processing factories. The situation of cashew nuts in Mozambique was peculiar: the country was one of the leading cashew nut producers in 1974; exporting 240'000 tons of which only 30'000 tons were not processed. Production and export broke down by the end of the last century, because of civil war and inadequate policies, such as a ban on the export of non-processed cashew nuts, later replaced by a levy on the same commodity. In 2002, Mozambique exported 50'000 tons of cashews in raw form only. This moment of zero domestic value addition was the reference point of SECO's cashew nut value chain project.

Phase I: Phase I lasted three years, from 2005 to 2008, and was implemented by the American NGO Technoserve, with a budget of CHF 418'000. The key for achieving the overall goal was to improve the capacity to adopt, and to have certified quality, hygiene, worker safety, fair trade, and factory-related environmental standards with cashew processors, thus facilitating their exports and market access.

Phase II: Phase II was added, from 2008 to 2009 and with a supplemental budget of CHF 250'000, to consolidate the achievements, foremost to enable the participating cashew nut processing factories to get closer to certification, which was assumed to be critical for export market entry of processed cashew nuts. Technoserve continued to be the implementing agency.

3. Design and Implementation

Design: The design was integrative in the sense that the SECO AfT intervention in Mozambique also addressed issues pertaining to trade policy and regulation. This means that these aspects were part of the approach and that the cashew value chain promotion was not an isolated action. Together with the value chain enhancement of cashews for export, fruits and vegetables were also included.

The detailed design of the project with regards to cashew nuts was substantially driven by the exposure of Technoserve in this subject area since 1998 when it prepared a subsector analysis, followed by a cashew processing strategy in 2000. Thus, project design built on hands-on, practical insight that was relevant for the subject matter.

Key beneficiaries were nine cashew nut processing enterprises in the key cashew producing areas of the country (Nampula Province), with close to 5'000 factory workers being the direct beneficiaries, of which 50 percent were women. 5'500 farmer households, the primary cashew nut producers, were also targeted.

Project organization and governance: Technoserve implemented the project in its first and second phase and provided technical assistance to finally nine cashew processing companies, foremost by introducing quality assurance systems based on Hazard Analysis and Critical Control Points (HACCP). Technoserve helped building up the Association of Agribusiness Industries (AIA in Portuguese) with the peculiarity that it was not an association but a private

holding company formed by leading cashew nut processors, all of them Technoserve clients. AIA was and continues to be the primary marketer of kernels for its members, acts as quality control agent (HACCP, GLOBALGAP), provides training and technical assistance to its members and launched a new brand - Zambique – to communicate the superior quality of Mozambican cashew kernel.

4. Success Factors

- **High degree of relevance.** Relevance was robust because of the growing demand for quality cashew kernels in industrialized countries and transition economies, on the one hand, and the solid track record of a “cashew culture”, excellent environmental conditions and low labor cost in Mozambique on the other. By processing the raw cashew nuts in the country, and close to the production areas, the goal of employment and income generation in rural areas was a realistic and achievable. In Nampula Province, where 40 percent of the country’s cashew nut production is located and where human development indices are lower compared to the national averages, project intervention was particularly poverty relevant.
- **Private sector logic and dynamics.** The project provided a timely response to evolving needs of the market and the subsector, which counts one million small primary cashew producers. The project design relied on the initiative, and willingness to incur risks, of small and medium private entrepreneurs. The decision to opt for a holding, owned by the participating processing industries, providing services normally assumed by an association, helped to sharpen the senses for business opportunities and enhanced ownership.
- **Bringing factories to the field.** The project and its know-how, and with it Technoserve, went where the opportunities and shortcomings were identified, to the field and the participating enterprises. Each company dealt with the challenges in its own way, although the aim and contents were the same.
- **A solid technical and managerial know-how.** The numerous training modules, analyses and case studies published by Technoserve and other specialists confirm that the project implementing agency was able to pool many versed practitioners. This was the case not only in matters related to cashew nut processing, but for the entire methodology of value chain promotion across stages and boundaries. The fact that quantitative insight on project impact is at hand speaks for the professionalism of the executing agency.

5. Results Achieved

- While cashew exports in 2008 grew only to 66’000 tons in 2008, from 50’000 tons in 2002, the proportion of processed cashews jumped from zero to 36 percent. In 2008/09, 25 cashew processing factories were operating. The aggregate positive impact of the cashew nut processing industry in Mozambique from 2001 to 2008 was USD 11.5 million.
- In 2001-2004, i.e. before the project, the average farmer’s share relative to the international FOB raw cashew price was 32 percent. It rose to 42 percent in 2005-2008, due to increased demand stimulated by domestic cashew processing.
- In 2007/08, the 4’740 cashew factory workers earned an average of USD 343 per annum, up from only 407 workers in 2002/03 with an annual average paycheck of USD 213.
- Evidently, there were also losers. The Government of Mozambique was one of them, by losing export duty revenue levied when raw cashew nuts were exported. In 2007/08, this revenue loss was equivalent to USD 2.6 million. Some big traders were also crowded out,

in part by AIA. Some smaller firms went out of business, mainly because of funding bottlenecks, but never due to produce quality problems.

- Despite the fact that quality assurance standards were the entry door, none of the participating industries had been independently certified until the end of SECO's financial support to the project in 2009. AIA is prepared to step into the footsteps of Technoserve to introduce food safety certifications that increasingly become stringent conditions of export market access.

6. Lessons Learned

- **Technology and market insight must be first-hand.** The technology choices for cashew nut processing were appropriate as they were based on manual operations, with several advantages over mechanized processing: labor intensive, gender sensitive and allowing individualized quality control. The respective technology package was taken over from India. Thus, the inclusion of a project implementer such as Technoserve was instrumental because of their technology and market insight worldwide, and their ample basis of experts in many project relevant fields. This pool of expertise indeed allowed gaining significant insight into the workings of an AfT operation focusing on building supply capacities.
- **Private sector boldness tends to be rewarding.** The liberalization of the cashew industry in Mozambique in 2001 set a level ground for the main players and opened it for private sector actors. Endowed with the technology and quality control advice from Technoserve, they took the resolve to invest in small to medium scale processing plants. As the major remaining constraint was working capital it was important that lobbying work, including by Technoserve, contributed to the set-up of a working capital guarantee fund in 2000 already. The reliance on private sector stakeholders was particularly consistent with the whole approach of AfT.
- **Government commitment and determination is needed.** Successful AfT cannot substantiate without governments' participation. The intervention in the cashew value chain was complemented by a trade policy program that aimed at strengthening the Governments capacity to engage in WTO negotiations on agriculture.

7. Conclusion

Value chain-based interventions must build on export stakeholder initiative. In many domains of AfT, governments play a primordial role such as in trade policy, regulations and infrastructure. When strengthening the competitiveness of export value chains, the willingness to invest and to incur risk must come from individual and corporate actors, typically from the primary, secondary and tertiary sectors combined. Thus, such interventions differ, in their objectives and approach, from public sector investment and technical assistance projects. While the existence of comprehensive poverty alleviation strategies is important, two additional conditions are necessary:

- (i) an explicit political will to make trade and export promotion a driver of poverty alleviation, and
- (ii) the recognition that private sector stakeholders must take the lead.

This being clear, interventions need to be shaped as a logical response, by assigning technical assistance tasks to implementers with a practical track record of interacting with such stakeholders directly.

AfT does not stop at the border of the exporting country. In similar SECO projects, and the Mozambique cashew value chain value addition was no exception, the crucial signals, and often also technological and methodological inputs, come from the targeted markets. It is

there where the quality, food security and traceability requirements and standards must be identified correctly, and transferred to the pertinent producing and processing commodity cluster.

The successful approach used in the cashew-nut value chain in Mozambique has been replicated in other circumstances. Since 2005, SECO has been supporting the production and international marketing of specialist coffees from the Kilimanjaro region in Tanzania. Thanks to the introduction of an internationally accepted certification system, smallholder farmers have succeeded in producing coffee that satisfies the demands of the leading buyers. For instance, Starbucks increased its purchasing volume threefold in 2006.

Based on these positive experiences, SECO entered a strategic partnership with Techno-serve (TNS) and the Bill and Melinda Gates Foundation (BMGF) that aims to deepen the competitiveness of export oriented agro value chains for the benefits of farmers, processors as well as other stakeholders through well targeted complementary interventions. While BMGF will focus its support on the farmer level (extension services), SECO will focus on improved processing and market access. TNS is the primary implementing party providing the technical and business-building expertise required in all stages of the value chain.