

2+2=5?

Can Value Chains Trigger Pro-Poor Growth? The Cashew Sector in Mozambique as a Learning Example

An account of a workshop compiled
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This article presents the main insights gained from a workshop which aimed at drawing conclusions for more effective interventions in value chains based on experiences from the cashew sector in Mozambique.

2+2=5? This unusual equation refers to the idea that orchestration and co-ordination of interventions of agencies with different specialisation and roles can achieve more positive impact (= 5) than if the respective agencies implement the same interventions individually (= 4 only). On similar lines a 5 may be achieved within organisations if people with different competencies and specialisation work in a concerted way on common themes instead of people with the same specialisation working on issues within his/her specialisation.

The Employment and Income Division (E+I) of SDC organised a workshop in August 2003 to explore what the 2+2=5 idea may mean in practice. The assumption was that value chains could be a good example for this because usually many diverse actors intervene along particular value chains. The cashew sector in Mozambique was selected as a concrete case example for different reasons namely because rural development in Mozambique is of prime interest of SDC as part of its country programme, because SDC was co-funding research on the sector and the sector is also otherwise well documented, and because many diverse interventions to enhance the sector are underway.

The importance of value chain approaches

Value chain approaches (enfoque cadena, approche filière) are not new ideas in development cooperation. However, under the prevailing trends of regional integration, globalization and the overriding need to reduce poverty, the concept is being reinterpreted. The value chain discussion gained new actuality because it is thought that the approach can make important contributions to sustainable poverty reduction in rural areas if smallholders produce high value crops with good market potential. The impact on poverty is the greater, the more the producers can participate in post-harvest, value adding activities (storage, cleaning, grading, packing, registering, branding, transporting or processing, selling etc.). Value chain interventions require intensive interaction of stakeholders of different origin and legal form (producers, private sector, government NGOs). Successful participation in value chains implies for the smallholders skill development, organization (empowerment), quality awareness, access to market and to financial services and transport. Experience shows that economically successful value chains may generate negative collateral impacts on environment and food security. Value chain interventions need to take care that such risks are minimised or mitigated.

The renewed importance of value chains is illustrated by the fact that "enfoque cadena" has been put as first priority in rural development strategies in Latin America, and that major donors now focus on value chains (see for example the new strategy for rural development of the World Bank).

The cashew sector – a challenge for rural development in Mozambique

Mozambique has been one of the major cashew producing countries in the world. Production peaked in 1972 when 216'000 metric tons were marketed. After independence this production level could not be maintained. Smallholders in their majority own cashew tree, processing has been done in large government owned processing plants. After privatization promoted by World Bank these plants disappeared. Today Mozambique has become an exporter of raw nuts (kernels) to

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Workers in a new processing factory are de-shelling cashew nuts

India, where they are processed for further export to consumer markets. Current exports of Mozambique are estimated at 40'000 metric tons. The sector employs today 2000 persons directly in factories, compared to more than 10'000 at its peak.

The presented inputs by resource persons revealed key findings with respect to production, processing and commercialisation. For production these are that extension and communication services to producers are weak, the chemical treatment is complex and uneconomical, new varieties are costly, prices are variable, and market access is difficult, and that women although they are active in cashew production, are excluded from interventions. With respect to processing the key findings are that the closure of the processing factories has impoverished many ex-workers, particularly women. In functioning factories the workers' condi-

tions have deteriorated, and that women are loosing in the competition for the remaining jobs. However, the processing industry as a whole faces a range of problems which may become a threat, among them quality control, availability of quality raw nuts, low profit margins, high interest rates for financing of raw nuts, high turn-over of workers and others. Related to commercialisation the main findings are that, markets are controlled by a few large traders, and that prices to farmers are influenced by international prices,, quality of nuts, location of sale and proximity to ports etc.. Women are involved in home-processing and local marketing of nuts and by-products.

One resource person reported on a promising cooperation with a Mozambican entrepreneur, who is investing in small plants based on equipment, he partly developed on his own. The enterprise is a growing and profitable business, which produces processed nuts of internationally accepted quality standards and substantial impact on the local economy as an employer, buyer of raw nuts and indirectly because of increased purchasing power of many households.

Some preliminary conclusions are that liberalisation in the context of weak markets, infrastructure and institutions does not result in poverty reduction. Power, governance and policies are critical for poverty reduction and gender equality, and that local and regional markets have important roles in livelihoods. Priority implications are that, more investment in extension services and market information is required, wage and working condition standards need to be established, local value addition to fruits and nuts should be supported, local and regional markets should be as much in focus as global ones, efforts to revive sector should be more coordinated and need more donor support, good practice examples should be documented and disseminated.

An estimated 2 million inhabitants of Mozambique are growing cashew trees, at an average of 15 trees per family. Mainly smallholders grow cashew. 75-80% of the trees are grown in Nampula Province, the focus area for SDC's rural development program. Cashew grows on marginal soil, does not require high initial investments and is not very care intense. According to estimates the cash income of a smallholder from cashew is approximately 6-8 USD a year.

Results of the workshop discussions

Based on the information provided by the resource persons, the participants discussed constraints and potentials for the promotion of the cashew sector in topical groups (production, processing and commercialisation).

The production group concluded that based on the available information the impression prevailed that there are a great number of technical questions without answer (e.g. on practical pest and disease management and general tree management practices) and that the producers lack essential information (e.g. on the characteristics of different varieties, and on market prices). The group suggests to develop local small extension entrepreneurs, to explore how better prices could be achieved, look more at marketing of by-products, diversify cash crops beyond cashew, do R&D on the unsolved production issues, enhance access to information, explore potential of downscaling processing to the village level.

The group discussing processing insisted on the need for a conducive framework (tax regime, working conditions). The lack of adequate infrastructure was considered a major constraint for development of the cashew sector. Access to credit, in particular for working capital is important. Incentives for quality need to be found. Sub-sector strategy and co-ordination could be improved.

In marketing the group observed the lack of organisation of the small producers contrary to the traders, who seem to be a small group with close interpersonal relations. The group insists on the necessity of a multi-partner approach. The competition between nuts for export and for local processing hampers the local industry. The appropriate level of the export tax was thus questioned, and it was asked whether the revenue from the export tax could not be used to enhance the sub-sector. The group also thought that in the cashew sector in Mozambique apparently economy of scale is no issue for production and processing but it definitely is for marketing.



The subsequent plenary discussions permitted to highlight certain aspects:

- In spite of growing international competition (especially from Vietnam) and on-going changes in demand, prices and production in the global market, cashew has an important potential, and the government has all interest to support the sector. However, the links between the cashew economy in Mozambique and the global cashew economy are not understood well enough.
- It is true that Mozambique has become an exporter of raw material with little value added and a very low benefit for the producer. In this sense the sector has suffered the negative side of globalisation. More efforts to explore ways to keep a higher share of this margin in the country and in particular with poor producers are necessary.
- The potential of niches of fair trade and of certification, branding and packaging should not be underestimated. There are interested partners in Mozambique for participating in such ventures, although nice markets usually cannot benefit the masses of producers. In this respect the use of agrochemicals, particularly spraying, was questioned based on the Indian experience. It was emphasised that bio-trade would need a value chain of its own.
- An export tax for raw nuts is generally considered appropriate but the adequate level of the tax was discussed a lot. What level would bring balanced incentives for export of raw nuts and local processing? It was concluded that the effects of

this tax on different actors in the value chain needs to be understood better. The proceeds of the export tax should be used for funding improvements in the sub-sector, e.g. for extension services.

- Access to credit is very limited. Rural producers have hardly access, and for processors it is difficult to get enough working capital (stocking of raw nuts during the off-season). The large and well organised traders appear to have adequate access.
- While supporting a cashew value chain, the exploration of the regional markets (particularly South Africa) should be as important as the global markets. More attention should be given to markets for by-products.
- Contract farming may be a way to enhance and stabilise availability of quality nuts for the local processing plants.
- Is the value chain approach something fundamentally new? In the discussion there was a tendency to oppose it to livelihood and similar approaches. The conclusion is that livelihoods as well as value chains are a way to look at the situation of rural people and that both perspectives need to be considered. Complementary value chain, livelihood as well as regional development considerations have to be made whenever we intend to foster rural economic development. The value chain approach in this sense is an analytical instrument, which allows among other things to identify the most important constraints and potentials for accessing markets.

Lessons derived from the cashew case for value chains in general

- The importance of the multi-stakeholder approach: Farmers, their organisations, service providers, private sector and government have to be considered with their respective role in the value chain approach.
- For value chain development the private sector becomes all of a sudden a key strategic partner for development agencies. Therefore, they need to understand the functioning of the private sector and to overcome a traditional anti-private sector bias.



- The necessity to integrate social, cultural and political dynamics in value chain considerations is essential in order to avoid the temptation of reducing reality to a linear, mechanical scheme of thinking.
- The value chain approach implies certain risks: The focus on high value cash crops creates dependencies which can result in vulnerability and food insecurity.
- The issue is not to support a whole value chain, but to choose the most effective intervention points. To identify potentials and bottlenecks and propose the strategically correct intervention, implies a thorough knowledge and a familiarity with all the players. Further, in-depth knowledge of the household economy and the livelihood system and the role of different products in it is essential for choosing good intervention options.
- Access to information, be it technical or market information is probably the single most important drawback for a more profitable integration of small producers in a value chain.
- Alliances between different players in a chain including the consumers (e.g. between consumers in the North and producers in the South) have big potential of achieving the 5 (environmentally and socially sound rural economic development).
- To achieve rural economic development through value chains a conducive environment is necessary. This includes enforcement of regulations to ensure that the interests of less powerful players are taken care of.
- A real 5 is achieved when interventions result in a diversification of options for poor people.

- Role of development agencies in value chain development: Development agencies should avoid to get involved in roles which actually the private sector should take on, and roles which are necessary on a long term in the chain. Subsidies should be used carefully to avoid sabotaging local structures. Development agencies can have a role in making sure that the crucial things actually happen. Stakeholders can be supported in getting organised and in developing links to markets. Information and knowledge management within the chain may be supported.
- The application of value chain approaches does not mean, that foreign development agencies shall take a responsibility for a whole value chain. However, it is evident that an actor is necessary to facilitate and co-ordinate the interaction of all stakeholders around a value chain. Should a foreign development agency have a role to play in bringing the stakeholders together around a value chain? Or should it rather promote and strengthen local facilitators?
- The meaning of public-private development partnership with respect to value chain development needs to be clarified. How should foreign development agencies co-operate with the private sector? Are they competent enough, or should they not concentrate rather on government partners? Could a foreign development agency directly support risky ventures with high pro-poor development potential?



Peeling of dried kernels