

## Case Study

# GfE in Cashew value chain development

### How governance aspects influence production, processing and marketing.

*Can private sector benefit from improved governance in a value chain? This case shows that it certainly can, and moreover, that the strive for improved governance has concrete economic benefits in terms of increased income for poor people, in addition to changing the power relations in the chain.*

### Introduction

In the period 2001 to 2006 SNV Mozambique, in the Governance component, provided advisory services to Governmental and Civil Society organizations, focusing more on capacity building for improvement in the dialogue between the government and civil society aiming for joint participation in development. With the new 2007-2015 strategy, SNV approached Governance as an important and transversal issue, treating it as Governance for Empowerment (GfE). This started being developed at sectoral level, specifically in economic development and basic services.

The present case study is to enlighten and share this experience in the cashew value chain, in the Nampula province. More specifically in what manner GfE aspects influence power relations and economic benefits in the value chain. In this case, referring to 2007, in the Moginqual District, which is one of the largest cashew producing districts in the province and country, shows how SNV's contribution to effective application of the law (law for agro-livestock farming associations legalization) improving the positioning of the producers' associations in the cashew chain, access to financing, improvement in income and relationships as well as influencing other GfE principles.

### General Context

Nampula is the most important cashew province<sup>1</sup> in Mozambique. Until 1980 Mozambique accounted for at least forty percent of world production. However, by 2000 this share was reduced to five percent. The World Bank and IMF provided loans to build up the country after the peace accords (1992) but with seriously damaging results, due to the stringent privatization and liberalization procedures attached to loans. The privatization of the processing industries of cashew, liberalization of trade and drastic reduction of export tariffs proved disastrous for the cashew industry.

From 2000 this situation slowly started to change for the better. The government raised export tariffs on raw nuts to 22% to make processing attractive again. Programs were started to control mildew and to rejuvenate the cashew trees. In 2002 SNV did a feasibility study which demonstrated new opportunities for the poor cashew farmers and small entrepreneurs in Nampula.

### Context SNV program

SNV's program focused on increasing production levels of raw cashew nuts and on small scale processing. The project was financed by the Netherlands based Triodos/HIVOS fund. Two partners along with SNV took part in this project, ADPP<sup>2</sup>, for technical support and agricultural extension, and AMODER<sup>3</sup> for micro-financing. SNV's role was to give advice to these organizations and the micro-processing units and support them in developing the market.

The program would lead to improved incomes for the small farm households and retain revenue and profits in the local area. As a result ten new processing units (later reduced to 8) were established and the

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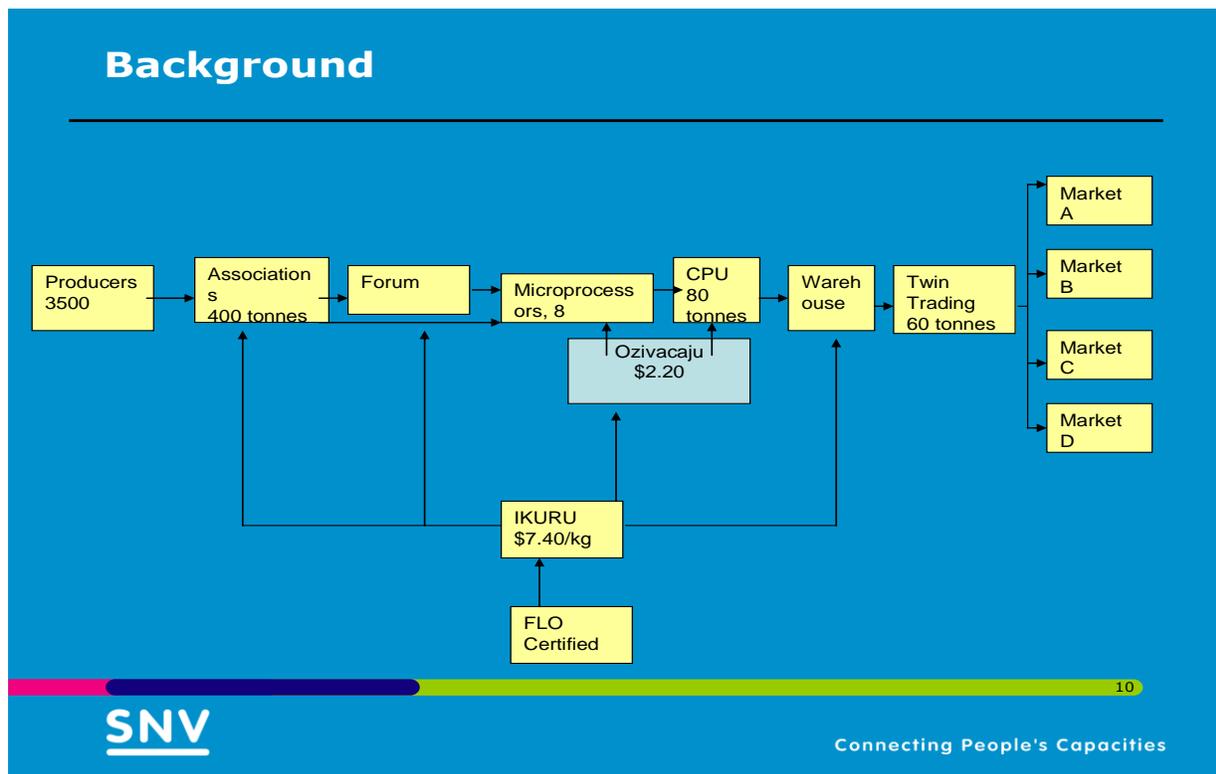
<sup>1</sup> Total population is about 3 million, two thirds in very poor rural areas. 80% of households gets income from cashew and to a lesser extent from sesame, cassava and groundnut. Average income per person is less than \$1 a day.

<sup>2</sup> ADPP is an NGO and a client of SNV working directly with cashew producers and small scale processors.

<sup>3</sup> AMODER is a Mozambican organisation for rural development through provision of small scale loans.

producers sold part of the produce to these units. These units then sold ungraded cashew kernels to medium/large scale processors for grading. However, difficulties regarding scale of businesses, relationships and cash flow meant the microprocessors needed to search for an alternative market. As a result in 2006 with the support of SNV, the microprocessors in conjunction with AMODER and ADPP formed a limited company, Ozivacaju. This company was a central processing unit for final grading for the micro-processors. The microprocessors have 49% shareholders and both AMODER and ADPP account for the remaining 51%.

SNV also brokered a contract between the processing units and a farmers' marketing board IKURU. This marketing board functions as intermediary between cashew processors and the domestic and international markets. IKURU has been fair trade certified since 2005, which means that it has access through SNV to the international Fair Trade market (a Fair Trade buyer, Twin Trading UK) that potentially pays prices that are twice the regular market prices.



However, this process had a number of difficulties for example:

- 1) Producers' associations need to be legalized and fully registered with FLO; as do processors.
- 2) Level of participation and voice for negotiation need to be assured at both producer and processor level.
- 3) Efficiency is highly affected because the quantity and quality of cashew nuts is poor resulting in high transaction and embedded costs.
- 4) Low confidence level between clients resulting in low transparency and poor communication.

Main problems that needed to be tackled include:

- farmers are not organized, tend to operate individually, decreasing their bargaining power, their negotiation skills are weak, and they lack knowledge of markets;
- government authorities and farmers lack knowledge of procedures to legalize and establish farmers' organizations; process therefore takes unnecessarily long;

- Weak, although improving, knowledge of procedures and capacity requirements for entering into the formal market;
- small middlemen pay low prices that do not motivate to make investments for improvement of production;
- small processing units lack capital for year-round operations, thereby limiting employment opportunities;
- low out-turn of small processing units due to low quality of raw material; consequently low remuneration for labour;
- Low capacity levels within microprocessors have meant reliance on outside support to find markets.

Fortunately, there also are a number of favourable circumstances in the environment, such as:

- Local marketing board IKURU is open to buy increased volumes of raw cashew from farmers' associations for processing for the fair trade market;
- IKURU provides raw cashew to the microprocessors on a contract basis; the microprocessors therefore do not have to take the risk in investing in raw cashew stocks with high interest rates;
- international fair trade market is open to buy cashew kernels which have been bought from registered farmers' associations;
- access to financing for investments and operating capital is available (district development funds, for example), often on the condition that farmers are organized in legalized associations;
- simplified legislation has been introduced to facilitate legalizing of associations;
- Existence of LCBs with diversified knowledge for capacity building of the participants in the cashew value chain (training on organization and legislation, business plan and management) such ORAM and OLIPA.

### **Goal of assignment**

To build capacity of the Moginqual district authorities in aspects of existing legislation on legalization and registration of new associations (Rule of law)

This action had that to be prioritized, as it had been identified by the associations as the key factor that refrain them from actively participating in the value chain. All other problems would gradually resolve after this, which was the identified bottleneck.

### **Main activities and time period**

- Capacity building and advise in the legislation process for the government authorities in the Moginqual District who have a role in legislation of the associations;
- Capacity building to communal authorities and producers' association leaders, through an LCB-ORAM on the requisites to have the associations legalised and registered;
- Capacity building to the agricultural extensionists of ADPP on farmers' associations, export marketing and value chain financing;
- Linkage of legalised associations with credit institutions for financing commercialisation and training of these in commercialization and credit management;
- Market information during commercialization process that helped associations in making decisions in terms of prices and markets and maximising producer's income;
- Advise in the payment of credits and justification to the members and suppliers.

### **Results**

So far the following results can be reported:

#### **Effectiveness & Efficiency**

- 10 associations have been legalized and accessed credit (\$40.000);
- For the first time, farmers' associations in the district (Moginqual) have actively participated in the marketing of their produce and influenced prices and conditions.

#### Processor Level

- Reduced transaction costs due to close proximity between microprocessors and associations that can supply an extra 100 tonnes of Fair Trade raw cashew, due to being legalised;
- Improved quality control systems have increased the ability to supply to niche markets;
- Increase in the number of processing months from 4 to 7 months as a result of greater availability of raw material and security in the market.

#### **Rule Of Law**

##### Producer Level

- Identification of the specific constraints in the legalization of associations: legislation was not enforced because it was (partially) unknown or misunderstood. SNV identified District government as the key actor to leverage change, since they were the responsible authorities. As a result SNV, developed a flexible training programme with a local capacity builder and adapted the training programme to train them.

##### Processor Level

- Establishment of Ozivacaju as a legal entity helped ensuring access to Financial Institutions and access to international markets.

##### Market level

- Legalisation of associations has resulted in Fair Trade certification of product, guaranteeing quality of product within the chain and access to fair trading markets (through Ikuru).

#### **Equity, inclusiveness and responsiveness**

##### Producer level

- With the producers' associations directly participating in the commercialization it was possible to reduce the number of intermediaries that paid lower prices to the producer and maximize their profit. This allowed a fairer share of the benefits among the participants of the chain (producers income increased from \$ 0,25/kg to \$0,5/kg as a result);
- The increased price influenced the producers in improving the handling of the cashew trees (pruning and spraying against the odium, fungus that attacks the production of cashew), which will reflect more and more in the family income (cashew nut is generally reaped/picked by women and children);
- The women's interest in participating in the producers' associations increased, considering that currently their participation is low (less than 30%).

##### Processor level

- 40% of the workforce are women and due to an increase in number of months worked because of increased quantities supplied by local legalised associations it resulted in increased income as well improved quality increased productivity. This resulted in overall improved income for the female workforce.



Women processing cashew in Moginqual District, Nampula

*Personal Views. One producer consulted on the change he can see after SNV's intervention, explained: "Considering that the processors' operating period has increased with the existence of more raw material, we are going to work for a longer period of time, and in doing so we will guarantee more resources to have our children in school".*

## **Accountability and Transparency**

### Producer Level

- Efficient management of credit: associations received pre-financing through IKURU to buy raw material. The associations were capacitated in the management of credit and closure of accounts with IKURU resulting in 100% success rate of payment and the associations benefiting from a higher price (from \$ 0,25/kg to \$0,5/kg);
- The association has also managed to develop the trust with the financial institutions.

### Processor Level

As a result of being legalised the associations were able to develop contracts, through their farmer marketing board IKURU, with Ozivacaju in order to guarantee improved accountability and transparency.

## **Participation and Voice**

### Producer Level

- Full legalization allows for easier participation and the association will participate in the definition of the rules of the cashew commercialisation game. Increasing competition and giving benefits to the producers;
- Through the associations they have an opportunity to participate in local cashew multi-stakeholder platform including local NGO's, government, producers, processors and traders.

### Processor Level

- The increase in quantity and quality has resulted in increased participation and knowledge of the value chain and development of a win: win relationship.

## **Impact**

These positive developments have introduced new dynamics in the cashew sector. Producers have become interested in improving cashew production and supplying more volumes to the small processing units. The fair trade market has raised the farmgate price for raw cashew nut with more than 100% (from US\$ 0.20 to US\$ 0.50 / kg). At producer level there are over 5,000 beneficiaries both directly and indirectly. At processor level there was increased amount of time of employment for 200 families, with a further 1200 benefiting indirectly.

### **Critical success moments** (role of GfE)

One of the main constraints was that farmers tend to operate as individuals. Being organized in a legalized association offers advantages such as improving their bargaining power. SNV engaged with the local government and through a shared vision process identified gaps for local economic development. As part of this process the legalization of associations was identified as a critical point for local development which the District government lacked capacity. As a result SNV advisors developed a flexible training programme together with a local capacity builder for the District government in the area of legalisation of associations and the application of law. (Rule of Law)

There is ongoing success with this programme as the District government can legalise associations outside of this specific value chain.

Another constraint identified was the inability to access funds. As a result of the legalisation the associations were able to link to pre-financing that IKURU gave for buying of raw cashew. The associations were trained in the credit management and debt repayment to IKURU which resulted in a 100% success rate of payment and the associations benefiting from a higher price. (GfE: Transparency and accountability).

### **Lessons learnt**

It is important not only to capacitate at government level for the application of the law but also to capacitate the associations for demanding the service from the government and for correct application of the law.

The creation of associations facilitated value chain financing and the creation of businesses in the rural areas. This resulted in lower transaction costs and higher cashew prices for all farmers due to an improved integrated value chain.

Multi stakeholder co-ordination, sharing of information, open participation by all parties, development of a common vision and objective, made sure that the farmers and processors were the owners of the process.

The sustainability of the impact from our intervention in the value chain is directly related with GfE as we have highlighted in this case study.

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