SATELLITES AND SUBSIDIES: LEARNING FROM EXPERIENCE IN CASHEW PROCESSING IN NORTHERN MOZAMBIQUE

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ABSTRACT

This article explores the lessons from an innovative government-private sector-NGO 'partnership' in cashew nut processing in Nampula province, Mozambique. The project was designed to expand rural employment by setting up cashew processing 'satellites' around existing factories, which would do the labour intensive part of primary processing and leave the grading and packing to the factory. This article examines the trajectory of the project and draws out key lessons for NGO interventions in support of small enterprises.

Firstly, NGOs seeking to enhance entrepreneurship have to understand the potential for collective efficiency which the enterprises have *in practice*, taking full account of the social and cultural context. In this case, an important component for the sustainability of the processing satellites has to be the building and maintenance of independent relationships and trust between the owners, otherwise the competitive pressures of globalisation can easily undermine collective efforts. Secondly, learning and flexibility is essential to successful business in a dynamic context where global markets change rapidly. Cashew markets have not been and are unlikely to be stable. Spotting when things are not working is important, in order to cut losses as early as possible and consider alternative products. Thirdly, although niche markets such as fair trade are important in themselves, supportive public policies for small and medium enterprises are critical if such businesses are to thrive. Alternatively, large companies will use their capital, economies of scale and bargaining power with government to negotiate terms which even medium sized processors will find it hard to compete with. Finally, government has to show a commitment to the development of small job-creating rural enterprises by clear and consistent policies in their favour – and one of the key issues in many contexts is the provision of low-interest credit.

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1. INTRODUCTION

Eduardo Mondlane University (UEM) in Mozambique in partnership with the International Institute for Environment and Development (IIED) carried out a two-year study on the cashew sector. The three main objectives were to: 1) explore the effects of liberalization and changing national and international policies on the production, processing, and marketing of cashew nuts, and discover what these changes mean for women and men; 2) identify opportunities to enhance the contribution of the cashew sector to poverty reduction and gender equality; and 3) inform policy makers at provincial, national, and international levels of the findings and recommendations from this study. The study was carried out in two major cashew-producing provinces: Nampula in the North and Gaza in the south. The results of the study are available elsewhere[1].

During research in Nampula, the study uncovered a promising, innovative project being implement by a consortium of three NGOs (SNV, ADPP and AMODER) working with the government cashew institute (Incaju) and private sector cashew processing small and medium sized factories. The project was designed to expand rural employment in Nampula province by setting up cashew processing 'satellites' around existing factories, which would do the labour intensive part of primary processing and leave the grading and packing to the factory. The overall aim was to contribute to poverty reduction. This article examines the trajectory of the project and draws out lessons for NGO interventions in support of small enterprises.

The article is divided into four sections. The first section describes the provincial context that has registered great increases in marketed production of raw cashew nuts and an expansion in small and medium-sized scale factories for primary processing of nuts, to extract the edible kernels. This section also looks at the international context to show linkages with an expanding global market, changes in kernel prices, increased demands for hygiene and quality standards and increased competition for shares of the market. Section two describes the objectives of the satellite project, how it was meant to work, and the main actors involved in implementing the project. The various problems that the project has had to confront and some of the measures taken are discussed. The section ends with the current status of the project. Section three analyses the underlying problems faced by the project at different stages by the different actors. Section four draws out key lessons from experience and suggests possible ways forward. However, the choices to be made at this juncture in the project are affected by contradictory pressures and different vested interests in a context where there are no clear and consistent policies in relation to small enterprises and subsidies. The concluding section draws out wider lessons which relate to NGOs, markets and public policy.

2. CASHEW NUTS IN NAMPULA PROVINCE : THE DYNAMIC CONTEXT

Nampula has always been the major cashew nut producing region in Mozambique. It has approximately 42% of the country's cashew trees and accounts for approximately 60 percent of national cashew nut production (Incaju, 2005). In the last two years, the registered marketed production of cashews increased by 50%, from approximately forty thousand tons in 2002/2003 to approximately sixty thousand tonnes in 2004/2005. This increase in local production is due, among other reasons, to favourable climate conditions; an increase in farmers' awareness about integrated cashew nut tree management (cleaning, pruning and chemical treatment); the recent change in national policy to provide smallholder farmers with free chemical treatment of cashew trees against powdery mildew disease; and growing international demand for raw cashew nuts (from Indian processors) and kernels. Additionally, loans both from the government and other institutions are available at lower than market interest rates for those who want to engage in cashew nut processing. As result, the local cashew nut processing industry is growing. Processing units have increased from one unit in 2002/2003, when our study was conducted (employing 92 workers and processing 600 tonnes) to 10 medium /large units (see Figure 1) with a workforce of 3,915

[1] See http://www.iied.org/NR/agbioliv/ag_liv_projects/t3proj01.html

and a processing capacity of over 17,000 tonnes of raw cashews per year. In 2004, local processors also created an association called *Agro Industriais Associados (AIA)* to jointly export and defend their interests on the international market. AIA has recently branded their cashew kernels under the trademark "ZAMBIQUE", which all ten processors use in exporting their kernels. The AIA has also helped to reduce individual transaction costs, as the association members share costs.

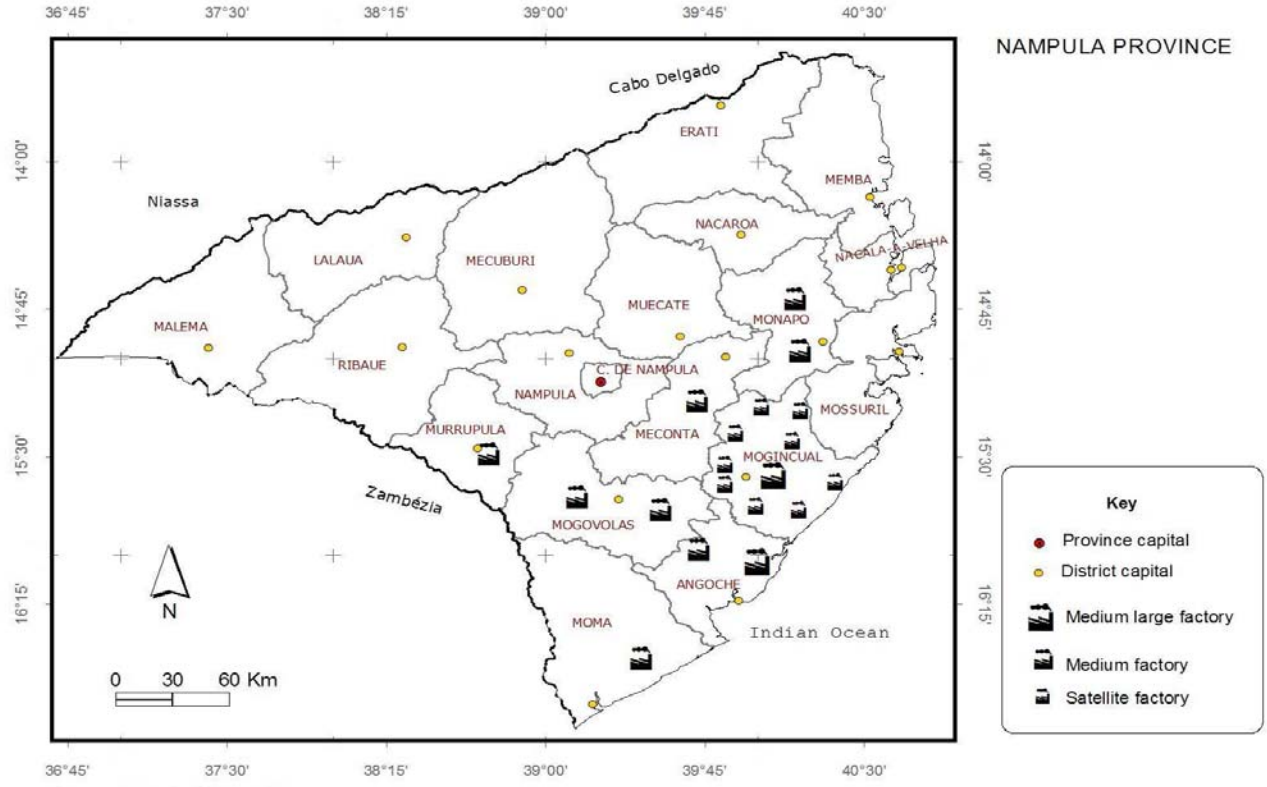

Figure 1: Factories in Nampula province (adapted from Dinageca, 1999)

Although there is a clear increase in local processing capacity, most of the cashew nuts produced in Nampula are sold raw in their shells, with India being the largest buyer. In its 2004/2005 agricultural campaign, the province exported approximately 75 percent (about 45,000 tonnes) of its marketed cashew nuts in raw form. This represents revenues of about USD6 million for the government in taxes — assuming an FOB average price of USD700 per tonne and a tax of 18 percent. The government uses the money from taxation as the guarantee for loans to processors and to subsidise activities to promote cashew nut production.

The international demand for cashew kernels[2] and higher competition among different buyers of raw nuts has increased the local price of raw nuts. Nominal prices offered to local producers have more than doubled since 2002/2003. In 2002/2003 the average price was MZM 5,300,00 (approximately USD 0.22) while in 2004/2005 it was MZM 10,000,00 (approximately USD 0.53)[3]. Although the competition and the increase in demand have benefited the farmers, they have not benefited the local processors as much. According to AIA, higher prices for raw materials combined with increased costs on transportation, storage, and expenses to improve factory capacities to respond to international demands for hygiene and quality standards have reduced profit margins for local processors from 18 percent two years ago to approximately 6 percent[4]. As a result, local processors feel that the 18% tax on the export of raw nuts is

[2] The world price of kernel has increased from $1.6 per pound in 2002 to about $2.5 per pound in 2004
[3] In 2003, USD 1= approx MT 24,000 and in 2005, USD 1=approx MT 19,000. The dollar was devalued against most international currencies in the interim period.
[4] Interviews with processors, 12 May 2005

not adequate and that processors should be further privileged in comparison to exporters of raw nuts. They argue that local processors employ people, pay taxes, and add value to the product and that this is the way to develop the sector.

Interestingly, there is only one firm, Global Trading, a Dutch company, which buys kernels from the local processors. Even though there are now more buyers accessible to AIA, the processors prefer to deal with a trusted company, which offers comparable prices to other buyers, but who believed in them and took risks with them, when they started out a few years ago. In addition, this buyer is the most flexible with regard to payments.

The government is eager to increase national cashew nut production and has experimented with different subsidies and incentives to achieve this. New improved varieties of cashew plants (seedlings) are being produced in government nurseries. At the time of the study (2002-2004), they were sold at a subsidised rate but they are now given to smallholder farmers at no cost. Larger-scale producers who want more than 50 plants can buy the saplings at a subsidised price of MZM 5,000 versus a real cost of MZM 12,000. Incaju in Nampula planned to produce 395,000 plants in 2005, more than doubling production in the previous year (101,713) (Incaju, 2005a:3). Similarly, whereas farmers were charged a subsidised rate for chemicals to treat cashew trees, it is now provided free by the government. In Nampula, the plan is to treat 1,600,000 cashew trees in 2005 (Incaju, 2005a:8), (400,000 more than in 2004) and carry out extension campaigns for disseminating information about improved cashew production. These measures are implemented by a variety of public, private and NGO actors, and include new methods such as farmer field schools.

The government has begun creating facilities that reduce the amount of time spent in getting approval to start a business. It has created "one-stop shops", one location where all the required documents to start an enterprise are submitted. Additionally, new financial institutions such GAPI and AMODER are working with the cashew sector, especially with the processors, offering loans both for investments and for working capital at lower than market rates. While there are attempts to create a favourable environment to enable new small and medium sized factories to open, getting approval for businesses is still a slow process and interest rates are still high for small enterprises. Incaju and SNV are currently lobbying the Minsitry of Finance over this issue.

The government is also preparing a second overall plan for the cashew sector, which emphasises strengthening local production and processing capacity. Discussions are under way about different ways of achieving its goals. However, some actors have been pushing for an end to subsidies in the sector, freer markets and an even more prominent role for the private sector (Rural Consult, 2003).

2.1 THE CASCA PROGRAMME AND THE SATELLITES

In 2002, three organizations ADPP/DAPP (Ajuda de Desenvolvimento de Povo para Povo – Development Aid from People to People), AMODER (Associação Moçambicana para o Desenvolvimento Rural – Mozambican Association for Rural Development) and SNV (Netherlands Development Organization) designed a programme called CASCA (Componente de Ajuda ao Sector de Caju – Support to the Cashew Sector). The project included the establishment of small-scale, decentralised cashew-processing units, which would encourage rural entrepreneurship and generate much-needed employment at the community level.

Cashew processing is a complex process, as Box 1 illustrates:

Box 1: Characteristics of cashew processing technology

Mechanized processing, using hot oil baths or drum roasting, followed by automated cutting or impact-shelling machines to separate shell from kernel, were favoured in the colonial period. They required expensive capital inputs and employed several hundred people. The labour intensive processes were peeling and grading and women were the majority of workers. More recently, smaller scale factories use the steaming and cutting method. Raw nuts are steamed, then cooled and cut with a hand and foot pedal-operated machine. Such semi-mechanised shelling increases the contact of the worker with CNSL. Workers are given oil to cover their hands which provides some protection. Gloves wear out quickly and in any case, are not favoured by workers paid on a piece rate basis, since they affect dexterity and slow down the work.

The processing steps in the newer factories are:
Steaming the raw nuts
Cooling
Cutting to separate shell from kernel
Drying the kernel
Peeling
Sorting the kernels (separating broken pieces)
Grading
Packing

The main idea was that individuals or groups would be supported to own and manage small-scale cashew processing units with a capacity of 20 to 50 tons of raw cashew per year. These small-scale units would work with the medium-sized processing factory, Miranda Caju, in Namige, Mongicual District. The small-scale units would do the labour-intensive part of primary processing — steaming the raw nuts in their shells, cutting the hard outer shell to extract the kernels, peeling the thin skin on the kernels and then separating whole and broken nuts. The kernels would then be transported to the factory (Miranda Caju) for grading, vacuum packing, and export. In this scenario, the small-scale units would become satellites of and dependent on the medium-sized factory. The owner of the factory agreed to be part of the project, as it would increase the volumes of cashew kernel for export and be in line with his 'socially responsible business' aims. It was hypothesized that the small-scale units would be able to buy raw cashew nuts from their local communities at lower prices than the factory which used intermediaries purchase the raw cashew.

To be able to manage the units, the individuals/groups would go through a training programme with two main components: 1) training in cashew production (also provided to farmers) and processing, which would be carried out by ADPP and 2) micro-finance provision and financial management to be carried by AMODER. Both organizations have extensive experience in training and micro-finance in Mozambique. SNV would play an advisory and facilitation role. After the training, the owners would receive loans with interest rates set at 2 percent per month for investments and 2.5 percent for purchase of raw material per month. Each unit would receive a loan of approximately US$12,000 in the first year followed by loans of about US$7500 for purchasing raw cashew in subsequent years. The 2.5 percent per month interest rate (30 percent per year) was lower than the commercial rate of approximately 40 percent per year. AMODER would control the funds, select the beneficiaries, help write funding proposals for each of them, and after their approval, provide the loans. AMODER would also be responsible for collecting the repayments and monitor the activities of credit beneficiaries.

The total cost of the programme was estimated at USD 342,296 for three years and included AMODER and ADPP costs to run the programme. The final output was expected to benefit 21 small enterprises; generate 168 jobs (eight per unit) and the units would buy about 500 tons of raw cashew nuts per year. It was anticipated that the entrepreneurs would make a minimum net profit of approximately USD 1000 per

year each and that wages for workers in the small units in the Namige area would total about USD 53,000 per year (about USD 30 per worker per month), with attendant spin-offs in the local economy.

In the process of designing the programme, SNV contacted the Dutch broker (belonging to Global Trading) to negotiate with the medium sized factory owner to buy his kernels and also discussed the satellites programme. This was done to ensure that the units had a guaranteed buyer for the kernels. A contract was agreed between the factory owner and the broker and at this time, the broker paid for the kernels when the product was shipped from Nacala port.

The programme was planned to start with three units, each with a capacity to process 24 tons of raw cashew, which were run by individuals who already had some entrepreneurial experience as well as experience in the buying and marketing of raw cashews. The project was submitted to HIVOS, a donor agency for funding and it was approved.

In the 2002-2003 cashew marketing season, the first three units started operation, two were owned by men and one by a woman. Each unit employed 10 to 12 people, including the factory manager and the owner. In the first season, the units did not procure the anticipated volume of raw cashew and did not produce the predefined amounts of kernels. This shortfall was due to start-up hurdles. First, the programme began at the end of the marketing period. Second, the cutting machinery and other equipment had to be imported from India and this took longer than anticipated.

The processed kernels were sent to the Miranda Caju, the medium-sized factory with which the satellite owners had written contracts. According to the contracts, the factory would pay the satellites MZM 70,000 (approximately USD 3.5) per kilo for whole kernels and MZM 50,000 (approximately USD 2.5) per kilo for broken kernel. Although the satellites were paid on time, AMODER did not recover the proposed proportion of the loans from the owners. AMODER had stipulated fixed rules for repayment: of the payments made from the factory, 75 percent should go to AMODER. This rule was relaxed in recognition of start-up problems and the owners were allowed to pay off whatever amount they could afford.

In the next 2003-2004 season, six more units started, one being managed by a woman. For these six units, AMODER returned to its lending policy of 75 percent loan payments to generate higher repayments. Again, equipment was imported from India and the initial investment cost for each unit was approximately USD 4,500. All units received loans to buy raw nuts but at this juncture further problems arose. Most of the satellite owners used part of the money allocated for buying raw materials on other purchases, such as bicycles and other household goods, which reduced the quantity of raw nuts they could purchase. In addition, Technoserve and the factory owner began to call attention to the fact that it was not possible to absorb the output of more satellites in the same area.

As discussed in the first section, an increase in the number of factories in Namige and the entrance of new raw cashew nut buyers (increase in buyers from India and from international companies such as OLAM), increased competition for cashew nuts and as such prices went up — as one entrepreneur put it *"in a place where you would compete with 10 buyers, there were now 27."* This affected both the factory in Namige and the satellites. However, the satellites had more problems buying raw cashew. Funds were released later than expected by AMODER (apparently through late release by the donor); prices were higher than initial projections and some of the satellites also bought considerable amounts of bad quality raw nut (small, some empty of kernel, green, etc), through lack of experience and since they were buying late in the season when the best nuts had been sold. These reasons combined affected the quantity and quality of the kernels produced by the satellites.

In the period between 2002 and 2004, Miranda Caju grew considerably. The owner increased the capacity of the factory in Namige to 1,500 tons and the number of workers to approximately 400. Additionally, he opened a second factory in another district of the province (Angoche) with a capacity of approximately 2,500 tons and an initial workforce of about 500 workers. Securing markets for both inputs and outputs and managing the increased human and financial resources put considerable pressure on the owner and left him with little time for the satellites programme.

In 2003/2004, the dollar fell in value and this caused considerable losses for the factory owners who were paid in dollars, but had to pay the satellites in meticais, the local currency. As one owner reported, he was losing 8 cents on the dollar paid to the satellites. The fall in the value of the dollar also affected the CASCA programme as a whole, because its budget was in dollars.

In 2004 due to increases in oil prices, local transporters increased their prices and Nacala Port, where the kernel is shipped for export, changed ownership and port charges were increased. All this meant a large increase in costs for processing factories.

Additionally, the broker stopped paying upfront and started delaying payments. Payments were made in intervals of between 45 and 90 days. As such, the factory was unable to pay the satellites immediately for their kernels and the satellites started running up debts to their workers and other input suppliers. Some workers stopped working while waiting for their wages. Some satellite owners, fearing adverse reactions from their workers, stayed in Nampula city until they secured the money owed and returned with funds to pay wages.

Internationally, the EU put greater emphasis on Hazard analysis for Control Critical Points (HACCP) - procedures to guarantee hygiene and safety in processing units. The factory implemented HACCP, which meant additional costs for the owner but also meant that kernels coming from satellites needed to guarantee the same hygiene and quality standards. For the project to be successful, it needed, not only to guarantee higher quality in the satellites (which is very difficult), but also that the satellites take their kernel to the central unit before any changes in moisture, colour, etc. take place. Improving the quality of cashew produced in the satellites was not easy, and in some cases, kernels had to be taken back to the satellites due to low quality standards.

The host of problems associated with the satellites made the owner of the factory stop buying the kernel from the satellites and as a result, most of the satellites had to stop producing. Three of the satellites had profound management crises and had to be taken over by AMODER. As a result, AMODER did not receive more than 50 percent repayment on its loans. At the time of this follow-up research in 2005, a buyer has to be found for a considerable stock of processed kernels produced by the satellites. One of the satellite owners had managed to sell his kernels to a factory approximately 400 km away, whose owner also belongs to AIA. Nevertheless, the owner of this second factory stated that he would not buy from the satellites in the next season.

The consortium of three NGOs had to look quickly for alternatives for the processed kernel— within national and regional (South Africa) markets. Contacts were made and small quantities were placed in local formal and informal outlets, while further searches were being carried out. During this period of crisis, a study on the future options of the satellites in the short-, medium- and long-term was commissioned. The study was carried out by Technoserve and it suggested three options: 1) terminating the programme until problems could be resolved; 2) turning the satellites into full factories to serve internal markets; or 3) factories that serve external export markets by using their own vacuum packing facility and marketing their product .

In May of 2005, the governor of Nampula province visited Namige and was told about the situation by the satellites owners. The governor then asked Miranda Caju to buy the remaining quantities. Miranda Caju lobbied AIA which agreed to provide a vacuum packing service for six months at very reasonable terms, but would not buy or market the cashew. The consortium is now looking for buyers for the processed and packed kernel. As an aside, the consortium is now considering the purchase of packing machinery for the satellites. Given that satellite owners have found the interest rates still very high, there are discussions within the consortium as to what level of subsidy in interest rates would allow the satellites to survive.

3. ANALYSING PROJECT EXPERIENCE

Intervention for rural development through entrepreneurship is a complex business, particularly dealing with export crops on a dynamic international market. A dictionary definition of an entrepreneur is a person who takes the commercial risk of starting up and running a business enterprise. Although the development of entrepreneurship in rural areas might help to reduce rural poverty, its success usually depends on the management of different expectations and conflicting interests. This complexity is exacerbated by structural, political, and socio-cultural aspects that affect profitability, flow of information, marketing dynamics and risk for the entrepreneur. This section examines the impact of a range of these factors on the satellites project in Nampula. We begin by discussing what entrepreneurship means locally, questions of ownership and management, the problems of achieving pre-defined goals through to the different roles and competing agendas of the various actors involved and finally the lack of clear and consistent policies in the sector.

3.1 THE LOCAL MEANING OF ENTREPRENEUR

Any intervention to promote entrepreneurship needs to look at what capacities are required to be an entrepreneur and what it means in the cultural and social context. Extensive work on rural extension (van der Ban & Hawkins, 1988; 1996; Whiteside, 1998) and rural sociology (Chambers, 1983; Long, 2001) have demonstrated that understanding the local context and local actors is crucial for any intervention to succeed. Economic behaviour is socially embedded and the economy is part of the social world, yet empirical studies of industrial organisation pay little attention to patterns of relations, "in part because relevant data are harder to find than those on technology and market structure but also because the dominant economic framework remains one of atomized actors" (Granovetter, 1985: 506; Swedberg and Granovetter, 2001).

For various reasons, including colonial experience, most people in Mozambique, especially in Nampula, have developed the view that being a business person means to have other people working for you for wages. As such, most owners are not in direct contact with their enterprises, but employ a manager who is responsible for its operation. This happens even in very small units employing fewer than ten people. Satellites owners seem to have shared this view - all of them employed managers (production leaders) and many stood apart from the production process. This had financial implications as well as implications for the quality of the project and learning from experience. The project designers took it for granted that the owners would be the managers. While training for production and processing usually involved the managers, financial management was centred on the owners, not on the managers. Additionally, low educational levels in rural communities affect the quality of work done by the managers. The outcome in most cases was that the managers were not well prepared to promote quantity and quality standards both for inputs and outputs, motivate workers and generally run the business well. As the 2005 Technoserve report states, the outturns from the satellites (ratios of kernel to raw nut) were below the minimum required for developing the kernel business and that the quality was also below standard.

3.2 PREVIOUS ENTREPRENEURSHIP EXPERIENCE OF THE SATELLITE OWNERS

One of the criteria for selecting the satellites owners was that the person had previous business experience. Most owners selected were involved in small businesses that did not deal with large sums of money. As such, they were not used to handling large amounts on money in communities where poverty is overwhelming, living standards are low, and social needs are urgent. Their previous small business tended to give them short-term returns for small investments, although for some of them the total returns from different activities did amount to more than USD 1,000/year. This figure represented the expected annual return on the cashew processing enterprise, but one incorrect assumption was that the owner would work for the business (lowering wage costs) and that loans would only be used to invest in the business.

Most small entrepreneurs involved in trading agricultural products in the province receive upfront payments from the big traders to buy products directly from the farmers and make a margin for their

work. The big traders assumes the costs of capital, transport, warehousing etc and employ economies of scale to make their profits. These small "middlemen" have an experience relatively free from risk, which is not the case when you "own" the business.

From the perspective of the NGOs involved, they could not be too demanding in their selection, as they would have been left without any candidates. In recognition of the weak capacity of the first three satellite owners, the second round of entrepreneur selection involved a 5-day process including some basic training in accounting and a written test, which resulted in the selection of seven people.

3.3 OWNERSHIP OF THE SATELLITES AND THE ROLE OF NGOS

According to the CASCA programme the selected entrepreneurs who would be supported by the three organizations would own the small scale processing units. However, they did not put any capital into the satellites and they did not really consider themselves owners. Calculations made by CASCA showed that the owners would only really become owners in the fifth year of operation when they should have paid for all the investments and loans (page 12). Before the fifth year, ownership is unclear and there is a danger that the owners see themselves simply as managers. This lack of clarity in ownership has implications on how an individual runs a business, how committed s/he can be and what short-, medium-, and long-term goals can be defined. Although SNV wanted to take a background position as advisor and facilitator, it is seen as the owner. When people talk about the satellites they refer them as *"unidades da SNV"* or "*SNV satelites*" This view has so expanded that one report produced locally uses this terminology (Technoserve, 2005: 12). As SNV is an NGO most people see their actions as representing some kind of aid to the people involved. This view may well distort the entrepreneurial spirit required for the satellites to be successful.

Additionally, there was an ambiguity in the programme design regarding ownership aspects. For example, although the programme recognises that full ownership is possible only from the fifth year, the programme was designed with a three-year time horizon, with a possible follow-on phase to be presented to donors. This explicitly assumes that if the programme was not renewed, the satellites would be have to organise their own financial and management support. Loans taken from financial institutions require collateral and the only strong collateral would be the satellite itself, but the entrepreneur would not yet have full ownership. Thus, if the programme stopped at the end of the third year, even without any of the problems described, the cost of credit and associated risks of failure would still be high.

Although the NGOs were aiming to promote entrepreneurship, the rules of the game did not correspond to commercial rules, endorsing the view of NGO ownership of, or at least responsibility for, the project. This is not to say that the NGOs involved did not attempt to remedy the situation – one owner was taken out of the programme and three others were not permitted to purchase raw cashew on their own. However, it points to the fact that NGOs operate with a different set of values and a different organizational culture from the commercial sector and that people are both aware of this and able to use this to their advantage. Literature which analyses the partnerships between businesses and NGOs points to the tensions between for-profit commercial organizational culture and a nonprofit charitable organizational culture and between business and social priorities (see for example, Billis, 1993 and Lewis, 1998). An example of social priorities and wider development aims relates to gender equality, where the NGOs made specific efforts to recruit women as entrepreneurs but had great difficulty doing so in the social and cultural context. Managing these tensions between different values, organizational cultures and priorities is one of the key challenges that NGOs face when they intervene to support entrepreneurial activity.

3.4 ACHIEVING PRE-DEFINED GOALS VERSUS THE LEARNING PROCESS

The programme had the ambitious goal of setting up 21 small-scale processing units in a three year period, with three units planned for the first year. This meant that in the following two years it would set up 18 satellites. This was a very ambitious plan, especially as it was started from scratch and included importing equipment and technology from India. The programme design was based on four main assumptions: (i) small units have fewer management problems; (ii) small units offer better quality output; (iii) small units

have fewer problems in acquiring raw material; and (iv) there is a committed buyer for the kernels. If just one of these assumptions was incorrect, then there would be serious problems for the entire programme.

Before the programme hit serious problems in its third year, nine units in total were running in Namige. It should have been possible to learn lessons from the first three units—management problems, problems acquiring raw materials, and repayments problems—and act upon these. With such a new experiment, the focus should have shifted to close monitoring and learning, particularly as there was some recognition of the weak capacity of the first three entrepreneurs.

3.5 COMPETING AGENDAS OF THE DIFFERENT ACTORS

The CASCA programme comprised different actors and institutions. Although the main idea was to create employment in rural areas and to create successful small enterprises which add value to raw cashew nuts, this was not the priority for all involved. For the farmers, producers, and local community the CASCA programme represented, at the initial stage, an opportunity for employment and more importantly, a secure market for their cashew nuts in a period when prices offered where very low. Many of the satellite "owners", however, have taken the CASCA programme as an opportunity for "rapid enrichment" or to fulfil their immediate personal and household needs. For SNV and its donors, the satellites provided a new idea to promote social justice and poverty reduction in a way that would become self-sustaining. For the three NGO implementers, different indirect objectives were also present. Although rural poverty reduction is their organisational objective, running the programme meant funding and salaries, revenue (for ADPP and AMODER) and an increase their areas of work and numbers of beneficiaries. As is the case so often, there were few incentives to admit problems and actively learn from them. In addition, the involvement of three NGOs requires coordination and leadership. For the government, the existence of the satellites represented the positive outcome of its effort to revitalise the cashew sector, in partnership with NGOs. The programme was also used to demonstrate the extended impact of government subsidies to processing factories. For the private, medium-sized processor (Miranda Cashew), it represented the potential for a greater turnover and higher profits as well as a reputational gain as a 'socially responsible business man'. However, the expansion of his business interests have changed his priorities for attention and action. While any such programme is likely to contain many covert and overt agendas, these competing agendas have to be explicitly acknowledged and tackled in as transparent a manner as possible.

3.6 AD HOC POLICIES IN THE CASHEW SECTOR

The cashew sector and its policies in Mozambique have been extensively discussed (Deloitte & Touche, 1997; ABT Associates, 1999, Mole, 2000, Hanlon, 2000, McMillan et al, 2002, Kanji et al, 2004). Most of those documents have urged the government to elaborate a clear, concise, and sustainable policy and strategy for the sector. Following the negative effects of liberalization on the processing sector and the lack of positive effects on producer prices towards the end of the 1990s, the government responded by producing a new overall strategy. Three Directors' Plans (1999) for production, processing, and marketing were produced, based on partnerships between communities, private sector, government and NGOs. However, their implementation has always been erratic. Producers might pay for new plants and for chemical treatment of trees against powdery mildew disease one year and the next might get it for free. Payments might be made in some regions and not in others, i.e. Cabo-Delgado province is paying for plants and for treatment while Nampula is not. This lack of consistency has created difficulties for extension activities in rural cashew nut production areas. Similarly, processors might get guarantees from the government to access bank loans in one region or year and have difficulty the next or in other regions. All this has confused and frustrated producers and processors, although it should be noted that they have very different and sometimes competing interests. The issue of who exactly should receive subsidies, how and why, should be made more explicit and a strategy should be pursued consistently to bring some stability and predictability for the different actors engaged in the sector.

4. LEARNING FROM EXPERIENCE: KEY CONCLUSIONS AND WIDER LESSONS

This paper has analysed the different factors which affected the success of the satellites. Apart from the problems arising from the conceptualisation and management of the programme itself, there are problems that came about because the context changed so quickly, including an increase in the number of factories involved, competition for raw materials, increases in oil prices and shipping costs, depreciation of the dollar, and changes in the level of quality standards. The running of the businesses became much more expensive and the need for quick responses from the actors involved was critical. The factory owners responded by making alliances—creation of the AIA by the medium-sized producers, securing markets for both raw and processed nuts, renegotiating interest rates and repayment periods, making improvements in efficiency and quality within the factories, and/or cutting internal costs. Those working with economies of scale were better placed to meet demands and make a profit.[5] Whereas the medium-sized factory owners have developed strong relationships through AIA, which have allowed them to maximise synergies and work together in a difficult environment, the satellites have insufficient contact with each other and are heavily dependent on the NGO consortium.

Most of the assumptions made regarding the satellites, such as small units have fewer management problems, have fewer problems in acquiring raw material and have a committed buyer for the kernels, turned out to be incorrect. As soon as these assumptions came into question, there should have been a review of the implications of these failings, so that the partners could reflect and adapt. In particular, the lack of entrepreneurial capacity and spirit should have been analysed and issues of "ownership" discussed more explicitly. We have only analysed the experience of Namige, but there may be lessons to be learnt from other initiatives within the CASCA programme. An example given by SNV of a more successful initiative is small-scale processing carried out by Forum Muhiu, a forum of farmer associations, which supplies a medium scale factory in Murrupula, another district in the same province. Although we lack details of this initiative, distinguishing features may include stronger access to raw cashew through farmers who are members of associations, and longer-term NGO training support in different aspects of management, including leadership. Understanding the keys to success of this project may yield useful lessons for the Namige satellites.

As we mentioned earlier, the consortium commissioned an assessment of the alternatives for the satellites. The study conducted by Technoserve suggested three options: 1) terminating the programme—finding buyers for the existing raw material to repay the loans and the consortium exit the initiative 2) focus on local markets—processing nuts for local consumption; and 3) focusing on external markets—satellites should produce higher quality kernel for sale to external markets.

In our view, the first option should be taken only as a last resort, since the NGO consortium has invested so much already and because this is an innovative programme which may take much longer to yield results and lessons for others. However, to proceed it needs to re-examine its initial objectives and assumptions carefully and redefine them. The first step should be to identify satellite owners who have shown honesty, commitment and business skills and concentrate on helping them to grow. The NGO consortium has abandoned the idea of creating further satellites and should concentrate efforts on supporting those which have shown promise, with specific inputs over a significant period which should be negotiated and agreed by all partners. It is also important for the satellite owners to share and build a network among themselves, sharing information and possibly sharing a packing machine if they cannot repair relationships with the medium-sized factories.

Experts in cashew production in Mozambique say the option to produce only for a local market is not really viable. The national demand for kernel is estimated to be approximately 20 tons per year.[6] If all the satellites were operating they would produce amounts far in excess of 20 tonnes per year. The nine satellites that operated last year processed approximately 160 tons of raw cashew and approximately 32 tons of kernel. When Miranda Caju stopped buying from the satellites, they had serious problems finding

[5] This is not to say that there have not been failures among the medium sized factories, as we have been alerted to the fact that at least one did close down. However, we have not carried out research into that process and outcome.
[6] Personal communication from Shakti Pal, May 2005.

alternative, internal markets. In the long run, internal markets might grow but this will require investment to build demand. Although increases in hygiene and quality standards in international markets constitute significant hurdles for the satellites (and small scale processors in general), recent contacts may yield a 'fair trade' route to Europe. SNV is in contact with CLUSA/IKURU, a marketing organisation specialising in agricultural products, which in turn is in contact with Twin Trading in the UK.

Wider lessons

The literature on small-scale enterprises points to high input, transaction and investment costs, caused partly by lack of bargaining power and lack of collateral. Small enterprises often come together as networks or form associations in order to deal with these constraints and promote "collective efficiency" (Porter, 1998; Schmitz, 1999). As an IIED briefing paper summarises (Macqueen, 2004), collective efficiencies are advantages based on "external economies" and joint action occasioned by clustering. External economies arise from joint investments which can be made in technology, staff training and procurement pathways while joint action arises from proactive cooperation between enterprises in pursuit of market access or advantage. The satellites model aims for this collective efficiency, with NGOs being vital facilitators in the process.

The satellites project offers at least three key lessons for NGOs involved in supporting small scale agro-processing enterprises.

Firstly, NGOs seeking to enhance entrepreneurship have to understand the potential for collective efficiency which the enterprises have *in practice*, taking full account of the social and cultural context. In this case, an important component for the sustainability of the satellites has to be the building and maintenance of independent relationships between the owners. Nadvi and Barrientos (2004) point out that the creation of trust – or social capital – is a vital ingredient in the building of joint action to overcome market constraints or access new markets, otherwise the competitive pressures of globalisation can easily undermine collective efforts. Trust, knowledge creation and learning are therefore vital components of collective efficiency and joint action in particular. Secondly, learning and flexibility is essential to successful business in a dynamic context where global markets change rapidly. Cashew markets have not been and are unlikely to be stable. Spotting when things are not working is also important, in order to cut losses as early as possible and then consider alternative products if possible. Thirdly, although niche markets such as fair trade are important in themselves, supportive public policies for small and medium enterprises are critical if such businesses are to thrive. Alternatively, large companies will use their capital, economies of scale and bargaining power with government to negotiate terms which even medium sized processors will find it hard to compete with. This is already happening in Nampula province with the arrival of a TNC, OLAM, which has recently set up a factory in a city near the port. The factory will process 5000-7500 tons of raw nuts and provide about 3000 jobs, almost all women, as they have followed the Indian cashew processing model. Government has to show a commitment to the development of small job-creating rural enterprises by clear and consistent policies in their favour – and one of the key issues in many contexts is the provision of low-interest credit.

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