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The diverging South : comparing the cashew sectors of Tanzania and Vietnam

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Citation

Kilama, B. B. (2013, March 7). *The diverging South : comparing the cashew sectors of Tanzania and Vietnam*. *African studies collection*. Retrieved from <https://hdl.handle.net/1887/20600>

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Issue Date: 2013-03-07

Conclusions

As part of the Tracking Development project and aiming to explain the divergence in development between African and South East Asian countries with similar points of departure, this study examined divergence in the cashew sector between Tanzania and Vietnam. It did so analytically, methodologically and empirically in an attempt to demonstrate why the cashew sector in Vietnam has higher yields than that in Tanzania. The contextual chapters (Chapters 2 and 3) showed the trends that led to divergence, while Chapter 4 provided evidence of divergence at the household level among cashew farmers.

Analytically, using the GVC framework and concentrating on the lower segments of the cashew value chain, and like Talbot (2009), this study found that the governance of the value chain differs within the chain and different actors play key roles at different points in the chain. Weak partnerships between actors lead to an unbalanced value chain (as in Tanzania), while strong partnerships lead to a balanced value chain (as in Vietnam). While opportunistic policies with frequent radical reversals were adopted in Tanzania, strategic policies were adopted in Vietnam that permitted a gradual progression in an environment that allows for trial and error and the presence of adaptive efficiency. The accounting system used in this study for the decomposition of yield and labour productivity allows for differentiation between the two countries using the categories of small-, medium- and large-scale farmers. The study provides an analytical framework that is informed by Hayami & Ruttan's (1985) induced technical and institutional innovation model that allows a comparison between and within the two countries using the farmers' characteristics, particularly the use of inputs (land, labour and technology) in determining production. Methodologically, rural-based fieldwork in the highest cashew-producing districts in two different regions meant that an explanation of the macro observations regarding the differences in economic and

development performance could be drawn. Lessons could be learnt from the best-performing cashew-producing areas.

The findings and lessons that explain the divergence in yield point to market coordination. In as much as the thesis has put forward field-based evidence from the household, most of the constraints facing farmers indicate that a macro approach is required, in particular in marketing and coordination. The role of the state, the set-up of the support system, access to credit and infrastructure are all factors that influence the variations observed as will be explained in the next section.

The role played by the state

Tanzania and Vietnam were two agrarian economies that adopted socialism but then experienced low economic performance. They both struggled to produce under socialism with all the major means of production being controlled by the state. Poverty remained high and, in some cases, even deepened. Chapter 2 showed that the incentive system under socialism failed to reward efforts made by producers. With increased production of traditional export crops, Tanzania concentrated on investing in manufacturing as a priority, at the expense of agriculture. Unfortunately, the country's focus on manufacturing was coupled with challenges regarding not only manpower but also the unpredictable supply of intermediate inputs and spare parts. In the case of cashew, in spite of assistance from the World Bank for processing, Tanzania never managed to operate at full capacity as the equipment installed was incompatible, expensive to run¹ and led to high cashew breakage rates. Tanzania therefore lost most of the advantages it had enjoyed in the production of traditional exports up to the mid-1970s due to losses made when processing was set up. In Vietnam, once the socialist North was reunited with the capitalist South in 1975, the northerners, who had assisted in liberating the South, adopted socialism as the way of running the economy. Industrialization was given priority and received support from Russia and China. In Vietnam, cashew was not one of the priority sectors.

Adopting market-oriented policies resulted in different performances regarding the productivity of labour and capital between Tanzania and Vietnam. Tanzania adopted donor-inspired liberal policies, saw a growth in imports, minimal growth in the production of agricultural commodities and very little improvement in rural poverty rates. Unfortunately, little was learnt from the experience in Tanzania. It was either a programme that worked or a short-term alternative was undertaken. This resulted in missed opportunities as most of the coordination problems observed were not new and had been recurring for the last three decades.

¹ High operational costs were due to unpredictable power supplies and inputs and bad management in general.

This method of operating suggests that inertia in Tanzania reflected the unwillingness of state actors to ensure that the right incentives for the provision of inputs and the market were put in place. Chapter 3 showed that medium-sized farmers in Tanzania have higher yields than large-scale farmers. In Vietnam however, small-scale farmers have higher yields, which implies that ensuring that appropriate technologies reach farmers improves productivity immensely as all farmers react to price incentives. Tanzanian political leaders have displayed little interest in seeing their citizens develop, an observation that is supported by the current stagnation of the country's economy. Its economy is systemically run with broad views but with little strategic implementation or thought for supporting or refuting views. This kind of environment allows for little if any learning by trial and error and could be the main explanation for the radical reversal of policies seen in Tanzania which has led to little improvement in the well-being of the people.² It is not surprising that, for instance, with the transition to a market-oriented economy, all cashew-processing factories that were set up in the mid-1970s using the wrong sort of technology were quickly privatized without providing incentives and support to investors to ensure that processing plants continued to flourish. It would seem that the government privatized plants to win the approval of the World Bank and other donors but did not systematically think about how the sector as the whole could grow, bearing in mind the history and experience of the Indians who had been involved in the sector since the early days of cashew trading in Tanzania in the 1940s. Although it cannot be denied that some progress was made during liberalization, it was only the large farmers who tended to benefit. The idea of leaving a lot to chance seems to occupy most leaders' minds and this needs to be rectified. Large-scale farmers³ are threatening the very existence of the Warehouse Receipt System (WRS) as they have organized themselves so that they can avoid paying the ever-increasing transaction costs associated with marketing. These farmers are crucial as they assist in reducing the average transactional costs incurred through the WRS. Their withdrawal from the WRS will not only warrant WRS failure to provide assured markets to small-scale farmers but would eventually lead to the collapse of the whole system. The anticipated collapse would mainly be due to the rising per unit costs of reaching scattered farmers in remote areas in addition to management costs. It is high time for the WRS to operate competitively and to allow all farmers to benefit from the system.

² For instance, the percentage share of agriculture in GDP has been falling without any improvement in well-being having been seen. This implies that growth is only benefiting a few people and not the farmers who are the backbone of the economy. Minerals and metals are becoming increasingly important to the country's GDP.

³ Those who harvest at least three tonnes per season.

In contrast, the home-grown market-oriented strategies adopted by Vietnam have seen growth in both the agricultural and industrial sectors. This has resulted in a tremendous drop in poverty rates, food sufficiency has been achieved and Vietnam has become a global exporter of crops such as rice, pepper, cashew and rubber. These developments show that 'it is adaptive efficiency which is key to long run growth' North (1998: 88). Adaptive efficiency allows room for trial and error. Vietnam has gradually abandoned socialism, taking small steps that have allowed the country first to privatize state-owned enterprises and make them into joint ventures, and to encourage local traders to utilize markets in China, Russia and later the US. This is supported by the rise observed in industry's contribution to GDP, which is a reflection of the on-going mechanization and upgrading that has been undertaken by the Vietnamese government since the mid-1980s.

Looking at the Tanzanian case, it is easy to point to the involvement of the state as an impediment to the expansion of the cashew sector, although the government in Vietnam is heavily involved in the sector too. For example, resettlement in Vietnam led to a boom in production while it disrupted production in Tanzania and interventions there led to low production levels. Radical reversals of policies left the producers in the margins. Interventions by the state in Vietnam provided incentives and ensured higher yields and output. Vietnam's industrial policy provided a favourable environment in which the private sector could operate by adapting to a new and sustainable environment.

Support system

Good farm maintenance is important in the production of cashew. In Tanzania, cashew required little investment in terms of labour and input before the 1980s. Neglect of cashew trees in the mid-1970s led to outbreaks of PMD and since then trees have been prone to the disease and this has led to the need for more inputs and labour to maintain farms. The dismantling of the support system during liberalization resulted in the government pulling out of trade and coordination, as was discussed in Chapters 3 and 5. And when the government later began to support the cashew sector again, its support was concentrated on a single player, namely the farmer, and little assistance was given to other players. This led to underperformance by the research institutions and processors. The government aims to process excess production, i.e. forward linkage.⁴ Viewing the economy as separate parts and hoping they would be compatible and make a whole has failed in Tanzania. Unsustainable spurts in production have been noted but without much general improvement in levels of productivity. Inappropriate technologies with an unreliable supply of raw materials and power have led to less efficiency

⁴ The growth of domestic raw cashew production leads to growth of the processing industry.

among the mechanized technologies used for shelling. The system remains unsustainable and has not allowed producers to experience major improvements in their well-being.

The entry point in the cashew sector for Vietnam was to enhance its domestic processing capacity, i.e. backward linkage,⁵ creating derived demand for farmers. Cashew was selected as a sector with good prospects and was seen as a possible way out of poverty. By coordinating agricultural research institutions, processors and poor, landless farmers from the North, the sector has flourished. Treating the economy as a strategic combination of parts that could form a whole has proved successful in Vietnam. The hands-and-legs shelling technology invented in Vietnam is very efficient too.

The interlocking markets between providers of farm inputs (the state) and cashew farmers in Tanzania artificially created dependency. Cashew farmers in Tanzania lack economic freedom, unlike their Vietnamese counterparts who uproot their trees following a bad season regardless of any sunk costs incurred. The cashew sector in Vietnam is a good example of adaptive efficiency through relational contracting between processors and farmers. The ability of farmers to switch to an alternative crop is a credible threat to processors as they need a reliable domestic supply of raw cashew to keep their production costs low, especially given the fact that they have incurred investment costs and thus face a potential hold-up problem. Farmers in Vietnam seem not to fall into the sunk cost fallacy. This healthy threat ensures that farmers are well paid and remain on board. A rational choice for Tanzania farmers is to abandon part of their farm or only tend them hastily in a period of bad prices, as was seen in the observed cobweb behaviour in Chapter 3.

Access to credit

Credit is important in maintaining cashew trees, as money is needed not only to buy inputs but also to hire labour and tools. Large-scale farmers in both countries perform better if they have sufficient funds to tend their farms. Instead of utilizing the WRS when farmers are pressed for cash in Tanzania, they resort to *kangomba* and forgo inputs while waiting for the start of the official buying season (see Chapter 4). Tanzania lacks a clear provider of credit and farmers depend on earnings from cashew as their sole supply of credit through the current residual payment system of the WRS. Investment in Tanzania depends on what is available from a farmer's cashew earnings at the end of the season after deducting farm and household costs. In Vietnam, producers have access to credit in different forms. With economic freedom, Vietnamese farmers can rely on earnings

⁵ The growth of the processing industry had led to growth in domestic raw cashew production.

from pepper and rubber. The government-initiated anti-poverty programmes and private banks also provide credit to farmers. The strategic anti-poverty programmes provide a fixed amount of credit for productive sectors, especially for the poorest farmers.

Infrastructure

The cases of Vietnam and Tanzania indicate that integrated market reforms and policies need to be inclusive in all sectors. The government has a role to play in the provision of non-price incentives, which can be seen as mainly structural support. The higher yield and increases in production are made possible by improved infrastructure that reduces the costs of linking downstream with upstream between sectors. Vietnam doubled its road network between 1998 and 2004, while Tanzania's increased by less than 10% in the same period. Access to electricity and water are also important. The Tanzanian government struggles to provide farmers with water, a complaint regularly raised by cashew farmers there. Given that farmers need to spray their trees to ensure output, the problem of seasonal availability of water needs prompt attention. Vietnamese farmers, on the other hand, have access to both electricity and water supplies.

It should be pointed out here that comparing Tanzania and Vietnam was a daunting task. Given that I am from Tanzania, the general views I voice about Tanzania were my own but those on Vietnam and its society were mainly gleaned from the six months I spent there and from reading about the country. The conclusions drawn should be taken with the disclaimer that this researcher was visiting Asia for the first time. Below are the lessons that have emerged from this study.

Lessons

This thesis has shown a contrast in how targeted industrial policy relates to reforms. Attempts at industrialization failed in Tanzania, which led to deindustrialization. Reforms did not allow Tanzania to add value but rather turned the country into a raw cashew exporter without improving the competitiveness of the sector. With reforms that resulted in deindustrialization of the sector, Tanzania lost control of its leading position.

As was shown in Chapter 3, the capacity installed was not only expensive and inappropriate but was also coupled with reforms that re-allocated people into *Ujamaa* villages and led to disruption and a reduction in the quantity of raw cashew produced. Reforms saw radical institutional changes and the compartmentalization of the sector with farmers being left in the margins. Tanzania's system of distribution continues to be inefficient. Farmers make rational choices

as to what to produce, how and when to produce and by how much. Insufficient demand aggravates the decisions made by farmers. In tough times, farmers abandon parts of their farms. Without an assured market, they hesitate to increase their output and utilize better improved inputs (both seeds and pesticides). There is not enough incentive to produce more or tend their farms better if there is any uncertainty in earnings. Farmers are completely left in the margins by the marketing systems. This is the single paramount problem that needs immediate attention. This requires assured markets and the increased use of inputs (improved seeds, fertilizers, pesticides and upgrading). Only half of the improved seeds developed ever reach the farmers, which makes adoption slower. Reforms have not led to increased derived demand for output as processing remains in its infancy and never took off competitively. This state was maintained for a while and the installed inappropriate capacity was hardly used. Foreign exchange earned from kernels has yet to hit the US\$30 m mark. The lack of processing capacity has seen Tanzania continue to be a net exporter of raw cashew, which significantly reduces the sector's competitiveness.

Vietnam, on the other hand, has strategically made both the peasantry and processors productive and competitive through the introduction of industrial new policies. The sector has thus flourished. To increase competitiveness, Vietnam developed value chain downwards with appropriate technologies. Starting with processing, the state-of-the-art hand and leg nut-splitter increased processing capacity. And the need to have a competitive local supplier of raw cashew meant that farmers were assured a good price for their cashew. This was possible due to existence of alternative crops, such as rubber and pepper, that farmers could turn to. According to the GSO and the FAO, the cashew sector has earned Vietnam at least US\$ 1 bn annually since 2008. When developing the downward value chain, the sector had to make sure it remained competitive by utilizing local supplies. The availability of improved seedlings and markets add to the strength of the sector.

Given the evidence from Vietnam, Tanzania needs to provide economic freedom to farmers to solve the sunk cost fallacy.⁶ Additionally, Tanzania will benefit from evaluating, experimenting and learning from different failures rather than adopting new initiatives all the time and repeatedly arranging marketing while farmers are left in the margins. The WRS would benefit from disentangling some parts of the system to allow more competition, for instance the buying of sacks and transportation. The introduction of the WRS as a solution to the marketing problem still leaves farmers marginalized. Efforts need to be directed towards the smooth co-existence of all actors with the producers (farmers and processors) at

⁶ Where farmers continue to invest in cashew even with falling rewards, as this is their primary source of revenue.

the centre of decision making. The balance of the value chain needs to be enhanced.

When the state operates as a catalyst and involves other stakeholders, vertical integration and economies of scale are encouraged (balanced value chain). Otherwise, a loss of value addition through other stakeholders can be tapped by the reorganization of the state to inclusively involve all stakeholders. Raw cashew exported elsewhere means a loss of revenue to the nation and in effect subsidizes other nations, given that a lot of investment is used to support the production of raw cashew.

Using contrastive economic history, this paired case of Tanzania and Vietnam has shown that market mechanisms need to be well supported by the state in order to function. Mimicking western institutions calls for consideration of both structures and processes. Vietnam has shown that markets strategically supported by the state perform better by providing adaptive efficiency.

In this thesis it has been argued that enabling government interventions in the market economy is crucial to ensuring institutions operate better and actors are rewarded for their efforts. Furthermore, it is argued that selective government interventions are neither good for producers nor the sector. Solving coordination problems should be the main aim of the state. These findings emphasize that the provision of public goods is essential to complement efficient allocation of resources by the market.

In summary, the divergence in performance of cashew farmers in Tanzania and Vietnam is the result of several factors. The Tanzanian farmer is often an afterthought, using Lipton's terminology 'benign neglect', in all decision making and has very little representation at major meetings. The situation was the same before independence, during liberalization and even now with the multi-tiered trading system: the farmer has always been in the margins and receives residual payments. Farmers in Tanzania are frequently caught up in the system set up by the state, unlike their Vietnamese counterparts who have the economic freedom to choose what they produce.

