Crisis Responses in the Cashew Industry: A Comparative Study of Tanzania and Vietnam

Blandina Kilama*
PhD fellow, Tracking Development
African Studies Centre, Leiden University
Wassenarweg 52, P.O. BOX 9555, 2300 RB Leiden, The Netherlands
Tel: +31 61 695 1453 Fax: +31 71 527 3344
bkilama@ascleiden.nl

Abstract
This paper explores the global financial crisis responses within the agriculture sector in Tanzania in the Sub Saharan Africa and Vietnam in South East Asia. Vietnam and Tanzania as many other export dependent economies were also affected by the economic crisis. A case study of cashew industry is adopted to understand the responses undertaken by both countries. This paper aims to look at the different macroeconomic variables and monetary policies responses that were adopted in Tanzania and Vietnam to arrest tightening of credit and decline in international trade.
Stimulus packages to assist the productive sectors were invoked. In Tanzania the raw cashew nut is traded through the warehouse receipt system. This system shields the farmer. The auctioned cashew includes other transactional costs pushing higher the prices of raw cashew for local processors. In the wake of the crisis, local processors were confronted with both higher prices for raw cashew and falling world prices, resulting to reduction or even halting of production. In Vietnam the government introduced a 4% reduction in interest rates on loans taken for productive purposes, to curb for the credit tightening occurring due to decline in international trade. Based on the cashew industry the stimulus package in Tanzania protected the farmers unlike the processors while in Vietnam both the farmers and the processors were shielded.

1. Introduction
This paper examines differentials in macroeconomic and monetary policy responses adopted in Tanzania and Vietnam to arrest tightening of credit and decline in international cashew trade. The global financial crisis that started in the US in 2007 as a housing crisis, then a financial crisis, ended up as an economic crisis that created ripples worldwide¹. This crisis drove the world economy mainly the industrialized countries into recession and developing countries faced serious uncertainties over its growth and development prospects².

* Paper to be presented at DIIS conference ‘Impacts, Responses, and Initial Lessons of the Financial Crises for Low Income Countries’ 14th -15th October, 2010 Copenhagen, Denmark.
¹ Crotty (2009)
² ibid
The impact of this economic crisis however, has not been the same across continents. Countries in Asia and Africa mainly involved in production of low end products of the value chain have been hit hard affecting many livelihoods and threatening to undo the benefits enjoyed over the years. In most of these countries the agrarian economy has been the driver for economic development. Demand for and prices of commodities fell and capital inflows declined.

In this paper, crisis responses within the agriculture sector, in particular cashew production of two countries, Tanzania in the Sub Saharan Africa and Vietnam in South East Asia are examined. Tanzania is largely still an agrarian economy that produces crops both for the local and export market. Similarly Vietnam’s economy although slightly advanced than Tanzania also relies on agriculture as the main stay of the economy. The economies of the two countries were socially oriented after independence. They both embraced free markets in mid 1980s. Vietnam and Tanzania as many other export dependent economies were also affected by the economic crisis. Stimulus packages to assist the productive sectors were invoked.

**Background**

“Many emerging markets lack the regulatory and legal infrastructure to support highly liberalized banking transactions, and they almost invariably lack the lender of last resort capacity to handle sudden shifts in depositor confidence. Trenchant observers, therefore, have long warned about the dangers of premature financial liberalization in such markets.”

Radelet *et al* (pg 18)

The quote from 1998 is applicable to the global financial crisis in 2010. In the past decade and half we observed Mexico and Argentine economies tumble, followed there after with phase of East Asian. Worries arose, fearing that the crisis would undo the gains from the East Asia miracle. Experts from different disciplines aired the reasons for the crisis and little was said in anticipation there would be another greater crisis (see the paragraph on causes). Neither Mexicans nor Thais would have believed that in less then twenty years a bigger economic and financial crisis would devastate the world and would be arising from similar circumstances like theirs. Not only would they (or as most people) be skeptical but would also find it difficult to relate the writings of boom and bursts cycles that affected national incomes.

---

3 Wade (2009)  
4 Radelet .S.; Sachs. J. D; Cooper . R.C.; Bosworth B.P., 1998  
5 From Keynes to Friedman, consumption depends on current income or expected income. Anything beyond means would put one in debt. The global financial crisis arose in particular due to financial institution that were set up and kept on convincing a number of individuals to consume (take up loans) beyond their means. Then obviously this greediness was unlikely to be sustained. This sort of explanation is what has been put forward by writers who predicted the boom and burst, where first the prices soared then collapsed (As was the case for prices of property in Thailand during the Asian crisis and mortgage prices in the USA). The resulting burst is which has led to the financial crisis coming from mis-pricing of risk, toxic debt or toxic waste, unstable global capitalism, insufficient regulations, among others (C.A.E. Goodhart, 2008; Blankenburg and Palma, 2009.)
Causes

The Cambridge Journal of Economics dedicated a special issue to the global financial crisis, with a number of contributors concerned with the causes of financial crisis. The structural causes of the current financial crisis are well documented by James Crotty (2009). Crotty looks at architecture and regulation processes in the financial sector. Morgan (2009) focuses on the malfunction of the central bank to detect these failures. Goodhart (2008) looks at the mis-pricing of risk and dangers in the over-expansion of the credit markets as background to the crisis. These causes do not differ much from those that were previously provided for the reasons that led to the Asian or Latin American crisis by Radelet et al (1998). Their study in particular showed that aggregate short-term debt exceeded foreign reserves by a substantial margin. This in turn led to credit panic and thus further deepening of the crisis in Asia. Further more, “partial reforms had led to increasingly fragile financial systems, characterized by growing short-term foreign debt, rapidly expanding bank credit, and inadequate regulation and supervision of financial institutions”. To sum it up, the cause of this crisis has been financial mismanagement arising due to burst of the housing mortgage or sudden shifts in financial flows or over stretching of the debt carrying capacities and as Palma (2009) would put it, “markets took their inevitable revenge”.

Consequences

The causes of the global financial crisis are mainly rooted in the financial sector but the repercussions unfortunately are not only limited to the financial sector alone. According to World Trade Organization (WTO) Global trade flows were set to shrink by 9% during 2009. We observe rising trade protectionism in hard hit economies leading to the rise of state capitalism, and doubts about what has been seen as the Western economic model of market based capitalism. Countries that depend much on exports are increasingly finding it difficult to trade with the west due to shrinkage in not only cheap credit but also demand of their goods and falling commodity prices (as shall be seen later).

Practically, Tanzania and Vietnam were affected as primary producer countries. With cashew as a relatively important crop for small holders, I would like to assess effects and responses to financial crisis by the cashew industry of the two countries. This paper will shy way from the causes of financial crisis and rather focus on the efforts undertaken by countries to curb the consequences of the financial crisis, in particular Tanzania and Vietnam. In particular the paper zooms on the cashew industry for both countries. A case study of cashew industry is adopted to understand the responses undertaken by both countries. Key informant interviews with processors were conducted during the crisis period in 2008/2009. But before going ahead and looking at the

---

7 The liberalized financial markets, “made banks less concerned about the quality of credit assessment and monitoring of the borrowers conditions during the course of the outstanding loans”. Pg 337. On the other hand, a prolonged under pricing of risks in particular interest rates which were low deepened the cause.
8 Radelet .S.; Sachs. J. D; Cooper . R.C .; Bosworth B.P., 1998
9 ibid
10 The world economy was expected to shrink by 1.3% in 2009, unemployment was expected to rise by at least 30 million people from 2007 to 2009 and three to five trillion US dollar worth of assets is estimated to be written down (Blankenburg and Palma, 2009, citing the IMF and ILO).
interventions undertaken to mitigate the crisis, here is the roadmap of the paper. This paper first starts by way of background with the operation of the world trade and then introduce the status of world cashew sector and where Tanzania and Vietnam fit in. Section B provides an overview of the impact of crisis on cashew production in Vietnam and Tanzania with a brief historical overview of the countries mainly along the lines in a comparative perspective, and the effect of the crisis on the cashew production in the two countries. Section C examines responses undertaken during the crisis in particular the support received during the financial crisis by productive sectors; including the cashew industry. The paper concludes with some recommendations.

2. An Overview Of The Impact Of The Financial Crisis

a) World Trade

The world has observed a sharp decline in trade, both exports and imports. By the third quarter of 2008, the world net exports tumbled. World merchandise trade on the second and third quarter of 2008 was 28% and 23% respectively higher than in the same period of 2007.

G1. Quarterly world merchandise trade (2006q1 to 2010q2)

![Graph showing quarterly world merchandise trade (2006q1 to 2010q2) with values and percentage change.]

Source: WTO, 2010

However, the world of merchandise trade observed reduction in trade by eleven percent on the 3rd quarter of 2008 and a reduction of 30% in the first half of 2009. Trade improved once again in the fourth quarter of 2009. Recovery in trade is currently observed, the value of world merchandise trade was around 25% higher in the first three months of 2010 than in the same period of 2009. Global exports rose by 27%, while imports rose slightly less, at 24%.
Exports tumbled initially in Europe and Northern America, see graph G2. Reaction in Asia was with a lag as can be seen from the trade figures from July to August, 2008. Asia merchandise trade on the second and third quarter of 2008 was around 20% higher than in the same period of 2007. By early 2009, exports from Asia were hardest hit. Asia merchandise trade observed reduction in trade by about 5% percent on the 3rd quarter of 2008 and a reduction of around 26% in the first half of 2009, trade improved once again in the fourth quarter of 2009 in comparison to year on year quarterly comparison. Recovery is observed from late 2009.

G2. Quarterly selected region merchandise trade (2006q1 to 2010q2)

This was expected, with tightening of cheaper credit due to rising interest rates, not only it became difficult to produce but also the demand was reduced. A fall in world demand for the processed goods hits Asian economies. Majority of the Asian countries, just like other developing countries are export led economies. They highly depend on the upgrading/processing goods and Europe and Northern America encompass their main markets. Same applies to raw materials producing countries; they were also hit due to fall in not only demand but also value of their produce. For example Tanzania saw the price of cotton fall from $0.82 to 0.42 per pound between March and July 2008 (see Appendix 1 for world commodity prices by Bank of Tanzania). Vietnam has witnessed her exports growing at only 2.4% during the crisis\textsuperscript{11}

b) World Cashew Trade

Cashew is an important cash crop traded worldwide that originated from Brazil. It was introduced in India and Africa in the 16\textsuperscript{th} century, by the Portuguese initially to protect

\textsuperscript{11} Nguyen Thi Canh (2009)
the soil from erosion\textsuperscript{12}. The global area under cashew cultivation has risen tremendously, from about half a million hectares to four million hectares from 1961 to 2008 respectively\textsuperscript{13}. A bigger area under cashew cultivation has been witnessed in West Africa\textsuperscript{14} followed by India, Brazil and Vietnam. Though India has about double the area under cashew compared to Vietnam, Vietnam has more production due to higher productivity of her cashew varieties.

During 1961, raw cashew was mainly produced in Mozambique, India, Tanzania and Brazil. At the time, the total production of cashew in the world amounted to about a quarter of million tons. Since then, production of cashew has expanded tremendously, with more countries joining in the production. By 2008 worldwide production was a quarter of million short reaching four million tons\textsuperscript{15}.

As can be seen in Graph G3\textsuperscript{16}, the cashew industry has experienced ups and downs in different regions shown by the changing dominance in raw cashew production from Africa to Asia while Brazil (and South America in general) maintaining more or less the same share of raw cashew production since early 1960s. Up to the end of 1970s, changes in production in Mozambique and Tanzania affected the total global production.

G3: Regional share of world cashew production (1961 to 2008)

![Graph G3](image-url)

Source: FAOSTAT | © FAO Statistics Division 2010

The current leaders in raw cashew production include Vietnam, India, Nigeria, and Côte d'Ivoire. Each of these countries produces at least a quarter million ton. In 2008, Vietnam alone produced more than a million tons of raw cashew, about four times of

\textsuperscript{12} Azam-Ali S.H.; E.C. Judge (2001)
\textsuperscript{13} FAOSTAT
\textsuperscript{14} Ivory Coast with about 660,000 hectares and Nigeria with 330,000 hectares
\textsuperscript{15} According to FAO, the world production of raw cashew has increase from 286,535 tons in 1961 to 3,720,306 tons in 2008.
\textsuperscript{16} See appendix 2 for trend in regional cashew production
world total production of 1961. India and Nigeria now boasts to produce more than twice of what was produced in the world in the early 1960s. Tanzania, Mozambique and Brazil though have been overtaken by new countries; still make the list of the top ten producers of raw cashew in the world.

Value addition to cashew yield more revenue; India and Vietnam are the leading revenue earners from processed cashew, kernels. A kilo of cashew when processed gives about a quarter a kilo of kernels\(^\text{17}\). In April 2010, raw cashew fetched an FOB price ranging from 750 to 900 USD per ton while kernels fetched an FOB price of 6724 USD per ton for W240; 6283 USD per ton for W320 and 5842 USD per ton for W450\(^\text{18}\). Cashew price changes all the time depending on the world wide demand. Vietnam and India have big processing capacities that can not be sufficed by domestic production of raw cashew thus depend significantly on importation.

The markets for kernels are the Netherlands, USA and China. India also boosts of consuming half of its processed cashew. USA and Western Europe in particular the Netherlands in well known for roasting and flavoring cashew and auction for distribution to other wholesalers and retailers of the world\(^\text{19}\).

G4: Average FOB prices ($/lb) of kernel grade W-320 (2007/08 vs. 2008/09)

![Graph showing FOB prices of kernel grade W-320](image)

Source: www.CashewInfo.com (Cashew week June01-06, 2009 Volume 10, Issue 23 page7)

The price of cashew is determined by the final consumer and all actors in the chain are paid accordingly to the value at the particular node they are in. For cashew in particular

\(^{17}\) Kernels are graded as wholes or broken. The whole is further divided into Whites Wholes (W-xxx), Scorched Wholes (SW-xxx) and Dessert Wholes. The broken pieces are classified as White pieces () Scorched pieces and Dessert Pieces and can be grouped as spits/butts. The whole whites fetch the highest prices


\(^{19}\) Actors of the cashew value chain can be grouped into farmers, processors, and flavoring agents. Farmers are very important and are found at the beginning of the chain, as one moves into processing where there is value creation standards are enforced creating barriers to entry and as ones moves higher up the value chain into flavoring more quality and standard checks are being enforced. Thus for one to move up the higher value chain not only investment in terms of money and capital is required but rather adherence to the global standards and safety become more crucial. This explains the current demarcation of cashew production, where you have raw nuts producers, mainly Africa and Asia, Processors, mainly Asia Vietnam and India in particular and in flavoring you mainly has Western countries mainly (Netherlands and USA). For further readings on global value chain see Gereffi (1994), Kaplinsky and Morris (2001); history of trade see Gibbon and Ponte ( 2005); On standards see Gibbon, Ponte and Lazaro (2010)
its price is determined at the international market. As seen earlier with the global financial crisis hitting initially the developed worlds, the price for most exports not limited to cashew fell during the crisis. The price per pound of W320 kernels decreased from $3.35 in 2008 to $2.63 in 2009 for the similar weeks from July 18th to August 8th. Graph (G4) shows the trend of price per pound of kernel grade W320 from April 2007 to June 2009. Prices of kernel started falling in mid August 2008 reaching about $2 and stay below $2.5 up to June 2009. This trend is also seen with other grades of kernels (table 1). By end of November, 2008 the price of different grades of cashew kernels sunk and worsened until February, 2009 where the price started to rise again.

### Table 1 FOB Prices of cashew nut in USD/lb (Cochin/Tuticorin)

<table>
<thead>
<tr>
<th>Cashew Grade</th>
<th>2008</th>
<th></th>
<th>2009</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>W-240</td>
<td>3.45-3.60</td>
<td>3.40-3.45</td>
<td>2.70-2.75</td>
<td>2.50-2.75</td>
</tr>
<tr>
<td>W-320</td>
<td>3.30-3.40</td>
<td>3.2</td>
<td>2.15-2.25</td>
<td>2.00-2.20</td>
</tr>
<tr>
<td>W-450</td>
<td>3.10-3.20</td>
<td>3</td>
<td>2</td>
<td>1.90-2.00</td>
</tr>
<tr>
<td>LP</td>
<td>1.95</td>
<td>2</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>WB</td>
<td>2.45</td>
<td>2.35-2.40</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>SW320</td>
<td>3.10-3.15</td>
<td>3.05</td>
<td>2.05</td>
<td>1.90-2.00</td>
</tr>
<tr>
<td>SW360</td>
<td>3.00-3.05</td>
<td>2.9</td>
<td>1.95</td>
<td>1.80-1.90</td>
</tr>
<tr>
<td>SSW</td>
<td>2.90-3.00</td>
<td>2.55</td>
<td>1.9</td>
<td>1.70-1.85</td>
</tr>
<tr>
<td>WS</td>
<td>2.45</td>
<td>2.45-2.50</td>
<td>1.5</td>
<td>1.75-1.80</td>
</tr>
</tbody>
</table>

Note: W = Whole White, SW = Scorched Wholes, SSW = Scorched Wholes Seconds, SS = Scorched Splits, SB = Scorched Butts, SP = Scorched Pieces, LP = Large Pieces

Source: Cashew Week various issues

The downward trends in prices and demand have repercussion in export led economies. Jobs are lost, businesses work below capacity or some eventually close.

c) A historical overview of Tanzania and Vietnam: Cashew Comparative perspective:

Tanzania and Vietnam were socially oriented countries and liberalized their economies in the mid 1980s. Tanzania liberalized through the adoption of Structural Adjustment Programs and Vietnam through doi moi renovation policies. Tanzania has a population of about 43 million and Vietnam 86 million. Tanzania has almost 950 thousands square kilometer of land and Vietnam has about one third of that with 330 thousands square kilometer. Tanzania and Vietnam have a population density of 39 and 260 per square kilometer.

**Cashew in Tanzania**

Cashew is one of the traditional export crops traded in Tanzania long before it acquired independence in 1961. Trend wise production of cashew in Tanzania has been irregular, with two notable peaks, one in mid 1970s and early 2000s (see G5). Production reached 145,000 tons in 1973 and 164,000 tons in 1998 according to Food and Organization (FAO) and Bank of Tanzania (BOT) respectively. The cashew industry was in its lowest peak in the 1980s. The value of exported raw cashew has been higher.


21. Year 2010, projected population figures by the National Bureau of Statistics from 2002 census


23. Others include coffee, cotton, sisal, tea and tobacco.
increasing over the years not necessarily peaking with production. For instance in 1973, volume of raw cashewnut production given by BOT [see G5] was 110,000 tons valued at USD 20 million; yet production level of 160,000 tons in 1998 was valued at more than 100 million. Production levels and prices have since declined to 65,000 tons in 2006 valued at USD 40 million. The Cashewnut Board of Tanzania (CBT)\(^\text{24}\) oversees the development of the crop.

**G5. Cashew Production in Tanzania 1961 to 2006**

![Cashew Production in Tanzania (1961-2006)](chart)

Source: Bank of Tanzania, Cashewnut Board of Tanzania and FAOSTAT | © FAO Statistics Division 2010

Cashew is a small holder crop, mainly cultivated in the coastal regions of Mtwara and Lindi in South Eastern Tanzania. The two regions account for 80% of total production\(^\text{25}\). Since 2007/2008 season, cashew is traded in the market through the warehouse receipt system\(^\text{26}\). There is low processing capacity in Tanzania; cashew is exported in its raw form to mainly India.

**Cashew in Vietnam**

Cashew gained prominence as an export crops\(^\text{27}\) in Vietnam in late 1980s. Production has been on the upward trend since 1990 and by 2000, where more than 200,000 tons of raw cashew and more than 60,000 tons of kernels were produced. Since 2005, annual

---

\(^{24}\) A corporate body formed under Act 21 of 1984 (as amended in 1993) with its head quarters in Mtwara region.

\(^{25}\) Coast region contributes about 10%. Tanga, Dar es Salaam and Ruvuma also contribute the rest; Cashewnut Board of Tanzania (2010): Cashewnut Production by district 1998 - 2008.

\(^{26}\) The Warehouse Receipts Act No 10 of 2005, Tanzania Cashewnut Marketing Board Act No. 21 of 1984, Cashewnut Industry Act No. 18 of 2009 and the Cooperative Societies Act No. 20 of 2003; in this system, cashew producers deposit their cashew in approved warehouse and they receive payments once their goods are auctioned. To curb for the delays of payments, an agreement between depositors and financial institutions has been set with guarantee from the government, where depositor receive a percentage of an indicative price via an overdraft and once the produce are sold the buyer clears with the bank and the depositor receives the remaining percentage of the price from sold cashew. For this case the depositor is a farmer and the buyers are mainly processors and exporters. The Cashewnut Board of Tanzania oversees the quality of cashew from the farmers, warehouse and to the buyers.

\(^{27}\) Others include rice, coffee, rubber and pepper
productions of raw cashewnut has stabilized at around 340,000 tons and while volume of kernel production increased from 115,000 tons to 180,000 tons from 2005 to 2009 respectively (see G6). The value of exported cashew\textsuperscript{28} has also been increasing over the years outperforming production. This is due to the fact that kernels have higher value than raw cashewnut. In 1990, the initial year of data availability\textsuperscript{29}, earnings was recorded around 14 million USD, despite producing less than 30,000 tons of raw cashew. By the year 1999 the value of cashew rose more than ten times to 164 million USD as production tripled. And for the year 2007 to 2009, the earnings went from 650 million USD to almost a billion USD, dropping to 850 million USD in 2009. In 2008, there were 420,000 hectares\textsuperscript{30} under cashew cultivation, with an average productivity of about a ton per hectare and leading to a turnover of $920 million as shown in Graph G6. Vietnam Cashew Association (VINACAS)\textsuperscript{31} established in 1990, plays a coordinating role for all cashew stakeholders.

### G6: Vietnam cashew production (raw and kernels) for selected years

![Graph showing cashew production and value over years](image)

Source: General Statics office of Vietnam GSO; Vietnam Cashew Association (VINACAS)

Though cashew nearly became a 1 billion business in 2008, it is still a smallholder crop in Vietnam, cultivated mainly in Binh Phuoc and Dong Nai in the Southeastern and Daklak from Central Highlands. These three provinces account for more than 60% of area under cashew cultivation\textsuperscript{32}. Cashew is traded in the market through both small and big traders in Vietnam. Farmers sell their cashew to traders\textsuperscript{33}.

\textsuperscript{28} both raw and kernel till 1996
\textsuperscript{29} official data is only available after the formation of VINACAS.
\textsuperscript{30} see Appendix 3 for trend in harvest area.
\textsuperscript{31} A socio-professional organization which assists its members to improve the effectiveness of production and export of cashew nuts formed under Decision 346 NN-TCCB/QD dated November 29, 1990. VINACAS headquarter is in Ho Chi Minh City.
\textsuperscript{32} VINACAS (2009); Binh Phuoc has 40% of the total area under cashew.
\textsuperscript{33} In 2009, a golden cashew festival was held in Binh Phuoc province to show case the success of the cashew industry.
In early 1990s China was the main importer of kernels from Vietnam. In 1996 due to expansion of processing within Vietnam, a ban on exportation of cashew was introduced and Vietnam needed extra raw cashew to cater for her increasing need from the processors. The shortage of raw cashew was and is still covered by imports from Ivory Coast, Nigeria, Indonesia and Ghana. Since 2006, Vietnam has become the leading kernels exporter and the second raw cashew producer in the world after India. Currently, Vietnam has more than 300 processors of cashew. Its main markets for kernels now are China, USA and the Netherlands.

Comparatively before 2000, the production of raw cashew between Tanzania and Vietnam were close, and the difference has been expanding ever since (see G7). Despite Tanzania early entry into cashew production seasonal yields in Tanzania has dropped to about 70,000 tons while Vietnam has steadied at 340,000 tons since 2005. These differences can be attributed to age of trees; difference in productivity of trees; availability of active population from the household for labour; and linkage to processing sector. In depth of these factors is not the objective of this paper.

G7: Tanzania and Vietnam Raw Cashew Production for selected years

![Graph showing raw cashew production for Tanzania and Vietnam from 1990 to 2009](image)

Source: Cashewnut Board of Tanzania, General Statistics office of Vietnam GSO; Vietnam Cashew Association

Note: The figures for Tanzania from 2005 to 2009 include a 30% estimate of raw cashew sold outside legal markets

d) The Effects Of The Global Financial Crisis In The Cashew Industry: Tanzania And Vietnam

Seasonal raw cashew production data was fairly constant in few years preceding the global financial crisis in 2008. In Vietnam, around 350 thousands tons was produced in 2009, which is similar to the previous season. In Tanzania 79 thousands tons was produced similar amounts were produced in 2005 to 2006. In Tanzania farmers

---

34 A kilo of raw cashew would produce a quarter a kilo of kernels.
35 VINACAS (2009)
36 Cashewnut Board of Tanzania
received 610 TZS and 675 TZS per kilo in 2007/08 and 2008/09 seasons respectively\(^{37}\). With the existence of the Warehouse System, farmers were shielded but there were delays on commencement of auctions, in 2008/09 the first auction was held in December 2008\(^{38}\). Speaking to the warehouse officer of Likombe they had yet to begin auctioning and in the warehouse books they had 1700 tons of raw cashewnuts from primary societies that came in since October.\(^{39}\) This delay in turn led to primary societies paying more interests to their overdraft.

Looking at turnover, we see that cashew export earnings in Vietnam fell from $ 920 million to $ 880 million in 2008 to 2009 respectively. This fall in value of export earnings is attributed to the fall in the world cashew prices (graph G4) and shrinkage in world demand. From 2008 to 2009\(^{40}\), the volume of the exported kernels decreased from 4.95 thousands to 4.17 in Tanzania while in Vietnam, volume of exported kernels increased from 167 thousands to 177 thousands tons. But in Vietnam “everyone made profit in 2009, as I could buy enough stock for processing”. This is attributed to incentive of 4% reduction in interest rates on loans taken for productive purposes that was introduced to curb for the credit tightening occurring due to decline in international trade.\(^{41}\)

In Tanzania kernels production has fallen from 2006/07 to 2008/10, same with earnings falling in 2007/08 season\(^{42}\). As cashew continued to loose its price in the world market, processors found it difficult to buy cashew, while auctioning together with exporters. For example, the Premier Cashew Industries (PCI) halted processing cashew in 2009; similar option was thought by BUKO in Masasi.

In the following section consideration is given to a wide range of macroeconomic and monetary policy responses of Tanzania and Vietnam governments and their impact on cashew production and national income in the two countries.

3. Responses to the Global financial crisis in Tanzania and Vietnam

Though Tanzania and Vietnam trade crops in global demand their economies are not full entrenched in the global financial markets. Thus they were immune to the initial woes that resulted in closure and did not benefit from financial bail out accorded to institutions that worked with sub-prime mortgage. Economic performance was affected; demand for and prices of commodities traded by export led economies fell considerably. While speaking to the Economist round table, President Kikwete of Tanzania noted that “The demand and prices of our principal export crops, in particular cotton, coffee and horticultural produce have been weakened. Earnings from tourism and transportation (transit trade) as well as the inflow of foreign investment have been impacted negatively”\(^{43}\). With the economy highly dependent on donors to finance the budget,

\(^{37}\) There was no bonus (additional 3\(^{rd}\) payment) for 2008/09 season. While in 2007/08 additional 3\(^{rd}\) payment ranged from 40 - 120 TZS per kilo and for 2009/10 season farmers received between and 20 - 350 TZS per kilo. CBT May 2010.
\(^{38}\) CBT May 2010
\(^{39}\) Interview with Yassin, Warehouse Officer ~ Likombe 17\(^{th}\) November, 2008
\(^{40}\) See appendix 6 for Tanzania kernel production from 2005/06 to 2009/10 seasons
\(^{41}\) Interview with AMYCO, March 24, 2010
\(^{42}\) See appendix 6 for Tanzania kernel production from 2005/06 to 2009/10 seasons
\(^{43}\) President Kikwete speech November 5\(^{th}\) 2009
capital inflows had declined as well as Foreign Direct Investments. As seen earlier fall in export earnings and with time due to decreasing demand, export volumes and employment levels would also fall. This necessitated governments to undertake emergency initiatives to cover traders from their export losses and promote productivity within their own countries while still making sure that the financial regulations are closely monitored.

The Tanzanian government allocated $ 1.84 billion\(^{44}\) and Vietnamese government allocated $ 6 billion\(^{45}\) as stimulus package. For both countries growth projections were revised for Tanzania from 7.8 to 5%\(^{46}\) and in Vietnam from 6.5% to 5%\(^{47}\) however this is projected rise to 7%\(^ {48}\) in 2010.

**Tanzania**

Tanzania undertook policy and fiscal measures to ensure mitigation of the global financial crisis. The policy aimed broadly to ensure economic and fiscal stabilization. The six pillars\(^ {49}\) guiding the intervention include ensuring macroeconomic stability, food security, social safety nets; energy and infrastructure; liquidity in the economy; and effective governance and management of the economy, including strengthening of the surveillance and regulations of the financial sector.

The interventions taken by the government of Tanzania can be grouped as follows\(^ {50}, 51\):

### Tax

i. Value Added Tax (VAT) was reduced from 20 percent to 18 percent

ii. Income tax of selected categories was reduced from 30 percent to 25 percent.

### Monetary policy

i. Discount rate and Lombard facility were reduced: The government provided “working capital to investors at discounted rates. Under this arrangement, the Government provides soft loans to banks which in turn lend to the most affected businesses which cannot borrow at market interest rate during the current crop season”\(^ {52}\).

---


\(^{45}\) December 15, 2008 AFP news quoting, Deputy Prime Minister Nguyen Sinh “Vietnam plans $6 billion stimulus package”.

\(^{46}\) President Kikwete speech November 5\(^ {th}\) 2009

\(^{47}\) Konishi Ayumi (2008)

\(^{48}\) Benedict Bingham (2009)

\(^{49}\) President Kikwete speech November 5\(^ {th}\) 2009

\(^{50}\) Lunogelo at al (2009) page 22 to 23.

\(^{51}\) President Kikwete speech November 5\(^ {th}\) 2009

\(^{52}\) ibid
ii. Foreign exchange gap filled with a loan of USD 336 million from the IMF under the Exogenous Shock Facility (ESF) and thus assisted the balance of payment due to falling earnings from exports.

iii. The Bank of Tanzania (BOT) relaxed its monetary policy stance and beginning fourth quarter of 2008/09 to facilitate bank financing of the private sector.

Relief Packages

i. Loan Scheduling Guarantee Facility: the government guaranteed borrowers who have not been able to service and repay timely their loans by providing a partial credit guarantee affected by the crisis. These facilities are also expected to enable banks lending to distressed sectors sail through the crisis safely and avert a credit crisis in the economy.

ii. Loss Compensation Facility: the government compensated crop buyers for losses incurred due to fall in the demand and prices of commodities in the world market during the 2008/09 season. This facility is aimed to buyers of cotton, seaweeds and cloves.

Social programs:

i. Food: the government aim to strengthen food storage and improve food availability and distribution. 20 billion TZS is allocated to ensure food is available at reasonable cost for FY 2009/10. The six highest food producing regions of Mbeya, Ruvuma, Rukwa, Iringa, Morogoro, and Kigoma would be given priority in provision of farm inputs.

ii. Agricultural input subsidy funds for fertilizer seeds and farm implements: through the districts offices, the government in collaboration with the warehouse receipt system office bearer provides subsidized inputs to their members of primary societies.

iii. Tanzania Social Action Fund (TASAF) continue to assist groups to with implementation of projects that aim to improve livelihood.

iv. Presidential Trust Fund (PTF) continue to provide loans to both entrepreneurs (small and middle) and low earning workers living in both urban and rural areas.

Public borrowing

i. The Government set aside TZS 825 to be sold as bond to assist to cover gaps in revenue collection.
Vietnam

Vietnam undertook monetary policy and fiscal measures to mitigate the global financial crisis. A number of resolutions were invoked. The among them is the Resolution No. 30/2008/NQ-CP dated 11 December 2008 of the Government on urgent solutions for preventing economic decline, maintaining economic growth, ensuring social security. In addition the government had to cut down its spending and did this by firstly, cut down public expenditure; secondly reduced public investment; and lastly prioritizing investment economic sectors. The interventions taken by the government of Vietnam can be grouped as follows and .

\[53\] Le Thi Thuy Van (2009)
\[55\] VASS presentation

**Tax**

i. VAT was reduced: a temporary refund of 90% input Value Added Tax (VAT) for exported goods without justifiable payment documents.

ii. 30% payable reduction in Corporate Income Tax (CIT).

iii. Payment delays allowed for up to 9 months upon the deadline of submission of the tax payables of 2009;

iv. Personal income tax exemption for first 6 months.

**Monetary Policy**

i. The State Bank of Vietnam annual interest rates was reduced from 14 to 7.5%,

ii. Refinancing rate was reduced to 8% while Discount rate was also reduced to 6% per annual.

iii. Reserve requirement was lowered by 1% for Vietnamese Dong and 2% for foreign currency. SBV reduced the cash reserve requirement for banks from 8.5% to 3.6 %.

iv. The exchange rate trading band of USD/VND was increased to ±3%

v. Lending rates where lowered for productive activities from 21 to 10.5%.55

**Interest rate subsidy**

i. Decision No. 131/QDTTg (23/01/2009) was issued by the Prime Minister to provide interest rate subsidy. The interest rate is provided to the productive sectors. “The State [would provide] interest rate support to short, medium-term loans in Vietnamese Dong by organizations, individuals (hereinafter referred to as borrowers) to procure machines, mechanical equipments, facilities, materials to serve agricultural production and materials for building dwelling houses in rural areas in order to reduce investment cost, improve production capacity and
promote the development of industrial sector through stimulating the demand of investment and consumption in rural area"56 The interest rate subsidy is 4% per annum with maximum duration of eight months and was available February 1, 2009 to December 31, 2009.

ii. Loans were provided by local banks under close monitoring of the State Bank of Vietnam. The banks that took part included The Vietnam Bank for Investment and Development, Asia Commercial Bank, VietinBank, Sacombank, VIB Bank and Techcombank. All these banks announced in early February, 2009 that they would allocate a combined amount of about US $17.6 billion as loans to firms under the program.

Both Tanzania and Vietnam adopted stimulus packages of varying degree. Reduction of VAT was done in both countries but at more robust levels in Vietnam. Both would need to continue to ensure commitment to macro economic stability; various activities stimulating production and productivity must be encouraged especially now during the global down turn.

An update is provided in the 2010/11 fiscal budget where an increase in levy on raw cashew nuts from 10% to 15% is proposed to encourage domestic processing factories57 that would generate value addition and employment.

While it is still early to assess full impact, stimulus package is in the right direction, especially shown in Vietnam that 4% reduction in interest rates of loans had a positive effect on traders as well as farmers income. For Tanzania, the current implementation of the Warehouse Receipt System (WRS) enacted in 2005, seems timely, not because worldwide economy downturn was anticipated at the time of formulation. However current implementation goes a long way to ensure that all who are involved in the cashew industry are shielded. Addition has been suggested, such as the Cashewnut Board of Tanzania need to think of more incentives for generating value addition in the country by processing within the country. The increase in level of levy on raw cashew nut is a commended beginning.

4. Conclusion

The Global Financial Crisis has led to shrinkage of world economy affecting nations integrated to the world trade. Flaws in the regulatory system call for a worldwide integrated early warning system. Different countries responded differently to the crisis as seen with the case of cashew in Tanzania and Vietnam, who both aimed to protect the productive sectors. The cashew industry case showed that, production remained hardly affected while export earnings fell due to fall in the world commodity prices. As was seen in this paper, farmers were shielded from effects of the Global Financial crisis in both in Tanzania and Vietnam. While processors in Tanzania were not as luckily

57 Tanzania budget speech for Fiscal year 2010/11 Paragraph 67
shielded as their counterparts who enjoyed the Vietnamese government introduction of a 4% reduction in interest rates on loans taken for productive purposes, to curb for the credit tightening occurring due to decline in international trade.

Export led economies need to look for ways to diversify their economy to mitigate dependence on only one sort of markets by either creating and encouraging domestic consumption like India, or take advantage of regional groupings.

References


LE Thi Thuy Van (2009) “Vietnam’s Policy Responses To The Financial Crisis” EAI Background Brief No. 447


Appendix:

1. World Commodity Prices 2007-2009

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Units</th>
<th>Year Ending June</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006/07</td>
<td>2007/08</td>
<td>2008/09</td>
</tr>
<tr>
<td>Crude oil*</td>
<td>USD per barrel</td>
<td>62.79</td>
<td>94.35</td>
</tr>
<tr>
<td>Crude oil**</td>
<td>USD per barrel</td>
<td>61.18</td>
<td>90.29</td>
</tr>
<tr>
<td>Arabica Coffee</td>
<td>USD per kg</td>
<td>2.57</td>
<td>3.03</td>
</tr>
<tr>
<td>Robusta Coffee</td>
<td>USD per kg</td>
<td>1.72</td>
<td>2.24</td>
</tr>
<tr>
<td>Cotton, &quot;A Index&quot;</td>
<td>USD per kg</td>
<td>1.28</td>
<td>1.59</td>
</tr>
<tr>
<td>Cotton, Memphis**</td>
<td>USD per kg</td>
<td>1.34</td>
<td>1.62</td>
</tr>
<tr>
<td>Tea (Average Price)</td>
<td>USD per kg</td>
<td>1.89</td>
<td>2.31</td>
</tr>
<tr>
<td>Tea (Mombasa Auction)</td>
<td>USD per kg</td>
<td>1.76</td>
<td>1.96</td>
</tr>
<tr>
<td>Cloves</td>
<td>USD per ton</td>
<td>3,693.54</td>
<td>4,068.94</td>
</tr>
<tr>
<td>Sisal (UG)</td>
<td>USD per ton</td>
<td>925.00</td>
<td>1,075.00</td>
</tr>
<tr>
<td>Heat Oil</td>
<td>USD per ton</td>
<td>566.02</td>
<td>879.84</td>
</tr>
<tr>
<td>Jet/Kerosine</td>
<td>USD per ton</td>
<td>619.86</td>
<td>925.65</td>
</tr>
<tr>
<td>Premium Gasoline</td>
<td>USD per ton</td>
<td>617.13</td>
<td>830.28</td>
</tr>
<tr>
<td>White Products***</td>
<td>USD per ton</td>
<td>601.00</td>
<td>878.59</td>
</tr>
<tr>
<td>Gold</td>
<td>USD per troy ounce</td>
<td>638.47</td>
<td>822.96</td>
</tr>
</tbody>
</table>

Source: Bank of Tanzania
Note: * Average of U. K. Brent, Dubai and West Texas Intl.
** f.o.b. Dubai
***Average of Premium gasoline, Gas oil and Jet/Kerosene, f. o. b. West Mediterranean

2. Trend in World regional cashew production (1961 to 2008)

Source: FAOSTAT | © FAO Statistics Division 2010

Harvest Area Tanzania, Vietnam and Mozambique

Source: FAOSTAT | © FAO Statistics Division 2010

4 Cashew Yield (hg/ha) for Tanzania and Vietnam (1961 to 2007)

Yield Tanzania Vietnam and Mozambique

Source: FAOSTAT | © FAO Statistics Division 2010
5. Main markets for Vietnam’s cashew nut export, January 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Quantity</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3,511</td>
<td>16,245,372</td>
</tr>
<tr>
<td>China</td>
<td>3,242</td>
<td>14,083,024</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,497</td>
<td>7,479,132</td>
</tr>
<tr>
<td>Australia</td>
<td>433</td>
<td>2,119,260</td>
</tr>
<tr>
<td>Great Britain</td>
<td>270</td>
<td>1,333,956</td>
</tr>
<tr>
<td>Germany</td>
<td>222</td>
<td>1,115,851</td>
</tr>
<tr>
<td>Canada</td>
<td>147</td>
<td>688,168</td>
</tr>
<tr>
<td>Norway</td>
<td>128</td>
<td>662,018</td>
</tr>
<tr>
<td>Spain</td>
<td>111</td>
<td>595,744</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>132</td>
<td>525,872</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>75</td>
<td>458,301</td>
</tr>
<tr>
<td>Philippines</td>
<td>97</td>
<td>402,268</td>
</tr>
<tr>
<td>New Zealand</td>
<td>90</td>
<td>397,574</td>
</tr>
<tr>
<td>Russia</td>
<td>95</td>
<td>363,649</td>
</tr>
<tr>
<td>Italia</td>
<td>72</td>
<td>167,199</td>
</tr>
<tr>
<td>Pakistan</td>
<td>120</td>
<td>59,495</td>
</tr>
<tr>
<td>Thailand</td>
<td>111</td>
<td>50,512</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5</td>
<td>34,002</td>
</tr>
<tr>
<td>Israel</td>
<td>31</td>
<td>17,189</td>
</tr>
<tr>
<td>Japan</td>
<td>32</td>
<td>13,615</td>
</tr>
<tr>
<td>Belgium</td>
<td>16</td>
<td>791</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>11,019</strong></td>
<td><strong>50,198,321</strong></td>
</tr>
</tbody>
</table>

Source: Vinanet

: Quantity in tons and value in USD

6. Export of Cashew Kernels ~Tanzania

<table>
<thead>
<tr>
<th>Season</th>
<th>Exports of kernels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (Tones)</td>
</tr>
<tr>
<td>2005/2006</td>
<td>2,821.057</td>
</tr>
<tr>
<td>2006/2007</td>
<td>4,984.746</td>
</tr>
<tr>
<td>2007/2008</td>
<td>4,925.068</td>
</tr>
<tr>
<td>2008/2009</td>
<td>4,179.675</td>
</tr>
<tr>
<td>2009/2010*</td>
<td>3,690.955</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>20,601.501</strong></td>
</tr>
</tbody>
</table>

* Exports up to 23rd June, 2010

Source: Cashewnunt Board of Tanzania