

Crop Purchasing

1. Crop purchasing has had two financial weaknesses of far reaching importance:
 - a. since the Marketing Development Bureau took over financial oversight (or "over sight") of Crop Authorities from Treasury in 1975 we have been unable to regain control over marketing costs. Crop Authorities - Co-ops - Private Marketers borrow to purchase crops, use funds for something else, then hold us to ransom by saying they will have to quit buying if not given more overdraft;
 - b. peasants do not get paid in time in cash but often in chits redeemed 3 or 6 or 9 or 12 months later or never. This is a scandal. It hurts poor households. It discourages production (or even collection in case of cashew nuts). It erodes government credibility when trouble has been serious in some areas for at least 10 years and we make no progress in overcoming it. The worst crops are - I believe - cotton, tobacco, cashew and in some cases maize. The best is coffee (at least in North and I think South - less sure about Kagera).

2. Both problems could be reduced by a fairly simple procedure:
 - a. co-op primary societies pay peasants on receipt in drafts (not cash) on agreed form;
 - b. drafts can be cashed at any NBC branch or mobile rural agency in the Region;
 - c. on cashing NBC branch agency enters cash out/item in transit in and immediately sends to NBC Regional (Zonal?) Headquarters;
 - d. NBC credits branch/agency and debits buying Co-op Crop Purchase Overdraft account;
 - e. All other lending to Primary Societies and all to Unions are on Co-op - Other Purposes Overdraft account;
 - f. NBC - Crop Boards - Unions devise workable scheme so before paying Co-op Primary Society they deduct the overdraft and remit to NBC.

I understand NBC has done this in Arusha and Kilimanjaro Regions. Thus it has initial experience. Unfortunately those are the two Regions that need it least: KNCU, MCU (Arusha), TFA, Coffee Mktg. Board are solvent, service overdraft, pay farmers pretty promptly!

3. Gains:

- a. overdraft for crop purchase drafts need not be limited - if more crops than we supposed we want them bought! Need estimate for annual credit budget but that is not logically a ceiling if more to buy;
- b. we can (if Hazina-BOT back up NBC) control the Crop Marketing-Other Overdraft when it is separate from crop purchases. The threat "we'll not pay our own salaries" or even "we'll not pay lorry owners" is a much less hard to call bluff on than "we won't pay peasants". With peasants paid by new system enforced by Government, then NBC and Hazina will smell sweet to farmers and their anger will be directed to co-op managers (whom the new Act enables them to call to account and to fire).

4. Practicalities:

- a. NBC mobile agencies will need more cash but they sometimes have a lot now (as do deliveries to Co-ops) and have armed guards already too;
- b. No serious accounting below Regional or Zonal NBC where the Crop Purchase overdrafts controlled. Only cash out/notes in transit bookkeeping entries at agency or branch level;
- c. NBC can build up banking habit. More peasants will come to it. Those with accounts will leave some of money in them. After a year learning "NBC pays cash", those without accounts will open them and draw cash over year not all at once;
- d. NBC (Region copied branches/agencies) will need specimen signatures for each society. But this (and risks forgery/etc) is directly parallel to checks now so no additional/different problem;

- e. Co-ops will be "spared" risks of handling and problems of accounting for large volumes of currency;
- f. Co-ops fraudulently paying too little will leave a clearer paper record to trap them (the draft should show: ■ crop ■ weight ■ unit price as well as total payable and to whom).

4. Phasings:

- a. NBC has one year's experience in two regions. To go 2 to 21 in one go may be too much;
- b. Plan schedule now along lines -
 - i. May 1992 (for Main Harvest)
Mwanza/Shinyanga/Musoma/Kagera/Tabora/Dodoma
 - ii. October 1991 (for Cashew)
Ruvuma, Mtwara, Lindi, Nachingwca
 - iii. May 1993 All Other Regions (actually Dar is irrelevant, Coast almost so and Tanga little marketed via Co-ops either so really about 6 serious regional exercises).

5. Gainers

- a. Peasant households - paid on time in cash. (OK - some have to wait 1 week/walk 30 km to Mobile Agency stop. That's a lot better than 3 months to forever wait!).
- b. NBC - business build up and chance to control non-purchase overdraft without choking off crop purchasing.
- c. Hazina - political/social gain of peasant satisfaction and economic gain that timely payment is as good (and cheaper) a production incentive as a 20% to 25% grower price increase.
- d. Honest/prudent Co-ops - freed from handling, accounting for (literally) bags of notes.
- e. Kilimo/Commissioner Co-ops/Audit Corporation. Much easier to audit Co-op books (over half entries and volume of cash direct from NBC

records) and to check budgets against past actuals/budgeted against outturn/costs to purchases ratio. Also provides these data to members so they have ammunition to fire hard questions at their 'lords and masters' of Co-op Managerial Elite.

6. Losers

- a. Incompetent co-op managers;
- b. Dishonest co-op managers;
- c. Miscellaneous thieves and embezzlers.

Who'll cry for them ?!?

- d. Perhaps, private traders buying below official floor price but in cash. Well, well - let them compete and get out if they can't stand the heat.
7. If you agree this should be done it is urgent to start now. An NBC-BOT-Co-op-Kilimo working party Chaired by (say) Dr. K. needs to get on with it so NBC is in working order and Primary Societies know how to issue drafts by May!
8. If you do proceed, tell Bank (Res Rep) and Fund (next Mission) what you are doing and why. Take the credit for moving to clean up two structural messes (late payment and uncontrollable crop buyer borrowing) on your own when they (Bank/Fund) hadn't offered any helpful advice on how over 5 years -
9. I have no desire to feature as your adviser. But if Bank wants to know "who dreamed this up" and you think it useful to Tanzania then feel quite free to tell them.
10. This has been done in SSA at least once and it worked. In 1982 when Ghana Cocoa Board had arrived at near universal chit payment with 6 to 12 month lag in payment, Government ordered them to pay in cheques on banks and banks to cash them. No serious procedural problems (and their rural areas are much less banked than ours). Farmers delighted and took much greater interest in cocoa. I doubt 1983-1990 doubling of sales to Cocobod would have been achieved (even with actual grower price increase) without this chits to cash shift. Bank does know this

happened but it came before they went back to Ghana in 1983 so they don't give it the weight they should. But they do agree it was a good thing (as did the 2 IMF Res. Reps. there I knew).

(R)

RHG
Sometime EA/T
Mawenzi (Hotel not Summit!)
21-XI-91

Cashew Processing/Marketing Strategy

I.

1. I understand World Bank has made a condition on a major credit that Tanzania sell the cashew processing plants. Precisely how that was to be achieved neither side seems to have considered.
2. Apart from frivolous suggestions (I'll give you Sh 50 each for Dar and Mtwara plant fixed assets and Sh 150 for the six semi-mechanised ones and on receiving deeds will give to Council of Churches to use, give to local NGOs, etc., as they please!) a three part strategy might satisfy Bank and would make sense.
3. Mtwara
 - a. presumably closed for years
 - b. machinery always unsuitable and by now junk
 - c. probably not labour force to operate as hand processing.

Proposal

Hold a public tender (with set but not published reserve price of \$250,000 for buildings and site and \$10,000 - scrap - for machinery and vehicles).

Allow bids:

- i. buildings - site - machinery
- ii. machinery - vehicles for non-cashew use (including scrap)
- iii. buildings - site for cashew hand processing
- iv. buildings - site for other uses.

You'll probably get bids for "ii", "iv". Somebody might package as "i". If so sell at or above reserve price and tell Bank - we sold out. Finish.

If a iii bid (even if lower than a i or a iv) enter into negotiations:

- how do they propose to process?
- will they agree to pay previous two months average f.o.b. export price for nuts (in return for preferential delivery of nuts)?

- will they submit detailed records export prices for kernels to BOT to check against New York kernel price?
- what % retention allowance/what provisions external loan payment-dividends (if covered by export proceeds) do they need?

If a serious firm agrees/convinces on these lines let them have it (and de facto a guarantee of 5,000 tonnes of nuts). The Bank will accept this as serious privatisation.

If this approach appeals, advertisement should run in 2 main English language newspapers, 2 business papers in India and be sent to Commercial Officer, Indian High Commission. The best bet - unless there is a substantial local buyer, e.g. Ismaeli/IPS axis or IPP - is an existing big Indian (Kerala) processor. Then selling nuts to them at export price and with a check on kernel export prices would safeguard against loss of present (nuts) or potential (value added in kernels) forex.

4. Dar

- a. intermittently operational (is it now?);
- b. ran moderately well as semi-mechanised (most of machinery unsuitable);
- c. was profitable on cash flow basis into 1980s;
- d. rehabilitation cost probably moderate as only buildings and hand tools;
- e. needs assured supplies nuts - large tins (Metal Box), carbon dioxide (inert gas needed in sealed tins to preserve kernels).

This plant should be gotten back on stream in 5,000-10,000 tonnes range. It should either be:

Proposal

- joint venture (new company takes over site-plant-equipment) new partner (Tanzanian or Indian) rehabilitates and manages and for that gets 50% equity new company. Negotiate dividends of 20% a

year if earned in forex remittable (unpaid one year carried, i.e. could pay 10%/15%/30%/25%/20% if earnings followed that pattern).

- sell off (then analogous to "iii" Mtwara)
- lease to private operator for - say - \$25,000 + 30% of net operating income for five years. At end of 5 years operator (if he has processed over 5,000 a year tonnes last 2 years - of nuts not kernels) has right to buy 50% at price revalued book, less investment he has made over five years and - if he opts for 50%, government has right to "put" (sell) other 50% to him.

The Bank should perceive any of these as serious disposals and recognise it will take at least 6 months to articulate, publicise, negotiate with interested parties.

Nut price formula - check on kernel export prices - preferential nut supply (company should have option of taking delivery at Mtwara or Lindi if it prefers to transport itself) should be same as for Mtwara.

5. The 6 Dwarfs - Semi Mechanised

(Were all 6 built?)

- a. presume none are operational?
- b. these in present form are World Bank's idea. Tanzania proposal was rather different. Bank recast and became much more enthusiastic than Tanzania side (especially Hazina!). This is worth stressing to encourage Bank to be open-minded on serious efforts to revitalise, i.e. they, like us, "got it wrong" on these plants.
- c. if capacity is (as I recall) 5,000 tonnes a plant doubtful they can operate at full capacity.
 - These are not very attractive to private sector. Also type of isolated, rural/small town factory wide open to worst excesses of dubious 'entrepreneur'.
 - Very suitable for female employment. (Dar plant workers are/were largely women.)

- Can be run seasonally to fit low crop work demand periods. (Nuts do not spoil if stored properly/low capital per worker, i.e. building-hand tools.)
- Simple to run if order nuts from CATA at export price - sell kernels ex-factory to CATA for .85 (Export Price of Kernels) with cash advance (or draft on NBC!) equal to 1.2 (Cost of Nuts) on delivery of kernels.
- Technical issue needing answer. Do they use big tins/carbon dioxide like Dar plant? If so, how guarantee delivery?

Proposal

Therefore, encourage 6 women's co-ops to 'lease' and operate. If these are organised, provide training in operations, mechanical repairs, building maintenance, control to reduce brokens, bookkeeping. (While I advocate women's co-op, no barrier to their hiring a man or three for accountant, head mechanical repair foreperson if they can't find qualified women.)

Initial Period (2 Years)

- Lease plant/tools/etc. for Sh 100 per year (per plant).
- Rehabilitation loan from Government on IDA terms up to \$10,000 per plant for tools, building repairs only
- CATA to provide nuts on credit - i.e. sells nuts for credit/buys kernels at initial downpayment of 1.2 nut price, offsets debt, pays over 0.2 nut price with later adjustment when export sale made)
- Condition that by end of Year 2 must be processing 1,000 tonnes nuts (or 90% of District's output whichever is lower) a year. (For instance, if last 6 months is 600 tonnes OK)

Period Two (5 Years)

- Lease at agreed price.
- Access normal credit/normal rates.
- CATA nuts on credit continued.

- Condition that in year 6 or year 7 (i.e. year 4 or 5 of this phase) achieve 2,500 tonnes (or 90% of District's output)

Final Disposition

- Assets vest in Co-ops in return for 25% of pre-tax (post depreciation) profits for 5 years
 - Co-ops buy direct from growers, primary co-ops, traders. Pay in drafts on NBC. Pays normal overdraft rate to NBC.
6. Yes - this gives (virtually) assets away. But they are worthless to CATA or Tanzania at present so no real loss. Yes - CATA interest subsidizes nuts for first 7 years but as 1.2 (nuts) is less than .85 (kernels) it gains implicit interest once it has kernels.
7. This is a way to viability. Flexible/labour intensive/local. Keyed to enabling rural/small town women to expand their earning power. Very good chance they can do it. Very low risk of further loss - plant/tools of no value now, \$10,000 X 6 = \$60,000, CATA's nut loan is "secured" on nuts. Cannot readily sell many kernels "out the back door" to defraud CATA.
8. This is unusual enough UNIFEM or Nordics or Dutch would probably pay for training for the women and the \$60,000. If you like the idea approach them at once. The Bank will be dumbfounded at this idea. But it is privatisation; it does enable poor people to produce more; if you get UNIFEM and European women's lobby on your side Bank will not choose to take them on. Anyhow a good Bank man would agree this is a novel experiment that deserves a fair try.

II.

9. Marketing strategy. Cashews are a very imperfect market - few producers and few processors. As largest producer and largest processor (buying in to process) India has oligopsony power and has used it to squeeze us as it seems to be doing now with a camouflage of import deposit regulations which make no sense for an import in transit through processing for re-export. Tanzania needs to respond in two ways (and old 1970-82 strategy did - a bit erratically - try to act on them):

- a. build up alternative kernel markets;
- b. revive a local processing capacity to provide alternative/holdout time if - more accurately when - processors try to squeeze us.

If we do that, India will pay 'honest' prices (if CATA analyses and negotiates competently as it has in some periods) because in Kerala there are thousands of women dependent on processing imported nuts and India makes a forex gain on each tonne of nuts processed and exported as kernels.

10. The alternative nut markets are:

- Brazil (who we once used to bust Indian State Import-Export Corporation attempted rip-off price but then dropped);
- Malaysia which is building up nut growing and (I believe) has built processing capacity adequate to future nut supply so has at least interim surplus capacity to use on imports.

11. We should use our Embassy (Washington) to get data from Brazil and High Commission (London) to get data from Malaysia. Basically we need to say we have nuts to sell and need names of main processors and their addresses to contact by telex to commence - we hope - process leading to mutually beneficial sales. Commercial sections of big Brazilian and Malaysian diplomatic missions are highly competent - they'll respond and they can see what's in it for them. When we have data CATA goes to work. This is urgent as India isn't buying so nuts piling up.

12. Once we are selling to 3 countries we should keep it up, not get trapped with one buyer again. If India offers more initially, give a chance to match to Brazilians and Malaysians for up to one-third of crop.

13. Processing is a complement to this diversification. There are lots of places to sell kernels! Previous section suggests first steps to rehabilitation there. No new processing investment unless/until private operator wants to build a new plant at his risk (buying nuts at export parity, allowing check kernel export prices). Eligible TIB-TDFL loan (and small equity stake) but at commercial interest and TIB/TDFL free to reject loan application if they evaluate it as too risky.

III.

14. Supply is low and stagnant around 30,000 tonnes. There are three problems:
- a. diseases are killing trees slowly after first reducing yields;
 - b. co-ops pay in chits;
 - c. grower price is unattractive.
15. The old, old, "old wives' tale" about distance and villages is not the reason:
- a. cashew requires 3 visits a year to clear undergrowth and - say - 6 to pick up fallen nuts;
 - b. if there were money to be made, peasants would happily walk out/camp a day or two/walk back over 20 to 30 km;
 - c. in fact (except on Newala Plateau) many trees were always far from peasants' homes because cashew grows well in dry sandy areas with no surface water which are quite unsuitable for permanent residence;
 - d. villages in Mtwara/Ruvuma date to mid/late 1960s "defence villages" against Portuguese border raids - long, long before peak Mtwara regional cashew crop;
 - e. Lindi/Kilwa villages largely date to 1973-74, whereas cashew crop held up until about 1976/77 and collapsed only at end of 1970s when real grower price was allowed to collapse on bad Marketing Development Bureau advice (plus CATA extravagance).
16. Diseases:
- a. educate/promote use of (effective) spray against fungus;
 - b. give out free disease resistant seedlings to replant (nearer homes if the grower likes!).

Free because until they see that new trees are disease resistant, a farmer with dying trees will not take risk of laying out cash for new

ones. But he/she is likely to risk time to walk to nursery and back for seedling and to plant and tend it. After 7 years (takes five years to come into full bearing) we can charge as then people will believe in the new trees.

17. Prompt cash payment to growers - ending slow paying Co-op chits. See other memo providing for payment to be in drafts on NBC encashable any branch or mobile agency in Region. (True, this is a relatively under-banked zone, but even 30 to 50 km to a once a week agency will seem heaven compared to 3 to 9 month delay on chits or merchants who do pay cash but 20% below official grower price.)
18. Grower price attractiveness is low judging by unpicked/unpicked up nuts observed. Para 17 probably could raise real price peasant gets (9 months delay with 25% inflation cuts real price $18^{3/4}\%$) by about 20% and increase certainty. As no extra cost per tonne to CATA and more tonnes to spread overheads across, a very cost effective true grower price increase. But also run a check grower price/export price ratio. If below $66^{2/3}\%$ (for dry nuts) then strong case to raise price.
19. The above might get purchases back to 50,000 tonnes short run (more if spray is effective and cost attractive to growers). In the longer run with free disease resistant seedlings could be back to 80,000 tonnes by 2000 and 150,000 by 2010. Cashew world real price has behaved rather well so no reason it should necessarily be unattractive to growers. In late 1970s we let real price collapse (on MDB advice) and paid in low purchases/CATA losses. Even though disease means we can't get back to 140,000 tonnes until lots of new trees (plus 5 years to full bearing) we need proper grower price to bring in what there is now and to encourage replanting.
20. Note - the cashew zone is Ruvuma-Mtwara-Nachingwea-Lindi-Kilwa. Coast cannot be revived because truck gardening (fruit, vegetable) for Dar es Salaam market pays better. Tanga I do not know. Climate and soil are suitable. Probably pays better than coconut. A test popularisation/free seedling campaign in - e.g. - Pangani District to see whether it could catch on is probably worth doing. (I know there is a small cashew harvest - i.e. few groves - in Tanga Region and no history of much growth, but free seedling/prompt payment might make it attractive now.)

IV.

21. Cashew Authority Slimming. Cut back functions to:

- a. buying depots/godowns in Nachingwea, Mtwara, Lindi, Kilwa, Dar, Tanga(?) buying from Unions, Primary Societies, Merchants. No involvement transport to depots. Contract transport depots to export point (Dar, Mtwara for nuts or kernels).
- b. export intelligence and selling unit Dar (this has been rather good at times) for nuts only (or nuts and Co-op kernels).
- c. small head office to service a/b.
- d. Nothing more. (Research-extension to Kilimo.)

22. Staff to be cut to:

- a. 250-300
- b. 25
- c. 50-75

Total 325-400 including secretaries, messengers, stock clerks, drivers.

- Research/extension, etc. staff transfer to Kilimo.
- All other staff pay off as redundant.

23. Buildings, etc.

Any not needed for a/b/c functions sell by sealed tender.

24. Processing Assets

What's left after leases/sell-offs should go to Treasury Registrar's (or NDC) to be supervised as a 'financial' investment not one we operate. Basically need $\frac{1}{4}$ to $\frac{1}{2}$ competent/alert desk officer to keep up on developments.

25. Recapitalisation

Clearly CATA is bankrupt. Overdraft should go to LART. Write off what cannot be serviced. And write off enough so well run, slimmed down CATA can achieve a profit on purchases/sales minus expenses necessary

to store-move depot to port-finance-sell-make payments on "inherited" debt and has at least 25% equity in opening (reopening) balance sheet.

v.

Conclusion

26. The catalyst for this is thinking how to get World Bank to release credit. However, I do believe all above steps are in our best interests (even if Bank was in no way involved!).
27. Again I have no desire to appear - let it be a Tanzania initiative. But if Bank wants to know where you got idea (or to have a brief consultancy on it) feel free to say I advised on these steps.



RHG
Sometime EA/T
Kilimanjaro (Hotel not Mount)
20-XI-91