

**Critical Analysis of the Cashew Export Value Chain
in Sri Lanka**

**MASTER OF BUSINESS ADMINISTRATION
IN
MANAGEMENT TECHNOLOGY**

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Critical Analysis of the Cashew Export Value Chain in Sri Lanka

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EXECUTIVE SUMMARY

The Sri Lanka economy composition consists of three main economic sectors of Services, Industrial and Agricultural. Despite the agricultural contribution is comparatively less to the Gross Domestic Production (GDP) worldwide appreciation is very high due to the natural quality of Sri Lankan agrarian products.

Records show that cashew cultivation was introduced to Sri Lanka in the sixteenth century from Brazil. Currently, cashew farming plays an important role in the agrarian sector in the Sri Lankan economy mainly generating high price value of finished products.

The problem

Overseas competitors in the industry have taken the advantages because of the very low production cost comparing to Sri Lanka producers. As an example, Tanzania retail cashew price per 1kg is about Rs.800.00 while it costs Rs.2600.00 to Rs.5300.00 in Sri Lanka. Basically, we are not competitive with others and reason is low productivity. Other industries output is high at low cost. We have failed to compete with others because of the high price even though we are producing quality products. Based on the cashew corporation reports' Sri Lankan cashew yield is being dropped down continuously and no one has addressed it well.

Item Description	Ghana (M)	Mozambique(M)	Tanzania(M)
Farmers' Gate Price	80.6	384.4	104.62
Price at V.Collectors/Collectors/Traders		443.3	
Warehouse Auction (Transport ,Grading) Price			111.04
Export Market price(Raw)			
First Level processing Center Price	1054	627.75	483.44
Second Level Processing center Price	1550	2325	769.46
Retail Price	2635	3875	833.95
Price is converted to Rupees assuming one US Dollar as Rs.155.00			

Country	Total Land (ha)	Cashew Production Per Year MT	Output(MT) Per -ha
Gahna	150,000	35,736	4.2
Tanzania	300,000	75,000	4
Mozambique	275000	72,263	3.81
Sri Lanka	20300	6,890	2.95

Considering above situation, following research objectives have been identified by the researcher.

- a. Develop a comprehensive value-chain map of the industry that identifies the role of all stakeholders and their impact on the industry.
- b. Analyze the value chain to determine performance gaps affecting competitiveness and recommend appropriate interventions.
- c. Provide a framework for the further detailed analysis of the cashew value chain beyond the scope of this assignment.

The scope of the research has been limited by the challenges of conducting a complete value chain analysis and study within the allocated time. Therefore, this study primarily focused on the following areas as ‘in scope’

- Cashew industry functions, actors and support service providers.
- Three main districts of cultivation zones
- Value chain mapping
- Current challenges faced by the actors
- Productivity
- Identify the automation in the supply chain
- Identification of industry labour issues
- Identification of environmental issues under sustainability related to cashew cultivation

This research was limited by a small number of samples, qualitative approach, privacy issues and research areas. These limitations are critically affected the research and final outcome of the research.

The approach

The researcher has referred many available academic and non-academic publications both locally and internationally to gain the understanding and the available knowledge in the research area. Literature review consists of value chain definition, world cashew industry, Sri Lanka position of world cashew production, cashew value chain in Tanzania, global value chain actors and their functions, service providers, information on Sri Lanka cashew value chain industry, current constraints in cashew production and available sources of mapping related to cashew industry in Sri Lanka.

The value chain mapping will help to reach following objectives.

- To see the basic picture of the value chain to lead the full Value chain analysis.
- To identify the prevention and apply the best solutions in each level of the value chain.
- To identify the weak position and locations in the value chain.

The value chain mapping process should be visualized to understand the relationship between actors to show the interdependency between different parties in the value chain. The value chain mapping process comprised with following steps.

- ✓ Mapping the core process
- ✓ Understanding main actors
- ✓ Product flow, knowledge and create flow information
- ✓ Product volume
- ✓ Geographical areas
- ✓ The value in the different stages
- ✓ The relationship between the actors of the value chain
- ✓ Services feed into the value chain

Key Findings

Actors:

- There are many actors in the industry who are called farmers, village collectors, collector, traders, processors, exporters, vendors etc. As a result, the product moving chains are increased.
- Sri Lanka Cashew Corporation is the main actor in the industry who is cultivating and processing cashew as well as provide extension services to the cashew farmers. Unfortunately, those services are not getting rural and remote areas' farmers. This is critically affected to their productivity.
- The Actors and their activities as well as how value is adding in different stage shown as below. The below table has been further discussed in Section5.

Value Addition	350-450	375-475	2800-3500	400-500	425-525	2800-4700	2800-4700	2800-5300	2800-4700	2800-5300
Activities & Actor	Farmer	Village Collector	Street Vendor	Collector	Trader	Processor	S.L.C.C	Vendors	Agents	Distributors
Cultivating										
Harvesting										
Drying										
Segregating										
Storage										
Shelling(Cutting)										
Moisturizing										
Peeling										
Grading										
Roasting										
Salting / Flavoring										
Packing										
Distribution										

Cultivation:

- Most of the farmers are cultivating cashew as a crop in small scale without standard.
- Farmers are not getting efficient and accurate market price information from Sri Lanka Cashew Corporation forcing them to dump their product at lower price.
- Farmers are having many problems. As a matter of fact, the yield has been reducing continuously. Also, there are many lands to be cultivated but farmers are not focusing on that as those lands are owned to the government.
- The harvest has been declined significantly during last three years (ies 2014, 2015& 2016) due to natural factors such as rain, drought, and wild animal activities which are seriously negatively affected.

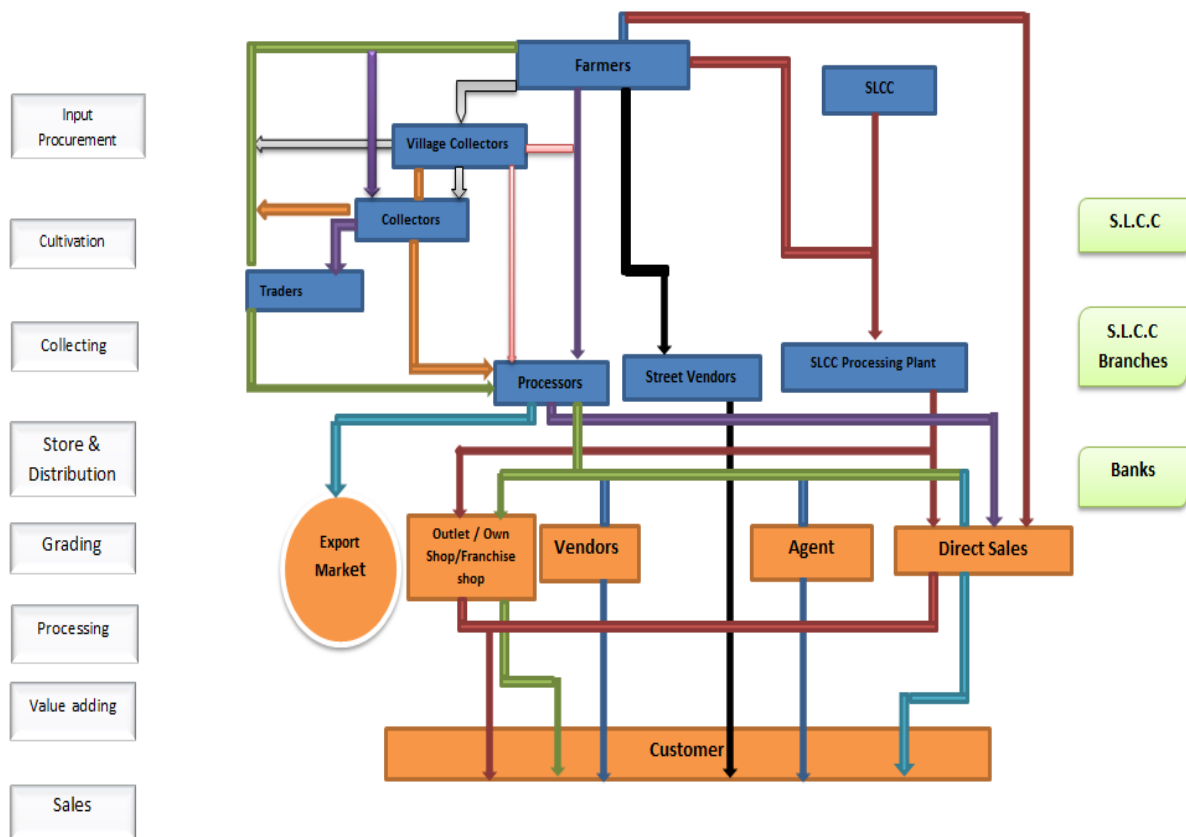
- People are not interested in the industry. As a matter of fact, labours are leaving the industry and cost of labour is going up.
- Most of the activities in the industry operated by manually which cause to low productivity and higher wastage.

Processing:

- Most of the processors are converting raw cashew to finished goods and sell to the local market.
- Only large-scale processors are exporting cashew in small scale but, they are unable to success due to competition as well as they are keeping only a small margin.
- However, there are some companies who are producing different value-added products for the niche market in locally and internationally which help to get more profit.

The Sri Lanka Cashew Value Chain Map:

- It highlights the raw cashew (blue) and the processed cashew (orange) flows
- There are 12 value chains in the raw processing flow and 9 value chains in the finished product processing flow.
- In this case, unnecessary wastage, transport, competition can be seen even though the supply quantity is less. Then the actors in the industry trying to sell the product at low cost due to price are indicated by the market. As a matter of fact, the profit is dividing among many actors and profit margin getting less.



A more detailed discussion and a SWOT Analysis on the Cashew Industry Value Chain is included in Section 5.

Conclusions & Recommendations

The researcher has drawn up following conclusions of the research. Sri Lanka cashew industry can be developed in strategic way if there is proper evaluation and guidance. However still we are not in such level as there are many gaps in the industry .The government body also in the industry in business perspective rather than a service provider. Most of the stakeholders are attending to the industry as it is an additional income for them .Other than they don't have interest to develop their capacity. The systematic value chain process is required to understand the capabilities of each actor and avoid unnecessary involvement wastages.

The research concludes with following recommendations.

1. Establish a cashew auction system

To avoid unnecessary intermediate parties and much wastage in the process the researcher proposes a new module which can see some common features of Tanzania cashew industry

process. However, the researcher has presented it complying Sri Lankan cashew industry behavior and its requirements. Accordingly, all the cultivators are directly delivering the raw cashew to the warehouse without any intermediate party and sell to the processor by an auction. However, in the warehouse, there will be a separate process which helps to segregate the cashew sizes and sell through an auction. Cashew Corporation or government interventions need to control the regulations and rules. Accordingly, the warehouse and auction will be operated by an independent organization under the supervision of the Cashew Corporation and government. This module is similar to centralization module in Supply Chain Management.

2. Improve cashew extension services and address land issues

Government support is really required to educate farmers and facilitate to them for better plantation and better harvest, especially the government should supply technical knowledge and solution for the environmental issues as well as training, and also they have to sort out the land issues and should release them for the cultivation. This is discussed descriptively in chapter four.

3. Introduce new technology

The automated processing method should be applied to enhance the productivity and reduce the manual involvement, which reduces the cost of production. Cashew planting in standard method, putting a net under the trees, Cashew drying machine instead of sunshine drying method, cutting machine, peeling machine should be introduced to increase the productivity.

4. Increase value addition

In addition to that researcher has recommended encouraging the processors to produce value-added products to create more revenue. The processors must focus on the production of value adding production such as cashew fruit juice targeting hotel and restaurant sector, cashew powder, cashew soup mix, adding chocolate or milk to cashew, adding Kithul trickle, coconut or honey to cashew nuts etc. as we are unable to compete with the international market by exporting processed cashew without adding value.

5. Financial Aid

Two banks of Tanzania provide loan facilities to farmers through the warehouse auction system. As per their system, any cashew farmer can be obtained a loan from the bank and the same amount will be reduced after selling relevant actors' stock in the warehouse.

6. Remove the old trees from the plantations.

Farmers of Tanzania are removing the old trees at the right time. That is a reason for higher output. Therefore Sri Lankan farmers also applied the same system by removing old trees and replacing new plants.

7. Global market linkage

Tanzania has a good global market linkage through warehouse auction system. Therefore they have good customer network. The researcher recommend to online buying and selling system for cashew industry.

8. Local and International quality standard

In fact, Tanzania has good customer base and market as they have quality certificates for their products in local wise and international wise. Therefore obtaining quality certificates will help to build the customers' satisfaction and their trust.

9. Raw cashew export chain

Some of the Mozambique exporters are selling raw cashews directly to the international market as they have huge volume and their processing cost is higher. That is a strategy of them. Therefore researcher point out to implement the same strategy as an alternative option. The researcher does not guarantee on this as it might be affected to the quality of the Sri Lankan cashew industry.

10. Farmers Association

In Mozambique, Farmers association has good relationship with farmers and farmers are getting good support from them as those association managed by the farmers. Therefore they have good understanding about farmers' problem and address them properly.

11. Target market

In Ghana, they mainly focus the hotels and restaurants as they could obtain good price from higher income level customers. Therefore, researcher recommends targeting the hotels and restaurant in Sri Lanka as we have many hotels and many clients for them. Accordingly researcher assumes that we could create good market from them.

Keywords: Literature review, Research methodology, Research finding, Conclusion and recommendation, Cashew, Value-chain, Supply chain, Harvest, Value addition, Wastage, Productivity, Technology

LIST OF ACRONYMS

SLCC: Sri Lanka Cashew Corporation

EDB : Export development board

CNSL: Cashew Nut shell liquid (oroil)

EU : European Union

FAO : Food and Agriculture Organization of the United Nations

MT : Metricton