What Ails the Cashew Nut Sector in Kenya?

By Githua Kihara

Lake Kenyatta Cooperative Society (LKCS) in Mpeketoni in Lamu – perhaps the only remaining cooperative society in Kenya's coast region formed by cashew nut farmers in the 1970s – once collected 9,000 metrics tonnes of cashew nuts from its members during the sector's heydays in the 1980s. Currently, despite boasting a membership that has stretched to over 6,000, the cooperative does not expect to collect anything beyond 300 tonnes this year. This is the volume it managed to collect in the last calendar year.

From a peak harvest of over a total of 36,000 tonnes in the late 1970s, when the cashew nut sector was at its highest peak, the sector is today struggling to even produce 11,000 tonnes.

Cashew nut farming and processing was once a thriving undertaking in Kenya. After nationalising the economy shortly after independence, the government of Jomo Kenyatta took full control of the cashew nut sector, which was dominated by Mitchell Cotts, a shipping giant. In 1975, the government formed Kenya Cashewnut Limited (KCL) and established a large-scale processing factory in Kilifi, with a capacity to process 15,000 metric tonnes of cashew nuts per year.

The National Cereals and Produce Board (NCPB), one of the shareholders of the newly created KCL, was granted legal monopoly to buy all the cashew nuts from farmers. Other shareholders of KCL were the Industrial and Commercial Development Corporation (ICDC), the Industrial and Development Bank (IDB) and the Kilifi District Cooperative Union (KDCU).

Farmers were organised into many cooperatives across the coast – big ones such as LKCS and KDCU and also small ones. To be able to pay farmers in time for cashew nuts collected, KCL pre-financed NCPB. The factory would determine its raw material requirements and the excess would be exported in shell to India. Essentially, the factory guaranteed a stable farm gate price and provided a predictable and reliable market.

In post-independence Kenya, market stability saw the sector expand production from about 5,000 tonnes in 1965 to over 36,000 tonnes in the late 1970s and early 1980s. In 1982, KCL made a net profit of Sh26 million (US$325,000), up from Sh3 million (US$37,500) in 1975 – nearly a ten-fold increase in just seven years.

At its peak, the KCL cashew nut factory employed over 4,000 people. During this period, coastal residents were able to send their children to good schools, raise their incomes, and develop local micro-economies.

Dwindling fortunes

Those heydays didn't last for long though. In the 1980s, President Daniel arap Moi and his cronies started engaging in rent-seeking from parastatals in order to sustain a regime that was under threat.

By 1989, KCL got caught up in governance and financial challenges, and in February 1990, it rendered a large chunk of its employees jobless. At the same time, powdery mildew disease (PMD), which had not been witnessed before, hit crop yields and production. The resultant dwindling economic fortunes of KCL meant that it could not provide extension services to the cashew nut farmers, which spelt doom for the sector.

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When the disastrous 1990s' World Bank-led Structural Adjustment Programmes (SAPs) hit the country, they found an already struggling cashew nut sector. By November 1992, the Parastatal Reform Programme Committee (PRPC) recommended the sale of 65 per cent of the shares the government held in KCL through NCPB, ICDC and IDB.

The PRPC recommended that Kilifi District Cooperative Union (KDCU), the owner of the remaining 35 per cent of the shares, be granted pre-emptive rights to buy the 65 per cent government shares. A parliamentary committee would later discover that partly due to the high cost involved in buying these shares, the three main directors of the KDCU had decided to strike a deal with some of President Moi's closest business friends.

A Ministry of Agriculture report in 2009 noted that with a value of Sh141.2 per share, the 65 per cent share of the government was valued at Sh78 million (US$1.34 million). Debts acquired by the KCL in previous years that were owed to NCPB, ICDC, the Treasury, and the Italian government amounted to over Sh118 million (US$2.03 million). The company also owed Sh33 million (US$0.56 million) in redundancy payments to former employees. In total, the KDCU would have had to invest roughly US$4 million to finance the acquisition of the company – money it did not have. This is how private money was used to buy government shares in KCL.

In 2000, the Public Investments Committee (PIC) recommended that the factory be handed back to the farmers. The same year, a subsequent cashew nut report tabled in Parliament by PIC noted that the factory's shares were illegally acquired by Moi's cronies, including the president's personal secretary, Joshua Kulei, who was accused of having defrauded the farmers.

A Ministry of Agriculture report in 2009 noted that the actual majority shareholders had the KDCU appoint themselves as the management agents of the factory, which was renamed Kilifi Cashew Nut Factory Limited (KCFL), and which was under the management of P.K. Shah, who took complete de facto control of the day-to-day business of the factory.

In 1996, the KDCU received a loan of Sh2 million (US$ 35,000) from its main owner, Kenya Plantations and Products Limited, to purchase raw cashew nuts (RCN) – which it secured with its 23 per cent shares, valued at a much higher Sh28.07 million in 1992 – as collateral for the loan. When it failed to pay back the loan, these shares were transferred to private investors.

Eventually, in 1997, KCL collapsed under its financial and operational burden. Unable to service an outstanding loan of about Sh95 million, Barclays Bank placed the factory under KPMG- managed receivership in 2000, and on 8 May 2002 sold all its assets, including the plant and machinery, to Millennium Management Limited (MML) for Sh58 million (US$ 0.97)

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The lack of a focused policy in the last three decades has pushed the cashew nut sector into a perennial multi-year production and profit decline. The sector's decline and disintegration started when the state-owned KCL collapsed in 1997 – a time when the political environment was not inclined to rescue a sector that had been a lifeline for thousands of Kenya's coastal residents.

New players

With the stake of the factory diminished, and the end of its monopoly in cashew nut matters, exporters of raw cashew nuts emerged. These exporters were able to offer significantly higher and faster payments due to the high rebates they enjoyed for exporting raw materials that would in turn create jobs in the importing countries.

By buying through middlemen – who became the sector's main players – the new market structure undermined the role of cooperative societies that had enjoyed state-sanctioned market support. They could not survive and all but collapsed.

The first main processor, Wondernut Ltd, came into the country in 2003. Kenya Nut Company (KNC), owned by Pius Ngugi, and Equatorial Nuts, owned by Peter Munga, which predominately deal in macadamia nuts from the Mount Kenya region where their factories are based, made forays into processing cashew nuts as well.

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With the Kilifi Cashew Nut Factory (partially revived by MML) and the later entry of another Central Province macadamia processor, Jungle Nuts, the number of active cashew processors in Kenya had expanded to five.

Even so, these five processors had to compete with the well-established exporters of raw, unprocessed nuts who had gained favour with farmers due to their market flexibility and higher prices. In the 2007/8 season, for instance, exporters of raw cashew nuts went on a buying spree that saw the share of processed export nuts drop by over 20 per cent that season. This posed a huge threat to local processors.

Despite a total ban on the export of raw cashew nuts in 2009 (which nut processors had called for) the industry has gone horribly wrong in the last decade. In their call to the government to ban exports, the nut processors argued that the ban would allow them an opportunity to gather enough harvest to enable them to utilise their excess installed processing capacity.

A baseline survey that had been done on the crop in 2009 by the Institute of Development and Business Management Services (IDS) on behalf of the Micro Enterprises Support Programme Trust (MESPT), a value chain government initiative, had revealed a sector reeling in distress.

This is the situation that the sector found itself in 2009 when the Nut Processors Association of Kenya (NutPAK) – the result of processors pulling together resources – was formed to lobby for the industry's protection, with a keen focus on the export ban.

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William Ruto, the current Deputy President who was then the Minister of Agriculture, met stakeholders in the cashew nut industry at Pwani University in Kilifi in March 2009. He ordered a Cashew Nut Revival Task Force (CNRTF) on 9 April 2009 to submit a report by the end of April and to come up with recommendations on measures to be taken to revive the cashew industry. John Safari Mumba, the former Managing Director of KCL and former MP for Bahari Constituency, and then the Chairman of the Kenya Cashew Growers Association, led the four-member task force.

When the task force finally submitted its report based on views it received from various players, it recommended banning the export of raw nuts.

That same year, Ruto heeded their call and pronounced an export ban on RCN after the four-member task force hastily collected views from the industry's key players. On 16 June 2009, barely one month after the task force's report had been submitted, Ruto published "The Agriculture (Prohibition of Exportation of Raw Nuts) Order, 2009" banning the export of raw cashew and macadamia nuts.

The government also announced that all nuts would be sold through the NCPB, which was then struggling to buy maize from farmers. It would later sell the produce to processors.

The population of cashew nut trees then stood at about 2 million, with 20 per cent of them beyond the production age and more trees projected to graduate to the unproductive age bracket in just a couple of years. Inadequate crop husbandry, the IDS study further revealed, saw farmers exploit less than a half of the total crop's potential.

A disorganised nut market that followed the exit of KCL and the coming up of new entrants (largely exporters of RCN who relied mainly on brokers), affected the growth of the crop's production and productivity since these traders would only emerge during the harvest season and did nothing to promote the crop. The exporters of RCN shifted base to neighbouring Tanzania, one of the world's leading producers of cashew nuts that exports most of its nut produce raw.

Cashew nut woes

Fast forward to the 2010s. A statistic by the Nut and Oil Directorate shows that the area under cashew nut production went down from 28,758 hectares in 2015 to 21,284 hectares in 2016. Production also declined from 18,907 tonnes to 11,404 tonnes in the same period, with the value of the crop recording Sh398 million compared to Sh506 million in 2015. This was attributed to crop neglect and logging of cashew nut trees for charcoal and to pave way for other crops.

In the absence of farmers' groups, a poorly structured NCBP and lack of enough collection centres in the cashew catchment areas, NCPB was not able to buy the nuts, so middlemen continue to dominate the scene to date.

To address these shortcomings, the sector's stakeholders, led by the Provincial Director of Agriculture, formed a multi-sectoral task force to lead in revitalising the sector. Its other members included NutPAK, Cashew Nuts Growers Association and Kenya Agricultural Research Institute (KARI), which was to lead in production expansion.

The task force set out a cashew nuts revival programme that included increased production, streamlining the marketing system to rid the sector of middlemen and setting up minimum farm gate prices, among other measures. However, due to financial challenges, especially for the growers association, the team's initiatives were not realised.

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The matter was made worse in 2013 when the agriculture function was devolved and the task force initiatives lost the support of the Ministry of Agriculture, which dealt a devastating blow to its programmes. Unfortunately, the foundation it had sought to build since 2010 was not transitioned to county governments in cashew catchment areas after devolution.

The county governments have continued to under-fund the cashew nut sector and lack strong policy guidelines to promote the sector. Last year, Kwale County allocated only Sh1.5 million to promote procurement of cashew seedlings in a programme that was being funded by the European Union (EU) to increase production in Lamu, Kwale and Kilifi counties. The EU injected Sh240 million through Ten Senses Africa, which was meant to plant 333,333 trees in each of the three cashew-producing counties.

The main processors have scaled down operations in the cashew nut sector. Most of them are located in the Mount Kenya region, where they have mainly focused on macadamia nuts. The ban on the export of raw cashew nuts favoured the macadamia sector, which has recorded a five-fold increase to reach a production of 50,000 metric tonnes per year.

The industry has thus been left to new entrants but there are strong indications that it still has potential, if well supported. In 2019, for instance, the total estimated area under cashew growing was reported to be 22,686 hectares, which is a marginal improvement from the 22,655 hectares reported in 2018, due to efforts to plant new seedlings.

The sector's revival

The COVID-19 pandemic has simply worsened the cashew export market. This decline has been exacerbated by rare new pests, and a disorganised free-for-all market that has dampened supplies for cashew cooperatives and nearly sealed the sector's fate.

LKCS's chairman, David Njuguna, doubts that the cooperative will be able to offer a farm gate pre-2019 price of Sh30 a kilo once the farmers dispose of the harvest they are still hoarding. According to his estimates, a highly compromised cashew nut quality this year means that farmers will only be able to recover 34 per cent from their entire harvest. This can be attributed to poor crop husbandry, thanks to the low price the crop has been fetching, thus denying farmers the capacity to profitably commercialise the sector.

Mumba led a task force in 2009 that formulated seven clear recommendations that were to be carried out before the ban was effected:

1. To revive the cashew nut industry, the Ministry of Agriculture should first establish a cashew nut revitalisation desk with immediate effect to coordinate the task report's recommendations;
2. The ministry should with immediate effect establish a regulatory apex body for the development of the cashew nut industry to be named the Kenyan Cashew Nut Development Authority (KECADA);
3. KECADA should initiate the process of formulating a cashew nut policy independent from other crops;
4. Immediately following the formation of KECADA, regulation for a minimum farm gate price should be put in place;
5. The government, in conjunction with KECADA, should establish funds to support farm input subsidies, as well as guarantees for public-private partnerships financing cashew farmers;
6. Former farmers' cooperatives should be revived; and
7. Most importantly, only once these recommendations have been put in place (particularly the minimum price), should the government consider implementing an export ban on raw cashew nuts, which should be reviewed regularly regarding its effects.

By putting together the right structures and policies, both the national and county governments can bring this important cash crop back to its former glory.

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