16 Corporate Responsibility and the Cashew Nut Industry: Examples from India and Mozambique

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Background

One of the most valuable processed nuts on global commodity markets, the cashew nut is also an important cash crop for farmers and has the potential to generate employment through processing and to provide export revenue for developing countries. The world's largest producers are Brazil, India and Vietnam, with many countries in Africa producing smaller quantities.

In the 1970s, Mozambique was the largest producer of cashew nuts, but many factors – including war and drought, inconsistent state policies and aging trees – resulted in a decline in production (Kanji *et al.*, 2002). In the 1990s, the privatisation of large processing factories, followed by rapid trade liberalisation, finally brought the processing sector to its knees. Efforts are being made to revive both production and in-country processing, but most of the crop is exported in raw form to India, which has a processing capacity far exceeding its local production. In India, the 1990s witnessed greater import liberalisation for raw nuts, a relaxation of licensing regulations for processors and an increase in cashew kernel exports (Eapen *et al.*, 2004).

With competition between producers and the entry of Vietnam into the world market, international prices have fallen for both raw and processed nuts. At the same time, quality requirements are increasingly being applied by buyers of kernels in the USA and EU.

Wages and working conditions in cashew nut processing plants

Both the location of value addition and the buyer-driven nature of the cashew nut supply chain have had negative implications for the wages and working conditions of workers in India and Mozambique, where cashew nut processing has provided an important source of wage employment for women. The state of Kerala has the largest processing capacity in India, where an estimated 400,000 women work in the industry. In Mozambique, some 10,000 workers were employed in the industry in the early 1990s, but

this subsequently dropped to about 2,000 (Lindberg, 2001; Eapen *et al.*, 2004).

In Kerala, with increased competition in the international market and moves towards complete liberalisation, outsourcing of cashew nut processing on a commission basis (sometimes called *commission varappu*) has increased. Most public sector factories have closed, and employers in private factories have 'seasonalised' and 'informalised' workers. Ownership of the processing sector is dominated by a few Keralan families (later generations of the men who were termed 'cashew kings' some 50 years ago), though foreign companies employ both local and foreign commission agents. Most workers do not earn the minimum wage; this is more likely to be earned in government-run factories than in outsourced work. In all factories men are likely to earn higher, more secure monthly salaries as oven operators and supervisors than women, who tend to be paid piecework rates in the shelling and peeling sections. Workers have faced an overall reduction in working days per year, which is a key concern expressed by women workers. In addition, Keralan processing companies have extended their operations to the neighbouring state of Tamil Nadu, where even lower wages are paid (Eapen *et al.*, 2004).

Conditions in the factories are poor, and regulations concerning ventilation and protective clothing are ignored (ibid.). The cashew nut shell contains a caustic liquid that burns the hands, and the coconut oil that (women) workers use in the shelling section to cover their hands provides limited protection. Women also complain of back and reproductive health problems from sitting or squatting in the peeling sections and standing for long periods in the cutting sections.

In Mozambique, a study of ex-workers in Angoche, a coastal district in Nampula province, shows that workers' livelihoods have been badly affected by factory closures and that women, more than men, have found it difficult to find alternative sources of income (Vijhuizen *et al.*, 2003a). This is linked to the restrictions women face in their mobility. Several newer, smaller-scale factories offer piece rates, and most workers do not earn the minimum wage. However, because there are few employment opportunities, jobs in the factories are coveted – when a new factory opened in Namige, in the same province, 1,000 people turned up to apply for 70 jobs (ibid.).

In the south of Mozambique, workers in one factory started work at 4am and were often there until late afternoon in order to complete their tasks (Vijhuizen *et al.*, 2003b). In general, as in India, women tended to earn less than men and work longer hours, which is linked to the piece rates set for the sections of the factory where women predominate, mainly peeling. Men dominate in better-paid positions within the factory, including supervision

and management. The implications of long hours for women are severe, given that they are still primarily responsible for growing food, doing domestic work and looking after children. In addition, in both Mozambique and India, most factories provide no maternity benefits or childcare facilities. In contrast, the large factories in Mozambique that are now closed used to provide more stable employment throughout the year, as well as benefits that included crèches, food and childcare.

Better practices in processing factories

Although there has been a general deterioration in wages and working conditions in cashew nut processing in a liberalised and competitive environment, this case study looks at two cases where better practices have been adopted in the hope of improving conditions and benefits for workers. These are Miranda Caju in Nampula Province (Mozambique) and processing clusters in Panruti in Tamil Nadu (India) (Vijhuizen *et al.*, 2003a; Kanji *et al.*, 2004).

Miranda Caju in Nampula province, Mozambique

This factory, located in the north of Mozambique, started to operate in April 2002. It was set up by a private entrepreneur with a one-year low interest (18%) bank loan that was guaranteed by the government cashew nut institute, INCAJU. The factory was designed with the help of TechnoServe, a US-based NGO that aims to support entrepreneurial women and men in poor rural areas. Cashews are processed using the steaming method and semi-mechanical cutting machines. All the equipment, including ovens, has been manufactured locally. The owner reconstructed a ruined building and employed 70 workers, and the factory began by processing 120 tons of raw cashews with the intention of building up to its capacity of 1,000 tons per year. The kernels produced are graded and vacuum packed for export. The Netherlands development organisation SNV assisted the owner to contact a Dutch buyer who operates from Rotterdam and exports to various parts of the world.

Workers receive a free meal at work and their contracts entitle them to health assistance, paid annual holidays and severance pay in case of work-related illnesses or accidents. A trade union has been started and a crèche constructed – that is, a clean, sheltered area where mothers can arrange for someone to look after their babies (though without food or trained child-carers, as had been provided in the old government-owned factories). The owner of the Namige factory subsequently set up a second factory, and two more similar factories have been established by other entrepreneurs in the province.

Unlike in India, where women dominate the workforce in the cashew nut industry – operating cutting machines as well as peeling and grading the cashews – in this factory, only men are employed in the cutting section, while women predominate in the peeling section, which is perceived to require dexterity and patience. Management explains this division in terms of women's own preferences, but the view was also expressed that women cannot handle the cutting machines as well as men. There were mixed views from the women we interviewed: some did not want to burn their hands as it would affect their farming work, while others were willing to take any kind of work.

SNV, with support from TechnoServe, further supported the Namige factory by developing an initiative to set up small-scale processing units (known as 'satellites') around the factory. One Mozambican NGO provided a training component for production and processing and another provided a microfinance component. The owner of the factory bought the produce from the satellites. In the first year of the programme (2002–2003), three units were set up, each with the capacity to process 24 tons of raw cashews. The units bought the raw nuts, steamed, cracked, dried and peeled them, and packed them for transport to the factory. In the factory, the cashews were sorted, graded and packed for export. The Dutch buyer was able to absorb high volumes of processed nuts for export to various parts of the world. The owner thus built up the factory towards maximum capacity while also outsourcing the initial, labour-intensive stages of processing to the satellites.

To minimise the risks of management failure and to test technical and economic viability, the first three satellites were run by individuals who had an entrepreneurial background and experience in marketing cashews (two men and one woman). The idea was that if these units proved viable, less experienced individuals, interest groups, associations or family groups would be given the opportunity to run future satellites. A total of 21 units was foreseen for the first three years of the programme, each employing about 12 people.

The Namige initiative provides an interesting example of a 'partnership' approach between government, NGOs, communities and the private sector. Better wages and working conditions were provided for workers than in other factories. Because of the involvement of SNV and the positive relationships that were built up, the owner of the factory made an effort to have at least one satellite run by a woman and started the process of importing castor oil to protect the workers' hands, as it provides better protection than the local oil. It was also thought that better protection might mean more women would want to work in the cutting section where wages are higher.

Although the initiative had the potential to increase the quantity of

processed nuts, generate employment for local people, minimise the number of intermediaries between producer and exporter, and add value locally, it has not been an all-out success. As early as 2004, the Namige factory owner and TechnoServe had reservations about the financial sustainability of the satellite units because quality and productivity were low (the appearance of the nuts, the proportion of 'whole' nuts produced), costs were high and prices of kernels on the international market remained low.

According to Hanlon and Smart (2008), although Miranda Caju and other new private factories have been hugely successful – moving the industry from virtual collapse in 2001–2002, with four tiny factories and a handful of workers, to 18 factories and 6,000 workers in 2006 – the first experiment with 13 'satellite' units failed because the units lost money. The project had taken for granted that the owners would also be the managers. However, even very small units employing fewer than ten people also hired a manager, which not only meant an extra, unnecessary salary but also led to unacceptable production standards. Another problem was the difficulty of guaranteeing EU standards in these tiny units.

The experiment was tried again in 2006, but the prospects for the tiny 'satellite' units at that time did not look good, and many who had believed that 'small is beautiful' changed their tune in this particular case. For example, Technoserve, which originally promoted the idea of small processing units, has now shifted its policy, arguing for units above 2,500 tonnes per year (Hanlon and Smart, 2008).

Processing clusters in Panruti, Tamil Nadu, India

As mentioned above, many processing factories in India have moved from Kerala (which has the largest processing capacity) to neighbouring Tamil Nadu, where even lower wages are paid to women (and men) workers.

In Panruti, Tamil Nadu, clusters of small-scale cashew nut processors have evolved that are similar to the Namige satellites, though with some minor differences. In particular, they carry out more of the stages of primary processing and are more independent. Local nut production is not sufficient to feed the existing processing units, and export houses are the main conduits through which the external procurement of raw cashews (including from Mozambique) takes place. While the export houses procure raw cashew nuts from the domestic and international markets, most do not have their own processing facilities. Instead, they use hundreds of small processing units, most of which are owned by cashew farmers whose harvest alone does not suffice for the facilities they own and manage.

These small processors own the premises, the equipment (however little

they may have), the raw material and the final produce. Employing wage labour to supplement family labour, they are part of a network of small processors linked to a few export houses, each of which has about 40–50 processors. The export house scouts for the raw cashews on their behalf, both in the domestic and the international market, and provides them with information on the price and quality of the nuts. If this is acceptable, then the export house procures the raw nuts and sells smaller quantities to the individual processors. The processing units process the raw nuts on their own, and sort and sell them to the same exporter or to another one.

The small processors also procure raw cashews from the domestic market through their own agents. Three or four small processors pool resources to organise lorry loads of raw nuts that are imported from other states. These processed nuts are also sold to export houses.

Processing cashews generates valuable employment for local people. Combining cashew nut growing with processing can generate employment for almost the entire year. Only women work in shelling (unlike in Mozambique), and they also predominate in the peeling section. In 2003, daily wages varied between Rs50–70, which was lower than the wages in the factories in the region, but the women benefit from the fact that the work is close to their homes. Labour is scarce, especially in the harvest season, and the clusters attract workers from other villages where processing has not been taken up in a big way. An initial appraisal of the institutional arrangements in Panruti seems to indicate benefits for women, particularly in terms of the location of the work.

Lessons learned and future directions

In the 'better practice' examples, the Namige model illustrates the important role of working with government and the private sector. The Panruti clusters, on the other hand, demonstrate the strength that comes from strong grassroots associations or entrepreneurial organisations. However, even in these cases, which are exceptions, there are still gender inequalities in the benefits derived from employment. Also, as was seen above, the Namige factory satellites have not really lived up to expectations.

Choices obviously need to be made. Companies can choose to take advantage of socially constructed gender inequalities or they can choose to invest more in their workforce, women and men, thereby contributing to sustainable development. However, on what basis will they make these choices? How can business incentives be aligned with positive outcomes for sustainable development? And what are the lessons for the various actors involved.

Lessons for workers' organisations and NGOs

Unions are weak or non-existent in the cashew nut processing sectors in both India and Mozambique. Given the need for cash and employment opportunities, workers and unions find themselves in relatively weak positions. Action to promote workers' rights is complex and should not restrict the livelihood opportunities of poor workers or raise labour costs so that their few choices are further reduced. In the Namige case, the union had only just been set up when the research was carried out. The employer wanted the union to mediate between management and workers, to explain to workers the constraints he faced as a result of international prices and to assure them that profits from increased productivity would be shared with them. Unions have often failed to represent the interests of women workers adequately and the development of strong and representative workers' organisations are an important counterweight to more powerful interests.

The Namige case illustrates the potentially important role of support from NGOs working with government and business. Women's groups in Kerala have provided support such as health care for women involved in the cashew nut industry, though the research did not identify any such action for the women in the Panruti clusters.

Lessons for governments

Governments have an essential role in protecting workers' rights and interests, particularly where unions and other civil society organisations are weak. Tripartite discussions between employers, government and workers' representatives at the national level should inform minimum wage agreements and minimum working conditions so that they are adequately contextualised. In the Namige case, the employer has suggested that there should be a minimum wage set between the minimum wage for industrial work and that for agricultural labour. Researchers in both India and Mozambique have suggested that the government should monitor compliance with minimum wages or set up multi-stakeholder groups, including NGOs, to carry out this work.

Lessons for companies and entrepreneurs

Companies often take advantage of gender inequalities, where women are assumed to be 'secondary earners', more willing to accept lower wages for their work or perceived to be less skilled at some tasks than others, while men are still in the higher paid, more secure positions. Companies should seek to provide equal opportunities for women and men in training

programmes and employment, and promotion opportunities, and their efforts should be monitored. Entrepreneurs with smaller units should give consideration to the location of employment and/or provide childcare facilities to enable women with children to work.

Future directions

Cashew nuts are considered a luxury food product and there are a host of quality requirements that are increasingly applied by the USA and Europe. There are indications that hygiene, safety and improvements in working conditions will become more important elements in certification. However, the investment needed to upgrade conditions for certification is often costly, particularly for small businesses. It is usually workers in larger companies, particularly those dealing with branded products, who benefit from the higher labour standards associated with certification or codes of conduct.

The corporate responsibility agenda often focuses on 'win-win' situations, where improved social or environmental performance leads to business benefits. Such incentives for higher standards come through several points of leverage, including consumer demand, civil society pressure, public sector enforcement and conditions imposed by investors or buyers. But the case of cashew nuts illustrates the danger of a 'race to the bottom', when companies operating in liberalising sectors have few, if any, of these incentives.

While women workers in this sector face declining wages, deteriorating working conditions and discrimination, the two 'better practices' featured in this case study show what is possible. However, these improvements depend on the awareness and goodwill of a particular employer/exporter and the work of a particular set of organisations working in that provincial location.

Cashew nut processors at the national level feel that greater profits are retained by business (salter-roaster companies and large retailers) in the North end of the chain. The key challenge remains to identify points of leverage along the entire supply chain in sectors where there is little consumer or buyer pressure for higher labour standards. Until this happens, cases of 'better practice' may well remain the exception.

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