

A new Market Information System may mitigate the impact of the COVID-19 pandemic on farm-gate prices for cashew producers in Guinea-Bissau

Authors: Brais Álvarez Pereira, Sebastian Schäber and Giulio Schinaia

The economy of Guinea-Bissau, highly dependent on the export of cashew nuts, is being severely hit by ruptures in the world supply chains resulting from the COVID-19 pandemic. The associated drop in raw cashew prices will increase poverty and food insecurity, potentially further aggravated by reduced investment capital for the subsequent agricultural season. Our introduction of the n'kalô service, a market information system, provides smallholders with weekly voice messages transmitting the most recent market updates and price tendencies. This provides cashew producers with important guidance in such uncertain times. The strong socio-economic impact of the crisis should incentivize the country's transition towards economic diversification and in-country cashew processing.

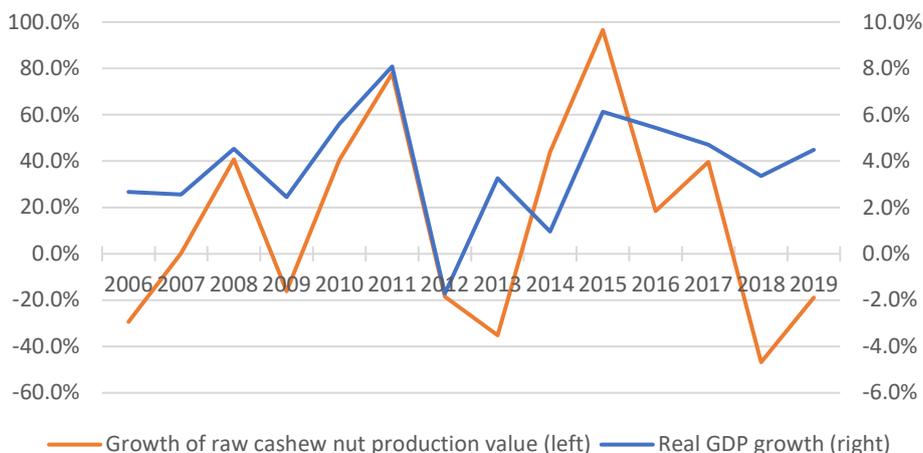
Since its independence in 1974, Guinea-Bissau, has suffered decades of political instability, which has substantially impeded the country's development. The country's economy depends vastly on the production of raw cashew nuts, which make up 90% of the total goods exports. Revenues from cashew nut sales during the marketing season, usually between March and July, are an important component of annual household income, particularly in rural areas. 80% of the local labour force, smallholder farmers and seasonal workers hired during the harvest period benefit from the cash crop. Consequently, the cashew sector and its indirect impact on the performance of other sectors are central factors driving economic performance in Guinea-Bissau (see figure 1), making the cashew marketing campaign the most important economic event of the year. A higher farm gate price for raw cashew nuts contributes to reducing poverty¹ and consequently decreasing food insecurity in Guinea-Bissau (see figure 2).

Results from a study conducted by the Ministry of Economy and Finance and financed by the International Monetary Fund in 2018 revealed that many cashew producers have a poor understanding of the main principles explaining developments in the cashew market. Moreover, producers often have biased expectations of future prices. This tendency seems to be particularly stronger among poorly educated cashew producers. These characteristics result in market inefficiencies and poor sales outcomes for the producer.

¹ Brais Álvarez-Pereira et al. (2017), Guinea – Bissau: Selected Issues Paper, 2017 (chapter IV: Impact of Economic Structure and Policy on Poverty Incidence and Distribution); IMF Selected Issues Papers.

Figure 1: Real GDP growth and growth of raw cashew production

Economic growth of Guinea-Bissau is highly dependent on cashew production and sales prices



Source: Ministry of Finance

Figure 2: Average cashew prices and food insecurity

Higher cashew farmgate prices improves the food security situation in Guinea-Bissau



Source: Ministry of Finance and World Food Program

Throughout 2019, together with the French NGO Nitidae and with financial support from PEDL, PEP and the Government of Guinea-Bissau, we introduced the cashew-market information system n’kalô, which already exists in other West-African countries, in Guinea-Bissau and adapted it to the local context. Our aim is to create transparency for cashew producers in Guinea-Bissau by providing them with timely and relevant information and market trends.²

² This project is studying the effects of the dissemination of market information using a cluster-randomized control trial across 291 villages across the country.

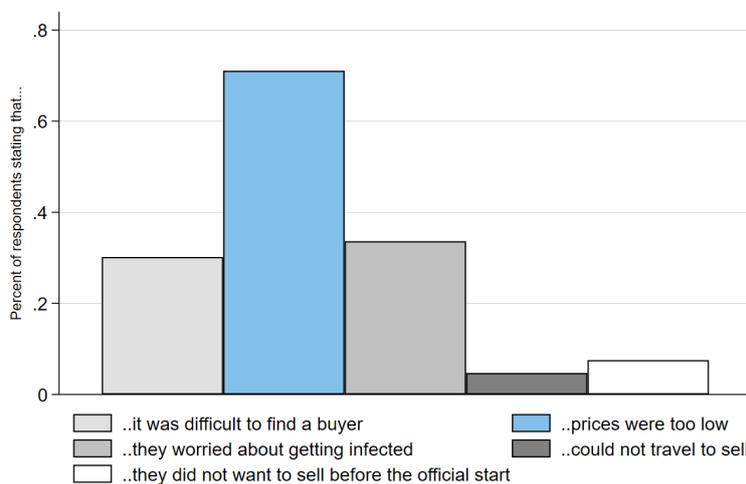
The surge of COVID-19 in the first quarter of the year occurred during the run-up to the cashew season in Guinea-Bissau, substantially affecting the functioning of the season with negative socio-economic impacts caused by external and internal factors.

The two largest cashew-importing countries, India and Vietnam, had already closed their borders and cashew processing plants when Guinea-Bissau confirmed its first two positive cases of COVID-19 on 25 March. Even though demand for processed cashew remained high, this disruption in the supply chain caused a substantial slump in the international demand for raw cashew nuts. Sales in other cashew-producing countries in West Africa almost came to a complete halt, as border closures all over the world brought additional market uncertainty. Authorities in Guinea-Bissau closed air and land borders, as part of their preventive measures. These measures prevented international and regional cashew value-chain agents, mostly buyers and intermediaries, from entering Guinea-Bissau, also reducing the influx of capital needed to buy raw cashew from producers. National travel restrictions between regions also limited the movement of seasonal workers that support the labour-intensive collection of cashew nuts.

Usually the cashew marketing campaign in Guinea-Bissau, which officially legalises sales and purchases of raw cashew nuts, starts in late March. This year, due to confinement measures taken by the government, the official campaign start was postponed until 27 May. However, coping measures to address immediate food security needs, little bargaining power and high uncertainty about market developments forced many producers to sell their cashews before this date, at prices down to XOF 200/kg (US\$ 0.34/kg), from an average of XOF 474/kg (US\$ 0.81/kg) in 2018 and XOF 351/kg (US\$ 0.60/kg) in 2019.³

Figure 3: Reasons farmers delayed their cashew sales related to COVID-19

A majority of farmers delayed their cashew sales at the farm gate largely due to prices being too low



Source: Author's calculations from midline survey. Note: N=318, % of respondents excluding those who did not delay their sales because of COVID-19-related issues. Percentages do not add up to 100 because multiple responses were allowed.

³ Raw cashew nuts are in practice not tradable across seasons.

However, other producers decided to postpone their planned cashew sales due to COVID-19 implications. Out of the 574 producers that were part of our intervention, 55 percent stated that they delayed their cashew sales against their original intentions because of the issues caused by the coronavirus pandemic. Most reported that offered prices were too low, there were difficulties in finding a buyer, and they were worried about getting infected (see figure 3).

Supported by Nitidae and a national market analyst, our team monitored the local and international cashew markets, and advised producers via the n'kalô service during the first weeks of trading to dry their cashew nuts well and wait to sell until prices reach at least XOF 375/kg.

This crisis has directly hit the well-known economic fragility that Guinea-Bissau owes largely to its strong specialization in raw cashew nuts. The need for economic diversification and the promotion of in-country processing of cashew nuts is now clearer than ever before. The ruptures in the world supply chains and the associated decrease in raw cashew prices should incentivize the transition of the country's economy in this direction. The recently introduced n'kalô service should serve as a useful guide to the stakeholders in the cashew sector, even more so in these turbulent times.

This note is based on research conducted as a part of PEDL project [ERG 6750](#).