Cashew Production, Taxation, and Poverty in Guinea-Bissau

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CHAPTER 6

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Agriculture is the engine of Guinea-Bissau's economy. The sector relies mainly on cashew nuts, rice, and the subsistence production of food crops. Cashews represent 90 percent of the country's exports and the principal source of income in rural areas. Unfortunately, cumbersome administrative arrangements, weak legal systems, and an absence of credit often lead to high transaction costs for cashew buyers and exporters, which help decrease the farm-gate price of the raw nuts. This chapter provides a review of the cashew sector in Guinea-Bissau, as well as estimates of the likely impact of changes in farm-gate prices and export taxes on poverty among cashew producers and in the country as a whole. The chapter also notes that over the last three decades, the production of rice has significantly decreased in favor of cashew farming. This situation represents a threat to food security. For the rural sector to ensure food security and create new jobs, policymakers would need to adopt a coherent agrarian development strategy in the context of the PRSP, which would aim at rehabilitating and encouraging rice production, and also promoting the processing of raw cashews into exportable cashew kernels, in order to generate more value added in the cashew sector.

Agriculture has been for a long time the backbone of Guinea-Bissau's economy as the country is endowed with fertile soils, abundant water, and a favorable climate. The sector represents more than half of the GDP, employs four-fifths of the labor force, and contributes to more than 90 percent of the country's export earnings through cashew nut exports. Over the past three decades, the production of cashew nuts has increased substantially. Guinea-Bissau is now the sixth-largest producer of cashew nuts (6 percent of the world cashew production) after India, Vietnam, Brazil, Ivory Coast, and Tanzania.

While the cashew sector has had large positive macroeconomic impacts, and while it is the main source of livelihood of many among the rural poor, it suffers from a number

of weaknesses. First, as in the other economic sectors, public investments in agriculture have stalled in recent years due the reallocation of public resources to defense and security programs. The efficiency of the cashew sector has probably been affected by this lack of investment, if only in terms of transport costs. Similarly, private investments suffered from the lack of adequate financing mechanisms, which is one of the reasons why Guinea-Bissau produces and exports raw cashews instead of moving up the value chain. This situation places the sector as well as cashew producers in a vulnerable condition vis-à-vis price fluctuations on the international markets, and the absence of a coherent rice-cashew strategy represents a major threat to rice production and food security because the increase in cashew production has been obtained at the detriment of rice production (there is in fact a whole system of barter of cashew nuts for rice).

On a regulatory and administrative level, the cost of doing business in the cashew sector also remains relatively high, as documented by Jaeger and Lynn (2004).[27] Instability and weak governance remain major disincentives for much-needed domestic and foreign investments in the sector. This situation is further complicated by changing regulations, unclear and cumbersome administrative requirements for existing and new businesses, and dysfunctional legal enforcement as well as inadequate utilities and seaport systems. In addition, the current export tax on cashew nuts (6 percent) is high relative to other export taxes (typically at 2 percent), thereby having a negative effect on rural incomes.

The objective of this chapter is to provide a brief review of key issues in the cashew sector, as well as estimates of the potential impact on poverty of selected cashew policies. It is found that an increase in farm-gate prices, which could be achieved through a reduction in transaction and financing costs, could help to reduce poverty. The same would likely be true for a reduction in export taxes. In contrast, an increase in export taxes on raw cashew exports in order to promote the creation of processing facilities could, at least in the short run, affect farmers negatively. While all these results are not sufficient to serve as a basis for policy recommendtions, they provide important insights into the economy of Guinea-Bissau.

Guinea-Bissau's Cashew Sector: Brief Review

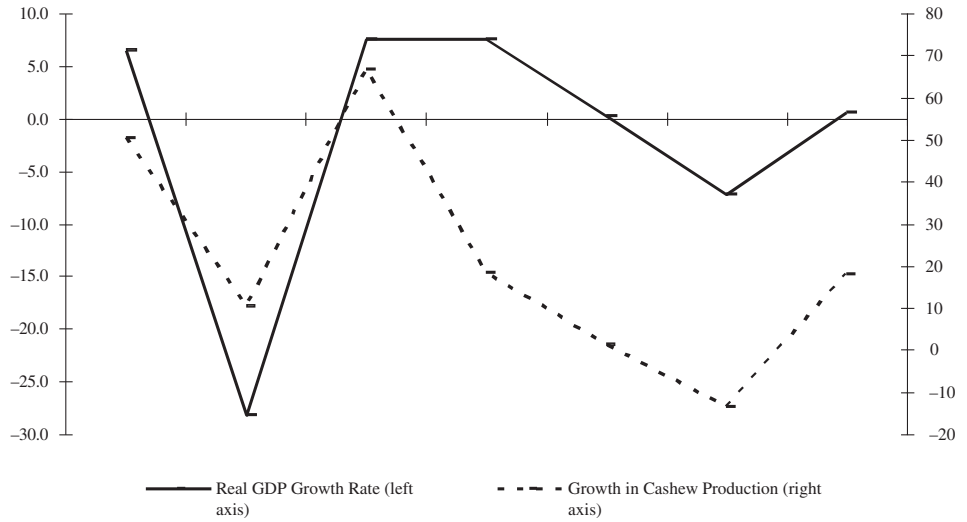
Livelihood of the Poor and Farm-gate Price

Guinea-Bissau is endowed with fertile soils, abundant water, and a favorable climate. Agricultural production includes cashew nuts, rice and other cereals, fruits, fishing, livestock, and forestry products. Exports are, however, concentrated on cashew nuts, with only minimal additional revenues from fish and seafood, fruits, palm kernels, and timber. Started as a marginal activity with an export volume of about 2,500 metric tons in the 1970s, exports of cashew nuts have increased steadily during the past three decades, reaching over 80,000 metric tons by 2004. Today, the country is the sixth-largest producer of cashew nuts (6 percent of the world production) after India, Vietnam, Brazil, the Ivory Coast, and Tanzania. Episodes of good cashew performance are often associated with higher per capita incomes and better economic performance, as illustrated in Figure 6.1, suggesting a key role for the sector in the economy.

27. For further reference see Government of Guinea-Bissau (2004, 2005a, and 2005b) and Franca (1994 and 1995).

Cashew planting was first established in the northern regions of Ohio and Biombo, and expanded thereafter rapidly in the east and the south. According to estimates by ANAG (quoted by Jaeger and Lynn 2004), about 5 percent of the country's land or 175,000 hectares are devoted to cashew production, and the land allocated to cashew nut production continues to grow today at a rate of about 4 percent per year. Due to the fact that many trees planted in the recent past are bearing fruit, exports may very well reach up to 140,000 tons by 2010. Even more conservative estimates would lead to a level of exports above 100,000 tons per year by 2010. Small farmers, most of whom are engaged in cashew production, compose approximately 90,000 households with an average farm size per household of less than 3 hectares. Larger farmers or *ponteiros,* with land right concessions assigned by the government, own some 2,200 properties covering 27 percent of the country's arable land, with each property ranging from 20 to 3,000 hectares.

Figure 6.1 Real GDP and Cashew Production Volume, 1999–2003
(change in %)



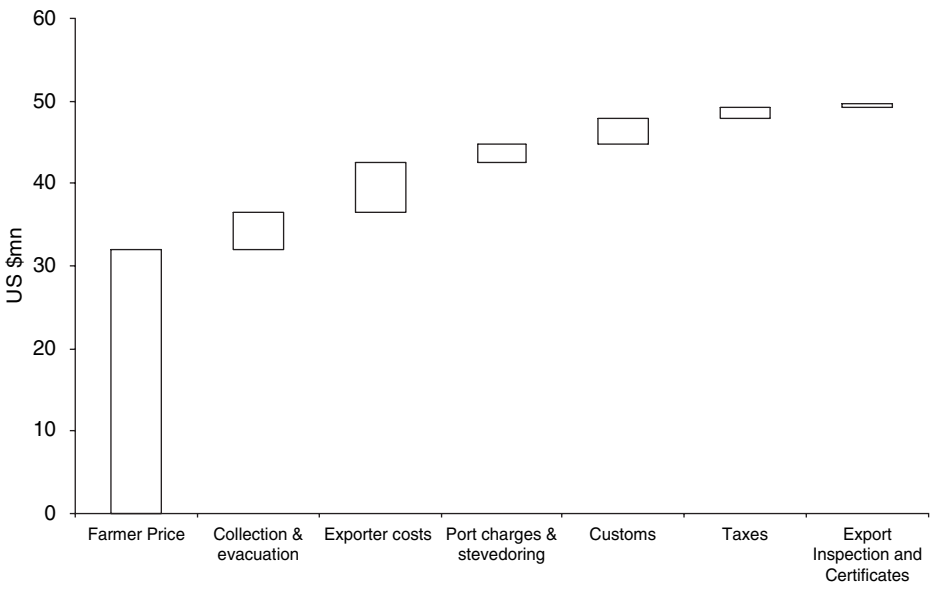
Source: Authors using IMF and FAO data.

As shown in Figure 6.2, an apparently positive feature of the cashew market in Guinea-Bissau is the fact that farmers get a fairly high share of the export price, about 70 percent according to Jaeger and Lynn (2004). This suggests that, within Guinea-Bissau, farmers may get their fair share. However, cashews are provided to exporters by traders and intermediaries who buy the crops from farmers, which are then exported to India for processing. Due to the weakness of the banking sector in Guinea-Bissau, Indian firms often provide financing for exporters, and this is done on strict financing terms, thereby putting downward pressures on the prices paid to exporters and ultimately the farmers. As cited in Chapter 5, Badji, a former minister of agriculture interviewed in December 2004, estimated that farm-

ers may overall obtain only 20–30 percent of the full export value of cashews; with another 20–25 percent going to intermediaries, and a much larger 40–60 percent going to import and export firms. Specifically, in return for providing financing, 70 percent of the share allocated to exporters and importers may very well benefit Indian importers rather than exporters from Guinea-Bissau. The estimates provided by Badji are much less favorable than those provided by Jaeger and Lynn (2004) regarding the transaction costs in the market within Guinea-Bissau, and they also put the price received by the country's exporters in broader perspective. Said differently, farmers in the end may well benefit from only a fairly limited share of the actual value of their production on the world market.

Still, working in the sector is beneficial for agricultural workers who are hired to collect the crops and perform other work. Brushing, forest clearing, and planting are the primary activities required for establishing a cashew plantation. These activities are generally carried out by unskilled laborers and can take 30 days of labor at a cost of 60,000 CFAF per hectare ($110, estimates provided by Jaeger and Lynn 2004). Small farmers typically collect their own production, while larger planters hire workers for the job. Jaeger and Lynn (2004) suggest that about CFAF125 ($0.25) per kilogram is paid as labor costs during collection (50 percent of the average farm-gate price per kg). If a worker gathers 35 kg/day of nuts, he or she will earn CFAF 8,750 every four days, or 2,188 per day (about $4.50), which is an attractive rural wage rate.

Figure 6.2 Breakout of Cashew Export Costs



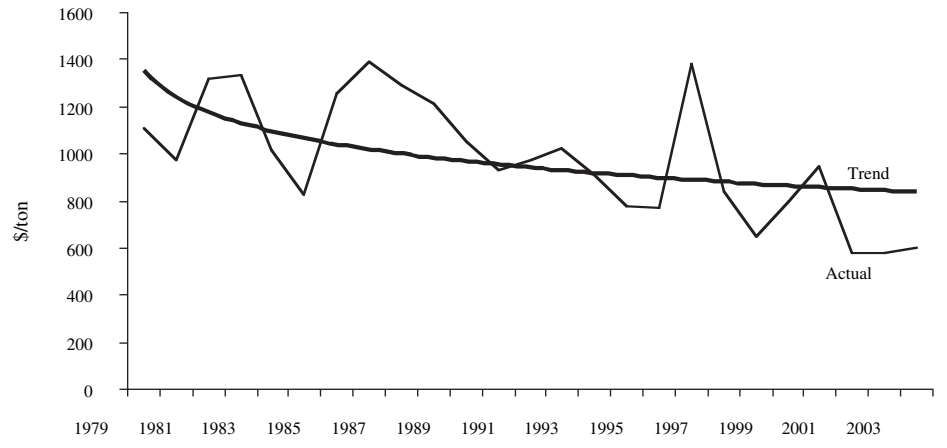
Source: Jaeger and Lynn 2004, based on exporter interviews and government figures.

The more fundamental issue is that Guinea-Bissau essentially produces and exports raw cashews, while the sector would generate much more value added if cashew nuts were processed and conditioned before being exported. Another constraint facing the sector is the absence of research and development, and vulgarization activities. Cashew trees are grown

naturally without using advanced scientific methods, while in other countries research programs are carried out in order to improve the size of the nuts and their capacity to resist deadly diseases such as the Fungi Anthracnose and Oidium Anacardii, which have already affected plantations in Mozambique. So far, Guinea-Bissau has been fortunate as these infections have not spread in the country, but risks remain.

The sector also remains vulnerable to price shocks and a decline in export prices over time (see Figure 6.3), with a decline over time of the price of the commodity and adverse price fluctuation on the world markets translating into some volatility for cashew producers. In addition, there is also volatility in cashew prices within a given year. For example, the farm gate price was between 60–70 percent of the FOB value of the export price in 2004. Jaeger and Lynn (2004) note that the price doubled during the first weeks of the season, fell back as the export buying price moved higher, and then dropped again because of increased speculations on the side of the Indian exporters.

Figure 6.3 Trend in Cashew Prices, 1979–2003



Source: Authors based on FAO data.

In addition, as already mentioned above when discussing the prices received by exporters, microfinance is too weak not only to finance the whole value-added chain but also to finance other improvements in the sector. There is only one commercial bank in Guinea-Bissau and nearly all banking activities are concentrated in the capital city, Bissau. Commercial loans are limited to a few small enterprises in the form of short-term agricultural working capital (*crédit de campagne*). Access to credit is very limited for the majority of the population because of lack of collateral. Improving access to microfinance for small holders could facilitate the diversification of the sector and help create jobs.

Regulatory Framework, Transaction Costs, and Taxation[28]

Guinea-Bissau could develop a sizeable cashew processing industry that could create thousands of jobs and earn a great deal of value added. However, the development of such an

28. This section is based in large part based on Jaeger and Lynn (2004).

industry requires both domestic and foreign investment. A study by Jaeger and Lynn (2004) suggests that obstacles to such investments include a lack of adequate institutional and regulatory arrangements, as well as high domestic and international transportation costs due to poor rural road infrastructure and the small number of freight companies, and, to a lower extent, taxation.

Consider first the broad institutional and regulatory setting. Political instability and weak governance have created major disincentives to domestic and foreign investments necessary for the development of the sector. There are numerous risks associated with changing regulations, unclear and cumbersome administrative requirements for existing and new businesses, dysfunctional legal enforcement, and inadequate utilities and seaport systems. Addressing these issues would require improving the investment climate (simplifying and clarifying relevant laws and taxes, streamlining investment and export-related administrative procedures, rehabilitating the physical and administrative infrastructure of the port, and so forth).

In regard to the cashew sector specifically, laws concerning cashew nut trading have changed often in recent history, including two changes in 2000 and another in 2001. The laws are unclear, and the traders believe that enforcement may not always correspond to what the laws say. For example, it is currently not clear whether foreign enterprises are permitted to buy raw cashew nuts as intermediaries or exporters. Not only does this reduce the competition for the nuts but the uncertainty is an unambiguous danger signal to investors. When enforcement is believed to be contrary to the law, there must be recourse through the courts, which requires an effective judicial system. In addition, the absence of coordination between producers and other stakeholders, as well as the lack of supervision on the government side also contribute to persistent weaknesses in the sector. Currently, there is no private organization that encourages and sustains collaborative actions between all parties involved in the cashew chain. Stakeholders in the cashew sector need to organize themselves under a structure that they create to promote their mutual interests. On the government side, a small office dedicated to policies related to cashews could also be set up.

Another issue is the fact that transportation costs are relatively high, especially for exports out of the country. The country does not have a railway system, and possesses only 10 percent of paved roads in a network of 4,400 km. The road network in rural areas is generally unpaved and in bad condition. The country has a large river transportation network yet to be developed. Beyond the poor infrastructure within the country, the cost of freight to India (a major importer of Guinea-Bissau's cashew nuts for processing) is significantly higher in Guinea-Bissau than in other West African ports. The cost of a 20-foot container shipped from Bissau to India was quoted as $1,400 in June 2004 (rising to $1,700 by late June), compared with $600 from Abidjan. The higher costs are in part because of shipping line charges for calling at Bissau ports and the absence of competition in Guinea-Bissau's freight market.

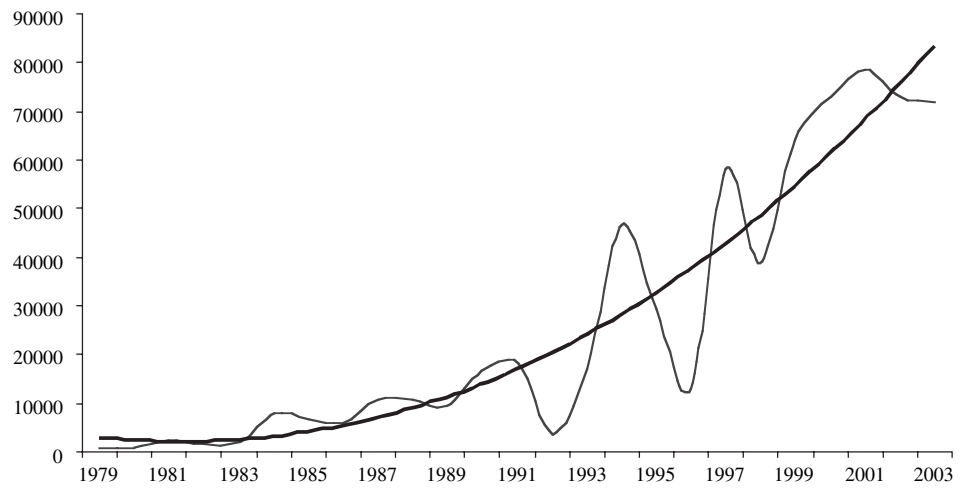
Finally, taxation of the sector, although reduced over time, may still lead to some negative trickle-down for farmers. Exports of cashew nuts are currently taxed at the rate of 6 percent (since 1989 this rate has been gradually reduced from 34 percent). The reduction was intended to boost raw cashew export. However, the authorities may decide in the future to promote cashew processing by raising rates in order to discourage raw cashew exports. Although the overall net effect of such policy may be positive in the long run, it could have a strong negative effect on rural incomes in the short term (as kernel processing will take years to fully develop). If 80,000 tons are exported at $650 per ton, a 10 percent

tax rise could equate to $5 million, a big part of which might in the end have to be borne by farmers. Since farmers benefit only from part of the export price, a 10 percent tax increase at FOB level would be equivalent to a drop in revenues of at least 14 percent at the farmer's level under full pass-through. Thus, in the absence of a processing capacity, which would lead to higher margins, a tax increase could penalize farmers and worsen poverty.

Impact of the Cashew Boom on Rice Production

Rice production represents a fundamental livelihood strategy for most of the rural population in Guinea-Bissau, and is recognized as a priority in the Agrarian Development Policy Charter. Rice accounts for 62 percent of the national cereal production and 75 percent of actual cereal consumption equivalent to 130,000 tons per year or 130 kg per capita annually. Yet, domestic paddy rice production constitutes 77,000 tons of milled rice only. This means that the country has faced a chronic rice production shortage of 45,000–60,000 tons in recent years. The gap is filled by rice imports, which have represented about 25 percent, or $13.4 million, of the trade account deficit in recent years. This is in sharp contrast to the production levels attained before independence, during the 1950s and 1960s, a time at which production used to generate a surplus for export to neighboring countries in addition to urban centers. In fact rice production had increased by more than 10 percent per year even during the 1980s, largely because of improved economic incentives. But production stalled following the cashew boom of the 1990s, due mainly to increased reallocation of agricultural land and labor force to cashews (Figure 6.4).

Figure 6.4 Cashew Nut Production, 1979–2003
(in metric tons)



Source: Authors based on FAO data.

There are several reasons for the growth of the cashew sector to the detriment of rice production. First, farmers are naturally inclined to engage in commercial crop production of more guaranteed value. Second, cashew production also allows farmers to

reduce their production cost, especially in terms of labor inputs that are higher for rice than cashews. Indeed, virtually no labor is required until nut harvesting after planting. Thus new areas are increasingly converted into cashew plantations, especially in the eastern and southern part of the country. Most of such newly established plantations have yet to mature for fruit bearing, hence, as mentioned earlier, higher levels of production are expected in the future. Third, another disincentive for rice production is its resale value. The local rice variety is not viewed favorably enough to give incentives to engage surplus production beyond what would be necessary for subsistence needs for a family.

The strategy of replacing a subsistence crop with a cash crop involves a major food security risk. Farmers need to survive within what the rice harvest permits as it comes to a close in September–October in the small valleys, or October–November in mangroves. They have to wait for the cashew nuts to ripen for harvest in March/April through June when barter transaction with rice is possible. Farmers' subsistence rice stock often runs out before such transaction is possible, leading to food security risks. This implies that cashew producers exchange part of their production to obtain rice. These barter transactions amount to CFAF 15 billion, or about $26 million based on local market value of raw cashew nuts. Necessary investment to attain self-sufficiency in rice production would be less than one-third of the costs paid in the barter system.

The rehabilitation and promotion of rice production is seen as essential for ensuring food security and sustainable poverty reduction. Bringing rice production to pre-independence levels would require the introduction of high-yield rice seeds, and the rehabilitation of rural roads. Introducing new species of high-yield rice compatible with the country's climate is one option. For example, the super *ratooning* rice brand developed in southeast China's Fujian Province can reach more than 16 tons per hectare per year. The species is able to bear fruit twice a year, and exceeded the Chinese national acceptable criteria for super hybrid rice. The high-yield rice may bring a higher yield and alleviate the heavy labor otherwise required of farmers in Guinea-Bissau. If all actual land devoted to rice production were cultivated using the type of rice described above, the country's total production of rice is likely to exceed 2.2 million tons per year in the long run. This would allow covering domestic needs and still potentially generate more than 2 million tons for exports. Achieving such a production capacity would of course require that farmers have access to credit for buying fertilizers and other modern agrarian equipment for sowing, maintaining and harvesting crops. It would also require good rural road networks in order to ship goods to local and regional markets. The first step toward planning such a change would be to prepare a coherent agricultural development strategy in the context of the PRSP, and reinforce rice production pilot phases currently being implemented in the eastern regions of the country.

Distributional Issues in Cashew Production, Pricing, and Taxation

Basic Statistics from the 2005 IPSA Perceptions Survey

Household level data on cashew production are scarce. The nationally representative 2002 ILAP survey (INEC 2002, Sylla 2004) was to have a module on income sources, including income from various crops, but information by crop is not actually available in the survey

data files. Therefore, the only source of information available to conduct some distributional analysis is a small-scale survey conducted in 2005 for the IPSA report on Guinea-Bissau by the World Bank (World Bank 2006). The survey was conducted in both urban and rural areas, with about 400 households participating.

Apart from general information on income sources, the 2005 IPSA survey includes specific questions on cashew sales and barter. Summary statistics on the results are provided in Table 6.1. Slightly more than a third of the households (37.4 percent) have positive sales, with a higher proportion in the bottom tercile (46.5 percent) than in the top tercile (26.1 percent). The proportion of households with positive cashew sales reaches close to half among those household who declare having land, with smaller differences by tercile. While poorer households are more likely to produce and sell cashews, the total value of the sales is higher among wealthier households when the sample is restricted to those who sell cashews. However, the differences are not very large in the sample, ranging from an average sale value of about CFAF 121,000 in the bottom tercile to 176,000 in the top tercile. This lack of difference may be because of the small scale of the survey, in which large producers (*ponteiros*) are not likely to be well represented. Said differently, the sample is likely to represent the situation of relatively small producers only, rather than the situation of all producers in the country.

Another important result is the fact that exchange by barter (exchange of cashews for rice) is very common, especially among the poorest tercile, where they represent 55.9 percent of all transactions at the end of the season (and 73 percent of all transactions year-round). In the top quintile, barter accounts for 39.3 percent of sales at the end of the season (59.4 percent year-round). This is probably because wealthier households have other means to purchase rice, and prefer to sell their production in cash rather than in kind.

Table 6.1 Cashew Sales by Tercile, 2005

	Tercile (%)			Area (%)		
	1	2	3	Urban	Rural	Total
Positive sale	46.5	39.4	26.1	28.9	42.8	37.4
Positive sale among those with land	50.4	47.0	43.6	50.6	46.4	47.6
Sales value when positive (CFAF)	120,924	147,540	176,189	170,292	131,332	143,020
Time of sale						
Beginning of season	1.3	4.3	3.1	2.5	3.1	2.9
Mid-point of season	3.1	2.6	1.5	2.2	2.6	2.5
End of season	22.7	23.9	36.0	29.3	25.6	26.9
Time of barter						
Beginning of season	5.3	10.6	12.2	11.8	7.7	9.2
Mid-point of season	11.8	7.1	7.9	7.1	10.0	9.0
End of season	55.9	51.5	39.3	47.1	51.0	49.6

Source: Authors from the 2005 Qualitative Survey.

Impact of Cashew Prices and Taxes on the Poor

Although the above data are fairly limited, they can nevertheless be used to perform indicative simulations regarding the impact of cashew policies on poverty and inequality if we are willing to make a number of assumptions and to combine these data with results obtained from the nationally representative 2002 ILAP survey. Two types of simulations are performed. First, we can assess the impact on poverty of an increase in the prices paid to producers, thanks, for example, to a higher price obtained by exporters or through a reduction in transaction and transport costs. Similarly, we can assess how a reduction or an increase in the tax to be paid on cashew exports would affect the poor.

Consider first the impact of changes in the farm-gate prices of cashews. Empirical evidence worldwide suggests that improved access to markets through improved business environments; better institutional, regulatory, and tax arrangements; and adequate rural infrastructure may have a strong potential for reducing poverty. The specific discussion for Guinea-Bissau in the previous section suggested that although farmers may receive a relatively large share of the export price, the export price itself is low due in part to the unavailability of financing in the country. As exporters must rely on financing provided by Indian firms on strict terms, farmers ultimately suffer from low farm-gate prices.

The simulations in Table 6.2 provide a very rough idea of how poverty might evolve among cashew producers if these producers were to receive a higher price for their crop. The first line in the table provides the value of household cashew production. For simplicity, we will assume that the cashew producing households from the first tercile of Table 6.2 in the 2005 IPSA survey are representative of the extreme poor who are cashew producers, while households in the first two terciles are representative of cashew producers who are either poor or extreme poor. Thus, the average value of cashew production among the extreme poor is estimated at CFAF 120,924 (from Table 6.1), while for the poor, the corresponding value is the straight average of the value of the production for the two first terciles in the 2005 IPSA survey, namely CFAF 134,232. For poverty analysis, we need to transform these estimates into estimates per equivalent adult, (each household member above 15 years of age counts for one equivalent adult, while household members below that age count for only one half of an equivalent adult, following the poverty measurement methodology used in the country). The estimated numbers of equivalent adults in Table 6.2 are from the 2002 ILAP survey. Dividing household cashew production value by the number of equivalent adults generates cashew production value per equivalent adult, which can then be compared to the levels of total consumption per equivalent adult in the 2002 ILAP survey in order to assess how consumption per equivalent adult might evolve with an increase in revenues from cashew nuts (assuming all the increase in revenues is used for consumption purposes by beneficiary households).

The results suggest that a 15 percent increase in farm-gate prices for cashew nuts could result in an increase in consumption for the extreme poor of 9.5 percent, and 3.3 percent for the poor. The results for the extreme poor are likely to be overestimated because the estimated share of total per capita consumption accounted for by cashew nuts is large. On the other hand, the very poor who are not cashew producers themselves but work on farms as day laborers could benefit from trickle-down effects which are not accounted for here. Next, taking into account the measures of poverty and extreme poverty obtained in the 2002 ILAP survey, and estimates of the elasticity of poverty reduction to an increase in consumption (which are preliminary at this stage), we find that among cashew producers, extreme poverty could be reduced by 3.14 percentage points and poverty by 1.81 percentage point under a 15 percent

Table 6.2 Impact of Change in Cashew Prices on Poverty

Assumptions	Impact on poverty	Impact on extreme poverty
Value of household cashew production (CFAF)	120,924	134,232
Household size (number of equivalent adults)	7.6	6.6
Per capita value of cashew production (CFAF)	15,911	20,338
Mean consumption/equivalent adult among the poor (CFAF)	25,152	91,895
Gain in consumption with 15% rise in cashew price (CFAF)	2,387	3,051
Headcount index of poverty/extreme poverty (%)	21.6	65.7
Elasticity of poverty reduction to consumption growth	–1.53	–0.83
Change in consumption with 15% rise in cashew price (%)	9.5%	3.3%
Change in poverty among cashew producers (%)	–14.5%	–2.8%
Percentage point change in poverty among cashew producers	–3.14	–1.81
Share of households producing cashew nuts (%)	46.5%	43.0%
Impact on poverty/extreme poverty among all households	–1.46	–0.78

Source: Authors from 2002 ILAP and 2005 IPSA surveys.

increase in cashew prices. These are substantial impacts that result from the important role that cashew revenues play among those households who produce and sell cashews. Finally, in order to assess the potential poverty impact on poverty in the country as a whole, one must take into account the fact that not all the poor or extreme poor are cashew producers. Even though only about half of the households are likely to be involved in cashew production and sales according to the 2005 IPSA survey, the net impact on national poverty remains fairly large, with anticipated reductions in the share of the poor or extreme poor of 0.78 and 1.46 percentage points respectively. Note again that the estimates in Table 6.2 do not take into account potential derived impacts through wage increases for cashew farm workers.

What about the impact on poverty of taxing cashew exports? An increase in the export tax on unprocessed cashew nuts of about 10 percent could potentially (with full pass-through to farmers) generate a reduction in their farm-gate price of close to 15 percent as discussed in previously (this assumes that farmers get 70 percent of the export price).[29] In other words, this would have equal, but reverse, effects on poverty as the estimates in Table 6.2 (poverty could increase by the amounts estimated in Table 6.2). Alternatively, if the 6 percent export tax were eliminated, and if we were again to assumer full pass-through to farmers, farmers could benefit from an increase in consumption of 8.6 percent, which would have poverty impacts of about half the estimates presented in Table 6.2. The issue of the impact on producers of changes in export taxes implies a difficult dilemma, as an increase in taxes to encourage exporters to move up the value chain toward cashew processing may have short-term detrimental impacts on the poor. Yet in the medium- to long-term, it could be hoped that the positive effect on income of cashew processing on producers would more than offset the adverse short-term impact. If it were decided to increase export taxes, a gradual increase in the tax rate could help to reduce short-run effects.

29. See Diop and others (2005) for a similar case study on Rwanda.

Conclusion

Cashews represent 90 percent of the country's exports and the principal source of income in rural areas. Unfortunately, cumbersome administrative arrangements, weak legal systems, and an absence of credit have led to high transaction costs which decrease the farm-gate price of the raw nuts. This chapter has provided a review of the cashew sector in Guinea-Bissau, as well as estimates of the likely impact of changes in farm-gate prices and export taxes on poverty among cashew producers and in the country as a whole. The chapter has noted that over the last three decades, the production of rice has decreased in favor of cashew farming. According to some, this situation may represent a threat to food security. More generally, for the rural sector to ensure food security and create new jobs, policymakers would need to adopt a coherent agrarian development strategy in the context of the PRSP, which could among others aim at rehabilitating and encouraging rice production, and also promoting the processing of raw cashew into exportable cashew kernels in order to generate more value added in the cashew sector.

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