

'Flores Blooming'

A case study on promoting the Cashew Nut Value Chain in Indonesia



swisscontact

LED-NTT Project/Indonesia

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Contents

<i>Contents</i>	1
<i>Abbreviations</i>	2
<i>References</i>	2
<i>1 Swisscontact and Cashew Nuts</i>	3
1.1 Swisscontact in Indonesia.....	3
1.2 About the LED NTT project.....	4
<i>2 Flores Island in Focus</i>	4
2.1 Agriculture in Flores.....	5
2.2 The cashew sub sector in Indonesia and Flores.....	6
<i>3 The Cashew Value Chain</i>	7
3.1 The global cashew value chain.....	7
3.2 Who cashes in on cashew?.....	8
3.3 Analysis of constraints and opportunities for the cashew sector in Flores.....	8
<i>4 Intervention strategies for upgrading</i>	9
4.1 Intervention 1: Strengthening cashew farmers' groups.....	9
4.2 Intervention 2: Developing local cashew enterprises for processing.....	10
4.3 Intervention 3: Market development of organic cashew.....	11
4.4 Intervention 4: Facilitating linkage of business media and finance.....	11
<i>5 Results</i>	11
5.1 Changes in farmers' livelihood and their position in the value chain.....	11
5.2 New enterprises and market linkages.....	13
5.3 Value added in the cashew value chain.....	14
5.4 Changes in the overall business environment.....	14
<i>6 Lessons learned</i>	14
6.1 Choice of entry point.....	15
6.2 Small holder organic group certification.....	15
6.3 Developing local cashew enterprises and market linkages.....	16
6.4 Facilitating improved business environment.....	16
<i>7 Future directions</i>	17
<i>8 About Swisscontact</i>	18

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Abbreviations

CNSL	-	Cashew Nut Shell Oil
HDI	-	Human Development Index
ICS	-	Internal Control System
IDR	-	Indonesia Rupiah
LED NTT	-	Local Economic Development in Nusa Tenggara Timur
LEISA	-	Low External Input Sustainable Agriculture
NGO	-	Non Governmental Organization
RIA	-	Regulatory Impact Assessment
OSS	-	One Stop Service
SC	-	Swisscontact
SME	-	Small and Medium Enterprise
ToT	-	Training of Trainers

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1 *Swisscontact and Cashew Nuts*

1.1 *Swisscontact in Indonesia*

The Swiss Foundation for Technical Cooperation (SC) is the organization of the Swiss private sector for development cooperation. Headquartered in Zurich, its aim is to promote private economic and social development in selected countries in the South and East. Its primary aim is to help alleviate poverty in developing countries. One of its core areas of involvement is promotion of Small and Medium Enterprises (SMEs) in selected sectors to enhance their competitiveness.

Swisscontact’s operation in Indonesia is one of its largest in Asia and includes more than 10 major projects involving several donors. Project activities are located in three regions: Aceh and North Sumatra, Java and Nusa Tenggara Timur (see figure 1). It has a staff of 124, of which 7 are expatriates. It had an annual budget of nearly US \$7 million in 2008.

The range of experiences of Swisscontact in private sector development include business recovery in Tsunami affected areas, value chain development, tourism and improving the business environment among others.



Figure 1: Map of Indonesia showing project locations (blue circles) and LED NTT project area (red circle)

SC has recently begun to document its experiences in the form of case studies. The aims of these case studies are to extract the experiences and learning from implementing a project, use them in improving programs in the future and to share them with others in the field. This case study deals with experiences of Swisscontact on facilitating the development of the cashew nut value chain in Flores Island, East Nusa Tenggara Province, Indonesia during the first pilot phase 2004-2008 (for location see figure 1). Through a series of interventions related to improving productivity and quality – which will be detailed in the following sections, the project was able to achieve the following results:

Result Category	Change
No. of farmers beneficiaries	866
No. of certified farmer groups	From zero to 6
Organic production	From zero to 310 tons
Local processing	From zero to 3 units processing 2.5 tons
Productivity	2.5kg/tree to 3.5kg/tree or an increase of 40%
Income per farmer	Per kg price increase from IDR4500 to 6000 – or 33% - leading to increased farmer incomes of IDR 1.250.000
Cashew as income source	From 59% to 69% of annual income

Table 1: Overview of results as per December 2008

1.2 About the LED NTT project

The Local Economic Development in Nusa Tenggara Timur (LED NTT) project, initiated in 2004, aimed to achieve accelerated local economic development through an integrated approach of sub sector development, creating an enabling business environment as well as improving access to business information and credit for SMEs. SC identified the cashew sector, and more specifically the organic cashew value chain, as the most promising to achieve positive changes for increased income of producers and SMEs. Gradually the cocoa and seaweed sectors were added.

In partnership with local and international NGOs, stakeholders of the private sector and local governments, the project supports 6 organic cashew farmer groups covering 866 farmers; 4 cacao demonstration plots have been set-up providing access to new technologies to 1,500 cacao farmers; and in Alor district 1,500 coastal households are benefiting from increased seaweed production. In collaboration with the local governments the project has encouraged the establishment of a One Stop Service (OSS) office and the set-up of a Regulatory Impact Assessment (RIA) team to review local regulations related to the sectors and to provide better services for licensing.

The project is co-financed by Swisscontact and Cordaid (the Netherlands). Further details of this project can be found at www.swisscontact.or.id

2 Flores Island in Focus

Flores, located east of the political and economic centre of Java, (see map above) is a volcanic island with breathtaking nature and a rich culture. Due to its relative isolation from the centre, it has been neglected too long. Now time has come to give Flores its deserved attention and place it in the picture.

Flores is one of the poorest regions of Indonesia. To illustrate, in Human Development Index (HDI) terms, Indonesia appears 109 out of 177 countries (UNDP, 2008), whereas NTT Province (Flores is one of the major islands of NTT) appears 31st out of 33 regions in Indonesia, or in the very last cluster of the poorest Indonesian regions. Other indicators underscore Flores' relatively deprived status. Indonesia as a whole has 17.8% of population below poverty line, but the figure in Flores is 31% (BPS, 2009). Flores

fares poorly compared to Indonesia as a whole in terms of most development indicators (Table 1).

The labor force engaged in agriculture is 43% for the whole of Indonesia, while the corresponding ratio for Flores is 95%. This suggests that almost all people in Flores are small farmers whose economic lives can be improved by introducing farm-improvement techniques and methods as well as facilitating better access to markets and adding value to the product.

Indonesia	Indicator	Flores/NTT
1,200,000	Area coverage in sq/km	14,000
237.5	Population in millions	1.6
17.5 %	Population below poverty line	31 %
70.5	Life expectancy in years	64.9
90 %	Literacy rate	85.6 %
43 %	Labor force in agriculture	95 %
18 %	Labor force in industry	1 %
39 %	Labor force in service	4 %
130,000	Production of Cashew Nut in MT	27,500

Table 2: Comparative socio economic indicators for Indonesia vs. Flores Island (various sources)

With so many farmers, it's clear that Flores' economy is not industry-led, and this is further evidenced by there being only 1% of the population participating in industries as compared to 18% for Indonesia as a whole. The picture is somewhat brighter when one considers the population's participation in the service sector, which is 4%. But that is low when the corresponding figure for Indonesia as a whole is 39%.

2.1 Agriculture in Flores

With so many residents dependent on farming, Flores is primarily an agriculture-led island. Its main cash crops are rice, coffee, candle nut, cocoa and cashew nut. It also produces other crops such as coconut, vanilla, cotton, seaweed, fruits and vegetables.

The remoteness of Flores has meant that farmers face difficulties in accessing inputs, information, and services. This is then manifested in the prevalence of traditional farming methods resulting in low crop yields or productivity accompanied by insufficient crop diversification and overuse of land. These low yields make farmers vulnerable to food shortages and economic hardships. These problems have been further aggravated by poor infrastructure of roads and communication technologies, which make Flores Island appear far more detached from most national economic centers in Indonesia. These difficulties raise the transport costs of the high-value cash crops, prices of which are further affected by the fluctuations in the global market.

2.2 *The cashew sub sector in Indonesia and Flores*

Indonesia produces 130,000 tons of cashews every year. The Sulawesi and NTT regions of Indonesia together produce almost 45% of the total. An estimated 450,000 smallholder farmers depend on cashew farming for their regular income. The total Indonesian production volume is about 6% of global output out of which 80% goes into the export market and supplies 5% of the world market for in-shell cashews. In the global market, the prices of in-shell cashews are volatile, and, as such, are always fluctuating, which increases the risk for the Indonesian farmers. A viable shelling industry is still lacking in Indonesia and as such, the processing capacity can meet up to only 1% of global processing activities.

Zooming in on Flores, it started the process of cashew farming in the 1980s when the government introduced the nut to the region. Flores's favorable climate helped and the nut from Eastern Flores is known for its high quality. But the process of cashew farming is still at a very simple and basic stage. This has meant low yields of cashew, at about 2.5 kilograms per tree and a total production of 27,500 tons which equals 21% of total Indonesian production. In 2008, 450 tons of organic cashew was produced in Flores.

Cashew is an important source of income and makes up to 50-70% of a farmers' household income. Data from a livelihood study (Gamper, 2005) show that in Ile Padung village, cashew makes up more than half of the household income. Illustrative is the case of Pak Gabrils' family.

Pak Gabriel (husband): He has 1.75 hectares of land, where 357 cashew trees have been planted. He produces about 600 kg cashew nuts in a year from his trees. Once he harvests his production, he sells them to a collector from whom he gets rice as a pre-finance payment. From cashew, he has an annual income stream, which he supplements further by raising livestock and growing candle nuts. He has access to finance in the form of loans from local lenders.



Ibu Susana (wife): She's a housewife and a farmer. She collects, dries and sorts cashews and other crops every day for three hours. Her other chores include cooking, doing laundry, collecting water and attending meetings with other women farmers.



Stefi (daughter): She dropped out of school, and she now helps with harvesting cashew, coffee and cacao. She collects fodder for the animals, and helps her mother with the household work.

Pia (daughter): She is eight years old. She attends school, where she is in grade three. Her school charges no money for tuition however her other expenses such as dress, stationery etc. are financed from the sale of the cashew and other cash crops. She collects cashew during the season as a helper.



With an income dependency of 50-70% from cashew, developing the cashew nut value chain (in particular improvement in production and processing infrastructure) would provide opportunities for impacts on the income and the livelihood of people in Flores.

3 The Cashew Value Chain

3.1 The global cashew value chain

Cashew is an export product not only for Indonesia but also for most other producing and processing countries which are concentrated in the Southern hemisphere. Producing areas are primarily Brazil (16%), West Africa and East Africa (together 36%), and India and South East Asia (together 48%) whereby three of these countries - India, Vietnam and Brazil - are also global processing hubs, together accounting for almost 97% of global cashew processing (India and Vietnam 58% and 24% respectively and Brazil 15%). Indonesia's share in cashew production is at a respectable 5%, though its processing is only 1% of the global processing. Global consumption patterns show that the USA consumes about 34%, while the corresponding shares for India, Europe and other parts of Asia are 25%, 18% and 7% respectively.

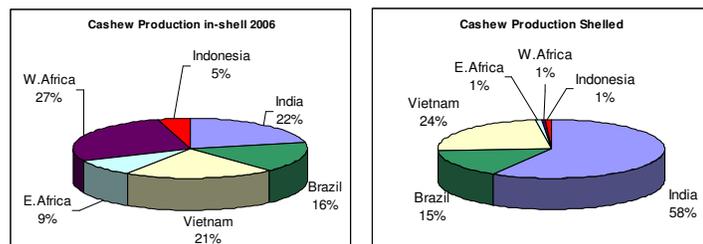


Figure 2: Global Cashew production (Fitzpatrick, J and Jeager, P: 2007)

The two key value added steps for cashew – production and processing – are dominated by one single country, which is India. Value addition is literally all over the map, with producers originating in, say, Indonesia; processors in India and consumers in the USA. This characterizes a long value chain with many actors and absence of direct links between producers, processors and the consumers.

3.2 Who cashes in on cashew?

There are three levels of operators in the cashew value chain in Flores. In the first level are the producers or farmers of cashew; collectors or small traders make up the second level; and the third level, which is the most sophisticated of the three, comprises of the traders and exporters. In addition, since Flores' cashews go to India and Vietnam for processing, there is a processing charge (inclusive of freight charges). Once the cashews are processed and packed, importers in the consumer market buy in bulk to sell to domestic distributors at a mark-up. The distributors, in turn, channel the finished products to the supermarkets which charge retail prices to the end-consumers. This cycle, starting from the producers, and ending at the consumers, begins in Flores, goes through the processing center in countries other than Indonesia, and makes its way to the consuming countries as a high value-added item. The supply chain map for cashew nuts produced in Flores is reflected in figure 3. The pattern of production, processing and consumption in different places indicates a possible loss of added-value to the already poverty stricken province, as other actors cash in more on the cashew trade.

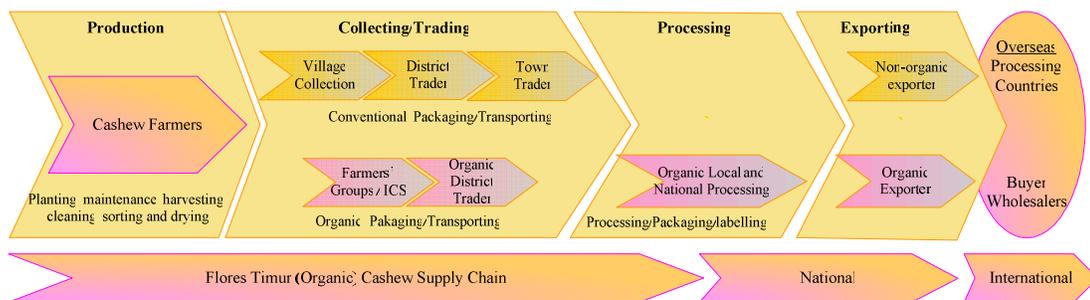


Figure 3: Cashew Supply Chain for Flores

3.3 Analysis of constraints and opportunities for the cashew sector in Flores

From an overall perspective, cashew is a commodity with a long and inefficient value chain that lacks direct links between producers, processors and the consumers. Locally though, for Flores, the main constraints lies in low productivity of the land and poor production quality. This is due to the use of traditional farming methods and lack of proper technology. Small cashew farmers are fragmented and operate in isolation. They are not able to approach the cashew market from an organized business perspective. The practice of advance sales, though good for releasing cash to the needy farmers, makes the farmers vulnerable to aftershocks in case the production goes wrong due to bad weather or other uncertainties. These problems are compounded by the fact that the bulk of the value-adding work – i.e. processing – happens elsewhere, and the local producers are deprived from slicing off a larger share of the global market price of the finished, consumer-ready, packaged and marketed cashew items in the supermarkets.

However, these problems present their own opportunities. These scattered farmer groups can be organized to build on the extension of production technologies, to do joint marketing and to possibly undertake processing. Besides, the quality of

agricultural inputs could be improved so that, in effect, the production quantity will increase and quality of the nuts improves as well. With high quality nuts, new markets could open-up especially the organic cashew nut market which is small but growing. There is a potential that this market can be exploited while at the same time farmers can fulfill organic production standards as low external input is a regular practice. Further opportunity exists in terms of forward integration of the cashew production with processing. Since transport costs and transaction costs, not to mention the processing costs, cause much of the value to migrate to the processing countries, there is an opportunity to develop processing centers locally in Flores so that the money stays in the hands of the local operators.

Taking the opportunities into account, the Flores nuts can achieve a certain brand value or distinctiveness in the marketplace, thereby raising the demand of Flores cashew to charge higher prices than what have been charged up till now. Swisscontact realized that, these opportunities, if exploited through strategic interventions, will lead to an increase in the producers' income.

4 Intervention strategies for upgrading

Following the analysis of opportunities and constraints in the cashew supply chain, Swisscontact came up with a vision of “linking to a niche market segment to move away from the commodity channel to a high price, high quality market through interventions that provide more stable income flows for producers and increase value added, incomes and jobs in the local economy”. This would be achieved through promoting organic cold hand cracked cashew nuts. For this, Swisscontact decided to support farmers to obtain organic certification and to create processing facilities. This was the strategy of differentiating the Flores cashew from the others and thus fetching high price in the market. Once the cashews reach that niche it would signal that the local producers have added significant value to the cashews, which translate into higher incomes for producers and additional jobs for the local community. 4 interventions were designed and implemented.

4.1 Intervention 1: Strengthening cashew farmers' groups

Swisscontact saw that there were two options for getting organic certification. The first one is where the buyer or the processor pays for and owns the organic certificate. This puts the burden on the middlemen or the processors to ensure that what they sell or process is indeed organic. The second option is to go for smallholder certification, a process in which farmer groups pay for and own certification. This option makes the farmers much more responsive to the demands of organic certification, and once they own the certification and see the value it brings to them, they are likely to take a greater care to maintain it.

Swisscontact opted for the second option as it fits in well with the idea of empowering farmers by supporting their self-organization. Once farmers' groups come together with an organic certification, their bargaining position for higher prices will be stronger. Besides, when they own the certification, they do not need to depend on one

or a few buyers and can shop around for higher prices, thereby effectively turning the tables on the middlemen.

Swisscontact's decision had two implications, one, at the local level and the other at the Project level. At the local level, funds needed to be set aside for the establishment of and the payment for internal control systems for organic certification (i.e. administration, accounting, documentation, product tracking, etc). Moreover, a mechanism needed to be developed to cover the yearly cost of maintaining the certification. Finally, working with organized farmers' groups would not be easy, as issues relating to decision rights, control and approval processes needed to be worked out in agreement with every member in advance.

At the Project level, an international certification partner had to be identified and once identified; the project had to ensure that Internal Control System (ICS) standards were adjusted to take local conditions into account for organic cashew production. The Project then needed to build up management capacity of farmers' groups so that they are in a position to meet and maintain the requirements of international standards for the certification and to ensure financing needed to cover the yearly cost of the certification. Finally, the Project had to liaise with the government for support so that the state-funded extension work in agriculture could fit in well with the new priorities of the Flores cashew farmers.

4.2 Intervention 2: Developing local cashew enterprises for processing

Cashews come in shells and removing the shells requires processing work. There are two ways to do this. The first is manual cold cracking of cashew; and the second is mechanical cracking of heated cashews.

The Project decided to go for manual cold cracking. This process is labor intensive, and, as such, it creates more job opportunities, especially for women. Besides, setting up the procedures for manual cracking allows for decentralized processing units at various locations in Flores.

As in the case of the first intervention, the implications of cold cracking were on two levels: At the local level, the project needed to ensure high hygienic standards in all the different processing units. That care had to be extended further to confirm that high skills and vigilant quality monitoring are in place so that there is no danger of contamination by cashew nut shell oil (CNSL).

At the Project level, staff input was required to ensure know-how transfer for improved organic production and cold cracking processing. The Project staff members needed to work with the stakeholders to develop quality standards. They also needed to identify local processors and help them develop business plans which were used to access finance required for processing. Their most important work was to make sure that the processors have good links with the farmers.

4.3 Intervention 3: Market development of organic cashew

The first two interventions call for developing market channels so that the cold-cracked organic certified cashew nuts, grown and produced in Flores as a high-end niche product, finds buyers, and markets at local, national and international levels.

This market development intervention too had implications at both the local and the Project level. First, resources needed to be allocated to find out who the buyers would be for both cracked and non-cracked nuts. Second, in order to come into contractual relationship and abide by the clauses of contracts, trust-building and mediation work among the producer groups with the groups of processors was essential so that they could work together to fulfill the need the buyers. Third, since farmers 'pre-sell' their crop to have access to loans, a new line of credit needed to be developed so that farmers' cash needs were addressed. Finally, capacity planning and development of quality standards had to be put in place so that the farmers' skill- and awareness-level about what the market wants, and how to fulfill those wants were enhanced.

4.4 Intervention 4: Facilitating linkage of business media and finance

These interventions outlined above could not take place in a vacuum and were part of a larger business environment. The Project also worked to influence the external stakeholders such as media, business organizations and financial institutions so that they too saw and contributed to the development of cashew value chain thus enhancing farmers' income and disseminate this success story to the wider public.

To get started, the Project and the local actors had to engage the local government to review and improve business regulations. They also needed to create interest among the financial institutions whether they saw the farmers as creditworthy clients. Since media has the power to tell stories that influence the behaviors of farmers by spreading information, the Project and the local actors engaged the local newspapers and radio. Finally, an overarching framework to build networks to ensure the integration of all the supportive components was put in place.

5 Results

LED NTT project has completed its first phase (2004-2008). Some encouraging results have been achieved and interesting lessons learned, which are described below.

5.1 Changes in farmers' livelihood and their position in the value chain

Increased income through sale of organic certified cashew nuts:

The main result achieved was in terms of increased income for the farmers. Once the nuts were certified they could enter a new market channel. The price of organic cashew is relatively stable compared to the price of conventional cashew nuts which shows daily fluctuations. Four farmer groups sold 115 tons of organic nuts (average over three

years) with an average premium price of IDR 9,000¹, implying a difference of IDR 4'500 per/kg with non-organic nuts. It has to be noted though that the cost for certification is still subsidized but two groups have already set up a fund where 1% of the organic sale price is saved to cover these costs in the near future. Unfortunately, only 58% of the certified nuts have found an outlet through the organic market channel, the remaining ones are still sold via the conventional channel.

A promising rise in incomes will come from increased productivity of cashew trees. Improved farm practices (pruning, composting, sanitation) has already shown its effect at some places resulting in an annual yield increase 2.5 kg/tree to 3.5 kg/tree. More production leads to higher sales and hence an improved income for the producers.

Some farmers have experimented with processing of cashew side products such as cashew apple chips and composting of the cashew nut shell. This, in the long run might add to the income of cashew farmers.

Increased income through farmer-group-managed processing unit:

Two farmer groups have set up a small organic certified processing unit. This unit provides job opportunities to 77 local villagers, mainly women. On an average, family income increased by more than 500,000 IDR monthly because of employment in the unit. The processing unit processes 2.5 tons of shelled nuts that find their way to the local organic market. In 2008, the processing unit had a turn-over of 24,000,000 IDR. Despite the progress, there are still some problems for the farmers particularly in receiving down payments for their produce from the buyers.

What then has really changed in the live of a farmer household? Let us visit our family of four and see what they say about the effects of these interventions.



Pak Gabriel (husband): His annual production went up. He is now a member of a group that sells directly to buyers. His income increased in 2008 to 4,400,000 IDR from 3,600,000 in 2006.



Ibu Susana (wife): She still collects, dries and sorts cashew nuts, but is now member of the processing group. She works in the unit 12 days/month and earns IDR 576,000



Stefi (daughter): Her daily work has increased as she has to take over some household chores from her mother. She's still involved in collecting and drying cashew.



Pia (daughter): She still goes to school. Her school-related expenses can be covered from the income gained from organic cashew production and processing.

In general, the income pattern in the villages that have joined the organic cashew project has changed. The income structure in Illepadung village changed significantly. While, prior to intervention, 59% of earnings came from cashew, now it has increased to 69% due to increased production and processing of cashew. Their share of income

¹ US\$1 is approximately IDR10,000

from less productive activities such as labor, livestock rearing, candlenut and others was reduced from the earlier 41% to 20%.

Strengthened farmer groups:

During the first phase of the project, the production capacity of organic cashew increased from zero to 450 tons. Four farmers’ groups were formed which collectively owned and managed 140,000 trees to produce organic shelled nuts. Village level organic cashew farmers’ groups have the capacity to manage an Internal Control System (ICS) required for organic certification independently after the project provided a Training of Trainers (ToT) on ICS. The Project also worked closely with the farmers to cover the certification costs so that certification could be continued in the future. Collaboration among farmers, processors and buyers improved once everyone was clear about the benefits of collaborating in the value chain. This linkage helped improve management skills for which the Project provided training to 16 farmers’ group members.

Likewise, village-based organic cashew farmers have become partners in the value chain with an enhanced bargaining position, and some farmers' groups have emerged as service providers in the value chain. In the process they were able to earn more through provision of these services.

5.2 New enterprises and market linkages

One new enterprise that has evolved from the project is the processing unit set up by a farmers’ group. Unfortunately the processing quality is not yet according to export standards. The village is still deprived of electricity supply and to have high quality dried nuts, the farmers would need an oven that can dry the nuts at a constant temperature. Therefore, the project encouraged other private sector actors to engage in this business opportunity. One commercially operating processing unit that is organically certified now processes 153 tons shelled organic nuts, into 38 tons organic white kernel nuts. The unit employs 123 local workers of which 90% are women. Another enterprise was set-up for processing of cashew nut but only serves the conventional, non-organic, mainly local market. This processing unit employs 12 people (10 women) and processes 4.5 tons shelled nuts into 1 ton white kernels. Both processing enterprises had to go through a trial and error process but had a positive turnover in 2008. All three processing units (including the farmers’ group managed one) are still suffering from lack of reliable market linkages.

The project played a facilitating role in establishing these linkages and was able to achieve some encouraging results. Most importantly it linked 3 traders/exporters with the farmers and the processors. In 2008, they purchased 150 tons shelled cashew and 15 tons processed organic cashew nuts, exporting 8,300 kg processed and packed nuts to organic markets in USA and Europe.

In addition to these improvements, the Project was able to get a national distributor who agreed to do special packaging for distribution in large cities such



Photo 1: Flores Cashew Brand Logo and Package

as Jakarta. To make the Flores cashew distinctive from those produced in other areas, the Project helped to create a brand name for it. A special logo and packaging was introduced.

5.3 Value added in the cashew value chain

As a result of all these interventions, value added and the farmers' profit share in the cashew sector went up. Farmers received a premium price for certified nuts. In 2008, the cashew in-shell price reached an average of IDR 6,000 per kg during the harvest period (August until December), compared to IDR 4,500 in other areas in Indonesia. For organic nuts the average price was IDR 11,200. Through processing, the farmers' group and the privately owned processing unit could add nearly 18 % value to the product. The value added higher up in the value chain at exporter, wholesaler and retailer level is not yet known.

5.4 Changes in the overall business environment

Simultaneously, while working with the farmer groups and the enterprises, the project also collaborated with the local governments and the media to raise their interest in contributing to a better business environment in general and for the cashew sector in particular. One of the results was that the Local Government in one district took over the certification cost of 2 villages and started to provide training materials. Likewise, in one sub-district, a new regulation on LEISA (Low External Input Sustainable Agriculture) to facilitate organic cashew production was introduced. Annual seminars on planning and reflection were carried out which brought all the stakeholders together, thereby improving trust and communication among them. This led to the idea of forming a Flores Cashew Forum. Newspaper articles were written up and programs were broadcast over radio about organic cashew so as to raise awareness among the larger group of stakeholders. Local financial institutes agreed to provide credit, and the local government made the machinery available for processing work to help the farmers. Now, after four years of hard work, the concept of organic certification and the subsequent creation of a niche market are well known in the area. This provides a platform for expansion to other farmer groups.

6 Lessons learned

The first phase of the LED NTT had a pilot character. Obtaining internationally recognized organic certification based on a group principle was completely new for Indonesia. Together the stakeholders had to learn and develop strategies that would work. In annual multi-stakeholder reflection and planning workshops these issues were discussed and where necessary approaches were adapted to the finding. The main lessons learned are presented below.

6.1 Choice of entry point

Assessment of the cashew sub-sector was initially done by a potential buyer. Though, involving a buyer in sub-sector analysis had its advantages, it also had its drawbacks. The buyer appeared to have a bias towards value addition through organic certification rather than increasing the productivity at the farm level. Based on his recommendations the project had decided to use organic certification and processing as an entry point believing that this would add the best and most value for the poor.

In hindsight, it would have been better to start with productivity enhancing measures, combined with strengthening the farmers' groups, rather than going straight into the organic certification. The focus on the value addition through certification and processing seemed rather biased. One lesson is that it's better to include the views from different stakeholders including producers, processors, traders and the buyers during the strategy development phase. Starting a niche channel from scratch is difficult, especially when it requires complex and interdependent interventions with multiple stakeholders. It's best to start with a few interventions with clear stakeholder roles.

6.2 Small holder organic group certification

Despite the difficulties faced as mentioned above, the decision to go for a smallholder certification was the right one. However, to get started, the contract farming option was somehow overlooked. Promotion of organic certification for both contract farming as well as small holder farmers would have been a better strategy. The idea is to make the mindset of all the relevant stakeholders ready to produce organic cashew nuts for higher income for farmers.

Starting with group certification implied that farmers had to organize themselves in larger production and marketing units. The project was too optimistic on the willingness and ability of the farmers to organize and manage themselves. Issues of trust, leadership, group organization and gender balance are important, especially when there is a need to balance the cohesion between farmer group and economic efficiency to make certification economically viable and sustainable in the long run. Time, input and support is needed to achieve this cohesion. Therefore, the project learned that starting with productivity measures – as explained above – would have had the additional advantage that it would 'buy time', time that could be used to support the farmer groups in developing a strong and capable market actor entity.

On the positive side though, it was also seen that, those farmers who show initiatives for leadership can grow in their roles to be service providers for other groups. This finding dispels the oft argued assertion that farmers can not be the producers and service providers at the same time.

Finally, there are positive spillovers of experiences from organic farming to conventional farming as farmers learn the methods and the discipline of farming to improve quality and productivity, which the other farmers can apply in the conventional farming too.

6.3 *Developing local cashew enterprises and market linkages*

Initially the focus was on creating processing capacity at the farmer level as that would leave most of the added value with the poor. This seemed not realistic. Quality standards could not be fulfilled, start-up capital was insufficient, group cohesion still weak and know-how transfer took longer than expected. On the positive side though, there was an unanticipated local market that created a demand for locally processed cashews. Now the farmers'-group-managed processing unit is operational and has the potential to grow in the near future.

One emerging problem was lack of trust between producers, processors and buyers. The buyers hesitated to provide contracts and pre-finance the farmers and the processors, for whom it was hard to get loans from banks or other financial institutes. This forced farmers to sell their produce to the conventional market prior to harvest, in order to provide for their daily expenses. Not to fall into this trap it was learned that contracts from buyers which also ensures pre-finance for the farmers were necessary to build up trust among farmers and buyers. Intensive mediation and facilitation of an outside agent, or the Project, is important to help establish this trust

The organic export market has high quality requirements, such as better sorting and grading of crops. Although it was hard to meet those, it had also the positive effect of diffusing better practices throughout the value chain. It was seen that as an effect of higher quality requirement at export level, the requirement for the local level have also gone up. Local consumers were willing to pay higher price for the better quality cashews.

Additionally the project was too optimistic with regard to finding channels for this international niche market. The gentlemen's agreement with one buyer fell through; hence new buyers had to be identified. Therefore, this part of the intervention developed much slower than anticipated which of course directly affected the organic producers and processors for whom there were insufficient buyers to buy their product with a certified premium price. To overcome this it might be better to work with as many potential international buyers as possible right from the beginning and at the same time explore the local market.

Finally, the project has misjudged and overestimated the possible function as service providers of local NGOs. Although these NGOs have been active in the field of sustainable agriculture and have supported farmers' groups, their orientation is social services and advocacy and generally they lack a commercial orientation required to be a service provider.

6.4 *Facilitating improved business environment*

It is important that the local government gets involved from the beginning to ensure a conducive business environment and to encourage organic farming. Besides, there is a need to keep the government on the Project's side by making strategic use of funds.

In order to build stronger chains, collaboration, communication, facilitation and mediation among the operators at different levels (i.e. producers, processors, exporters

etc) as well as at the level of government and the funding agencies are critical. In the medium term, the cooperation among these stakeholders must be institutionalized so that everyone sees a common picture and agrees to pull in the same direction. This can be best done through a sector forum or an alliance.

7 *Future directions*

LED NTT has completed its first phase (2004-2008). The analysis of interventions, their results and lessons learned in the process of implementing this (pilot) Project have given Swisscontact new ideas with regards to the direction of the Project for the second phase (2009-2012).

In general, the project strategy changed from an overall local economic development approach to developing the competitiveness of selected sectors. Instead of having three sectors that were supported through horizontal interventions for access to finance, media coverage and business environment, in the new phase the Project facilitates the development of four sectors, three commodity sectors (cashew, cocoa and seaweed) and one service sector (Enabling Business Environment). The overall goal of the Project remains the same: reduced poverty in the area through increased income for producers and the creation of new jobs. More specifically for the cashew sector the project will concentrate on three generic interventions:

Organizational strengthening of (organic) cashew farmers' groups:

- Making available management capacity development training to farmers' groups and support those to develop inter-group activities such as joint ICS.
- Facilitate the set-up of a formal Cashew Forum with representation from all level of stakeholders including farmers, processors, local traders, exporters, government bodies and supporting agencies such as Swisscontact.

Increasing productivity through LEISA:

- Emphasize improvement on farm productivity through better farm management.

Adding value through organic certification, processing and developing new market channels:

- Continue efforts to further strengthen the system of organic certification.
- Work on expanding the scope of local-level processing for forward integration of the farmers and local processors ensuring higher incomes through value addition.
- Identify and support providers to deliver quality assurance services and market linkages
- Look for alternatives to help the farmers and local enterprises link up with financial institutions to address their cash needs by innovative and flexible schemes.

Four years of working together with a large number of stakeholders and actors in the cashew value chain has created new opportunities and the goodwill from all involved to further improve the sector for the benefit of the local producers and processors. Swisscontact is committed to support this process but is aware that it can only succeed with the continued cooperation of the producers, the private sector, the local government and the non-profit sector.

8 *About Swisscontact*

Swisscontact Indonesia

Swisscontact aims to contribute to improved standards of living in Indonesia. It does this by promoting equitable access to economic participation for all parts of society through a more enabling environment for private sector development and by encouraging more ecologically-sensitive practices in the urban environment. Swisscontact always seeks to facilitate sustainable local solutions to local problems. It is a result-focused organization that works with a diverse range of public and private partners. Based on the strategic review conducted in 2004, Swisscontact decided to focus its programme in Indonesia, from 2004 till the end of 2009, in three key areas. Recent developments in these areas are provided below.

◆ Focus on less developed areas through Local Economic Development (LED)

Considering the development and income disparities in Indonesia, Swisscontact will continue to focus on less developed areas outside Java. Two projects in NTT (Local Economic Development) and the eco-tourism project WiSATA initiated this strategy. Both projects show promising results and Swisscontact intends to expand these activities in other sectors and geographic areas. Cordaid from Netherlands has committed its support for 3 years (2007 until 2009) and Swisscontact is trying to identify other donor agencies who might be interested in poverty-oriented activities in Eastern Indonesia.

◆ Support of the tsunami and conflict affected areas

In response to the tsunami disaster, Swisscontact developed a comprehensive support program for the victims with specific focus on business development and skill development in order to improve the potential for future income generation for the affected communities. For 2009, Swisscontact will expand its presence in the tsunami disaster affected areas. It will be providing technical support to The Aceh Polytechnic (TAPP) Project funded by USAID and Chevron. A follow-up project will build on the SPAN Project, which was initiated in 2007. Co-funding agencies of the SPAN project are SECO, Swiss Solidarity, Migros and Chevron Foundation. Furthermore, Swisscontact in cooperation with GTZ supported the BAPPEDA NAD in developing an economic developing strategy through the ATAP Project. The Mobile Training Unit (MTU) project- in the field of skills development was extended to support the handing over process.

◆ Including financial services in small business promotion

Building on the successful approaches of the past, Swisscontact will continue its support to micro, small and medium sized enterprises in Indonesia. Through the Promoting Enterprise Access to Credit (PEAC) project, Swisscontact had built up close relations with service providers in the field of financial services and banks. Through the linking activities of the service providers, more than 10'000 micro, small and medium enterprises could benefit from access to a total amount of over USD 30 million of credit provided by banks and other financial institutions. Swisscontact is developing new ideas for projects in the field of credit facilitation to small businesses.

Swisscontact Worldwide

Swisscontact – Swiss Foundation for Technical Cooperation - was founded in 1959 by personalities from the Swiss private business and university sectors. Swisscontact's aim is to promote private economic and social development in selected countries in the South and East through advisory services, training and continuing education. Over 400 staff members are active for Swisscontact in project countries and in Switzerland, while members of the organization's Senior Expert Corps offer their know-how on a volunteer basis. By applying the principle of helping others to help themselves, Swisscontact and its local partners are fighting poverty effectively. Swisscontact has recently developed its own private sector development strategy that applies a common direction for all projects, and an easier flow of information between the various programs throughout the world.

Since its establishment, Swisscontact has helped provide skills training or further training to over 200,000 young people. By promoting small- and medium-sized enterprises Swisscontact has provided further training to 130,000 entrepreneurs and employees. Moreover, some 15,000 people have completed courses in the field of environmental protection promoted by Swisscontact.