Cashew

Priority statement

The cashew sector has a **MEDIUM - LOW** potential for pro poor development. Evidence suggests that it is doubtful that even at industry best practice production levels of 2 t/ha, returns to smallholders will be sufficient to lift families from below the poverty line.

Indonesia has a comparative advantage over other cashew producing countries as it is the only country to have raw cashew nut available from Sept – Nov. This however is in direct competition with establishing a significant domestic shelling industry. The support of village shelling and clusters does have merit to support the development of a domestic cashew market, which in other countries has been the basis on which a significant export industry has grown. Table 1 outlines the production statistics for the study regions.

Table 1. Cashew production statistics for selected provinces in Indonesia

Basic Statistics	East Java	West Nusa Tenggara (NTB)	East Nusa Tenggara (NTT)	Indonesia
Harvested area (Ha) *	48,475 8.4%	67,540 11.8%	173,834 30.3%	574,358
Volume of Production (tonnes)*	14,657	15,137	39,339	145,082
Yield *	722	441	699	454
Value (IDR billion)	192.6	199.2	517.8	1907.6
People Employed***	An estimated 450,000 smallholder farmers depend on cashew farming for regular income.			

*Source: * BPS- PSPK 2010 (preliminary figures)*
*** $1.40/kg from http://www.alibaba.com/product-free/107352718/Cashew_Nut_Indonesia_Sulawesi.html*
**** Swissconnect 2009*

Poverty and sustainability

Is there potential to reach large numbers of poor households in production and post-production?

- There is high potential to reach large proportions of farmers in the poorest areas of Eastern Indonesia.
- Cashews are a large crop in Indonesia with approximately 400,000 farmers in the provinces of South East Sulawesi, South Sulawesi, NTT and NTB with farmers dependent on cashews where a lack of other options are available.

- Additionally, village based shelling provides opportunities for additional incomes for families, particularly women.

What is the potential to increase income?

There is low potential for increasing incomes in the cashew sector due to very tight margins in production and processing. Yield improvement could be realised and a 2008 study estimates that:

- A 10% increase in yield would increase rural earnings by IDR 56.3 billion per year
- A 10% increase in plantings would add IDR 56.3 billion per year to the sector

Possible strategies to improve the viability of the smallholder cashew farmers in eastern Indonesia could include:

- a varietal selection program
- management of pests at flowering eg. there may be a role for a green ant IPM strategy
- intercropping options
- canopy management
- the clarification of widely varying natural levels of soil fertility
- introduction of village based roasters to expel cashew nut shell liquid, and improved nut crackers will improve the outturn of current home based processing.
- Farmers appear to be getting a fair price for nut in shell and kernel compared to world prices. The opportunity to increase farmer income through processing is ongoing, but does not give a farm family a big increase in family income.

What is the agro-ecological feasibility?

- Cashew production in Indonesia is mainly confined to the Eastern parts of the country. These areas are characterized by sparse rainfall and a long dry season, which is considered ideal for high productivity of cashew and eliminates alternative crop options.
- Plantations are established on flat terrain as well as in hilly areas. Since land clearing on hilly slopes is very costly, cashew trees are established with minimum land development.
- Land use surveys (1995) have shown that more than 15 million ha spread out over 9 provinces in the country are suitable for the expansion of the cashew industry. There does not seem to be any limitations on land availability.

Sustainability (economic and environmental)

- Evidence suggests that it is doubtful that even at industry best practice production levels of 2 t/ha, returns to smallholders will be sufficient to lift families from below the poverty line.
- Environmental issues are limited for the cashew sector. The industry in Indonesia was started in Southeast Sulawesi as part of a soil-stabilisation and reforestation program. Most of the world's production of cashew is organic by default as the smallholders are unable to afford chemical inputs.

Does the chain/commodity fit with the focus of Government programs and priorities?

- The cashew industry is a lower priority at a national level but the NTB Government has given it high priority.
- A 2008 report indicates that the South East Sulawesi Government was actively encouraging investment through a one-stop service operated by the Dinas Perkebunan. The law is said to allow for a tax holiday up to five years for investments in cashew and the government is willing to underwrite the capital investment for a period.

How project-crowded is the sector? (to what extent are sector needs addressed by current donors?)

- A Canadian International Development Agency bi-lateral funded private sector development project was delivered in Indonesia from Feb 2008 until Apr 2012. The geographic focus of the project is the Island of Sulawesi.
- Swissconnect have also been involved with donor activities since 2004. These are about due to expire.

External risk

- There are significant risks around the viability of project outputs from lack of high quality planting material/varieties, variable quality in home-level and small-scale processing enterprises, pest and disease constraints, drought effects, fire hazards and economic instability Increased competition in the international market between the main producer countries may have a negative impact on cashew prices in the short to medium term.
- A local government tax is collected in each Kebupaten by the Dinas Pendapatan Daerah (DISPENDA). As it is set locally by each administration it varies from district to district. The tariff is significant, for example IDR 480/kg (USD 0.05/kg) (3.5%) in Bouton (2008), and may become more important if the product needs to cross more than one regency en route to Surabaya for export.

Structure of the chain

What is the potential for improving market access?

- The domestic market access could be improved with better domestic processing but local prices would have to compete with global markets. Indonesian farmers already get a high percentage of the world market price in the export market as a result of lower freight costs to destination markets and the timing of the Indonesian season.
- As Indonesia is the only in-shell supplier harvesting from September to November competition amongst international and export traders is intense. The entire focus of global buyers of raw cashew nut is on Indonesia during that time.
- Current exporters readily agree that they lack quality and timely information about the world market. In order to increase returns at every level of the chain it is important that stakeholders understand who their customer is, what their customer

needs and what their product is worth. What is required is market knowledge and know-how. This presents an opportunity for development.

What is the scalability and transferability potential?

- Both the scalability and transferability potential is high in the eastern study areas and very low in others due to the much lower production.

Is there potential for post-harvest productivity / value-added?

- The potential for post-harvest processing and value adding is low.
- The main source of income for growers is the cashew kernel. The majority (>80%) of Indonesia's cashew crop is exported as raw cashew nut. Low production and consequently, the lack of raw material supply are the major causes for domestic processing decline. There is strong competition between raw cashew nut exporters and processors so farm-gate prices are good, but this is not conducive for development of the domestic processing industry. An increase in this sector would require the local industry to compete with overseas buyers for product to ensure sufficient volume of raw product was available.
- Further opportunities do exist in terms of assimilation of cashew production with processing to service a domestic market. These are centred around small scale and village based shelling and local collection centres that could provide additional income sources for rural families, particularly women.

Is there sufficient infrastructure availability?

- The current industry structure requires little infrastructure as cashews from all the eastern areas are shipped to Surabaya for export of in-shell and in part for shelling. In 2006, 83% of cashew exports were through the port of Surabaya.
- Processing infrastructure is limited as the export market does not require anything but the raw product.
- Cashew is a high value item with a short season requiring trade finance/working capital if it is to develop as a shelling industry. Finance for capital costs of shelling is reportedly expensive and difficult to obtain.