16th ACA Annual Conference

STRENGTHENING SUSTAINABLE
KERNEL & BY-PRODUCTS MARKETING
IN THE AFRICAN CASHEW INDUSTRY

Sheraton Abuja Hotel, Abuja, Nigeria
12-15 September 2022

ACA
AFRICAN
CASHEW
ALLIANCE

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ISF: CASHEW INDUSTRY IN WEST AFRICA: ACCESS TO FINANCE CHALLENGES

Thierry KOFFI, West Africa Manager

Sep 14th, 2022

ISF is an advisory team focused on the development of financial solutions for sustainable food and agriculture systems

ISF Advisors is the leading strategic and financial advisory group committed to **mobilizing capital for a more sustainable, equitable, and productive global food system**, having mobilized over $250 million for sustainable food and rural enterprise.

ISF's combination of **research with strategic and financial advisory** expertise allows us to analyze problems with a **systems lens** and structure investment solutions that mobilize different forms of capital.

ISF's activities are backed by **deep research** into critical issues affecting food and agriculture finance.
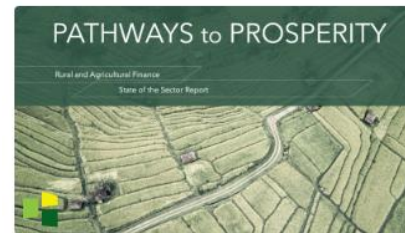
Recent ISF Publications

State of the Sector: Agri-SME Finance

State of the Sector: Agri-Insurance for Smallholder Farmers

Pathways to Prosperity: 2019 Rural and Agricultural Finance State of the Sector Report

Role of Government in rural and Agri-Finance: Transitioning to private sector involvement

Agricultural "Platforms" in a Digital Era: Defining the Landscape

ISF combines industry leading research with hands-on technical expertise to mobilize impact capital for global food systems

ISF Advisors has become a trusted advisor and partner to leading institutions involved in food systems, including many of the world's largest investors, donors, companies, NGOs, and foundations.

ISF Service Offering

Industry Leading Research on Rural Finance

- Flagship State of the Sector reports "State of the Sector: Pathways to Prosperity" (2019)
- Blogs and articles
- Specialized research (e.g., investment funds, insurance, FX)
- Topical briefing notes (e.g., COVID impacts, subsidy, climate)

Strategic Advisory: Partnership & Business Model Development

- Complex stakeholder facilitation, partnership, and project management
- Market assessment and feasibility testing
- Enterprise growth strategy
- Grant-making strategy
- Partnership analysis
- Investment prioritization

Financial Advisory for Impact Capital

- Financial mechanism design and development
- Investment advisory and structuring
- Impact framework definition
- Capital raising
- Scoping, design and structuring of investment vehicles
- Capital and governance structures design
- Investment assessment tool design

Select Clients & Partners

Prosper Cashew Initiative

The Opportunity

- Over the past 10 years, global trade in raw cashew nuts ("RCN") has more than doubled, with Ivory Coast accounting for almost 2/3rd of the growth.
- Despite producing 44% of RCN in the world, only 7% is processed locally, in West Africa
- Most is processed in India and Vietnam.
- Opportunity for West Africa to focus on processing higher-quality kernel, levering its traceability given single origin, and the closeness to European and American market
- Opportunity for WA to improve processing high quality RCN (leveraging on traceability and proximity/access to EU & US markets)
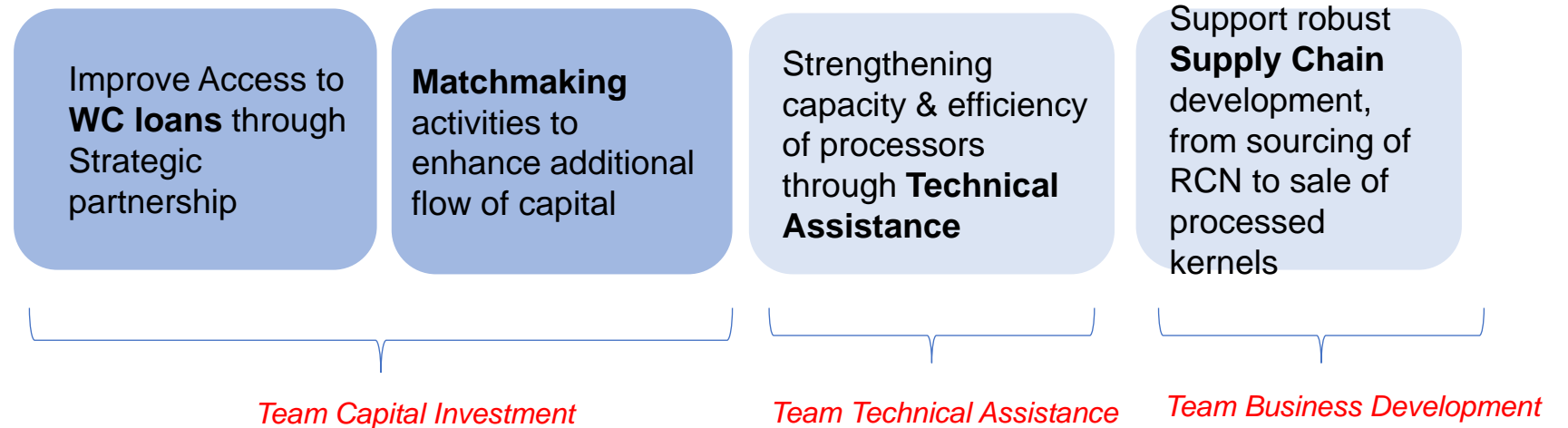
The Challenges

- Local processing has a high-cost structure compared to Asian processors
- Sourcing: RCN absorbed by foreign competitors
- During short harvest window, Access to finance is challenging & costly, resulting in low utilization rate
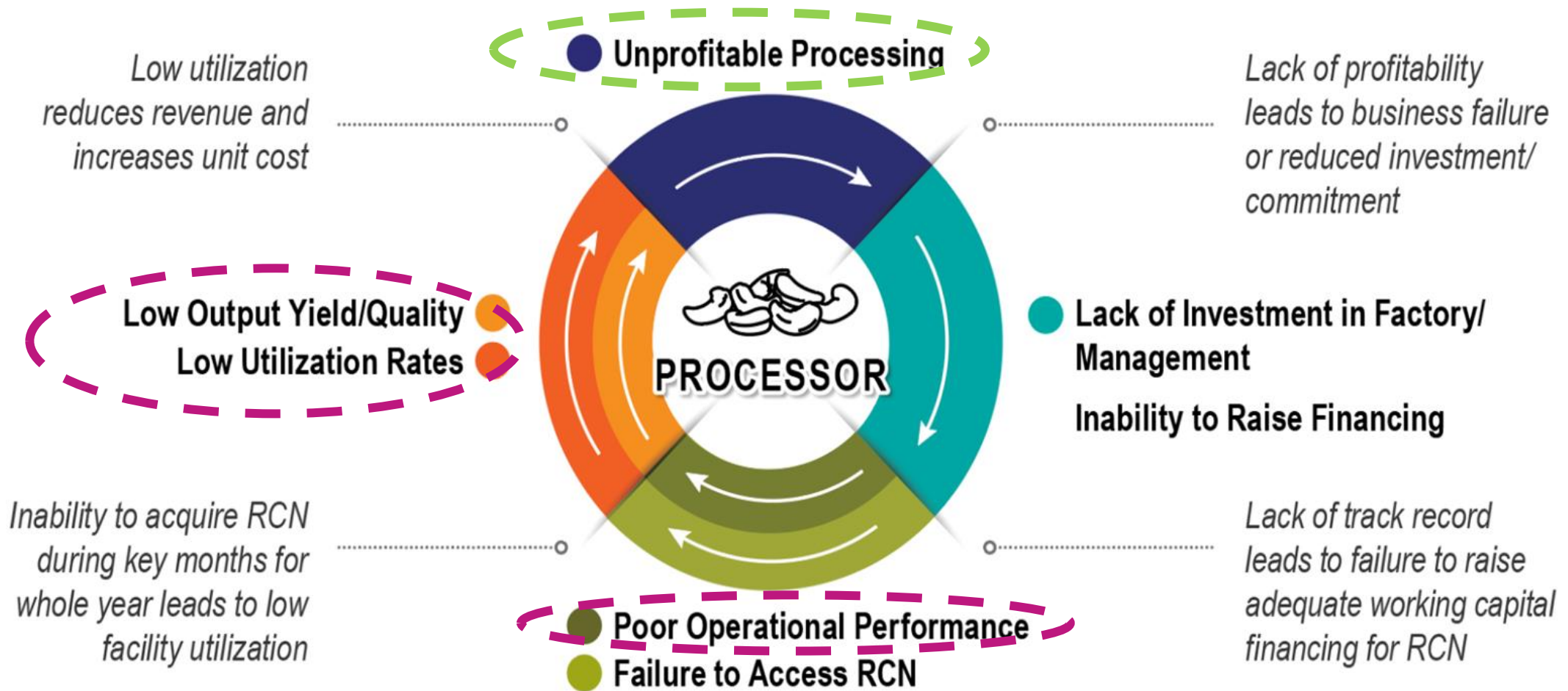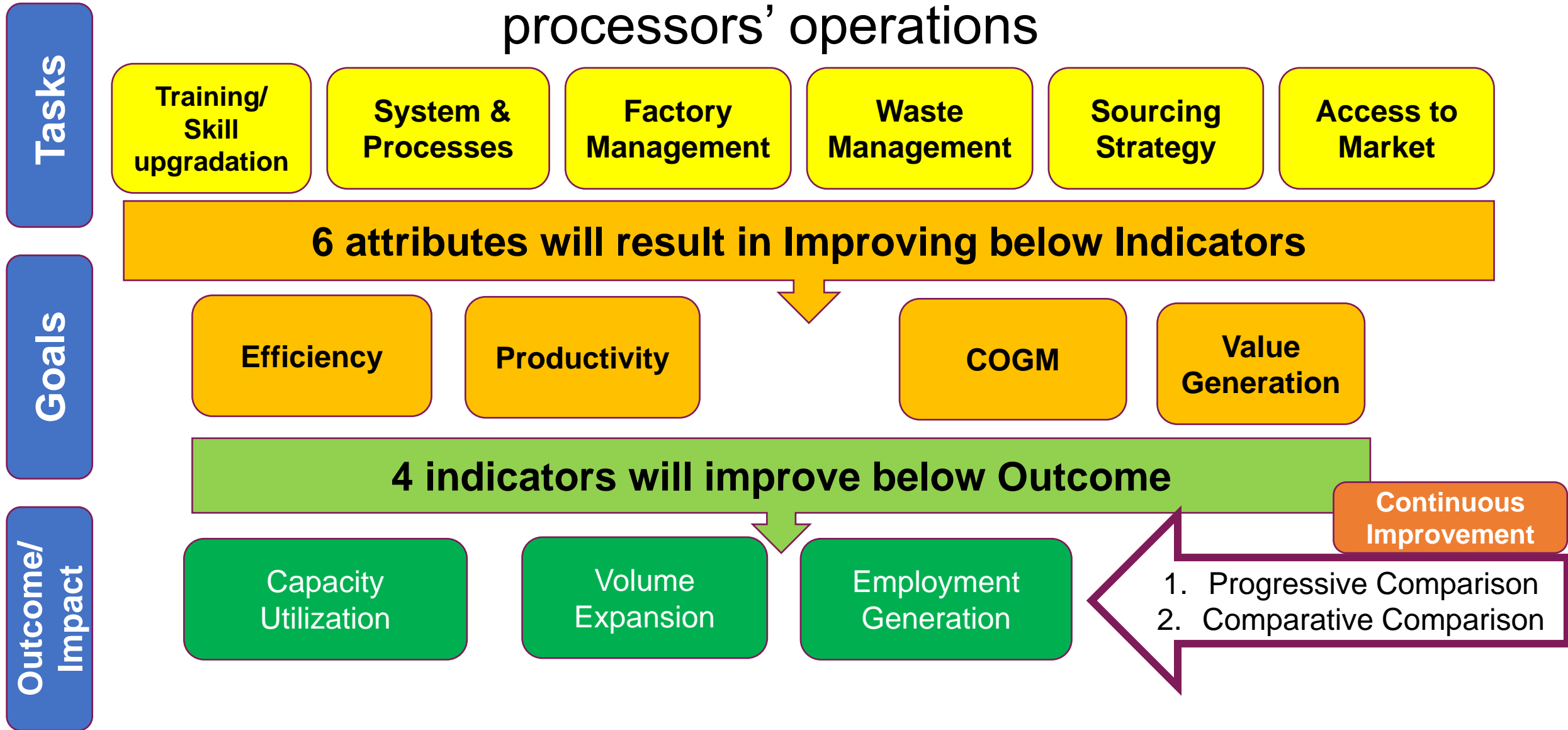
Source: TNS Analysis

Prosper Cashew Initiative

- **Theory of Change** – "If cashew processing companies have access to appropriate Capital and tailored Technical assistance, and if stakeholders have incentives to establish Local Supply chains, then the West African cashew processing industry will improve its competitiveness"

- **Prosper Cashew** – 4 Pillars of which 2 are related to access to Capital

Improve Access to **WC loans** through Strategic partnership	**Matchmaking** activities to enhance additional flow of capital	Strengthening capacity & efficiency of processors through **Technical Assistance**	Support robust **Supply Chain** development, from sourcing of RCN to sale of processed kernels

Team Capital Investment   *Team Technical Assistance*   *Team Business Development*

PROSPER CASHEW
Transformation starts here.

TechnoServe
Business Solutions to Poverty

Prosper Cashew's aim is to break processors' operational vicious cycle and support investment facilitation on the back of an improved credit profile

Low utilization reduces revenue and increases unit cost

Unprofitable Processing

Lack of profitability leads to business failure or reduced investment/ commitment

Low Output Yield/Quality
Low Utilization Rates

PROCESSOR

Lack of Investment in Factory/ Management

Inability to Raise Financing

Inability to acquire RCN during key months for whole year leads to low facility utilization

Poor Operational Performance
Failure to Access RCN

Lack of track record leads to failure to raise adequate working capital financing for RCN

Prosper Cashew Technical strategy to improve cashew processors' operations

Tasks

| Training/ Skill upgradation | System & Processes | Factory Management | Waste Management | Sourcing Strategy | Access to Market |

6 attributes will result in Improving below Indicators

Goals

Efficiency

Productivity

COGM

Value Generation

4 indicators will improve below Outcome

Outcome/ Impact

Capacity Utilization

Volume Expansion

Employment Generation

Continuous Improvement

1. Progressive Comparison
2. Comparative Comparison

Access to Finance challenges for Cashew Processors

Pricing mismatch	Untimely disbursements	High production costs	High interest rates	Lack of Collateral

- **Kernel sale / export price** is unknown at the time of RCN sourcing
- **Processors are seen as having high credit risk given tight margins and inability to control price**
- **Low availability of affordable RCN** means processing plants may operate below capacity

- **Lenders are not timely in the disbursement** of funds which, given high fluctuation of RCN prices, can have a significant impact on their sourcing cost and ultimately on margins

- **The industry does not have a competitive advantage globally given high costs of production**
- Processing units are **relatively young** and lack **operational efficiency**
- Processing units **remain idle** many months due to the regional harvest cycle, while Asian processors source year round from different geographies

- **High interest rates** especially in Ghana and Nigeria Most processors claim that they are unable to grow due to high cost of financing
- **Interest rates in West Africa are much higher than competitors interest rates** (processors in India, Vietnam)

- **Collateralizing assets is very challenging**
- **Real estate assets are** sometimes not officially registered and a mortgage as collateral is very expensive

Access to Finance challenges for Investors

Limited industry knowledge	**Weak performance History**	**Insufficient guarantee support**	**Limited fund use traceability**	**High price Volatility**

Limited industry knowledge

- **Financiers have limited knowledge of the cashew sector**
- Limited knowledge about how to evaluate and **differentiate risks** between traders and processors
- Financiers do not consider cashew market specificities

Weak performance History

- Limited industry/performing processors **track record**
- **Industry tainted** with history of non-performing loans, as a result, some financiers are reluctant to invest in the cashew industry

Insufficient guarantee support

- **Lack/ insufficient guarantee fund or risk sharing** mechanisms in the cashew industry, that could help reduce investor credit exposure and encourage them to unlock additional source capital

Limited fund use traceability

- **Limited fund use traceability** RCN procurement is cash-based and uses of funds cannot be easily verified

High price Volatility

- Difficulty for financial institutions to assess future cash flows as sourcing and selling price have been **highly volatile**
- Price volatility affects **projected cash flows** and can squeeze already tight margins
- **Fierce competition on the ground** with some traders often overbidding

Prosper Cashew Initiative - Key Success Factors

Partnerships Development/ Technical Assistance

- Develop partnership with Technical partners like Prosper Cashew, GIZ, ProCashew, AGRITERA…..

- Link farmers, farmer groups, and farmer associations to processors

- Enhance marketing prospects of kernels for the African processors

Capital Match Making

•Establish a list of financial institutions with higher alignment.
Criteria to consider: Appetite, experience, fast decision-making processes…

• Assess Processors needs and connect them with financiers

• Provide complementary trainings as needed: Cashew sector peculiarities, Assessment of kernels buyers and potentially use rating companies reports to support assessments

Regulation

- Involvement of the governments to organize the sector (approved buyers, quota for local processing, …..)

- Increase/implement government guarantee and interest subsidy

- Investment facilitation

- Technical trainings