

15th ACA Annual Cashew Conference



A SUSTAINABLE CASHEW SUPPLY CHAIN FOR THE FUTURE



Fully Online



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How to unlock additional sources of capital for Cashew processors in West Africa.

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Speakers - Introduction

International Nonprofit Organization



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Cashew Processing Companies



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Agenda

- 1 WHAT IS THE CONTEXT AND THE OPPORTUNITIES OF THE CASHEW SECTOR IN WEST AFRICA?
- 2 WHAT ARE THE KEY CHALLENGES IN THE CASHEW PROCESSING SECTOR?
- 3 HOW LIMITED ACCESS TO FINANCE – IMPACT THE ENTIERE PROCESSING CYCLE
- 4 LANDSCAPE ANALYSIS – UNDERSTANDING THE GAPS (SUPPLY AND DEMAND)
- 5 HOW PROSPER CASHEW INITIATIVE SOLVE THE IDENTIFIED CHALLENGES
- 6 RECOMMENDATIONS AND KEY LESSONS LEARNED FROM PROCESSING COMPANIES
- 7 STRATEGY AND KEY LESSONS LEARNED FROM FINANCIAL INSTITUTIONS

1- Overview of the Cashew Industry – Opportunities

For West African economies

Context

- Global cashew market valued at **\$12 billion** ⁽¹⁾
- Steady growth production over the past 4 decades
- **West Africa** accounted for 45% of RCN world production
- **Yet, less than 7%** of the RCN produced is processed locally
- The Region exports the majority of its RCN for processing in Asia

Key Opportunities

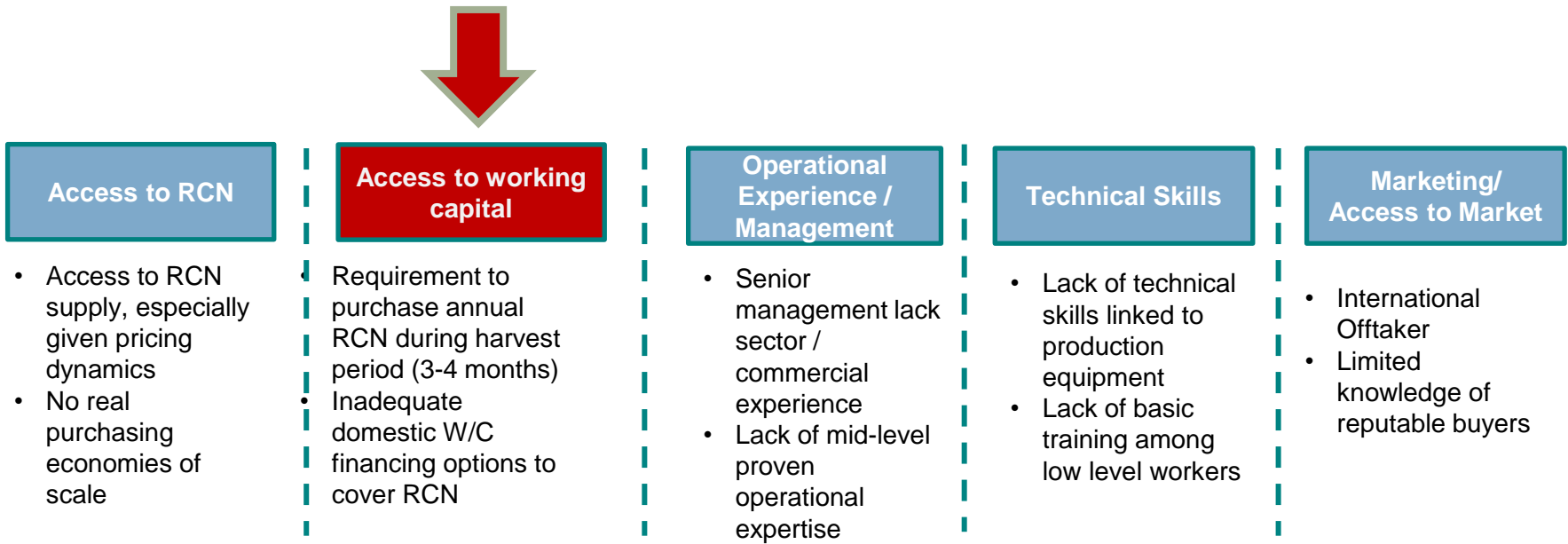
- West Africa region is the largest RCN producer in the world
- Single-origin product improving end-product traceability
- Proximity to European and American markets
- Enabling Environment : Strong public support, Financial Incentives (processing subsidies, tax exemption etc)

- ✓ There is a clear opportunity to add significant value to West African economies, through increased domestic processing of RCN.
- ✓ The Region has the right fundamentals to become the next largest exporter

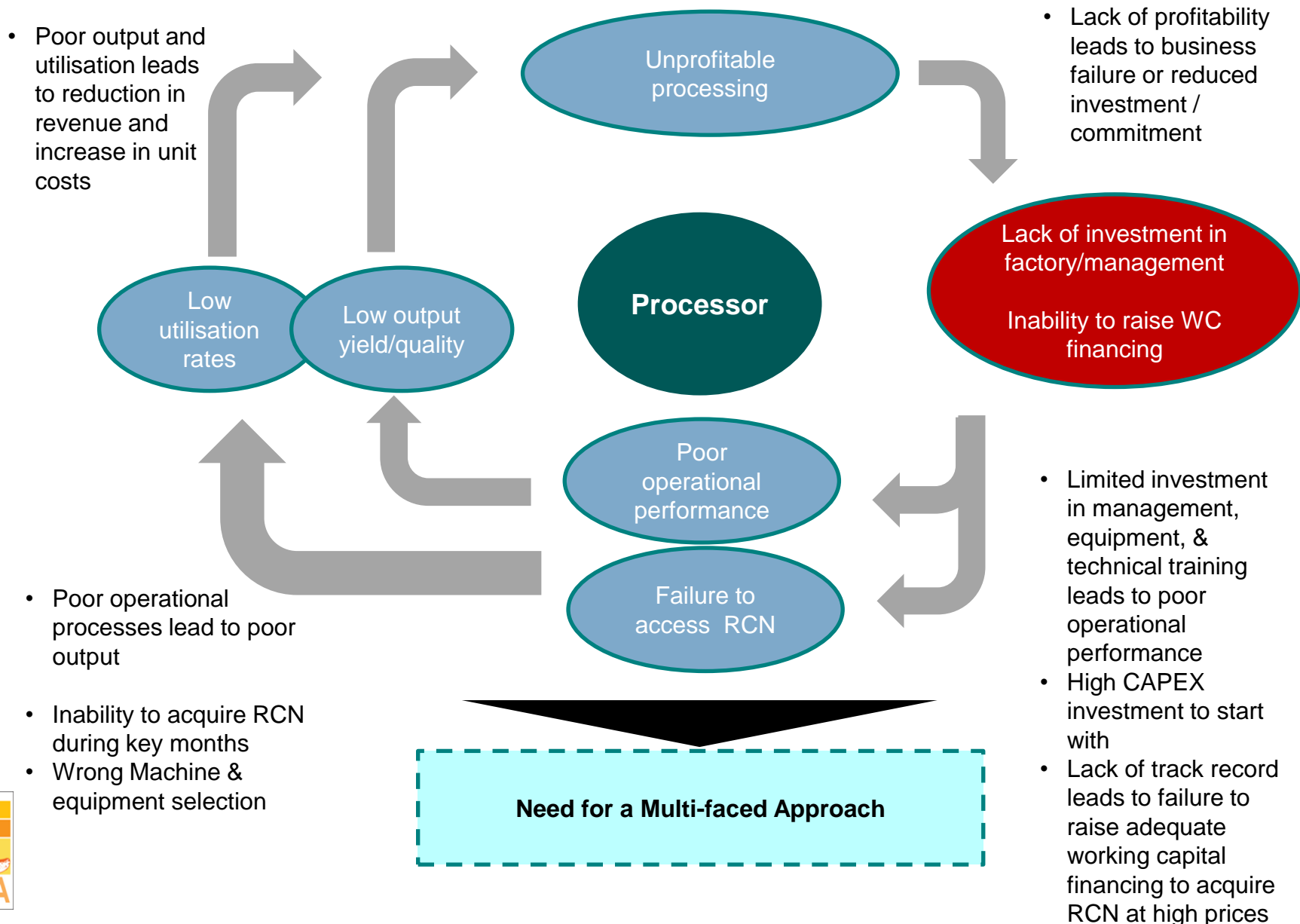
(1) USDA, "Food for Progress (FFPr) Notice of Funding Opportunity (NOFO) FY2020."



2- Overview of Key challenges for cashew processors



3- Access to Finance – Impact on Processing Cycle



• Poor output and utilisation leads to reduction in revenue and increase in unit costs

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

Low utilisation rates

Low output yield/quality

Processor

Lack of investment in factory/management
Inability to raise WC financing

Poor operational performance

Failure to access RCN

• Poor operational processes lead to poor output

• Limited investment in management, equipment, & technical training leads to poor operational performance
• High CAPEX investment to start with

• Inability to acquire RCN during key months
• Wrong Machine & equipment selection

• Lack of track record leads to failure to raise adequate working capital financing to acquire RCN at high prices

Need for a Multi-faced Approach



4- Landscaping analysis: Understanding the Gaps on the Supply side

Challenges for Financial Institutions

Sector Knowledge

- Financiers have limited knowledge of the cashew sector
 - Limited knowledge about how to evaluate and differentiate risks between traders and processors
 - Limited knowledge of reputable counterparties (buyers)
 - Poor knowledge of sector dynamic (price mechanism, fluctuation, quality of the products etc.)
-

Performance History

- Limited industry/processors track record
 - Industry tainted with history of non-performing loans
 - Some processors have gone out of business leading financiers to view the sector as unsustainable
-

Limited guarantee support

- Lack of guarantee fund or risk sharing mechanism in the cashew industry, that would help reduce investor credit exposure and encourage them to unlock additional source capital
-

Lack of technical support

- The financiers are rarely supported by a technical partner to help de-risking the credit facilities. The TA partner would be able to assess the quality of equipment for a good yield, assess certification, train technical and management teams to increase performance
-

Price Volatility

- Difficulty for FIs to assess future cash flows as sourcing and selling price have been highly volatile

4- Landscaping analysis: Understanding the Gaps on the Demand side

Challenges for cashew processors

Disbursements

- Financiers often disburse funds in timeframes that do not fit processors' needs
- Most processors express a pressing need for working capital at the beginning of the season. However, 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

Collateral

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

Processing Cost

- Processors have to face relatively high cost of production, estimated \$150 higher to India & \$200 higher than Vietnam
- Importance of high utilization rate – access to enough capital to secure RCN

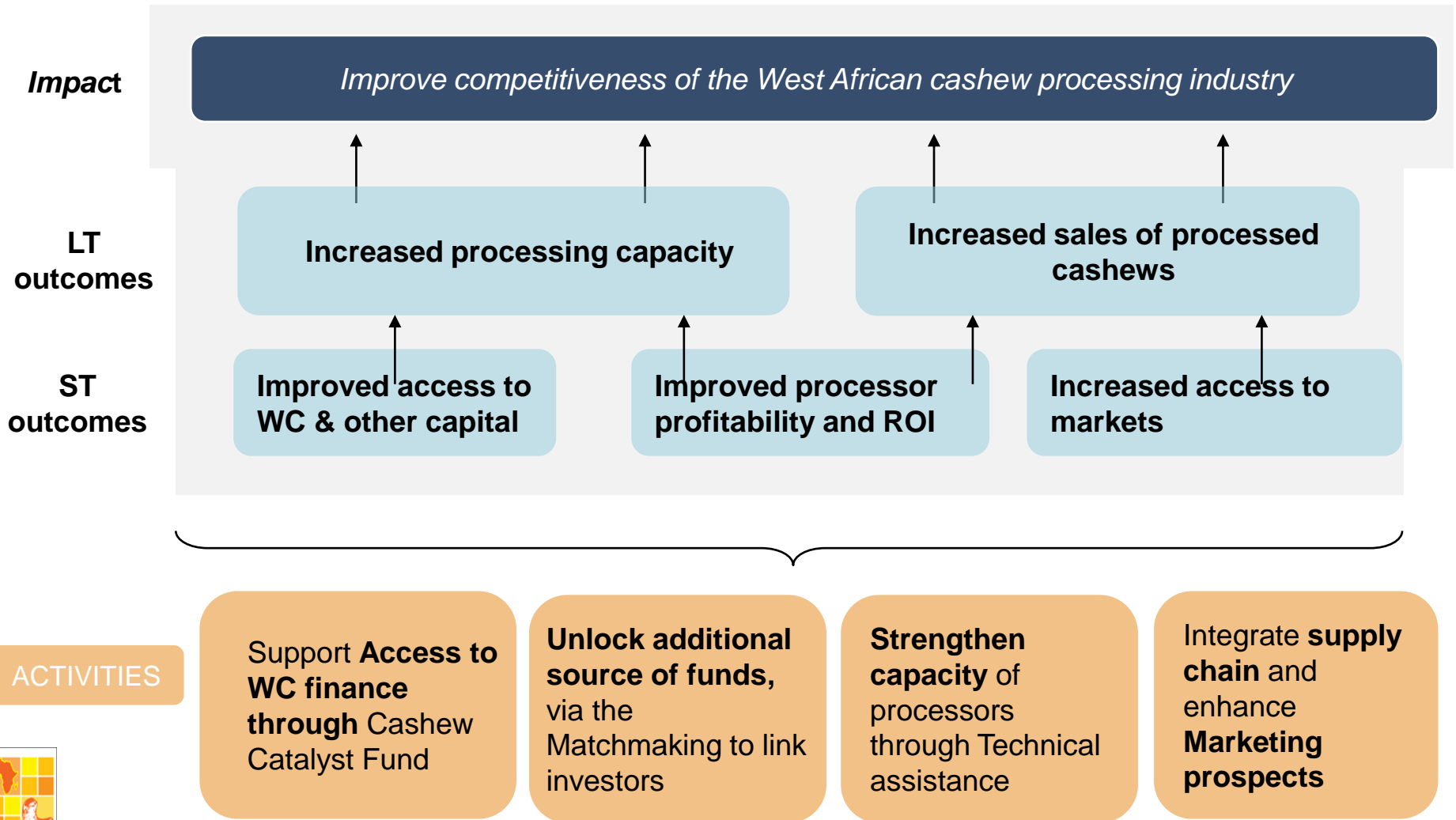
Interest Rates

- High interest rates especially in Ghana and Nigeria
- Most processors claim that they are unable to grow due to high cost of financing



5- Prosper Cashew Initiative – Theory of Change

West Africa has the right fundamentals to become the next large exporting region of cashew kernels, especially if enabled by access to **Technical expertise, appropriate Capital & Market access**



5- Prosper Cashew – Components

All 4 Prosper Cashew components seek to create an ecosystem that catalyzes processed volumes



1

Strengthen the commercial viability of the cashew sector through **capacity building**



2

Integrate **supply chain** and enhance **marketing prospects** of kernels processed in WA

Cashew Processors



3

Establish a CCF with a target size of up to \$30 MM



4

Provide match making services, linking investors to WA cashew processing businesses

De-risking

Investment

Technical Assistance Component will support CCF investments by providing advisory services to investees, allowing them to improve their business operations and credit profile

Prosper Cashew will serve as the main source of pipeline, facilitating portfolio development



Funder:



Implementing Consortium:



6- Panel Discussion with Processors - Topics

- 1/ Presentation of your Company profile (**VERTEX** and **SOBERY**) – Overview of activities (Country of operations, processing capacities etc);
- 2/ Global experience with commercial banks, equity funds, etc to raise capital;
- 3/ What are your most recurring challenges when submitting your financial request?
- 4/ What are the most adequate and needed financing instruments to ensure strong and sustainable operational processes?
- 5/ What are your key lessons learned when negotiating credit loans and your recommendations for financial service providers to make these operations successful for both parties



7- Panel Discussion with Banks - Topics

Financial Institutions

(SG, OikoCredit)

- 1/ Briefly share your experience in financing the cashew sector and your ambition for the next 5 years
- 2/ What is your level of understanding of (i) cashew processors (specific) financing needs & (ii) risk profile (differentiating traders and processors);
- 3/ Key lessons learned in financing cashew actors
- 4/ Global recommendations that you believe will unlock the flow of capital for cashew processors

Multilateral Development Bank

(AfDB)

- 1/ Briefly share your opinion on regulatory framework supporting the Cashew sector in West Africa (current incentives) and what can be improved
- 2/ What drivers will lead to an increase of AfDB intervention in the Cashew industry
- 3/ What can be done at AfDB level to support Financier service providers? Processors?
- 4/ Key remarks