

11<sup>th</sup> ACA Annual Cashew Conference



# A NEW VISION FOR PARTNERSHIPS & INVESTMENTS



**Cotonou, Benin**

*September 18-21, 2017*

Knowledge sharing. Exposition. Field trips.



## Rethinking Processing in Africa

Suraj Rao Benin 19.08.2017

## Reasons for snail paced growth of the processing industry.....

### PRIMARY CHALLENGES

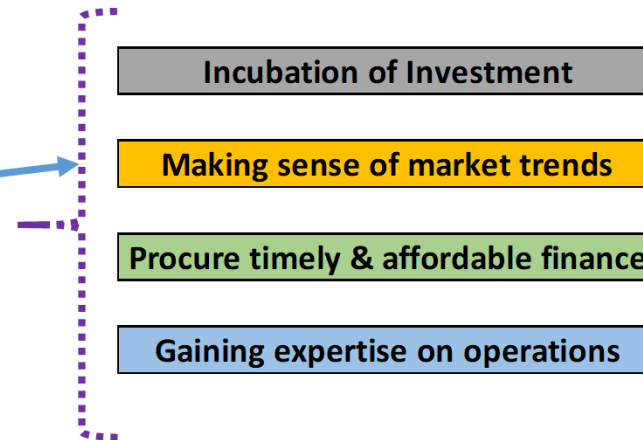
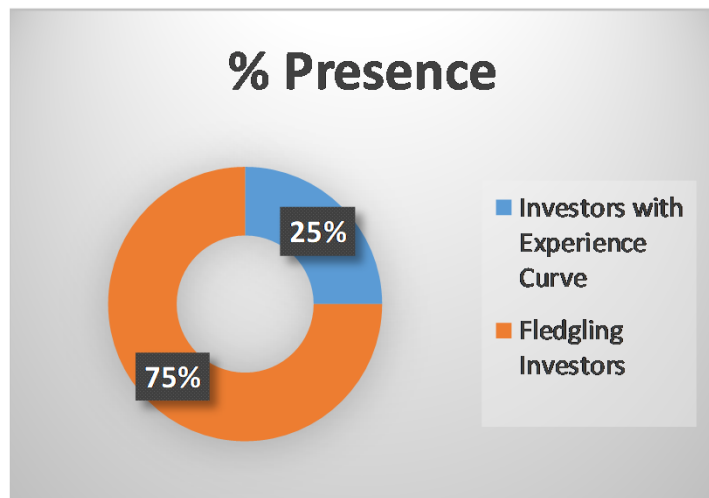
- Supply Chain Challenges and Investment Logic
- High conversion cost (+usd 200 pmt)
- Higher investment base

### RELATED CHALLENGES

- Infrastructure and logistic challenges. Expensive transportation
- Lower nascent skill set
- High carrying cost and high working capital requirements
- High cost of operation
- Lack of domestic market for off-grades and by-products. Mobilisation of brokens & full fcl's
- Forex exposure
- Execution risk. Spare part availability
- Low population density
- No scheduled wage structure
- Behavioural / Wage issues
- GOVERNMENT POLICIES – clarity and implementation
- Dependency on expat manpower
- Warehousing & drying yards

# Potential pitfalls of Fledgling Investors...losses in procurement and processing

Investment Profile	% Presence
Investors with Experience Curve	25%
Fledgling Investors	75%



Despite African processors having a competitive advantage of \$450-800 per MT RCN over Asian processors...

2017

Location	AFRICA							INDIA	VIETNAM
	CIV	BENIN	GB	GHANA	MOZ	NIGERIA	TANZANIA		
RCN procurement cost (MT)	\$1,350	\$1,400	\$1,360	\$1,480	\$1,130	\$1,142	\$1,500	\$2,100	\$2,150
Conversion cost* (Per MT RCN)	\$625	\$414	\$561	\$465	\$455	\$480	\$486	\$350	\$210
Average RCN quality	46	47.5	52	47	46	46	50	47	47
Yield (%)	20.95	21.63	23.68	21.4	20.95	20.95	22.77	21.84	21.84
<b>\$ advantage over Asian processor (Per MT)</b>	<b>\$471</b>	<b>\$632</b>	<b>\$525</b>	<b>\$501</b>	<b>\$861</b>	<b>\$824</b>	<b>\$460</b>	-	-
Processing Cost differential vis-à-vis Vietnam	(\$415)	(\$204)	(\$351)	(\$255)	(\$245)	(\$270)	(\$276)	\$ (140)	0
Interest rate differential	(\$54)	(\$56)	(\$54)	(\$59)	(\$45)	(\$46)	(\$60)		
Quantifying qualitative related factors ***	(\$100)	(\$100)	(\$100)	(\$100)	(\$100)	(\$100)	(\$100)	\$ 300	
Assumed Nett Benefit	(\$98)	\$272	\$20	\$87	\$471	\$408	\$24	\$ 160	0

\*\*\* these include currency volatility, competitive intensity, access to markets, capital adequacy at critical points in the procurement cycle, liquidity etc

- Cash flow projections on investments are myopic towards qualitative factors
- Business can get impacted due to exogenous shocks
- Risk management framework with an integrated approach to business is critical.



Light at the end of the tunnel could be that of the incoming train!

## Potential Solutions....

### RISK MITIGATION

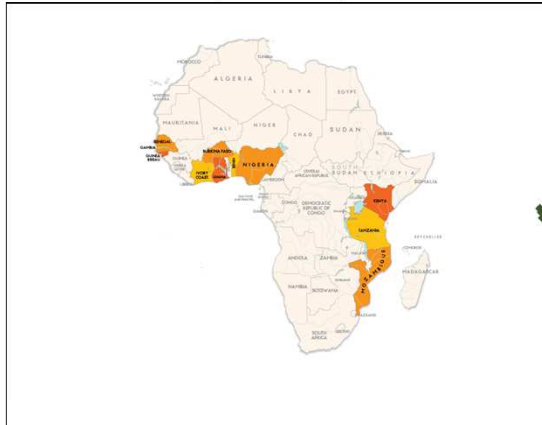
- Establish a well oiled supply chain network to secure RCN. Supply chain management , exports and logistics management is integral to the business.
- Export of unpeeled kernels may be a short term solution till the process stabilizes to ensure all grades are exportables. This means :
  - Higher carbon footprint
  - Lower traceability for the end consumer
  - Longer cycle time
  - Exposure to greater counter party risk
- Workers availability & transport. Worker efficiency & training
- Plant maintenance capabilities
- Risk mitigation plan
- Byproducts management

### MITIGATING FACTORS

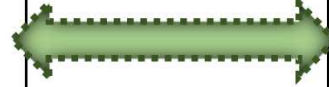
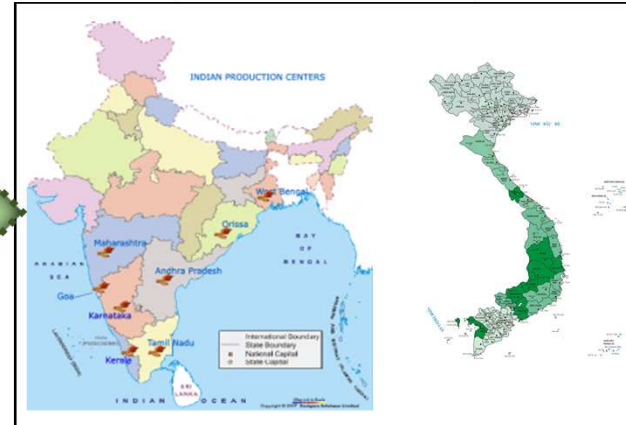
- Demand driven need for african kernels
- Rising rcn production
- Govt establishing sound institutional & cashew a priority sector

# The long haul...MADE IN AFRICA!

## AFRICA



## INDIA / VIETNAM



**Increasing production will lead to movement of exportable surplus to traditional processing centers of India and Vietnam**

**Minimum government maximum governance**

**Domestic consumption of non-exportable grades**

**Increasing innovation in automated processing and smooth technology transfer**

**Movement of experienced processors to Africa in response to traceability and food safety standards in consuming markets and favorable investment climate and reduced investment cost**

**Increasing consumption from India and China**



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**THANK YOU**

