

How to cash-in on cashews?

Supporting Côte d'Ivoire to create more jobs and business opportunities in agribusiness with an IBRD enclave loan using the future export revenue of cashew nuts

OVERVIEW

The World Bank is supporting Côte d'Ivoire to transform its cashew nuts production and processing industry, one of their top three cash crops. The transformation is aimed to take the industry from primarily exporting raw cashew nuts, to exporting processed, value-added products that will generate more value and income for Côte d'Ivoire. The World Bank Treasury Financial Products team, working closely with the Government of Côte d'Ivoire, set up a development finance scheme in which the future revenues generated from export of raw cashew nuts will service repayments of the loan. This development finance solution enables Côte d'Ivoire to embark on its ambitious value chain transformation strategy without burdening the Government's budget. With the embedded credit enhancement feature of the loan, Côte d'Ivoire, an IDA-only country, successfully obtained a EUR164 million loan from IBRD, preserving the limited IDA resources to finance other critical development projects.



Women workers in a cashew processing facility - Copyright Alamy Stock Images

Background

Côte d'Ivoire is the world's leading exporter of raw cashew nuts. The value of cashew exports for the country is estimated at US\$800 million annually. However, its cashew value chain is poorly developed. Only 7 percent of the processing is done in Côte d'Ivoire, with raw nuts in the shell being exported to India or Vietnam for further value-added activities. By retaining more value-added activities in the country, Côte d'Ivoire can create more jobs for its people as well as business opportunities in rural areas. The Government requested the World Bank to support the country's ambitious strategy and advance its position in the value chain by improving on-farm production of raw nuts, as well as developing the processing industry. Also, the government wished to create a financing scheme in which the cashew nuts industry was to effectively finance the investments, because the government fiscal space was limited and the industry consisted of private businesses.

Financing Objectives

- Mobilize a large volume of funding for the Cashew Value Chain Competitiveness Project without requiring additional budget resources from the Government of Côte d'Ivoire
- Structure a cost-effective and long-term financing scheme for the Project by relying on the future export revenue of raw cashew nuts
- Facilitate greater transparency of the export levy revenues and how they are applied
- Provide IBRD investment project financing for projects in Côte d'Ivoire, an IDA-only countries subject to credit enhancement features that adequately mitigate IBRD's credit risk – and preserve IDA resources to other important but less financially viable development projects.

Financial Solution

The result is a EUR 163 million IBRD enclave loan with 30 years maturity and a 2.5-year grace period. The loan includes credit enhancement features, in which future cash flows from the export levy of raw cashew nuts are pledged in the IBRD's favor. A Debt Service Reserve Account with a minimum balance of 18 months (three interest periods) of peak debt service is set up and funded by the Conseil du Coton et de l'Anacarde (CCA), the borrower of the loan. CCA and the Government of Côte d'Ivoire both agreed to a set of loan-specific covenants, such as the Bank's claim on the future flows of the export levy of raw cashew nuts available to CCA and a specific debt-service ratio. In that way, the loan is structured so that future flows of the export levy on cashew nuts and products will service the repayments of the loan.

This loan structure also brings much-desired transparency on how the funds from the export levy are applied; and that was also a key motivation for the Government of Côte d'Ivoire to seek the IBRD enclave loan.

World Bank Treasury Financial Products Advisory's Role

For Côte d'Ivoire, World Bank Treasury Financial Products Team provided financial advisory to the client and the World Bank team by:

- Understanding financial viability of the project
- Exploring the financing options and performing financial analysis
- Structuring an appropriate financial scheme
- Explaining the financial scheme and terms, including the loan covenants, to the borrower, the government and other stakeholders
- Executing the transaction in collaboration with the Bank's Legal Finance team – by setting up the escrow accounts at a commercial bank and security interest in the balance and in-flows in the accounts; and by leading negotiations among the parties to put it into contractual agreements.

Outcome

On April 10, 2018, the World Bank Board approved EUR 163 million IBRD loan to the CCA. About 225,000 cashew farmers will benefit directly from the Cashew Value Chain Competitiveness Project's interventions. Beneficiaries also include cashew enterprises ranging from small-scale processing units to larger industrial processing facilities. The investments are expected to generate around 12,000 direct jobs, of which 50 percent are for women.

After this loan, Côte d'Ivoire expressed its interest to explore a similar value chain transformation opportunity for its cacao industry. Neighboring countries, such as Guinea, also expressed their interests in pursuing similar financing opportunities in which the government may mobilize cost-effective long-term financing, which will be based on the future export revenues.

IBRD enclave financing is one of the many ways the World Bank Group helps member countries become more resilient to economic shocks. IBRD's Triple-A credit rating, market presence and convening power allows the World Bank Treasury Financial Products and Client Services team to develop innovative new products to help our clients maximize financing and mitigate risk.