

# Cashing in on Cashews in Côte d'Ivoire

Using the Future Export Revenue of Cashew Nuts to Facilitate IBRD Enclave Lending

## OVERVIEW

The World Bank is supporting Côte d'Ivoire in efforts to transform its production and processing of cashew nuts, one of the country's top-three cash crops. Under the Cashew Value Chain Competitiveness Project, Côte d'Ivoire seeks to move from primarily exporting raw cashew nuts to exporting processed, value-added products that will generate more value and income for the country. The World Bank worked closely with the government of Côte d'Ivoire to set up a development finance scheme in which the future revenues generated by export of raw cashew nuts service repayments of the loan. This approach 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 US\$200 million equivalent loan from IBRD, preserving the limited IDA resources to finance other critical development projects.

## Background

Côte d'Ivoire is the world's leading exporter of raw cashew nuts. The value of cashew exports for the



Women working in a cashew-processing facility. Photo credit: Alamy stock images.

country is estimated at US\$800 million annually. However, the country's cashew value chain is poorly developed. Only 7 percent of the processing is done in Côte d'Ivoire; raw nuts in the shell are exported to India or Vietnam for further value-adding activities. By keeping activities that add value in the country, Côte d'Ivoire could create jobs as well as business opportunities in rural areas.

The government of Côte d'Ivoire requested World Bank support in its efforts to move up the value chain by improving on-farm production of raw nuts and developing the processing industry. The government also sought help in creating a financing scheme in which the cashew industry effectively financed the investments. This structure was deemed desirable both because government fiscal space is limited and because the industry consists of private businesses.

## Financing Objectives

This financing scheme had several 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.
- Meet the government's goal of promoting greater transparency in the application of export levy revenues.
- Provide IBRD investment project financing for projects in Côte d'Ivoire, an IDA-only country, including credit enhancement features to adequately mitigate IBRD's credit risk—thus preserving IDA resources for other important but less financially viable development projects.

## Financial Solution

The solution developed to meet these objectives is a US\$200 million equivalent IBRD enclave loan with a 30-year maturity and a 2.5-year grace period. The loan includes credit enhancement features, in which future cash flows from the export levy on raw cashew nuts are pledged in the IBRD's favor to service repayment of the loan. The loan borrower, Conseil du Coton et de l'Anacarde (CCA), has set up a debt service reserve account with a minimum balance of 18 months—three interest periods—of peak debt service. CCA and the government of Côte d'Ivoire have agreed to a set of loan-specific covenants, including the Bank's claim on the future cash flows from export levies and the specific debt-service ratio.

This loan structure also brings much-desired transparency to how the funds from the export levy are applied, and this feature was a key motivation of the government of Côte d'Ivoire in seeking the IBRD enclave loan.

## World Bank's Role

The World Bank Treasury Financial Products team provided a range of financial advisory services to Côte d'Ivoire and the World Bank project team:

- Clarified the financial viability of the project
- Explored financing options and performed financial analysis
- Structured an appropriate financial scheme
- Explained the financial scheme and terms,

including the loan covenants, to the borrower, the government, and other stakeholders

- Executed the transaction in collaboration with the Bank's Legal Finance team—setting up the escrow accounts at a commercial bank, setting up security interest in the account balance and inflows, and leading negotiations among the parties to put the transaction into contractual agreements

## Outcome

On April 10, 2018, the World Bank Board approved a US\$200 million equivalent IBRD loan to the CCA. About 225,000 cashew farmers will benefit directly from the Cashew Value Chain Competitiveness Project's interventions. Cashew enterprises—ranging from small-scale processing units to larger industrial processing facilities—will also benefit. The investments related to the project are expected to generate around 12,000 direct jobs, half of them for women.

Côte d'Ivoire has now expressed its interest in exploring a similar value chain transformation for its cacao industry. In addition, neighboring countries such as Guinea have also expressed interest in pursuing similar financing opportunities, in which the government mobilizes cost-effective long-term financing based on 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 AAA credit rating, market presence, and convening power allow the World Bank Treasury Banking Products team to develop innovative new products that help clients maximize financing and mitigate risk.

### For information: