



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 09-Sep-2016 | Report No: PIDISDSC18646



**BASIC INFORMATION**

**A. Basic Project Data**

Country Cote d'Ivoire	Project ID P158810	Parent Project ID (if any)	Project Name Cashew Value-Chain Competitiveness Project (P158810)
Region AFRICA	Estimated Appraisal Date Mar 01, 2017	Estimated Board Date Jun 22, 2017	Practice Area (Lead) Agriculture
Lending Instrument Investment Project Financing	Borrower(s) Ministry of Economy and Finance	Implementing Agency Ministry of Agriculture, Ministry of Mines and Industry	

**Financing (in USD Million)**

Financing Source	Amount
International Bank for Reconstruction and Development	175.00
<b>Total Project Cost</b>	<b>175.00</b>

Environmental Assessment Category  
A-Full Assessment

Concept Review Decision  
Track II-The review did authorize the preparation to continue

Other Decision (as needed)

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**B. Introduction and Context**

Country Context

**Following its independence, Côte d'Ivoire occupied a unique place in Africa.** For two decades, the country experienced political stability, high growth and sustained poverty reduction. Ample natural resources and favorable terms of trade for its main agricultural exports helped the country achieve a strong economic performance which, by the end of the 1970s made Côte d'Ivoire the major player of the West African Monetary and Economic Union. By 1980 the country was the world's leading exporter of cocoa and Africa's leading exporter of pineapples, palm oil, rubber and bananas. Gross Domestic Product (GDP) grew steadily during that period at average 6 percent per year. The surpluses generated by agriculture alone have enabled the country to have a relatively large industry, whose contribution to GDP reached 23 percent in 1982. It is also principally due to agriculture that Ivoirians enjoyed the highest annual per capita income in the West African sub-region, including Nigeria. A sharp reversal began in 1980 as terms of trade deteriorated precipitously and the CFAF became increasingly overvalued. From 1981 to 1992, annual GDP growth averaged -0.2 percent and Côte d'Ivoire slipped from the rank of middle income countries into the low

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income group. The devaluation of the CFAF in 1994 triggered an economic rebound, but this was soon undermined by the political crisis which began in 1999<sup>1</sup>. During this period which lasted until 2011, the increase in the depth and severity of poverty was dramatic all over the country.

**Côte d'Ivoire's economic performance over the past four years has been impressive.** Renewed political stability, concurrently with structural reforms<sup>2</sup> to improve the business climate<sup>3</sup> and supportive fiscal policy enabled a strong pickup in economic activity. Over the last 4 years, economic activity expanded by 9 percent a year on average translating, into an increase in real per capita income of more than 20 percent. In 2015, real GDP grew by 8.6 percent driven by strong investment and private consumption. Inflation remained subdued, reflecting ample domestic food production and imported consumer products. In response to the rebound of economic growth, the poverty incidence in the country slightly diminished from an estimated 51 percent in 2011 to 46 percent in 2015<sup>4</sup>, but other human development indicators have been slow to improve. Efforts were made during the period 2012–15 to make growth more inclusive by increasing the farm price for coffee and cocoa and other agriculture products and improving basic infrastructure in rural areas. Nevertheless, the country is still facing several challenges, including significant disparities across the country in terms of education attainment, health services, employment, and income.

**Challenges ahead – poverty and inequality.** Poverty continues to be overwhelmingly rural with disparities in access to basic services, and gender disparities across wealth and urban-rural groups. People living below the poverty line tend to be unemployed and are from large households, the agricultural sector, and weak educational background. Poverty is also found to be more common among the young: 51.4 percent of Ivoirians younger than 25 years are classified as poor, while poverty rates in other age groups vary from 35 to 39 percent. The recently concluded Bank Systematic Country Diagnostic (SCD) shows that poverty is significantly concentrated in rural areas and in the Northern parts of the country (where the potential for agriculture has not yet been realized), while greater Abidjan is becoming ever more dominant in the country's economy. Poverty rates are 69 percent in North versus 25 percent in the South (within the southern regions, poverty rates tend to increase from East to West). While spatial inequality worsened during most of the crisis period, the rural-urban divide continued to grow even during the recent recovery. Such unbalanced - mostly Abidjan centric - development is unsustainable; both economically, because it relies on too few sectoral and regional drivers and socially, because it does not tackle the roots of fragility in the country. The 2015 Human Development Report ranked Côte d'Ivoire at 172 out of 188 countries (far below neighboring Ghana in 140<sup>th</sup> place), with an overall Human Development Index below the average for sub-Saharan Africa.

**Côte d'Ivoire ambitious development agenda - making the country an emerging market economy.** Following last October's peaceful presidential elections, political uncertainties have diminished, paving the way for continued economic progress. The medium-term outlook is favorable. Economic activity is projected to remain strong at 8.5 percent in 2016, and 7.4 percent per year on average in 2017–20. The Government has recently adopted a new 2016–20 National Development Plan (NDP)<sup>5</sup> aimed at achieving strong and inclusive growth - halving poverty and fostering structural transformation. To support the structural transformation foreseen under the NDP, the Government intends to pursue further reforms to improve the business climate and strengthen the private sector contribution in the economy, including in the form of a public-private partnership. This will involve creating new opportunities for diversification based on the country's comparative advantages and fostering sustainable integration into regional and global value chains. A greater impetus will be given to stimulating industrial production - moving to higher domestic value-added products through the local transformation of a larger share of agricultural products (especially cocoa and cashew). The Government has set a target of at least fifty percent of cacao beans domestically processed and eventually more for cashew nuts by 2020. In attaining this targeted, the Government is also seeking to increase the participation of nationally domiciled entities in cacao and cashew processing, and is assessing options regarding policies that could encourage growth of small- and medium-sized enterprises (SMEs) in both sectors. Successful NDP implementation will depend on the pace at which the main structural barriers are removed and productivity-enhancing reforms are carried out, as well as on financing conditions and how domestic and external risks are addressed. The authorities have expressed an interest in a new Fund arrangement to support the NDP objectives, including the IBRD-Enclave financing mechanism.

<sup>1</sup> Between 1985 and 2008, the estimated share of the population living below the poverty line increased from around 10 percent to about 49 percent.

<sup>2</sup> The Government has undertaken a number of important economic reforms and reached the Heavily Indebted Poor Countries completion point in June 2012.

<sup>3</sup> According to the World Bank "Doing Business Index", Côte d'Ivoire has gained some 25 places in the world ranking, from 2011 to 2016 and ranked among the 10 best reformers in 2014 and 2015. Côte d'Ivoire was also ranked among the fastest improving countries on Transparency International's Corruption Perception Index, rising from 154<sup>th</sup> in 2011 to 115<sup>th</sup> in 2014. Comparing the Mo Ibrahim Index of African Governance, the country has shown the largest improvements in overall governance on the continent over the last four years.

<sup>4</sup> 2015 Living Standards Monitoring Survey (LSMS – ENV2015).

<sup>5</sup> The NDP is based on four strategic pillars: (i) enhancing the quality of institutions and governance; (ii) stepping-up the development of human capital and promoting social well-being; (iii) speeding up structural transformation and industrialization; and (iv) strengthening the infrastructure base while preserving the environment.



## Sectoral and Institutional Context

**Cote d'Ivoire's economy and growth have been driven by commodity-based exports and this will remain the key in the medium-term.** The most important export crops – cocoa, rubber, palm oil, cotton and cashew – are also the main sources for smallholders' income as well as the center-piece of the country's major farming systems. Cocoa, rubber and oil palm are at the center of the forest zone's diversified production mix with smallholders generally maintaining a wide variety of cash and food crops (rice, cassava, plantain). Cotton and cashew are the main cash crops and drivers of the savanna economy and farming systems (which include maize, rice and livestock), where cotton in particular has important spill-over effects on food crop productivity through the use of improved technology.

**The agricultural sector currently accounts for 22 percent of GDP, over three-quarters of non-oil exports, and provides employment and income to two-thirds of all households.** Côte d'Ivoire is the world's largest producer of cacao and has become the largest producer and exporter of raw cashew nuts (RCN). The country remains also the largest exporter of rubber, oil palm, bananas, pineapples and copra in Africa and is self-sufficient in a variety of staple foods – maize, sorghum, millet, yam, cassava, plantain banana – with some small exports to the sub-region. The impact of production of export commodities extend to several other sectors through forward and backward linkages - inputs, processing, transport, financial services, taxes, energy and final consumption and therefore play a key role in the country for the creation of job opportunities and poverty reduction. In fact, the domestic trade and transport industry (trucking and port) depends to a large extent on agriculture for its business. Similarly, agro-processing industries such as cotton ginneries, rubber, palm oil and sugar factories provide the base for rural industry, while an important component of urban industry is made up of cocoa processing plants, textile cottonseed oil operations, packaging materials, second stage transformation of oil palm into soaps, cosmetics, etc.

**While significant results have been achieved in improving the agriculture sector's performance in recent years, it is facing several constraints that negatively impact its sustainable development.** These include a range of technical and circumstantial issues, such as limited access to inputs; weak extension services; considerable post-harvest handling, transportation and storage losses; inadequate exposure to modern farming techniques, and aging and poor maintenance of existing plantations. These limitations are compounded by structural economic factors, such as access to finance (in particular for SMEs), deteriorating physical infrastructure, and limited public goods, all of which have contributed to the long-term stagnation of productivity and low value addition. Tackling these constraints can unleash the agricultural sector potential and increase its participation into global value chains involving many agro-food items and agro-industries in high demand regionally and/or worldwide - attracting major investments which can stimulate economic growth along with creating value, scaling-up innovation, and achieving the country's overarching objective to ensure the population's wellbeing by reducing poverty and inequality, through structural transformation of the economy.

**THE CASHEW SECTOR: COTE D'IVOIRE – AN INCREASINGLY IMPORTANT ORIGIN FOR RCN AND PROCESSING.** In 2015, Côte d'Ivoire became the world's largest producer of RCN, with a production of 702,000 tons, or 21 percent of the world's total production. The value of 2015 cashew exports is estimated at over US\$ 650 million, which makes cashew the third most important export commodity after cacao and refined petroleum products, but ahead of rubber, cotton and coffee<sup>6</sup>. The importance of cashew production is even more critical when viewed in a regional and poverty reduction context. It is grown by about 250,000 households (about 1.5 million persons) in the poorer, northern half of the country, where cashew has become the most important source of rural cash income. It is clearly an exciting source of growth with the added advantage of having the potential to generate better and inclusive rural employment through farming and rural industrialization. Provided that a comprehensive strategy addressing the Ivoirian cashew value chain competitiveness constraints is put in place, overall growth in the value of cashew exports by 15 percent p.a. over the next decade seems feasible<sup>7</sup>.

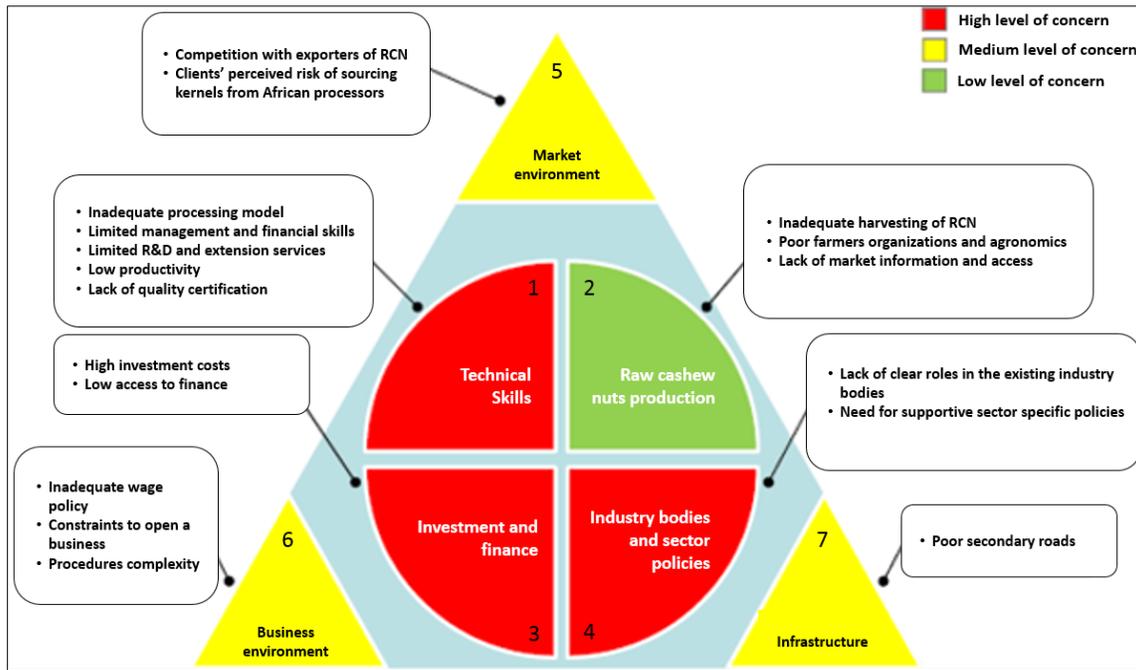
**However, the cashew value chain in Cote d'Ivoire faces several constraints hindering its development.** Figure 1 below summarizes these constraints and their level of intensity. They concern: (i) the governance of the value-chain; (ii) the quality of the nuts that are heterogeneous in size and often of bad quality due to inadequate harvesting and post-harvesting methods; (iii) the high investment cost, including equipment and spare parts; (iv) the lack of technical and managerial skills and the low productivity of the labor force; (v) the difficulty in accessing credit, for both investments and working capital, and the high cost of this credit when available; (vi) the international buyers' perceived risk of sourcing kernel supply from African processors; (vii) the investor's perception of a relatively unfriendly sector policies and business environment; and (viii) the poorly developed rural infrastructure.

<sup>6</sup> Gross farmer receipts in 2015 are estimated at US\$ 400 million (CFAF 250 billion), now way ahead of those of cotton (US\$ 180 million), the traditional cash crop of the north. A comparison in terms of net farmer receipts would be even more favorable, since cotton involves much higher input costs (about 1/3 of gross receipts).

<sup>7</sup> World Bank, 2012. Côte d'Ivoire, *The Growth Agenda: Building on Natural Resources and Exports*. Report No. 62572-CI.



Fig. 1 Cashew value chain competitiveness main constraints in Cote d'Ivoire



(Source: Adapted from Technoserve, 2010)

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**The past expansion of Cote d'Ivoire cashew production has been extraordinary.** Production has been growing by over 20 percent per annum over the last two decades (from 6000 tons in 1990 to 63,000 tons in 2000 to over 702,000 tons in 2015). However, this rapid increase in RCN production has been largely driven by an expansion in the planted area rather than by productivity gains. Although plantations are in general relatively young (66 percent less than 25 years old), they have been established with low-productivity planting material (unimproved tree varieties from home saved seeds) and farmers tend to apply virtually no inputs apart from family labor. Treatment for disease and insects is rare, harvesting practices leave much to be desired, and drying and storage are poorly done. As a result, productivity is low (300kg/ha) compared with other producers in South and South-East Asia (India 850kg/ha and Vietnam 1,000kg/ha) and Ivorian cashew nuts suffer an average price discount of about 15 percent compared to the average price for African cashew exports to India. While this low intensity approach is well suited to low income, risk adverse decision making processes, there is clearly room for significant improvement in productivity as knowledge is shared and internal market linkages strengthen. In addition, low productivity at the production base increases aggregation costs over poor road networks. Low levels of pruning and tree maintenance increase harvesting time and negatively impact nut size and quality.

**Despite being a major producer of RCN, Cote d'Ivoire only processes around 5 to 7 percent of its production.** The vast majority of RCN exported goes to India and Vietnam with 85 percent exported by foreign owned companies based in India, Singapore and Vietnam. The balance is traded by 10 domestic cooperatives/enterprises who in turn have pre-finance links with foreign companies<sup>8</sup>. While some competition between buyers may exist, there are also suspicions of anti-competitive practices, and this dependence on two countries could be a problem. The existing installed processing capacity of RCN in Cote d'Ivoire is estimated at 75,000Mt (with an actual use of only 50 percent). Moreover, nearly all processed cashew in 2015 came from two factories with a combined capacity of 42,000Mt. These numbers highlight not only the huge imbalance between RCN exports and processed quantities but, the socio-economic losses to the Ivorian economy. If only 50 percent of the harvest was processed locally, over 100,000 jobs could be created (of which at least 60 percent women), delivering more than \$100 million

<sup>8</sup> The dominance of foreign based companies is explained by the historical significance of India as a processor of RCN from origins worldwide. Foreign processors and trading companies are often multi-commodity and spread trading/market risk and overheads over a number of value chains. Larger companies have international credit lines that underwrite borrowing from local banks for working capital needs through the buying season. Companies trading into India have established links to large domestic consumer markets as well as developed trading relationships with roasters and retailers in the US and Europe.



in wage per years to the local economy and primarily in the impoverished north<sup>9</sup>. Other gains will be obtained for the country in the form of foreign exchange value of exports<sup>10</sup> and the cashew shells could be processed into biofuel and used for electricity generation in rural areas.

**It is time to move from raw cashew exports to domestic processing.** Clearly there are solid socio-economic reasons for expanding the processing sector in Cote d'Ivoire on a number of fronts, including a vibrant market and a strategic cashew supply chain context: (i) The high dependence on Vietnam (70 percent) is seen as a risk factor for international buyers of cashew kernels<sup>11</sup>. An alternative is needed accentuated by the loss of supply from India (exports falling as domestic consumption grows) and Brazil (falling production); (ii) the growing weight of Cote d'Ivoire in the overall supply of the market and its proximity from both the European and US markets, are focusing the attention of processors and end-users on Ivoirian producers; (iii) the possibility to create shorter, more traceable value chains, is a very powerful incentive for consumers to source their kernels directly in Cote d'Ivoire. Currently, kernels processed in India and Vietnam come from a variety of sources and reach the European and US markets indirectly, after a long and largely untraceable chain. Local processing means a significant cut in transport costs by eliminating the shipping of raw cashews to Asia for processing and shipping the kernels back to the European and US market. The more direct route, and the sourcing from a unique producer also permit to better meet the European market's increasing emphasis on traceability from farm to fork. Downstream in the supply chain, food manufacturers and retailers are generally shortening their chains as well (in terms of supply networks and relations), thus operating increasingly with a limited number of preferred suppliers (importers and producers) to which they transfer the responsibility for traceability and product safety and quality<sup>12</sup>. In addition, shorter transportation lines diminish the carbon footprint of the cashew value chain, which is an interesting environmentally-friendly proposition and a definite competitive advantage of Ivoirian processors; and (iv) there is yet an untapped potential opportunity in organic cashew certified production. The current lack of use of chemical inputs would facilitate a fast transition to organic production and make Cote d'Ivoire unique in the World with premium product at lower cost. Finally, in term of RCN production, future impact of climate change on crops such as cacao is expected to lead to a reduction of the areas suitable for cocoa which will then become suitable for cashews as it is drought and wind resistant.

**However, even with an abundance of raw material, levels of investment in processing have been very low and existing capacity underutilized.** The debate about the competitiveness of the processing cashew in Cote d'Ivoire has evolved over the past 10 years. The broad conclusion drawn by sector experts is that processing locally could be competitive provided a number of key criteria are met. These include: selection and use of efficient semi-mechanized processing equipment, management by experienced and specialized staff and a well-trained, disciplined workforce. Studies also highlight potential competitive risks to a domestic processing sector in the form of high labor costs, lower productivity, access to and cost of capital, food safety and traceability standards, constantly evolving improvements in technology at processing centers of India and Vietnam driving competitive advantage and un-hedged risks in differentials between RCN and processed kernel prices<sup>13</sup>. Promoting domestic processing will therefore require implementing a comprehensive value-chain development approach with some incentives, carefully managed to avoid penalizing the farmers or protecting inefficient enterprises. If an export tax is used, its proceeds should be channeled into a program not only to promote domestic processing, but also to raise crop yields which are far below those of competing Asian countries. Public research and extension should be strengthened as well as the regulatory framework which is needed to improve coordination without hampering the dynamism of the private sector.

**THE CASHEW WORLD MARKET CONTEXT.** The international global trade in both raw and processed cashew nuts has evolved greatly over the last 15 years. Trade in processed nuts (kernels) has grown from around 234,000Mt in 2000 to over 680,000Mt in 2015. This represents an annual growth rate of 9.3 percent over the period. The main consumption markets are India, the USA and Europe that account for 75 percent of total consumption. Demand is driven by a combination income-economic growth and dietary trends related to health and lifestyle. Global kernel demand is predicted to increase over the following decade, albeit at lower rates than the recent past. The US and European markets where cashew is essentially a snack food are price sensitive and are substituted with nuts such as almonds. Indian consumption is largely as a cooked food ingredient where broken nuts are widely used and increasingly as a festival related gifts. Demand in East Asia is predicted to remain strong as a growing middle class consumes higher value food products. Raw cashew nuts are produced in four main geographical regions: South East Asia, West Africa, East Africa and Brazil. World production reached an estimated 3.5 million Mt in 2015 with around 45 percent originating in Asia, 45 percent in West Africa and the balance from East Africa and Brazil. Global RCN production is estimated to grow

<sup>9</sup> Calculation based on 350,000 MT of RCN. It is estimated that RCN processing creates around one full time job per 3-4Mt of nuts processed.

<sup>10</sup> The raw cashew nut accounts for 34 percent of the final product value, while shelling adds another 8 percent and roasting and salting an additional 16 percent.

<sup>11</sup> Today Vietnam depends on imports for 70 percent of its needs of RCN. There is a highly risky chain where the US for example buys 70 percent of its needs from Vietnam which in turn buys 70 percent of its needs in West Africa. The US buyer depends on the West African farmer but has no influence in that market.

<sup>12</sup> Although they don't require full traceability, EU buyers expect suppliers to know and document their own buyers and suppliers (one step forward and one step back in the chain), which products are used during production process, and to label final products for traceability in case of a food safety problem.

<sup>13</sup> Increasing quality and traceability demands are not being met by Vietnamese processors. There are multiple quality problems and food safety issues (especially foreign matter) and much confidence has been lost among buyers. In addition, labor conditions in Vietnamese factories constitute a risk for buyers.



to around 4.5 million Mt by the year 2020. RCN production has been growing at an annual rate of around 5.7 percent per annum, noticeably slower than that for processed kernels.

**Future predictions of supply and demand suggest continued growth in both parameters.** However, two key factors are likely to impact significantly on Ivorian (and West African) growers and processors. Firstly, it is expected that demand for processed kernels will out-strip supply of RCN globally. This will continue to drive RCN prices higher with increased volatility as the gap widens. Secondly, production of RCN is either flat or declining in other origins with the result that Africa, and in particular Cote d'Ivoire, will become increasingly a dominant player in RCN production. West Africa RCN production is rising in response to higher prices internationally although will inevitably lag behind due to the four-year establishment period of the crop.

**The international price for cashew kernels (quotes in USD/Lb) is a "spot price" derived through open market negotiations between buyers and sellers.** There is no formally quoted futures market contract and there no derivative or proxy hedges available. International prices have been stable over extended periods but with two significant upward spikes in 2008 and 2011. The first spike was brought to an end due to the turmoil in financial markets worldwide and the second resulted from concern about RCN availability due to poor crops in east and west Africa. In 2011 prices peaked at over \$4.00/Lb (\$8,800 per Mt) only to fall back to the current range of \$3.50-3.90/Lb or \$7,700-8580 Mt for benchmark grade WW320. The international kernel price in processing countries is translated back to a farm gate RCN price at origin though a series of complex interactions. The current supply/demand situation appears to be driving up RCN prices to levels where highly efficient processors in India and Vietnam can make adequate profit margins. Processors at origin in West Africa operating at lower processing efficiency and poorly developed relationships with consuming markets, claim to be in negative gross margin territory when RCN prices reach 500 CFAF per kg (or \$841 Mt).

**CASHEW SECTOR INSTITUTIONAL CONTEXT.** The Government of Cote d'Ivoire has recognized the potential for job creation and value addition through expansion of domestic cashew processing. It has included the development of the cashew sector, and cashew processing in particular, as a national priority in its NDP 2016-20 and its National Agricultural Investment Plan (NAIP). In 2013, the authorities has adopted a reform of the sector and the main lines of a strategy for the promotion of domestic cashew processing (prepared jointly by the Ministry of Industry and Mines, the Ministry of Agriculture, the Ministry of Finance and the Ministry of Environment).

**The 2013 reform focuses on improving on-farm productivity, marketing of RCN and strengthening the management of the value chain.** It includes the following main pillars: (i) The establishment of a public Agency "Council for Cotton and Cashew - CCA"<sup>14</sup> in charge of coordinating and promoting the development of the cashew (and cotton) sector, by providing the necessary regulations of all activities in the sector, organizing the provision of critical services, supporting the strengthening of producer associations and the creation of a strong Interprofessional body for the management of the value chain; (ii) Programs for strengthening research, the production and distribution of improved planting material, the improvement of advisory services for providing technical support to farmers on good agricultural practices and harvest/post-harvest methods to improve quality of RCN; (iii) The establishment of efficient quality control and traceability mechanisms; (iv) The establishment of a new producer price mechanism guaranteeing a farm-gate price of at least 60 percent of the CIF<sup>15</sup> price of RCN; (v) The rationalization of domestic marketing through the establishment of a network of licensed warehouses; and (vi) The rehabilitation of rural roads in the main producing areas. Most of these activities are already under implementation, financed by the levies imposed on the value chain (and with the support of the IDA-financed PSAC<sup>16</sup> and IFC). However, the implementation of these activities remain unfunded and should be accelerated to be able to respond to the Government's objective of increasing the percentage of domestically processed RCN by 2020. Especially attention must also be paid to building the capacity of the CCA and improving the governance of producers' organizations. There are many cooperatives and other village-level groups, but they are mainly focused on collecting the harvest. They offer few other services, have little knowledge of the market, and are generally poorly governed. There are also several federations of producers' organizations but they do not do much better, so that producers' interests are poorly represented in the inter-profession. A considerable effort will be needed to build a legitimate structure to support improved practices and to speak on behalf of farmers, starting with a census of sector.

**The Ministry of Industry and Mines is implementing a parallel set of reforms and policies aimed at developing the processing sector.** These include clarification of the regulatory framework, public infrastructure development, assistance in processing technology procurement and

<sup>14</sup> The CCA was created in 2013 to take over the functions of two previous bodies: The *Autorité de Régulation du Coton et de l'Anacarde*, created in 2002 as the sector regulatory body, and *Intercajou*, the value chain Interprofessional body responsible for the management and coordination of value chain private actors. The CCA has the mission of developing the productivity of the entire value chain from production to the processing sector. It plays a regulatory role in the sector, in addition to its development and price stabilization mandates.

<sup>15</sup> CIF: Cost Insurance and Freight - Seller must pay the costs and freight includes insurance to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the ship.

<sup>16</sup> Agricultural Development Support Project (P119308)



facilitating access to finance. Specific measures taken include reduction of duty on imported capital equipment and spare parts, exemption from “Benefice Industrial et Commercial – BCI” and land acquisition taxes, reduced costs of environmental and social impact assessment studies, plans for the creation of agro-industrial parks in Yamoussoukro, Bouake and other regional centers, developing a cooperative research Centre with FHB Technical Institute and Ho Chi Minh University for the transfer of technologies, technical staff training and technical assistance to private sector investors. Furthermore, CCA and the Ministry of Industry and Mines are working with commercial banks and IFC to establish a “Risk-Sharing” guarantee fund to provide working capital to processors primarily for RCN purchase and inventory funding. IFC and WB are also working with Government Agencies to finalize laws regulating the issue of warehouse receipts that will lower the cost of holding processing inventory.

**The need for additional incentives and reforms.** The measures already taken to improve the incentives in favor of cashew processing, although a necessary and significant first step, may not be sufficient to mobilize the volume of private investments necessary to achieve Government’s very ambitious objective. At the present time, Côte d’Ivoire is not competitive with India and Vietnam in the processing of raw cashew nuts. Operating large processors in the country, although using the most efficient technology, are facing difficulties to make a profit at the price they have to pay in order to be competitive with raw nut exporters. Lack of technical and managerial skills, labor productivity, building and utility costs, interest rates, and taxes (official and unofficial) provide part of the explanation. But a bigger problem is the need to constitute a large stock of raw material, and finance it at prevailing high interest rates, in order to keep the factory running during the eight months between the end of one harvest and the start of the next one. Indian firms can avoid most of this expense by purchasing from different regions of the world at different times.

**Promoting more processing of raw cashew nuts in Cote d’Ivoire - the way forward.** The Government has reviewed what other measures may be taken to spur the development of the Ivorian processing industry, on the basis of the lessons learned from other cashew processing countries. It is a fact that all other countries with a significant processing capacity have provided some protection in order to promote value addition. Brazil has adopted a ban on the export of raw cashew nuts while India, Vietnam, and Mozambique have relied on export taxes on raw cashew nuts in the range of 18 to 40 percent, combined with other fiscal incentives. Once such reforms and policies are in place in Cote d’Ivoire, a number of significant barriers to entry will be removed. However, some of the main issues causing a lack of competitiveness such as labor cost and productivity, technological/processing efficiency and inventory management will take time to overcome. To address these issues, CCA is proposing a processing subsidy on exported processed kernels of 80CFA per kg (\$135 per Mt) to generate sufficient margins to bridge the competitiveness gap and provide a return on invested capital. This processing subsidy is to be funded from a 30 CFA per kg tax on RCN exports (about 4 percent of 2016 CFR prices<sup>17</sup>) which will be passed down the value chain to the farm gate. As a result, it will be RCN growers who are in effect funding the establishment of the processing sector. There are equity issues associated with this transfer of value between a large number of poor rural families to factory owners and their workforce that policy will need to balance. It would thus be necessary to use part of these proceeds for the benefit of the producers (who are financing them) to mitigate the negative impact of the levy on farm-gate prices and rural incomes. Factories located in the production areas may well employ family members of producing households. Higher disposable income from processing workers will also increase other economic activities in the immediate rural economy. But, additional investments in the value chain should be considered such as: (i) boosting agricultural productivity by distributing improved planting material and promoting GAPs; and (ii) reducing marketing/transport costs by rehabilitating/constructing rural roads and/or financing other rural infrastructure (storage, access to water, etc.)<sup>18</sup>. These investments will increase producer’s productivity (yields and quality) and will lower transaction costs in aggregation. This assumes an institutional structure capable of managing significant sums in a transparent matter and accountable to the farmers, avoiding the neglects experienced in the coffee-cocoa sector. The industry should be also monitored closely to ensure that firms are becoming competitive and that the tax is not serving to protect inefficiency. Ideally, this form of infant-industry protection should decline over time to keep the pressure on its beneficiaries to improve their productivity. This principle should be retained, especially as the investment climate improves and the profitability of this activity is confirmed.

**Ultimately, the development of a processing industry through limited protection and support may be justified as a risk-mitigation measure in view of the fact that the alternative is continued dependence on two importing countries.** Not to build up local processing capacity could mean jeopardizing the entire sector, a sector in which Côte d’Ivoire has proven its comparative advantage in producing the raw material, and where it should be competitive in processing under the right conditions and with appropriate incentives in place. Against this background, the proposed World Bank loan aims to support the Ivorian Government’s plan to expand RCN processing in Cote d’Ivoire from the current estimate of 5-7 percent of production to over 30 percent. Crop production estimates foresee the national crop levelling at around 1.2m Mt of RCN per year which implies domestic processing of 400,000 Mt RCN or about 80,000-96,000 Mt of processed kernels depending on the outturn of cashew nut kernels<sup>19</sup>.

<sup>17</sup> Cost and freight (CFR) is a trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.

<sup>18</sup> This practice is already being implemented in the case in the cacao, the rubber and the oil palm sectors.

<sup>19</sup> The outturn of cashew nut kernels is equal to the amount of usable kernels after shelling the cashew nuts. Generally, outturn ranges between 20 and 24%, but can be much higher as well



**Succeeding on achieving the Government objective of enhanced value-added transformation will depend not only on increased domestic processing, but most importantly on improving the whole cashew value-chain performance and competitiveness.** This will entail priority setting and funding to increase on-farm yields that remain low, continued strengthening of sector institutions, modernization of marketing, and prepare and adapt cashew processing industries and their environment to the requirements of the international markets. Specifically, the following key factors will need to be taken into account: (i) Supply of cashew nuts to processing at competitive costs and adequate quality which will depend on overcoming on-farm production challenges and developing basic rural and post-harvest/marketing infrastructure; (ii) For domestic processors (and for exporters), clarity of vision on how on-farm productivity will evolve – geographically and with what pace - impacts the efficiency of subsequent value chain activities and the profitability of investment decisions. Scale and location of additional processing facilities, and building of input supply networks, depend on whether farm production remains low productivity and dispersed, or will begin to concentrate geographically and amongst fewer, more professional farmers. Bringing the current spectrum of views closer together therefore offers the potential for lower risks and higher interest in additional processing investment, or at the least, lower risks of inefficiently placed investment (in space and time); (iii) Local processing industries and enterprises will require to be modernized with the aim to improve their competitiveness in terms of price, quality and innovation and also their ability to follow and assimilate the development of technologies and markets. This will involve promoting a process of upgrading, modernizing of production tools and industrial subsystems, strengthening managerial capacities, developing quality and adopting international standards; (iv) Support measures tailored to SMEs (including taxes and other policy adjustments) will have to be promoted to enhance their contribution to domestic processing and to boost the creation of jobs for young people. Innovation and skill development will contribute significantly to this process by making the most of the demographic dividend; and (v) Support in the improvement of other essential infrastructure for industrial activity (access to energy, roads networks, technology centers, etc.) is also essential, particularly in disadvantaged regions in northern Cote d'Ivoire.

#### Relationship to CPF

**The proposed Cashew Value Chain Competitiveness Project is aligned with the Country Partnership Framework for the Republic of Cote d'Ivoire and supports the achievement of the WBG's twin goals of reducing extreme poverty and boosting shared prosperity.** Côte d'Ivoire wants to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work in agriculture, manufacturing and selected services. To help the country reach its potential as world-class agricultural commodity producer, the CPF program FY16-FY19 proposes to address low productivity and jobs in the agriculture, agribusiness and manufacturing value chains, among other within the cashew value-chain, which offers high potentials for economic growth, jobs creation and poverty reduction.

In this respect, the proposed project supports the CPF main **Focus Area 1 "Accelerating sustainable private sector-led growth in Cote d'Ivoire"** and its **Strategic Objective 1 "Improve productivity in Agriculture/Agribusiness value chains"** to achieve inclusive growth and reduce poverty. It supports also the **Strategic Objective 3 "Improve business regulatory framework and access to finance"** to promote investment in agriculture/agribusiness, help spur entrepreneurship and growth opportunities, especially for SMEs.

**The proposed project addresses also the World Bank Africa Region priorities of Agri-business and is well aligned with the Agriculture Global Practice's key priorities areas of inclusive value chains, jobs and partnership with the private sector.** It is also consistent with the IFC-WB Joint Agribusiness Strategy, which supports agriculture and agri-business competitiveness in selected value chains, by improving access to markets, provision of technology and training of smallholders, and sector governance reforms.

### C. Proposed Development Objective(s)

To increase cashew productivity, quality and value-added focusing on small farmers and SMEs in producing areas of Cote d'Ivoire.

#### Key Results (From PCN)

PDO-level expected outcome indicators are:



- Increased cashew productivity (kg per hectare) in the project area.
- Improved storage practices and technology adopted at cooperatives and warehouses.
- Increased volume of domestically processed raw cashew nuts (MT).
- Direct beneficiaries reached, of which female beneficiaries (Percentage) (Core).
- Targeted beneficiaries are satisfied with specific project intervention (desegregated by gender)

Intermediate Output (results) indicators for the project include:

- Number of farmers trained in GAPs, harvest and post-harvest best practices.
- Quality criteria and standards applied in production and processing.
- Increased quality, as measured by the price premium of RCN sold by beneficiary farmers.
- Km of roads constructed/rehabilitated.
- Number of loans and volume of finance to cashew industry supported by the facility.
- Number of jobs created within the cashew processing industry.
- Improved business environment indicators as measured by the ease of access to finance by the cashew industry (survey), percentage of cashew processing industries that have an internationally-recognized quality certification, and streamlining administrative procedures for SMEs in the value-chain (taxation, licensing and regulations).

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#### D. Concept Description

**Cote d'Ivoire is the largest exporter of RCN in the world but only process 5-7 percent of this volume into higher value edible nuts.** The Ivorian processing sector has remained small in the face of intense competition for RCN supply from established processors in India and Vietnam. This processing competitive disadvantage is compounded by the presence of internationally financed foreign trading companies who are deeply integrated into to processing sector in Asia. The proposed interventions under this loan aim at reversing the current situation by achieving transformational changes in the whole Ivorian cashew value chain in a manner that accelerate its development and performance with a focus on increased domestic processing and added-value.

**The Government of Cote d'Ivoire recognizes that expansion in processing capacity will be driven by private sector investment facilitated by a clearly defined enabling environment.** Key steps have already been put in place to achieve this in the form of an export tax on RCN to fund investments in the value chain, a processing subsidy on exported processed kernels that addresses immediate factors of low competitiveness, laws and regulations to facilitate working capital requirements and numerous fiscal incentives to reduce investment costs – for instance, the WRS regulations adopted recently by the council of Ministers (decrees specifying the terms of application of Law No. 2015-538 of 20 July 2015).

**This Concept Note proposes interventions complementing existing sector policies that tends to lower the barriers to investment in new processing capacity and enhance the competitiveness of existing processing capacity.** It supports additional investments at critical point along the value chain that will: (i) increase RCN productivity on-farm, improve quality and lower aggregation costs; (ii) accelerate private investment in new processing capacity through the provision carefully designed and located physical infrastructure that increases operational efficiency and significantly lowers the initial cost of investment; (iii) improve the policy and regulatory framework for the sustainable development of the cashew value chain in Cote d'Ivoire, including build capacity in all functions along the value chain (technical and managerial skills, knowledge and innovation); and (iv) facilitating market development and trade. It is taking into consideration the lessons learned from the WBG agriculture portfolio experience and analytical work recently completed in Cote d'Ivoire. These include: (i) learning from the PSAC/IFC and



related analytical work; (ii) the findings of the study “Overview of the cashew sector in Cote d’Ivoire: Current situation and development potential” which provided critical insights and inputs for the preparation of the proposed project; and (iii) other key analytical work carried-out by development partners and the Government related to the sector diagnostic, reform and development strategy (see Annex 2 of list of references).

**COMPONENT 1: IMPROVING THE ORGANIZATION AND GOVERNANCE OF THE CASHEW VALUE CHAIN (\$14.5 MILLION).** This component aims at improving the organization and governance of the value chain to be able to reduce costs of marketing (from producer to port and to consumer) and make the value chain ultimately more competitive. This also includes the strengthening of the various organizations that are engaged in the governance of the chain. Building on PSAC/IFC on-going program, the main investments under this component will include the following:

(i) The assessment of existing capacity for public/private sector dialogue (PPD) on the cashew sector, contribution to/co-funding of relevant discussion fora, and capacity building of value-chain actors in advocacy for improved business environment. A particular focus will be on strengthening: (a) the capacities of the CCA in managing the cashew sector. This would involve measures of organizational development, capacity building on leading and managing stakeholder processes, lobbying for a better endowment with staff and financial resources, and training on quality control and marketing so staff is able to provide better services to producers, processors and traders. Emphasis should be less on control and regulation and more on guidance, advisory services and support; (b) the Ivorian cashew interprofession, including the Union of Cashew Processors<sup>20</sup>. This would also engage measures of organizational development, promotion of benefits to members (e.g. political lobbying, service provision and sourcing of equipment in bulk), and capacity building in administration; and (c) the cashew cooperatives and their unions and enable them to provide more effectively services and benefits to their members. This involves capacity-building in all aspects of technical and managerial skills - from good governance, the structure and principles of a cooperative, operational management, financial and auditing techniques, business development, marketing plans, and creditworthiness (so that participants can more easily obtain loans).

(ii) Promoting an improvement of the relationships between producers/cooperatives/groups and processors/buyers through the introduction of more elaborated contracting. This would require sensitization of all actors about the benefits of such contracts, the development of contract documents fitted to the conditions in the chain, and support in monitoring compliance.

(iii) Exploring options for combined finance of production and processing. This would involve setting up contractual relationships between producers and processors, use of the warehouse receipts as collateral, and educating bankers on the nature of the businesses in the value chain.

(iv) Promoting the provision of value chain support services such as technical and business advice and R&D with a focus on cashew processing and value-added. Measures to improve such services include fostering the setting up of a network of private service providers, their training and their accreditation.

(v) Establishing a geo-referenced information system for the sector to allow for better planning and management of the value-chain - collection of reliable information on the number of producers, number of trees/age, volume of production, market evolution and other socio-economic and ecological factors to facilitate decision-making).

The actors to be engaged in the implementation of this component include the Ministry of Agriculture, the Ministry of Industry and Mines, CCA, the Union of Cashew Processors, cooperatives, potential private training and advisory service providers, and the Banks.

**COMPONENT 2: PRODUCTIVITY ENHANCEMENT AND IMPROVED MARKET ACCESS TO RCN PRODUCERS (US\$48.5 MILLION).** This component intends to boost cashew farmers’ productivity on an economically and environmentally sustainable basis. Main outcomes here are in the form of an increase in volume and quality of marketable produce in the project areas so as to increase incomes and employment and reduce poverty. Direct beneficiaries of the component are 250,000 smallholder cashew producers, mainly in the northern impoverished regions of Cote d’Ivoire. To this end, the project will support investments focusing on: (i) support to smallholder production; and (ii) improvement of feeder roads and post-harvest infrastructure. Specific interventions will include the following:

**Sub-component 2.1: Support to smallholder production (US\$28.5 million).** This sub-component will aim at increasing the production (including quality) and productivity of cashew producers in the project areas. This will primarily be achieved by facilitating access to: (i) improved planting

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<sup>20</sup> Syndicat de transformateurs d’anacarde.



materials, fertilizers and agro-chemicals; (ii) training in good agricultural practices; and (iii) extension services to advise on harvest and post-harvest practices. The following major activities will be implemented: (a) providing support to the national research institutes and nurseries for preliminary selection of improved cashew varieties and production of new higher yielding varieties for replacement of old plantations and the establishment of new acreage. This will include facilitating access to equipment and inputs, and building the capacity of the national agronomists in preliminary selection of improved cashew varieties, handling, storage and distribution; (b) capacity building and training of extension staff and cashew producers on improved on-farm practices such as establishment techniques, plant nutrition, planting densities, ideal inter-cropping combinations, pruning plans, harvesting, post-harvest storage and quality control, pest and disease management, soil conservation/mulching/green residues, book keeping/farm accounts; and (c) launching a fertilizer and phytosanitary treatment program. Given the considerable area to be covered by the project, an efficient training scheme across a large population of farmers will need to be established. While emphasizing the importance of skills development and capacity building for increased agricultural productivity, the project will identify and strengthen potential training and advisory service providers. Capacities among trainers will be also strengthened and these will be motivated and equipped to reach farmers. The training content will feature good agricultural practices and environmentally safe use of pesticides and will be adapted to local needs, and farmers will be encouraged to organize field days and training events.

The actors to be engaged in this sub-component include the Ministry of Agriculture, CCA, farmers, cooperatives, agricultural development officers on the district and village level, potential private training and advisory service providers, research institutions, seed and plant multipliers, and input providers.

**Sub-component 2.2: Improvement of feeder roads and post-harvest infrastructure (US\$20 million).** This sub-component will aim at improving the connection of the main cashew production areas to markets and promote forms of improved storage technology and management of stocks based on the Warehouse Receipt System (WRS) being implemented under the PSAC/IFC. Activities related to the feeder roads rehabilitation/construction will take into account the national strategy for roads maintenance which includes a partnership between the State and private operators (Inter-professional bodies) for the selection of priority roads for rehabilitation/maintenance or construction and the parallel co-financing of these activities. Following an inventory of the existing network of rural roads in project areas, a rural road improvement program will be developed jointly with the CCA and AGEROUTE (the roads management national agency). The Project will rehabilitate/maintain around 1000 km of existing feeder roads and eventually construct about 200 km of new roads. It will also rehabilitate/construct required infrastructure representing a critical bottleneck in selected spots (small bridges and culverts). A community-based road maintenance strategy will be developed and related road maintenance associations strengthened/formed at community level. In addition, low-cost hand tools and equipment will be provided to the community to undertake routine maintenance. The project will learn from the outcome of the joint WB-AFD project (PSAC) implementing similar activities in the project areas.

Activities related to post-harvest technologies will involve an assessment of existing storage facilities<sup>21</sup>, identification of best practices and development of a store keeping manual for practitioners, and upgrading and/or developing new storage facilities. To the extent possible, the rehabilitation of existing “public” warehouses will rely on public-private-partnership business models.

**COMPONENT 3: SUPPORT TO PRIVATE INVESTMENT IN PROCESSING CAPACITY AND MARKET LINKAGES (US\$95 MILLION).** This component aims at increasing the volume and value-addition of RCN locally processed. Project interventions consist of an integrated mix of activities at four different levels: (i) improving the business environment; (ii) facilitating access to investment capital and risk management instruments to producers and domestic processors; (iii) supporting for the development of an adequate infrastructure for the establishment of the cashew industry; and (iv) market development and trade.

**Sub-component 3.1: Improving the business environment (US\$10 million).** The cashew industry operating in Cote d’Ivoire faces market failures that need to be addressed if this “nascent” industry is to develop and contribute to economic growth, jobs creation and poverty reduction. Cooperatives and SMEs are affected more than large firms are by regulation and transaction burdens (business environment constraints), have little access to credit (finance constraints), and have limited access to information, advisory services, technology, and innovation (knowledge constraints). Under this subcomponent, the project will:

- (i) Revise the existing regulations on cashew nut levies so that their distribution could strengthen CCA and be reinvested into the development of the processing sector - for example in capacity strengthening of processors and R&D on technical solutions.
- (ii) Assess the regulations and licenses that are required to sell, buy and trade cashew products with the objective to reduce the costs of marketing (from producer to port and to consumer) and make the value chain ultimately more competitive. This involves a revision of the

<sup>21</sup> Updating the inventory of warehouses and of storage facilities needs which was carried-out under the PSAC/Veritas in 2015.



current procedures in relation to other sectors and practices in other countries, the identification of opportunities for simplification, digitalization and streamlining and the testing and implementation of such measures. The project will also support the implementation of the new WRS regulations recently adopted through capacity-building benefiting the WRS Regulatory Authority.

(iii) Promote other improvement in the business environment such as: (a) fiscal incentives defined in terms of duration, duty exemptions on processing CAPEX, and duty exemption on spare parts and consumable; (b) regional payroll tax exemptions to lower employment costs in production zones; (c) subsidy based on kernels produced/exported which should be clarified and defined in terms of duration (currently set by the CCA at 80 CFA per kg of RCN processed); and (d) a Fast-track “window” for processing investment incentives.

(iv) Support the creation of new and/or improvement of existing business development services and technology centers that are targeted at cashew agro-enterprises for the provision of services such as technical and business advice, R&D, etc. In particular, the project will strengthen the Cashew Technology Center currently being established in Yamoussoukro, in partnership with the FHB Technical Institute and the Ho Chi Minh University, for the transfer of technologies, the training of the labor force and the provision of technical assistance to private investors.

The actors to be engaged in this sub-component include the Ministry of Agriculture, Ministry of Industry and Mines, Ministry of Commerce, CCA, Union of cashew processors, the Warehouse Regulatory Authority and national technology centres and business development services.

**Sub-component 3.2. Facilitating access to investment capital and risk management instruments to domestic processors (US\$33 million).** This sub-component will aim at improving access to term finance for investments as well as working capital for the cashew domestic industry and will consist of a Financing (line of credit) and a Risk Sharing Facility (RSF). Targeted end-beneficiaries will include new and domestic cashew enterprises in need of financing to upgrade/modernize their technology or establish new processing plants (including financing for capital investment, capacity expansion and working capital). Selection of PFIs for the line of credit and RSF would be based on clearly defined eligibility criteria that would ensure minimum performance and capital, profitability and portfolio quality standards of the PFIs and their ability to promote cashew industry development at national level. The volume, lending rates and arrangements of the line of credit and RSF will be set appropriately to minimize any potential market distortion, and in compliance with OP requirements for lines of credit.

The project will combine the provision of appropriate financing instruments to banks (line of credit and risk sharing facility) with commitments from participating banks to strengthen their lending capability over time to the cashew processing industry. A technical assistance will be available under both facilities to support: (i) training for the banks that will benefit from the credit line or RSF, in order to help build capacity in lending services to the cashew industry (and agro-industry in general) and ensure that benefiting industry has sufficient capacity to effectively utilize loans from the banks for the growth of their businesses; and (ii) advisory services at the industry level to increase their “bankability” – preparation of sound business plans (including choice of technology and support for procurement) and loan applications.

Based on preliminary discussions with the stakeholders (government officials, local banks and cashew industry) as well as prior studies, there is an acute shortage of financing availability; and the volume of the proposed line of credit as well as RSF is relatively modest yet adequate to have meaningful impact and create momentum for Cote d’Ivoire to move up the cashew nut value-chain. Access, modalities and financial terms would include features such as competitive interest rates and maturities in line with on-going commercial practices and consistent with the OP10 guideline for LOCs, to ensure that no market distortions are created. The availability period of the LOC as well as RSF would be [5] years, and the maturity of loans would be set accordingly, based on further consultation with the stakeholders, to address the shortage of financing in particular for investments in the sector and the current gap in the financing offered in Cote d’Ivoire. The RSF will be used to reduce the banks’ risk of lending to cashew industry borrowers. There are other past cases in the region where RSF was deployed effectively in agriculture sector (e.g., Mali) and the project will also draw lessons from these experiences.

**Sub-component 3.3. Supporting for the development of an adequate infrastructure for the cashew industry (US\$42 million).** This sub-component aims at addressing important lacks of infrastructure that limit private investment and hinder the development of competitive and inclusive cashew processing industry in the country. It will complement on the forthcoming PIDUCAS project<sup>22</sup> which plan investments in key economic and social infrastructure in Bouaké and San Pedro. It will particularly support the development of a concentrated agro-industrial zone in the main producing area of northern Cote d’Ivoire, mainly focused on value addition/agro-processing services of cashew products and by-products (cashew nut shell liquid (CNSL)<sup>23</sup>, juice, biofuel, etc.). The zone will be developed based on a public-private partnership scheme aiming

<sup>22</sup> Infrastructure for Urban Development and Competitiveness of Secondary Cities Project (P151324).

<sup>23</sup> The cashew nut shell liquid (CNSL) has important properties which make it valuable for automobile brake linings and paint and varnishes. These by-products are fully used in the main processing countries (Brazil, India) and can bring as much revenue as the cashew nut itself.



at facilitating: (i) access to basic infrastructure; (ii) shared common services and facilities and creation of economies of scale in service provision, including storage facilities, transport, quality control services, waste management, etc.; (iii) improved access to technical support and information and management services; and (iv) a platform for business linkages between and within value-chain actors through effective network between primary producers, agro-processors, traders, retailers and end markets.

Under this sub-component, the project will finance the agro-industrial zone site development and promotion which will include the following investments: (i) site identification and assessment based on specific criteria including access roads, site-specific risks, key cost factors, private sector interest, etc.; (ii) in-depth technical and economic feasibility studies for the zone development, including a market demand assessment, sizing of necessary industrial land, master planning and development, business development plan, environmental and social safeguards, etc.; (iii) the construction of the zone's critical infrastructure (access and internal road network, electricity, communications, and water supply) and common services (such administration building, storage facilities, workshop, quality control laboratory, waste disposal, etc.); (iv) investment promotion campaign for the site; (v) establishment of its management structure; and (vi) a network of linked sub-regional storage and primary processing satellite centres feeding into the agro-industrial zone.

**Sub-Component 3.4. Market development and trade (US\$10 million).** A sustainable outlet for RCN and kernels is a prerequisite to the realization of growth potentials in production and processing. Therefore, this component aims at an effective development of domestic, regional and international markets for cashew products, particularly kernels. The following interventions are planned: (i) A study related to the opportunities for marketing of cashew products (and by-products) locally and internationally. This would engage in a detailed analysis of existing domestic and international marketing channels and a projection on most viable options for marketing cashew products with the associated standards and quality requirements. Quality control needs to be introduced to the purchase of processed products for local and international markets; (ii) Launching a branding and marketing campaign through various channels of mass media (telephone, television, radio, billboards, newspapers) to promote cashew consumption among consumers in Cote d'Ivoire. An Ivorian brand of kernels, eventually to be issued by the CCA, will also be promoted on international trade fairs; (iii) Introducing and promoting the application of principles of quality control and food safety into processing and marketing of cashew nuts including Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP) as well as food safety standards such as Hazard Analysis Critical Control Points (HACCP). This implies promotion of and training in good practices in cashew nut production and processing and enforcement of application of quality criteria at the buyer's level (warehouse and retailers); (iv) establishing a market information system that provides efficiently information on prices for raw and processed cashew nuts to all stakeholders. This will involve the collection of price data at farm gates, factory gates, warehouse gates, at ports, at major trading places (e.g. India), and setting up of a price information service reachable by everybody via telephone and internet, and the continuous analysis and publishing of market intelligence; and (v) improving the efficiency in marketing/auctioning raw cashew nuts. This would require working out modalities to enable producers and processors getting more direct access to international buyers for raw nuts and kernels and vice versa.

**COMPONENT 4: PROGRAM COORDINATION, MONITORING AND KNOWLEDGE MANAGEMENT (US\$17.5 MILLION).** This component will facilitate: (i) administrative, technical, and financial management of the program; (ii) coordination among all institutional partners to ensure efficient flow of information and support to all value chain actors, in particular the small cashew growers and the processing industry; (iii) effective contractual arrangements with key implementing partners (CCA, CNRA, etc.) and other private sector operators; (iv) monitoring and evaluation of the performance and the financial, environmental, and social impact of the project; and (v) development of communication activities to publicize and disseminate the project results, best practices and success stories.



**SAFEGUARDS**

**A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The project main interventions will be mostly located in the Northern regions of Cote d'Ivoire, where cashew has become the most important source of rural cash income.

**B. Borrower's Institutional Capacity for Safeguard Policies**

The Recipient has several years of experience in applying and implementing World Bank projects. There are considerable legal and institutional frameworks in the country to ensure compliance with World Bank safeguards policies triggered by the proposed project. In Cote d'Ivoire, the Ministry of Environment, and Sustainable Development (MINEDD) is responsible for setting policy guidelines on environmental issues and ensuring compliance with national environmental standards. It has different departments among which the National Agency of Environment (ANDE, Agence Nationale de l'Environnement) in charge of safeguards compliance of all projects in the country. The unit is well staffed and its capacities are acceptable. With regard to the PCU, capacity building efforts to support project implementation will be done by implementing recommendations contained in the safeguards instruments prepared for the project. The project will also receive guidance from the Bank's environmental and social specialists in the Project team.

**C. Environmental and Social Safeguards Specialists on the Team**

Abdoul Wahabi Seini, Abdoulaye Gadiere

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>This project is planning to finance roads rehabilitation/construction with the aim to establish the connection of the main cashew production areas to markets. For instance, about 200 km of new roads will be built and other 1000 km will be rehabilitated (see sub-component 2.2). Besides, the project is going to support the development of a concentrated agro-industrial zone including basic infrastructures and storage facilities as well as waste management (sub-component 3.3). Based on all potential adverse impacts which may be significant and irreversible, the project is rated as a category A project.</p> <p>While the exact locations of these investments are not yet known, the proper safeguard instrument to be prepared in compliance with this policy is an Environmental and Social Management Framework</p>

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(ESMF). This ESMF will be reviewed, consulted upon and disclosed both in Cote d’Ivoire and at the Infoshop at least 120 days before the board presentation.

In addition, the project aims at addressing important lacks of infrastructure that limit private investment and hinder the development of competitive and inclusive cashew processing industry in the country through the development of agro-industrial zone based on a public-private partnership scheme. Regarding potential environmental and social adverse impacts associated with such an investment, the appropriate safeguard instrument to develop is a sectoral Strategic Environmental and Social Assessment (SESA). The terms of reference for such a SESA will be developed, consulted upon and disclosed within Cote d’Ivoire and at the Infoshop at least 120days prior to the board date. But the sectoral assessment itself will be carried out as part of the project implementation.

Natural Habitats OP/BP 4.04

Yes

The project will be implemented on areas where forests still exist. This kind of environment concentrates various insects and others types of animals, whose natural habitat could potentially be affected by the project’s activities mainly with the opening of new road (200 km). However, there is no specific safeguard instrument to be prepared. This issue will be taken into account by the ESMF.

Forests OP/BP 4.36

Yes

Areas where the project’s activities will be implemented comprise forested areas. That factor could possibly impact the health and quality of forests or the rights and welfare of people and their level of dependence upon the interaction with forests, and it may lead to changes in the management, protection or utilization of natural forests or plantations. So, special attention may be paid in order to avoid or unless minimize adverse impacts on forests resources. The ESMF that will be prepared in accordance with OP4.01 will provide guidance to address matters related to forests protection. During the implementation phase, a management plan will be prepared if necessary.

Pest Management OP 4.09

Yes

The sub-component 2.1 will aim at increasing the production (including quality) and productivity of cashew producers in the project areas. That means



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			even if the project does not purchase fertilizers and agro-chemicals directly, It will induce the use of those chemical products by cashew producers for pest and disease management. Furthermore, the project intends to launch a fertilizer and phytosanitary treatment program. Consequently an Integrated Pest Management Plan (IPMP) will be prepared, reviewed, consulted upon, approved and disclosed in the targeted areas, mainly in the north of Cote d'Ivoire and at the Infoshop at least 120 days before board date.
	Physical Cultural Resources OP/BP 4.11	Yes	Activities supported by the ongoing bank's funded operation such as roads construction/rehabilitation; agro-industrial zone, water supply facilities will unquestionably involve excavations with possibilities to underscore Physical cultural resources. However, the triggering of this policy does not entail the preparation of a specific safeguard instrument. Only a specific chapter will be included in the ESMF to provide guidance in case physical cultural resources will be discovered.
	Indigenous Peoples OP/BP 4.10	No	There are no indigenous people as defined by the policy in the project area.
	Involuntary Resettlement OP/BP 4.12	Yes	The planned interventions such as rural roads, agro-industrial parks, storage facilities are expected to lead to land acquisition or restriction of access to sources of livelihood. Therefore, a Resettlement Policy Framework (RPF) will be prepared for the activities triggered by the OP 4.12 as a due diligence given that the specific sites or impacts of planned physical investments are not known. The RPF will be prepared by the Borrower, reviewed and cleared by the team and disclosed in country and at Bank InfoShop prior to appraisal. The RPF will be used as a guide to conduct specific Resettlement Action Plans (RAPs) as needed, as well as compensation measures to minimize negative impacts on Project Affected People (PAPs).The RAPs will be submitted to the Bank for approval prior to the commencement of the civil works.
	Safety of Dams OP/BP 4.37	No	The project will not finance dams nor rely on dams.
	Projects on International Waterways OP/BP 7.50	No	The project is not expected to affect international waterways.
	Projects in Disputed Areas OP/BP 7.60	No	The project will not be located in a Disputed Area.



## E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Dec 30, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The following safeguard instruments are expected to be prepared during the preparation phase: (i) an Environmental and Social Management Framework (ESMF), (ii) a Resettlement Policy Framework (RPF), (iii) an Integrated Pest Management Plan (IPMP) and (iv) a Physical Cultural Resources Management Framework (PCRMF) . All these safeguard documents will be reviewed consulted upon and disclosed by the Government of the Republic of Cote d'Ivoire, and by the World Bank's Infoshop at least 120 days prior to presentation of the Project to the Board.

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**APPROVAL**

Task Team Leader(s):	Chakib Jenane, Juvenal Nzambimana
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**Approved By**

Safeguards Advisor:	Maman-Sani Issa	31-Aug-2016
Practice Manager/Manager:	Christian Berger	31-Aug-2016
Country Director:	Pierre Frank Laporte	14-Sep-2016

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