

ZAMBIA CASHEW NUT PROCESSING PROJECT



MARCH 2020

Table of Contents

I. Executive Summary	3
II. Project Description	5
A. Background and Overview	5
B. Product/service description	6
C. Project delivery and plan	7
D. Key staff of the project.....	10
E. Location and subsidiaries	11
F. Organizational structure and staffing	12
G. Legal structure.....	14
III. The Investment Opportunity.....	15
A. The Investment proposal	15
B. Required financing	17
C. Profit analysis summary	17
IV. Market Analysis	18
A. High-level Industry Analysis	18
B. Target Market of your project	20
C. Competition	21
D. Target Market Strategy.....	23
E. Go-to-market approach	24
F. Risk analysis	25
V. Financial projections	26

I. Executive Summary

The Zambia Cashew nut Processing Project (ZCPP) involves the establishment of a modern cashew nut processing plant in Chilanga in Lusaka Province and a collection depot in Mongu in the Western Province at a **total cost of US\$5 million**. The processing plant will produce an average of **12,000 tonnes of processed cashew nut kernels** per annum, that will be sold in the local, regional and international markets. The ZCPP falls under the agro processing sub sector, within the Manufacturing Sector, which is one of the priority sectors in Zambia. The Government of the Republic of Zambia (GRZ), through the Zambia Development Agency (ZDA) Act No 11 of 2006, has put in place both fiscal and non-fiscal incentives and measures in a bid to attract Foreign Direct Investment (FDI) in Zambia.

The main driver of the ZCPP is the increasing demand for processed cashew nuts in the global market, underpinned by health considerations. Cashew nuts have a wide range of health benefits and this has resulted in their increased demand and production. Due to the potential economic and environmental benefits of cashew industry, GRZ included the Cashew Infrastructure Development Project (CIDP), with a total cost of US\$55.42 million, on the priority list of the 2015- 2017 pipeline projects. The CIDP is aimed at reviving the cashew industry by focusing on infrastructure development for the cashew value chain encompassing production, processing and marketing.

In 2015, the African Development Bank (ADB) approved funding of US\$45 million for Cashew Infrastructure Development Project, with the balances of US\$8.31 million and US\$2.11 million being contributions from GRZ and project Beneficiaries respectively. The project is being implemented for a period of 5 years in 10 districts of the Western Province and it involves all players in the value chain to ensure sustainability. The CIDP project will partner with private investors to put up a processing plant to absorb all raw nuts from farmers. **This presents an opportunity for a Private Investor to set up a processing plant in Zambia** to complement the efforts of GRZ under CIDP. Under the CIDP initiative, it is estimated that at full maturity, which will be in 2024, about 6 million

cashew trees will produce raw cashew nuts of up to 60,000 tonnes per annum. At a capacity of 12,000 tonnes per annum, the ZCPP would therefore account for 20% of the production under CIDP scheme. This excludes production from other farmers in Western Province and the rest of the provinces of Zambia who are not part of the CIDP, which demonstrates that the supply of raw cashew nuts to the processing plant will not be a challenge.

ZCPP will collaborate with CIDP and sign supply contracts with farmers under the CIDP out grower scheme. In addition, out grower contracts would also be signed with other farmers nationwide who are not part of the CIDP scheme. This is intended to ensure a steady supply of raw cashew nuts to the processing plant. The contracted farmers whether through CIDP or otherwise, would be required to deliver raw cashew nuts to strategic designated collection points. The collection points will be installed with high tech storage facilities for preservation of collected raw cashew nuts. This is intended to guarantee the supply of cashew nuts to the processing plant even during off-season periods, to ensure continuous processing through out the year.

The timing of the project is appropriate given that the GRZ policies are supportive for FDI, labour is readily available and affordable and there are numerous fiscal and non-fiscal incentives that investors in the agro processing sub sector would benefit from. In order to establish and operationalize the project, Private Investors are invited to invest US\$5 million for 100% shares in ZCPP in the form of Equity Finance. GRZ, through the Ministry of Trade Commerce and Industry (MTCI), ZDA and Ministry of Agriculture and Livestock (MAL) will facilitate the investment and assist the Investor to establish the project. The project will be **completed and commissioned within 12 months.**

Once operational, ZCPP is projected to generate an **average annual turnover of US\$13 million** during the first five years. The net profit margins increase from 9% in year 1 to 14% in year 5. The Internal Rate of Return (IRR) is projected to be **26%** and the payback period of **5** years.

II. Project Description

A. Background and Overview

The ZCPP is primarily dependent on the availability of cashew nuts, particularly in the Western Province of Zambia. Cashew nuts are fruits produced by cashew trees. In Zambia, cashew trees were first introduced in the 1940s in the Western Province, which is characterized by Kalahari sandy soils that are relatively poor for most commercial crops. In order to diversify the economic base of poor households in the Western Province, GRZ promoted the planting and processing of cashew trees in the 1980s. However the growth of the cashew industry was very slow due to low production and lack of marketing and processing facilities.

In 1985, the Zambia Cashew Company (ZCC) was established with financial support from Zambia Industrial and Mining Corporation, Zambia National Provident Fund, Zambia State Insurance Corporation, Commonwealth Development Corporation, British Oxygen and British Petroleum Africa. This led to the rapid growth of the cashew industry from 1986 to 1992, with the maximum production of 155 tonnes during 1991/1992 growing season. However, the growth was short lived with production declining to 20 tonnes in the 1995/1996 due to the following reasons:

- Sudden withdrawal of support by the shareholders to the ZCC,
- Premature inclusion of ZCC on the privatisation list in 1995 under the Structural Adjustment Programme,
- Limited financial capacity of the Western Cashew Industries Limited (WCI), which took over ZCC from Zambia Privatisation Agency.

In order to revive the cashew industry especially at production level, GRZ developed the National Cashew Development Strategy (NCDS: 2012-2016). In 2012 to 2013, GRZ and Citizens Economic Empowerment Commission (CEEC) financed importation of cashew scions from Mozambique and establishment of cashew nurseries.

In 2014, the Cashew Growers Association of Zambia (CGAZ), member of the African Cashew Alliance, drafted the Cashew Development Initiative (2014) with the aim of improving the cashew industry.

The ZCPP is largely driven by the lucrative investment opportunities that cashew nuts processing presents to investors, given the increase in the global demand for processed cashew nuts. The evolution of the Zambia Cashew Industry is summarized in Fig 1 below.

Fig 1: Evolution of Zambia Cashew industry



B. Product/service description

The ZCPP processing plant will use cashew nut fruits to produce processed cashew nut kernels for the local, regional and international markets. For the local markets, cashew kernels will be packaged in 250g, 500gms, 1kg and 2kg plastic bags whilst for the regional and international markets packaging will be in the form of 10kg tins. Cashew nuts are found inside a kidney shaped shell that is attached to the bottom of the cashew apple. Cashew nuts keep very well inside their shells. They can be stored for up to two

years without being processed depending on their storage conditions, provided they are kept in a cool and dry environment.

Cashew nuts can be consumed on their own, processed in cashew nut kernels, used in recipes or processed into cashew cheese or butter. In the first five years, ZCPP will focus on the processing of cashew nut kernels, with a possibility of expanding into processing of cashew cheese and butter and cashew apple pulp, in the future.

The cash apple is a light reddish to yellow fruit on which the cashew nut is attached, whose pulp can be processed into a sweet astringent fruit drink or distilled into liquor.

According to INC International Nut and Dried Fruits Report 2018, cashew nuts are high in vitamin k and minerals such as iron, magnesium, phosphorus, zinc, manganese, potassium, selenium and copper. They are also a source of fibre, thiamin and pantothenic acid.

Some of the health benefits of cashew nuts are that they prevent cancer, promote healthy heart, lower high blood pressure, promote healthy bones, help in weight loss and act as an anti-oxidant.

C. Project delivery and plan

Project delivery

The ZCPP will be implemented through a Special Purpose Vehicle (**the Company**), which will be owned by Private Investors or a single Private Investor. The first step towards the project delivery is the incorporation of the Company, with the Patents & Companies Registration Agency (PACRA).

This will be followed by registration with Zambia Revenue Authority (ZRA) for tax identification number and obtaining of all relevant permits to operate a cashew nut processing plant. This process normally takes two to four weeks. It is therefore

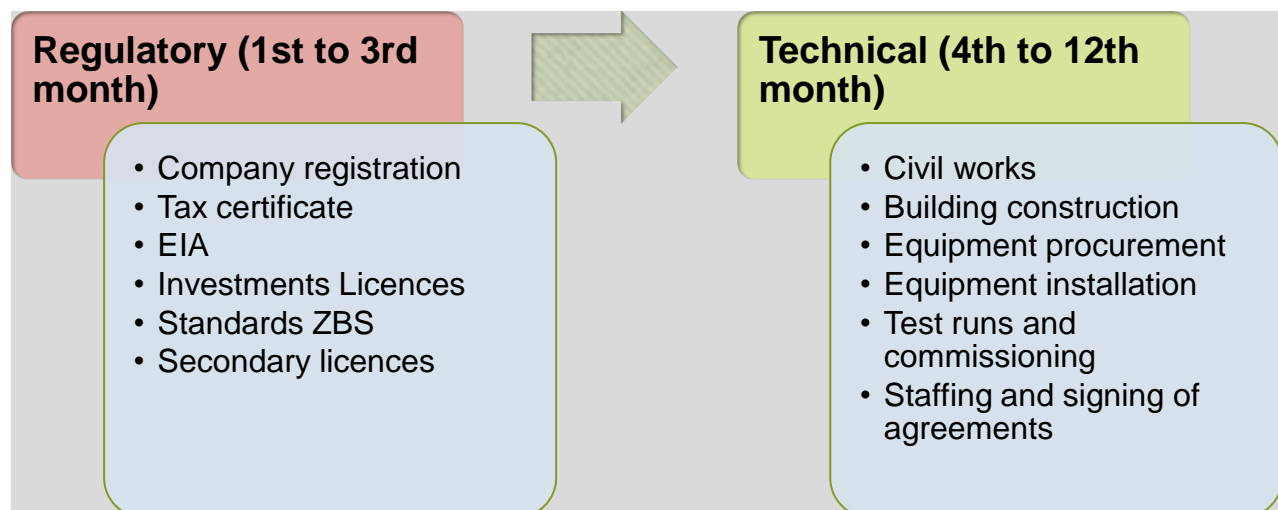
imperative for all legal incorporation documents and licenses and permits for the Company to be in place before the project is operationalized.

The ZDA will also play a part in facilitating the delivery of the project through the issuance of an Investment Licence to the Company. In order to access certain incentives such as tax exemptions and rebates, a company registered in Zambia is required to obtain an investment licence from ZDA.

Zambia has stringent regulations pertaining to the environmental issues. The regulatory authority charged with the responsibility of protecting the environment called the Zambia Environmental Management Agency (ZEMA) has to give a no objection decision towards the implementation of the project. Therefore, an Environmental Impact Assessment (EIA) has to be undertaken prior to the actual project implementation. The EIA is an assessment of the impact of the project on the environment particularly pollution of the water and air before physical implementation can commence.

The project delivery plan will be split into two phases, with phase one focusing on the incorporation of the investment company and all project legal and regulatory matters while phase two will focus on technical construction matters, commissioning of the plant and staffing issues. The two phases and their respective time lines are illustrated in Fig 2 below

Fig 2: Project Implementation phases and time lines



The production process will commence after 12 months and when the commissioning of the processing plant is complete after an Investor has been found.

D. Technology and equipment considerations

The processing of cashew nuts is a four-stage process, each designed to produce quality edible cashew kernel. The cashew production processes, equipment and machines as well as the functions of the machines is summarized in Fig 3 below.

Fig 3: Cashew kernel Production Process

No.	Equipment	Purpose/ Role
Cashew nut auto grading		
1	Grading Machine	Cashew nuts grading machine can classify raw cashew nuts into several levels on the basis of size and dimension.
Steam cooking, cracking and shelling		
1	Cooker	Raw cashew nuts in shells are steamed under pressure to soften the shells. Cooked cashew nuts are easy to be cracked and shelled.
2	Shelling machines	Cooked cashew nuts are cracked in automatic cashew nut shelling machines.
Cashew shell and kernel separation and peeling		
1	Cashew shaker	Cashew kernel separating shaker is used to separate cashew kernels from cashew shells and unshelled cashew nuts.
2	Cashew peeling machine	The red skin of each cashew kernel is removed by cashew kernel peeling machine for deep processing products. This automatic cashew kernel-peeling machine works with an air compressor and the internal parts of peeling machine are made from high quality stainless steel.
Cashew kernel roasting (optional)		
1	Cashew roaster	Roasted cashew kernels have a beautiful appearance and good flavor. A cashew roaster is fully automatic and highly efficient. ZCPP will roast some of its cashew kernels to meet the different tastes of its target markets.
Packing Line		
1	Packaging machines	The processed cashew kernels are packaged into plastic bags of different sizes for sale in the local

	market and in tins of at least 10 kg for exporting to regional and international markets.
--	---

The equipment for cashew nut processing is readily available and can be procured off the shelves. The Investors will choose the supplier of the equipment and will be responsible and involved in its procurement. ZCPP will install a modern high tech automatic cashew nut processing line, because of its many advantages, which include the following:

Advantages of automatic cashew processing line

- Fully automatic design can save more working time and workforce when compared with manual cashew nut processing.
- The automatic cashew nut processing line machines are made from carbon steel and stainless steel and hence they have a very long service life.
- Adjustable distance between rollers can process cashew nuts in all sizes.
- High efficiency in shelling and separating machines.
- Advanced design ensures a low break down rate and low energy consumption.

E. Key staff of the project

The key staff members that will oversee the project implementation and setting up of the ZCPP are shown on Fig 4 below.

Fig 4: Key Project Implementation Staff

Job Title	Institution	Key Responsibilities
Project Coordinator	ZDA	To ensure the successful implementation of the project and coordinate with all stakeholders.
Investments & Finance Expert	ZDA	To appraise the investment and assess the viability of the project and its returns to investors.
Legal Expert	GRZ	To advise on all legal documentation and agreements including incorporation of the company.
Trade Expert	MCIT	To ensure that all trade facilitation documents are in place, including to advise on applicable incentives.
Cashew Processing Expert	Private Sector	To ensure that all industry norms and standards are adhered to and to enforce quality controls.
Cashew Sector Expert	CGAZ	To coordinate with all relevant institutions in the cashew nut sub sector and liaise with key stakeholders.

The key staff of the project will work closely with the GRZ to ensure that the project accesses all necessary incentives to facilitate its smooth implementation. After the successful implementation of the project at the end of the project delivery period of 12 months, the Key Project Implementation Staff will hand over the project to the Private Investor and withdraw their active participation in the project going forward. However, as and when necessary they will be available on an occasional basis to offer guidance, advice and assistance to the Private Investor when required.

F. Location and subsidiaries

The Cashew nut processing plant will be located in Chilanga area in Lusaka Province in order for the project to benefit from some incentives. Chilanga is a designated area for investment promotion and hence any firm that establishes a plant in Chilanga qualifies for some incentives such as a reduction in corporate tax to 30% instead of 35%.

Fig 5 below shows the location of Chilanga on the Lusaka Province.

Fig 5: Location of Lusaka on the Map of Zambia



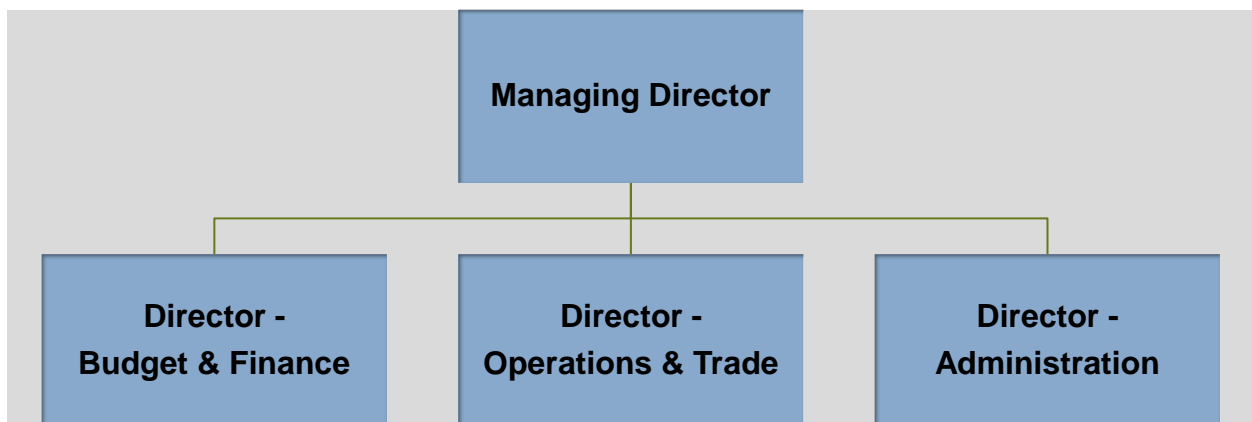
Chilanga is a strategic location for the project because it is central and can be easily accessed from all provinces of Zambia. For exports markets, the strategic location of Chilanga, in Lusaka makes it convenient to transport processed products to the regional and international markets through the port of Beira (Mozambique), Dar-Es-Salaam (Tanzania), Durban (South Africa) and Welvis Bay (Namibia).

In addition, ZCPP will establish a large collection depot in Mongu, to facilitate the efficient and cost effective collection of raw cashew nut for processing.

G. Organizational structure and staffing

The company will have a flat organizational structure that facilitates efficiency in terms of decision-making as shown on Fig 6 below.

Fig 6: Organisational chart



Overall, the organizational structure of the company will entail the creation of four departments as itemized below.

- **Office of the Managing Director** – This will include the Managing Director and Personal Assistants.
- **Finance Department** – The Director Budget and Finance will head the department.
- **Operations & Trade Department** – The Director Operations & Trade will head the department. This is largest department and it will include the Production and Trade,

Sales and Marketing units. The drivers and casual workers will fall under this department.

- **Administration Department** – The Director Administration will head the department and it will include procurement and human resources units.

Overall, the project will employ an estimated 150 full time staff spread across various departments as shown on Fig 7 below.

Fig 7: Number of Employees per Department

Divisions	Number of Staff
Office of the Managing Director	4
Finance Department	8
Operations & Trade Department	100
Administration Department	38
Total	150

Social and Economic Impact

In addition to the full time employees, it is anticipated that the project will indirectly empower a large population of men, women and youth mostly in rural areas through the cashew nut production value chain. ZCPP will provide a guaranteed market for producers and suppliers of cashew nuts thereby leading to an increase in their disposable income and improvements in their standards of living. In urban areas, employment will be created for those involved in the distribution of processed cashew nuts products.

The project will also contribute to the rise in the Gross Domestic Product (GDP) and to inflows of foreign currency from processed mango exports. The project will therefore have a significant social and economic impact in Zambia.

H. Legal structure

A Private Limited Company will be incorporated in accordance with the **Companies Act (No.26 of 1994) of the Republic of Zambia**. The company will have its own appropriate governance structure, which will include the Board of Directors and Management. The constitution of the board shall include representatives from the respective Private Investors. The powers of the directors as well as voting rights, together with all other standard legal covenants shall be contained in the company's Articles of Association.

In addition, if the project involves more than one Private Investor, all Private Investors involved will negotiate and sign a Shareholders' Agreement, in line with Standard Practice.

ZCPP will be a 100% privately driven project with GRZ providing support in terms of ensuring that the investment conditions and legal frameworks are conducive for doing business in Zambia.

III. The Investment Opportunity

A. The Investment proposal

The ZCPP entails the establishment of a modern cashew nut processing plant in Chilanga, in Lusaka Province, and a collection depot in Mongu, in the Western Province of Zambia. The project will capitalize on the ongoing development of the Cashew nut Industry in Zambia through the CIDP that is funded by ADB, to produce high quality cashew kernels for the local, regional and international markets.

The ZCPP will address the existing and rising demand for cashew kernels particularly on the international markets, which is driven by the demand for healthy foods.

GRZ will allocate 5 acres of land in Chilanga area, under a state lease for 99 years for the establishment of the processing plant. In addition, GRZ will also facilitate the allocation of land in Mongu under a similar lease arrangement for the construction of a collection depot for collection of raw cashew nuts. The Private Investors will be expected to meet the cost of construction, acquisition and installations of the processing plant and all other project development costs. The total estimated costs for operationalizing the project are US\$5 million. The Private Investors will therefore be required to inject cash equity of US\$5 million in order to operationalize the project.

Zambia, as an investment destination, offers many advantages to the private investors. Some of the advantages of investing in a cashew nut processing plant in Zambia include the following:

- **Abundance of raw materials** – Cashew nuts are produced in abundance in Zambia and it is projected that the production levels will increase significantly when the CIDP is complete and fully implemented.
- **Political stability and functioning democracy** – Generally, Zambia is a politically stable and democratic country, with stable and predictable government policies.

- **Access to regional and international markets** – The Investors will have access to regional and international markets through bilateral agreements that Zambia has entered into such as the African Growth and Opportunity Act (AGOA), Tripartite Free Trade Area (FTA), aFcta and membership to the Regional Economic Communities such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC).
- **Ease of doing business** – Zambia was ranked 4th in both COMESA and SADC regions and 6th in Sub-Saharan Africa, according to the World Bank Ease of Doing Business Report of 2019. This means that Investors are able to implement their investment projects hassle free and with great ease.

In addition to the numerous advantages offered by Zambia, Private Investors will also benefit from both fiscal and non-fiscal incentives associated with setting up a cashew nut processing plant as outlined in Fig 8 below:-

Fig 8: Benefits and incentives of establishing a cashew

Fiscal Incentives	Non Fiscal Incentives
<ul style="list-style-type: none"> • Accelerated rate of depreciation on capital equipment and machinery • 100% duty exemption on capital equipment and machinery for five years • No restrictions on funds repatriation • Low corporate income tax 	<ul style="list-style-type: none"> • Facilitation of exports by GRZ through trade agreements and linkages • Free facilitation of application of permits by GRZ • Free facilitation of application of secondary licenses through ZDA • Free assistance on registrations for utility bills

The project presents a lucrative opportunity to the investors because of the increasing demand and high prices for cashew nuts globally. It offers attractive returns, with an IRR of 26% and high growth prospects and expansion into the production of other high value processed cashew products.

B. Required financing

The total cost for the project is **US\$5 million** and the Private Investors are expected to provide equity finance. The breakdown of the US\$5 million total project investment is shown on Fig 9 below:-

Fig 9: Breakdown in the use of funds and investment

Description	Amount (US\$)
Company registration, license fees, Environmental impact Assessment fees and other project establishment fees	100,000
Construction materials and payments to main contractors of buildings and cashew processing plant infrastructure	2,000,000
Purchase of processing equipment and installations, vehicles, cashew processing plant and office furniture and equipment.	1,800,000
Working capital for purchase of cashew nuts and other raw materials and operational expenditure items.	1,100,000
Total Cash Required	5,000,000

C. Profit analysis summary

The Project will start generating profit from the first year of operation, with **net profit margins** rising from **9%** in year 1 to **14%** in year 5 and **IRR of 26%**. The project **Pay Back Period is 5 years** and **Net Present Value (NPV) of US\$3,414,255**

The **Discounted Cash Flow (DCF) valuation of the project is US\$20,890,000**, using a discount rate of 12%, which is the average cost of funds in Zambia. Commercial banks in Zambia are currently charging interest rate around 12% per annum on United States Dollar denominated loans.

IV. Market Analysis

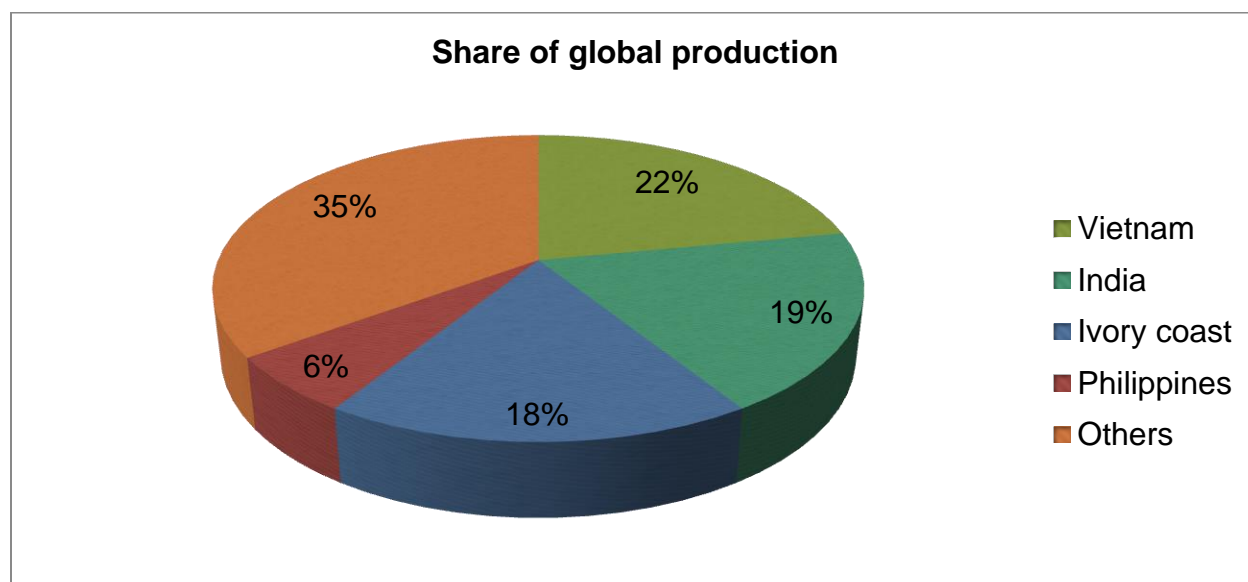
A. High-level Industry Analysis

1. Cashew nut production levels and trend

According to the **Food & Agriculture Organization Corporate Statistical Database (FAOSTAT) of the United Nations**, in 2017, global production of cashew nuts (as the kernel) was **3,971,046 tonnes** led by **Vietnam, India and Ivory Coast with 22%, 19% and 18%** of the world's total respectively.

In Africa in particular, Ivory Coast has been the main leader in the production of cashew nuts, with production levels rising from 380,000 tonnes in 2010 to 711,000 in 2017 according to FAOSTAT. Production levels have also been increasing in Zambia from levels around 50 tonnes per annum to about 850 tonnes from an estimated 1,700,000 trees, in 2016 according Zambia National assembly report 2016. Fig 10 below shows the share global cashew kernel production per country.

Fig 10: Share of global cashew kernel production per country



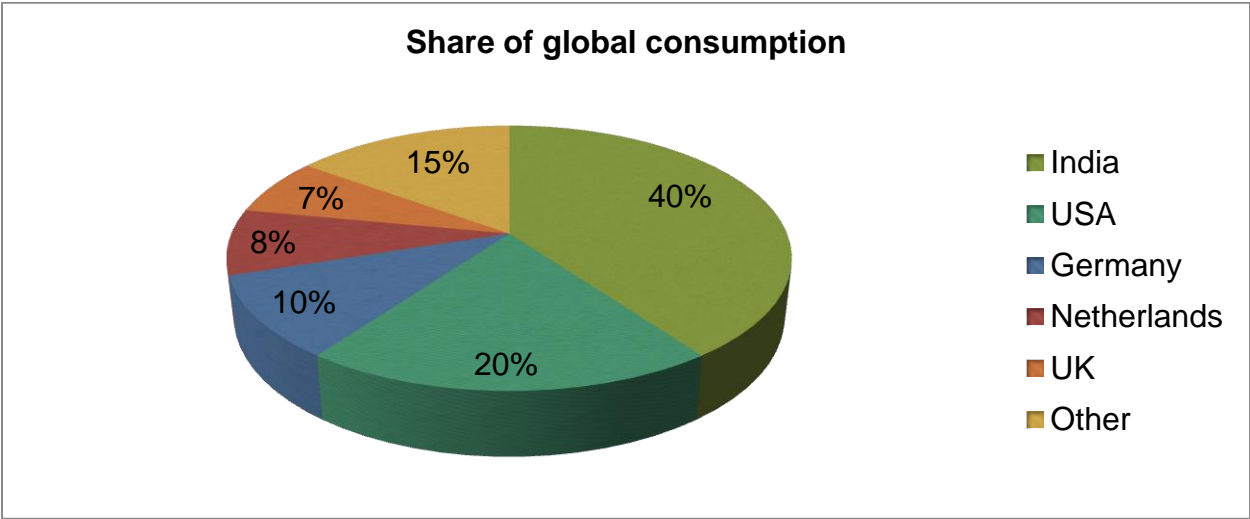
Source: FAOSTAT Report 2017

As shown on the pie chart in Fig 12, Vietnam is the global leader in cashew nut production followed by India and Ivory Coast. Others refer to the rest of the countries in the world who each produce less than 6% of the global production. Zambia falls in this category and its production levels compared to the rest of the world are still insignificant. However, after the completion of the CIDP project it is projected that Zambia will increase.

2. Cashew kernel demand levels and trend

The global market for cashew nuts has been increasing over time. According to World Atlas Report, 2018, the global market for cashew kernels was estimated at US\$6.27 billion. In terms of consumption and imports, India leads the market, followed by the United States of America (USA) and European Union (EU) countries. Fig 11 below shows the share of global cashew consumption per country.

Fig 11: Share of global consumption



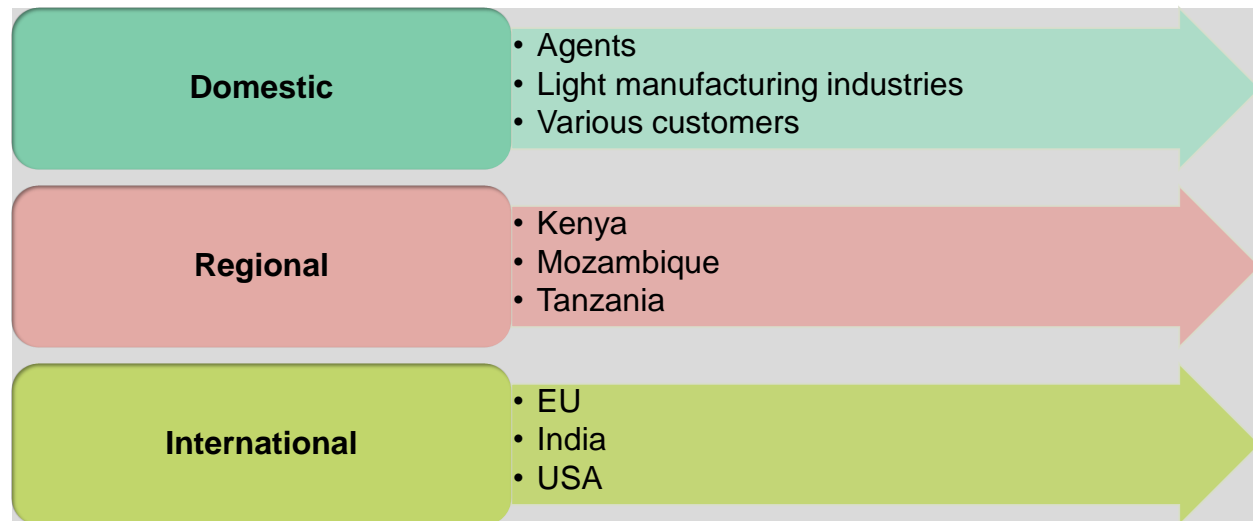
Source: World Atlas Report 2018

The market for cashew nuts and processed cashew products has been growing steadily and it is expected to continue given the increasing awareness on the health benefits associated with cashew products. This escalating demand for cashew products is creating a wide range of opportunities for Investors to invest in cashew processing and to capitalize on the growing unmet demand from customers worldwide.

B. Target Market of the project

The target market for ZCPP's products is divided into three segments, namely domestic, regional and international as shown on Fig 12 below:

Fig 12: Target market segments



1. Domestic

The domestic market includes light industries in Zambia that use cashew kernels that produce recipes and other processed products. It also includes various consumers who demand cashew kernels for personal consumption as well as agents and traders who will buy cashew kernels for resale. The domestic market is fairly small and estimated to be around 2,000 tonnes per annum with a growth rate of 3% per annum. This is due to the fact that many Zambians do not seem to have acquired the taste for cashew nuts. Most of the cashew nuts produced in Zambia are for the export market. In this regard, ZCPP will predominantly focus on regional and international markets that will account for more than 95% of its output, with the remaining 5% being earmarked for the domestic market.

2. Regional

On the regional market, focus will be on exports to wholesalers and agents in countries in Sub Sahara Africa, that produce and consume large volumes of cashew nuts such as Kenya, Mozambique and Tanzania. The size of the target regional market is estimated to be 100,000 tonnes per annum with a growth rate of 4%. Some of these

countries share national borders with Zambia and in terms of logistics it will be fairly easy to export the processed cashew kernels. In addition Zambia already has some bilateral trading arrangements with these countries.

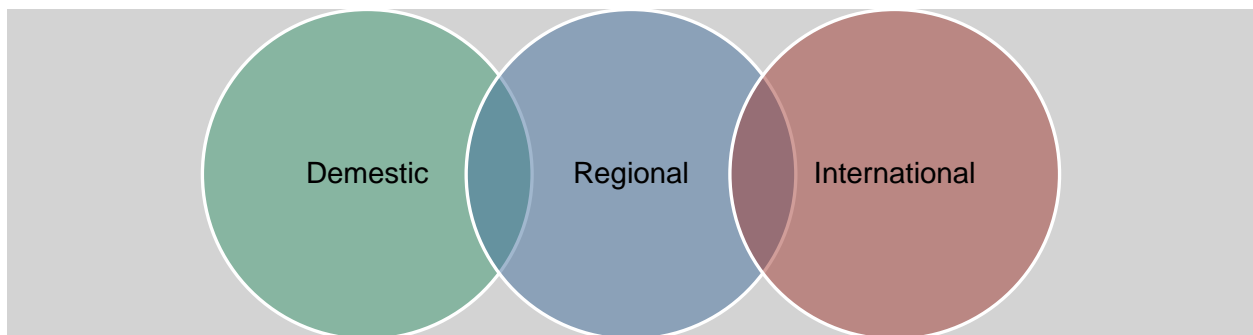
3. International

On the international market, ZCPP will focus on wholesalers and Agents in India, USA and some EU member countries who are major importers of cashew kernels such as Netherlands, Germany and UK. The international market is very large and estimated to be in excess of 4 million tonnes per annum with a growth rate of 4% per annum.

C. Competition

The Competitors of the ZCPP are divided into three groups namely, Domestic, Regional and International competitors as shown on Fig 13:

Fig 13: Competitor Segments



Local Competitors

In Zambia, there are two main cashew processing companies namely WCI and Barotse Cashew Company limited which have a total estimated capacity to process 780 tonnes of raw cashew nuts per annum. The rest of the processors are small household arrangements dotted around Western Province who produce very small quantities and use traditional manual processing techniques.

The main weakness of the local competitors is that they do not use advanced technology for processing cashews and their capacities are small and hence they do not benefit from large economies of scale.

ZCPP will capitalize on large economies of scale and the linkages to be created in the entire cashew production value chain ranging from collaborations with suppliers of raw cashew nuts to strategic links with distributors, to produce high quality processed cashew kernels for marketing at a competitive price to the customers.

Regional and International Competitors

The Regional competitors are mainly large companies in the African Region with major competitors being from Ivory Coast, Tanzania, Mozambique, Nigeria and Ghana.

International competitors include suppliers of processed cashew kernels from all over the world who export cashew kernels to the ZCPP's target market. India for instance, has a number of suppliers of cashew kernels and it is a major exporter in the world. India is among the leading producers, processors and consumers and exporters of cashew nuts in the world.

The main strength of Regional and International competitors is their advanced processing plants, which result in high levels of efficiency, high quality products and competitive prices. Most of them are also large companies that enjoy economies of scale and hence they can afford to charge competitive prices for their products. In addition, they have established strong international distribution networks and branding for their products.

In order to compete effectively with competitors on the local, regional and international markets, the project will acquire and install state of art modern processing plant and pay particular attention to the quality of its products. The main differentiation strategy for the project will be anchored on quality of the products.

D. Target Market Strategy

The target market strategy is tailored to cater for the local market and the regional and international markets as outlined below.

1. Local Market Strategy

On the local market, the ZCPP will distribute its products directly to Light Manufacturing Industries in the Food Industry as well as brokers/ agents and directly to the mass market through supermarkets and retail outlets.

Supply and distribution agreements will be signed with specific supermarkets for the supply of products and payment terms and conditions agreed upon.

2. Regional and International Markets Strategy

On the regional and international markets, the project will target mainly wholesale customers and brokers/agents. Off take agreements will be signed with customers and processed cashew kernels will be packaged to meet their respective specifications.

E. Go-to-market approach

The ZCPP's go to market approach and marketing strategies will primarily focus on the Product, Price, Promotion and Place as illustrated in Fig 14 below:

Fig 14: Market Approach Focus

Go to market approach			
Product - High quality cashew kernels	Price - Competitive terms & conditions	Promotion - Direct and indirect advertising	Place - Direct, wholesale & agents

(i) Product

The cashew kernels will be of very high and consistent quality. Some of the cashew kernels will be roasted for a beautiful appearance and flavor.

(ii) Price

The products will be priced competitively in line with international prices. According to Statistica Report 2020, the current average wholesale price of cashew nut kernels worldwide is **US\$1.42 per kilogram**. Prices vary in different countries depending on the quality and specifications of cashew kernels as well as other economic conditions. Favorable payment terms (payment within 30 days from invoice date) will be negotiated and agreed with larger customers. The payment policy to be adopted by ZCPP will be all-inclusive because different customers prefer payment options as it suits them but at the same time, ZCPP will ensure that it abides by the standard international financial rules and regulations.

(iii) Promotion

Different promotion strategies such as direct marketing, sales promotion and advertising will be used. The sales of processed products will be conducted via a combination of

personal sales efforts through direct marketing and selected brokers/agents. The use of brokers and agents will be pronounced during the first year of production in order to enable the project to penetrate the market and build a large customer base. In the future, from the second year onwards, the use of brokers and agents will be minimized because this strategy tends to reduce the products` profit margins. Some of the specific promotion strategies will include, classic advertising, public relations, direct marketing and classic branding.

(iv) Place

The products will be distributed widely and extensively to the target markets through direct distribution channels as well as wholesalers and agents.

F. Risk analysis

The main risks that can threaten the project and their mitigation solutions are outlined on Fig 15 below.

Fig 15: Main Risks

Risk	Probability of Occurrence	Impact on Project	Mitigation Solution	Responsible Party for Mitigation
Shortage of raw cashew nuts	Low	High	Sign agreements with various farmers under CIDP and others	Company
Poor quality of raw cashew nuts	Medium	Medium	Capacity building of farmers in collaboration with CIDP	Company
Low levels of demand and decline in prices	Low	High	Signing off take and future contracts with major buyers can mitigate this.	Company
High competition due to lack of barriers to entry	Medium	Medium	Establishing a large modern technology processing plant, which will produce competitively, can mitigate this.	Company

V. Financial projections

The project's financial projections are based on the following fundamental assumptions;-

- (a) Year 1 refers to the first twelve months after completing the construction and commissioning of the processing plant. The period during which construction works are undertaken is considered as year Zero.
- (b) During the first year production is low as the company establishes itself in the market. Thereafter, production increases steadily at an average of 1,000 per annum.
- (c) Out of the total production, 95% will be for the export market and 5% for the domestic market as shown on Fig 16 below.
- (d) The average prices and direct costs are as shown on Fig 17 below.

Fig 16: Target market quantities

Target Market	Year 1	Year 2	Year 3	Year 4	Year 5
Quantity	Tonnes	Tonnes	Tonnes	Tonnes	Tonnes
Export	7,600	8,550	9,500	10,450	12,000
Domestic	400	450	500	550	650
Total	8,000	9,000	10,000	11,000	12,000

These growth rates are based on the capacity of the plant as well as the projected demand levels for the company's products in the respective target markets.

Fig 17: Average price and direct costs of production

Market	Unit Cost per tonne	Unit Selling Price per tonne
	US\$	US\$
Export	852	1,420
Domestic	810	1,350

Fig 18: Projected Profit and Loss Statement

Projected Profit & Loss Statement	Year 1	Year 2	Year 3	Year 4	Year 5
All figures in USD	US\$	US\$	US\$	US\$	US\$
Revenue from sales	\$11,332,000	\$12,748,500	\$14,165,000	\$15,581,500	\$16,998,000
Cost of Goods Sold (COGS)	(\$6,799,200)	(\$7,649,100)	(\$8,499,000)	(\$9,348,900)	(\$10,198,800)
Gross operating profit	\$4,532,800	\$5,099,400	\$5,666,000	\$6,232,600	\$6,799,200
<i>Gross operating profit margin</i>	40%	40%	40%	40%	40%
Salaries	(\$998,600)	(\$1,082,385)	(\$1,166,558)	(\$1,244,258)	(\$1,322,061)
Fixed costs (Sales, General & Administration)	(\$1,510,000)	(\$1,223,250)	(\$1,460,000)	(\$1,474,500)	(\$1,460,000)
Net operating profit (EBITDA)*	\$2,024,200	\$2,793,765	\$3,039,442	\$3,513,842	\$4,017,139
<i>EBITDA margin</i>	18%	22%	21%	23%	24%
Depreciation	(\$593,750)	(\$1,039,063)	(\$794,922)	(\$627,441)	(\$486,206)
Earnings before Interest & Tax (EBIT)	\$1,430,450	\$1,754,703	\$2,244,520	\$2,886,401	\$3,530,933
Tax due	(\$429,135)	(\$526,411)	(\$673,356)	(\$865,920)	(\$1,059,280)
Net Earnings	\$1,001,315	\$1,228,292	\$1,571,164	\$2,020,480	\$2,471,653
<i>Net Profit margin</i>	9%	10%	11%	13%	15%

Fig 19: Projected Balance Sheet

Projected Balance Sheet	Year 1	Year 2	Year 3	Year 4	Year 5
All figures are in USD	US\$	US\$	US\$	US\$	US\$
ASSETS					
Current Assets					
Cash in bank	\$544,095	\$2,537,578	\$4,504,793	\$6,753,843	\$9,437,831
Accounts Receivable	\$2,749,808	\$3,093,534	\$3,437,260	\$3,780,986	\$4,124,712
Total current assets	\$3,293,903	\$5,631,112	\$7,942,053	\$10,534,830	\$13,562,544
Long Term Assets					
Property, Plant, Machinery & Equipment	\$4,156,250	\$3,117,188	\$2,447,266	\$1,944,824	\$1,458,618
Total long term assets	\$4,156,250	\$3,117,188	\$2,447,266	\$1,944,824	\$1,458,618
TOTAL ASSETS	\$7,450,153	\$8,748,300	\$10,389,319	\$12,479,654	\$15,021,162
LIABILITIES					
Current Liabilities					
Accounts Payable	\$558,838	\$628,693	\$698,548	\$768,403	\$838,258
Total Current Liabilities					
Long Term Liabilities					
Long term debt	\$0	\$0	\$0	\$0	\$0
TOTAL LIABILITIES	\$558,838	\$628,693	\$698,548	\$768,403	\$838,258
SHAREHOLDER FUNDS (EQUITY)					
Paid in capital	\$5,890,000	\$5,890,000	\$5,890,000	\$5,890,000	\$5,890,000
Retained earnings	\$1,001,315	\$2,229,607	\$3,800,771	\$5,821,251	\$8,292,904
TOTAL SHAREHOLDER FUNDS	\$6,891,315	\$8,119,607	\$9,690,771	\$11,711,251	\$14,182,904
TOTAL LIABILITIES + EQUITY	\$7,450,153	\$8,748,300	\$10,389,319	\$12,479,654	\$15,021,162

Fig 20: Projected Cash Flow Statement

Cash Flow Statement	Year 1	Year 2	Year 3	Year 4	Year 5
All figures in USD	US\$	US\$	US\$	US\$	US\$
Cash Flow from Operations					
Net Operating Profit (EBITDA)	\$2,024,200	\$2,793,765	\$3,039,442	\$3,513,842	\$4,017,139
Change in Working Capital					
(Increase) / decrease in accounts receivable	(\$2,749,808)	(\$343,726)	(\$343,726)	(\$343,726)	(\$343,726)
Increase / (decrease) in accounts payable	\$558,838	\$69,855	\$69,855	\$69,855	\$69,855
Net change in working capital	(\$2,190,970)	(\$273,871)	(\$273,871)	(\$273,871)	(\$273,871)
Tax	(\$429,135)	(\$526,411)	(\$673,356)	(\$865,920)	(\$1,059,280)
Total cash flow from Operations	-\$595,905	\$1,993,483	\$2,092,215	\$2,374,051	\$2,683,988
Cash Flow from Investing					
Sale of assets	\$0	\$0	\$0	\$0	\$0
Capital expenditure	(\$4,750,000)	\$0	(\$125,000)	(\$125,000)	\$0
Total cash flow from Investing	(\$4,750,000)	\$0	(\$125,000)	(\$125,000)	\$0
Net cashflow before finance	(\$5,345,905)	\$1,993,483	\$1,967,215	\$2,249,051	\$2,683,988
Cash Flow from Financing					
Equity in	\$5,890,000	\$0	\$0	\$0	\$0
Dividends paid	\$0	\$0	\$0	\$0	\$0
Total cash flow from Financing	\$5,890,000	\$0	\$0	\$0	\$0
Total Cash Flow	\$544,095	\$1,993,483	\$1,967,215	\$2,249,051	\$2,683,988
Cash in Bank at year end	\$544,095	\$2,537,578	\$4,504,793	\$6,753,843	\$9,437,831

