CP INVESTMENTS

CASSAVA PROCESSING INVESTMENTS

Cassava Processing Investments seeks to add value to cassava farmers in Africa by investing in processing capacity to produce high quality cassava flour (HQCF).

PROBLEM AND OPPORTUNITY

Cassava ("Africa's best kept secret") is grown in over 90 countries and is the third most important source of calories in the tropics, after rice and maize. The majority of cassava is grown by small scale, often subsistence farmers on small landholdings and is a significant source of household income. Recently, the interest in cassava has grown substantially as it has been identified as a potential driver of rural development, in particular in Sub-Saharan Africa. Various initiatives have been launched by governments and international organizations, such as the UN, IFAD and US AID, to develop a value chain for processed cassava products in selected African countries. As a result, significant demand has been created for cassava and products based on processed cassava. However, the required technology to process cassava is often not available to most low income cassava farmers and a rising number of organisations are seeking capital to start and grow cassava processing businesses.

ADDING VALUE: HIGH QUALITY CASSAVA FLOUR

There are a wide range of potential food and industrial applications for processed cassava, but the most promising market to develop is that of high quality cassava flour (HQCF). It is used as a replacement for wheat flour in the bakery sector, in plywood manufacture and also as an alternative or component in traditional cassava products. Focusing on HQCF also allows increasing incomes for farmers as the value is added at the rural household level. As cassava is highly perishable, the cassava-processing facilities have to be decentralised and are therefore small and medium sized businesses, often closely linked to the farmers' communities.

In 2012, about 150m tonnes of cassava were produced in Africa of which about 30% in Ghana and Nigeria, where HQCF value chains exist. Ghana (current HQCF production levels: ~10,000MT/p.a.) and Nigeria (~50,000MT/p.a.) have a developed and fast growing (10-20% p.a.) HQCF market. However, substantial investment is needed as current production levels only satisfy 10-50% of estimated demand. In addition, HQCF value chains are currently being developed by governmental and NGO-led initiatives, such as C:AVA, in other major cassava-producing countries (e.g. DRC, Uganda, and Tanzania). If current demand levels for HQCF in Ghana and Nigeria are replicated in these countries, total demand for investment in HQFC processing capacity across all our target investment markets will range from US$40 million to US$200 million in 2014-2019.

INVESTMENT STRATEGY

Cassava Processing Investments ("CP Investments" or "the Fund") aims to invest equity in pioneering organizations and entrepreneurs in the cassava processing market in Africa. We provide investors the opportunity to participate in the early stages of a market that will contribute significantly to the development of African agriculture. In a staged process the Fund will seek further investments as new markets mature. Through partnership with NGOs and other extension services, the Fund will be well positioned to invest in the growth stage of cassava processing ventures. The Fund will invest in small- and mid-scale HQCF mill operators in particular, including green-field projects.

Investment sizes will likely range from US$200,000 for a direct investment in a small HQCF production facility to US$1 million in local and international operators of HQCF mills. The Fund will generally hold majority equity positions, although in some circumstances may hold minority stakes, subject to a minimum holding of 20%. The due diligence process will include understanding the local supply base, access to markets, and the vetting of management and potential partners to ensure attractive social and financial returns. Geographically, the Fund will initially target opportunities in Ghana, as there is already an established HQCF market and members of the Fund's investment team have experience in this market, before expanding to other countries. With a US$10 million target fund size, the Fund will be well diversified across processing plants and across geographies once fully invested.

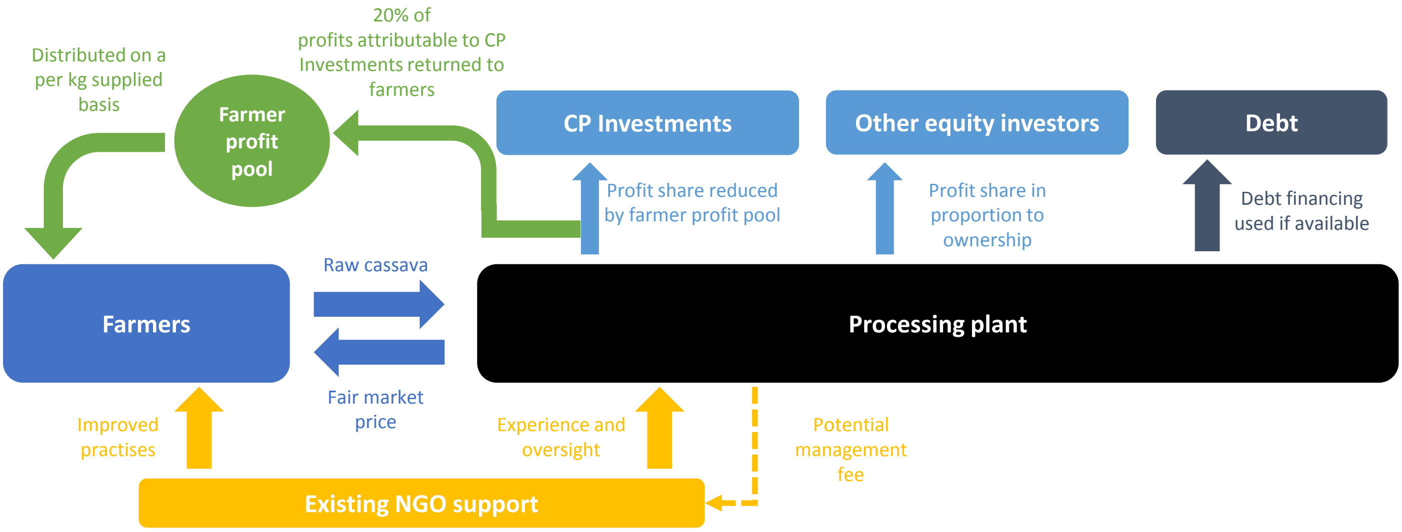
FUND SUMMARY	
Target fund size [US$]	10m
Target returns	10-15% p.a.
Fees	2.0% management fee, 15% of returns greater than 10%
Target life	8 years
Target geography	Sub-Saharan Africa
Investment targets	Cassava-processing SMEs
Asset Class	Private Equity (venture/growth)
Target investors	Institutional/sophisticated/impact
Min. Investment [US$]	100,000

IMPACT

Significant returns can be created for both investors and farmers by processing cassava into HQCF. Broadly speaking, the value of cassava is increased by nearly 100% when converted into HQCF. For example, in Ghana, farmers currently receive ~200GHC (~US$80) per tonne of raw cassava, whilst prices for HQCF are 300-400GHC per tonne, after adjusting for yield. This uplift in value provides enhanced returns for farmers whilst providing sufficient return on capital invested in plant and working capital.

In addition to a direct uplift in farmer income due to a higher price received, there are a number of other benefits to establishing processing capacity. First, a further reliable market for farmers to sell into is created, increasing incentives to raise production and invest in productivity improvements. Second, processing plants will provide local employment. Third, HQCF is a substitute for wheat flour, reducing countries' reliance on imports. Finally, the profit share mechanism creates a sense of ownership amongst farmers. Key social metrics for the Fund include additional income to farmers and jobs created.

INVESTMENT STRUCTURE



In order to enhance returns to farmers and to allow them to participate in the value created by the plant, a condition of investment for CP Investments will be that 20% of CP Investments' profit share will be distributed to farmers. This pay-out will be made ahead of any dividend payments to other shareholders and will be distributed based on a per kg supplied basis by the local processing plant.

In order to increase transparency around the farmer profit share, CP Investments would look to employ two measures. Firstly, a representative of local farmers would be elected with powers to observe the calculation of the profit share. Secondly, local NGOs would be used to help advocate for farmers to ensure a fair pay-out.

Where possible, CP Investments will look to leverage the capabilities of NGOs with experience in agri-processing. The role of NGOs will potentially be recognised with a fee, depending on their level of involvement.

FINANCIAL RETURNS

CP Investments will target opportunities in green-field or early stage HQCF processing businesses. Processing plants have attractive economics, with estimated return on capital of 20-30%. After accounting for potential losses, CP Investments aims to deliver a 10-15% return to investors. Returns are likely to be driven by dividends received from investments, with exits a possibility in the longer term as the plants and market for HQCF gain a track record. Where circumstances permit, an alternative form of exit would be a staged acquisition of the Fund's shares by local co-operatives, allowing the Fund to exit whilst giving farmer co-operatives the opportunity to vertically integrate.

RISKS

Risk	Mitigation
Supply Chain: Low output / yield; poor adoption of correct farming techniques	Actively monitor the cassava crop cultivation, work with existing NGOs
Market: Limited uptake of HQCF	Customer education, due diligence on market
Partners: Reliance on NGOs, entrepreneurs, governments	Due diligence, aligned incentives, aligns with government aims
General: High political, currency, legal, tax risk in frontier markets	Diversification over markets and plants