Background

Mobilizing capital for small- and medium-sized agricultural enterprises (agri-SMEs) in regions of the world perceived as high risk is an essential component of a just transition to sustainable and resilient agri-food systems. This Spotlight explores the investment needs and opportunities of a specific value chain, shea, in dryland West Africa, a region which poses particular environmental, political and economic challenges for private sector investment, but which provides exciting opportunities for investors able to grapple with its specific context, and which is seeing growing international support. This includes more than USD $14 billion of new funding pledged in early 2021 by public donors to the Great Green Wall initiative, which aims to restore 100 million hectares of land and create 10 million green jobs across Africa. The document details the nature and roles of SMEs working in shea, the specific challenges they face, and recommendations on how to strengthen the shea sector, bringing about a range of social and environmental benefits.

Why WBCSD and JRT are focusing on the Shea Sector in West Africa

The benefits of investing in the shea sector in West Africa include potentially strong returns in a fast-growing sector, empowering communities and improving incomes—notably for rural women who traditionally harvest and process shea nuts, and safeguarding and restoring nature. The GSA estimates that over 16 million women are directly and indirectly involved in the shea sector in Africa who collect approximately 920,000 metric tons of kernels, on average, annually. In addition, the approximately 1 billion shea trees in West Africa sequester approximately 1.5 million tons of CO$_2$ annually.

Approximately 85% of shea nuts are sold as kernels into the food sector, with the processing of shea butter for national and regional markets and for the cosmetic sector accounting for most of the remaining 15%. In addition, the sector includes a large number of agri-SMEs which source from rural women who harvest the shea nuts, often via rural cooperatives and other aggregators and intermediaries. Support for these SMEs, and for producer cooperatives, to improve their business capabilities and to access finance would help to improve their ability to grow, add value, generate increased jobs and improve the livelihoods of rural women in the region.

Shea Sector SMEs:

Shea sector SMEs range widely in terms of their size and role within the value chain. As a part of this initiative, hosting partners published a portfolio of agri-SMEs (and other sector stakeholders) to demonstrate the diversity of enterprises seeking finance and technical assistance. The document is accessible in English and French. Three agri-SMEs featured in the portfolio also presented during the whole value chain dialogue on 29 November:

1. **La Fédération Nationale des Productrices d’amandes et de beurre de Karité du Bénin (FNPK-Benin):** A national organization of over five unions, 66 cooperatives, and 50,000 women shea butter producers, collectors and processors that aims to empower women in the sector through organizing them for fruit and nut collection and processing.
2. **Mali Shi**: An industrial processor of shea butter and other vegetable oils with an annual capacity of 30,000 tons of shea kernels to produce 14,000 tons of shea butter.

3. **Sheer Babe**: A Ghana-based enterprise that produces organic hair and skin products using shea products.

These are just three examples of a range of enterprises featured in the portfolio. Each is seeking different amounts of finance and faces challenges in accessing investment. A 2021 survey of 62 GSA members across all categories with a special focus on SMEs and cooperatives in the shea sector in West Africa conducted by ImpactAgri and Financial Sector Deepening Africa (FSD) in partnership with GSA found:

- Most of the SMEs are small in terms of annual revenues and finance raised to date. Approximately 30% have raised less than USD $20,000 and only another 20% have raised between USD $20,000 and USD $100,000.
- Most of that funding has come from family and friends, and 40% of the total funding has been in the form of grants from donors.
- The majority of SMEs are not able to access finance from the formal banking or investment sectors.

### Primary Barriers for SMEs

Major barriers to accessing finance reported by SMEs include:

- Meeting buyers’ volume and quality requirements
- Delayed payments by buyers
- Not being able to grow their businesses to the scale required to be eligible for most financial institutions, due primarily to limited funds to access sufficient supplies of shea nuts and also to acquire equipment and materials used to transport, dry, store and process shea nuts
- Inability to provide collateral or financial records required by financial institutions
- High cost of finance - if available - and the timing for loan repayments that isn’t linked to the shea business cycle
- Lack of finance to support the cost of certifications that are linked to improved socio-economic and environmental inputs and the associated improved market access and price premiums
- Lack of understanding by financial institutions of how to assess SME financing opportunities.

Several of the investors, lenders and business development services (BDS) and technical assistance (TA) providers that participated in a 29 November shea sector value chain dialogue concurred with the constraints reported by the SMEs, which also apply in a generic sense to most SMEs, however they noted some additional constraints for the shea sector:

- Increased negative bias to female entrepreneurs in the traditional, still largely conservative, financial sector in the region, compounded by
- Reduced access to collateral compared to men, resulting in a gender-specific barrier to obtaining finance.
- Challenges for SMEs in the sector to hire and retain high quality middle managers e.g. bookkeepers, accountants, quality control personnel, etc., which significantly limit the entrepreneurs’ ability to manage growth and access finance; while this is a general challenge for SMEs, the constraints seem particularly pronounced in the shea sector.

A number of stakeholders also noted that there are few BDS or TA providers that support shea sector SMEs, and also that there are currently no business incubators or accelerators that are active in the sector. \(^2\)
**Recommendations**

**In General:**

- Given that the shea sector has a significant impact on the livelihoods of rural women and is only set to expand due to increasing consumer demand, there is a fundamental need for financial institutions to develop additional incentives and risk mitigation actions so that they can become relevant for and active in the sector.

- There is also a need and an opportunity to build upon efforts to support various actors along the shea supply chain to play distinct but complementary roles to help bridge the current financing gap, notably financial institutions, the public sector, donors, and the private sector—particularly the larger shea nut buyers and processors and consumer brands.

- GSA is seeking to facilitate interactions and complementarity between these various stakeholders and would benefit from additional financial contributions to expand and deepen such engagement. Increased funding is needed to build on the activities being implemented by GSA with support from the United States Agency for International Development (USAID), Enhanced Integrated Framework (EIF), German Corporation for International Cooperation (GIZ), the International Trade Center (ITC) SheTrades initiative and others, which are addressing a number of the barriers that SMEs and rural harvesters and processors face.

- Increased use of the Agri-SME Digital Finance Tool to help facilitate interactions between SMEs and financial institutions and BDS and TA providers in the sector (and other sectors).

**Recommend Actions for Donors and Development Finance Institutions (DFIs):**

- Improve support to non-governmental organizations (NGOs) and other relevant actors for the aggregation of women collectors into cooperatives and associations and their access to working capital to amass shea nuts in larger quantities; this is also a precursor for financial institutions being able to interact cost-effectively with harvesters and producers.

- Increase support to NGOs and shea harvester cooperatives and associations for income diversification for women collectors (such as for seasonal vegetable production, beekeeping, grain farming e.g. millet, sorghum, sesame, fonio, etc.), and improved market linkages for these new crops. This aims not only to improve livelihoods, reduce dependency on shea and generate income at other times of the year, but also to supply other rural SMEs that commercialize such crops and products.

- Increase provision of blended finance to support interested financial institutions to become active (or more active) in the shea sector though support for risk mitigation, such as partial loan guarantees and first loss reserves, to finance SMEs.

- Increase support for more widespread provision of BDS and TA to SMEs, notably those that are relatively small and early stage, to help them to become credit- and investment-ready; most financial institutions do not consider providing finance of less than USD $200,000, with a majority having significantly higher minimum financing thresholds.

- Link the provision of BDS and TA to concrete incentives and benefits for SMEs, such as access to recoverable grants or initial small-scale low interest loans (potentially from dedicated revolving loan funds managed by the incubators and/or accelerators) and also being presented to interested financial institutions, including rural microfinance institutions (MFIs).

- Provide support for rural banks, non-bank financial institutions (NBFI s) and MFIs to lend to shea sector SMEs, as in many GGW countries these are more likely than larger banks or impact investors or lenders to finance the SMEs in the shea sector.

**Recommend Actions for Investors and Lenders:**

- Increase understanding of and engagement with SMEs in the sector, including with BDS and TA providers, and, hopefully in the near future, business incubators and accelerators, which can help to identify and re-risk candidate SMEs for debt and equity finance.

- Pilot the use of new loan and other financial products for shea harvesting and processing associations and SMEs that source from them, notably for working capital to source larger volumes of shea nuts and capital expenditure. This working capital can also improve access to warehouses and processing and other related equipment so as to move further up the value chain in order to obtain better prices and contract terms. Such lending and investments would likely require access to blended finance by donors/DFIs, with the expectation that successful experiences would be scaled and replicated by the participating financial institutions and their BDS and TA provider partners.

- Participate in initiatives designed to significantly lower their current minimum lending thresholds and to streamline their procedures and practices. The example of Aceli Africa in East Africa is particularly relevant, where blended finance is being successfully used to incentivize and de-risk credit provided by local bank and other financial institutions.

**Recommend Actions for SMEs:**

- Increase expenditure to hire qualified “middle” management staff and/or consultants in order to successfully implement business strategies and manage growth.

- Seek assistance from BDS providers and subject matter experts to improve their organizational capacity and to interact more effectively and credibly with financial institutions.

- Improve ability to collect, process and manage information in general and of interest to financial institutions in particular.

- Given the current minimum financial requirements of most financial institutions, seek to establish relationships rural NBFI s and MFIs.
For Large Corporations:
- Enter into longer-term and clearer contract agreements with strategic SME and cooperative suppliers.
- Build resilience in their upstream value chain partners by supporting revenue diversification into other crops, improved shea nut transportation, storage and processing facilities, etc.
- Help to underwrite the costs of certification and improved traceability for the harvester organizations and SMEs they source from, particularly the associated initial start-up and transitional expenses.
- Provide partial loan guarantee/first loss reserves and/or other risk mitigation agreements to financial institutions that provide credit to their upstream value chain partners.

Next Steps
At the end of the whole value chain dialogue on 29 November, several live survey questions were shared with all the participants, including “what type of follow-up to this event would you like to see?” The responses can be seen in the graph on the right.

JRT, WBCSD, GSA, and Acacia Sustainable Business Advisors will help to facilitate interactions between SMEs, investors, lenders, and BDS and TA providers to explore potential future collaboration. GSA is also considering hosting a similar event in the future, based on the outcomes of the current event and the lessons learned.
ENDNOTES

1 Shea Value Chain as a key pro-poor carbon fixing engine in West Africa. FAO and GSA.

2 While support for a Great Green Accelerator has been pledged by a number of donors, this initiative is currently not engaging GSA member SMEs or other stakeholders: https://www.greatgreenwall.org/great-green-wall-accelerator/

3 https://justruraltransition.org/case-study/aceli-africa/
   https://aceliafrica.org/aceli-year-1-learning-report/

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ABOUT JRT
The Just Rural Transition brings together food producers, governments, businesses, investors, civil society, rural and indigenous peoples to champion people-centred solutions to food system challenges. JRT is a partnership between Meridian Institute, who host the secretariat and manage the Policy Action workstream, and WBCSD, who manage the Investment Partnerships workstream.

ABOUT WBCSD
WBCSD is the premier global, CEO-led community of over 200 of the world’s leading sustainable businesses working collectively to accelerate the system transformations needed for a net zero, nature positive, and more equitable future. We do this by engaging executives and sustainability leaders from business and elsewhere to share practical insights on the obstacles and opportunities we currently face in tackling the integrated climate, nature and inequality sustainability challenge; by co-developing “how-to” CEO-guides from these insights; by providing science-based target guidance including standards and protocols; and by developing tools and platforms to help leading businesses in sustainability drive integrated actions to tackle climate, nature and inequality challenges across sectors and geographical regions.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees.

Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability, united by our vision of a world in which 9+ billion people are living well, within planetary boundaries, by mid-century.

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