

UNCDF

LOCAL FINANCE INITIATIVE (LFI)

Case Study No.3: CIPTA

Unlocking Private Capital

INTRODUCTION

To realize inclusive growth, countries should have the capacity and resources to mobilize, allocate and account for capital flows to “last mile” pockets where poverty is entrenched, economic opportunities are limited, and development plans under-funded. Concurrently, local communities should have access to capital to fund their local development needs and respond to growing demands for better infrastructure, services, and jobs.

Yet, in many least developed countries (LDCs), local savings are not invested locally or limited investment is provided for local development because of lack of confidence from financiers and track record of successful transactions. Innovative financing mechanisms coupled with UNCDF risk mitigation instruments help reveal markets to a wider pool of investors; and thereby crowd-in non-traditional funders, public and private, into new areas.

In 2012, UNCDF launched the Local Finance Initiative (LFI), a “last mile” finance model aiming to unlock finance so that local development projects can get to “closure.” The purpose of LFI is to correct market failures and attract catalytic capital for the investments that are not being picked up by existing public or private investors. Therefore, LFI does not seek to crowd out the private sector and provide public subsidies for those investments that would be likely to attract investment without its support. This represents the foundation on which LFI investments are identified and how the selection process does not distort the market. UNCDF seeks to spark a demonstration effect where the public sector can replicate the blend, leveraging the private sector finance to take the business model to scale. The LFI approach and its risk mitigation strategies have

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Unlocking Public and Private
Finance for the Poor



SECTION PRODUCTION HUILE-KLUKLUI



Groundnut is one of the major cash crops where women have great opportunity to generate income. The women employed by CIPTA are involved in activities such as peanut harvesting, peanut drying, peanut sorting, transformation of peanuts into patties and artisanal production of oil. © UNCDF

proven that local development investments can access additional funds from domestic capital markets, which is in line with the call for action in the Addis Ababa Action Agenda and Sustainable Development Goal 17 (the means of implementation) to mobilize resources from multiple sources to finance development.

As the LFI investment pipeline is expanding rapidly, UNCDF would like to document and capture the knowledge, information, and lessons learned in a systematic manner. This series of case studies aims to demonstrate how LFI approach contributes to unlocking domestic capital and realizing transformational local impact.

Case study 3 covers LFI's facilitation of private financing for the CIPTA groundnut processing plant in the Azove region of Benin.

PROJECT SUMMARY

Name: CIPTA Groundnut Processing Plant

Location: Azove region, southwestern Benin

Sector: Sustainable agriculture, food security

Purpose: Working capital to increase productive capacity

Total project cost:

US\$ 726,182 (Project developer's contribution + UNCDF grant + bank loan)

MARKET CONTEXT

More than 70% of Benin's population depends on employment in the agricultural sector. Agriculture contributes around 35% of the Country's GDP and 80% of export income. While the Government of Benin aims to diversify its agricultural production and improve food security, Benin remains underdeveloped and its economy is underpinned by subsistence agriculture. It is reported that 93% of total agricultural production goes into food production; 36% of households depend solely upon agricultural (crop) production for income, and another 30% depend on crop production, livestock or fishing for income.

Azove is located in the Kouffo department of Benin, a plateau region in the southwestern area of the country. Nearly one-third (29%) of households in the Kouffo department is considered to be food insecure and 47% are considered to have limited food security.

DEVELOPMENT CHALLENGE

One of the crops cultivated in Azove is the groundnut. The groundnut is deemed to have superior nutritious properties and when consumed with staples such as maize or rice, would potentially contribute to a more diverse and healthier diet, thus important in the fight against malnutrition. These crops also possess the ability to thrive in marginal environments, a positive attribute in areas impacted by unpredictable rainfall or effects of climate change. Moreover, the demand for processed peanuts is high in both domestic and international markets, with good potential to become another commercially viable export crop for the country.

CIPTA is a limited liability company in Azove, whose main activities include the processing of groundnuts into cooking oil and wafers locally named "Kluiklui." CIPTA also processes and sells roasted peanuts to both domestic and foreign markets, especially to China, reputed to be one of the largest consumers of roasted peanuts in the world.

The company's owner is Mr. Joël Koffi SOSSA, an experienced project developer with extensive practice in the peanut sector in Benin. He is also involved in the trading of other agri-food products throughout the national territory of Benin and in export business relationship with China.

CIPTA has invested US\$ 327,000 in a modern peanut processing factory, which has a potential productive capacity of 3,000 tons per year. At present, the factory is not operating at its full capacity due to the lack of working capital to purchase peanuts in bulk. Without a predictable inventory of peanuts, the company often cannot fulfill existing purchase orders. Moreover, bulk purchasing of peanuts would cover the company from fluctuation in input price. The lack of financing and uncertainty in input price are also hampering the company's ability to negotiate sales agreements with prospective clients, preventing the company from fully exploiting its productive potential.

PROJECT RATIONALE

The project developer has been seeking financing since 2015 with no success. Most of the banks operating in Benin are commercial private banks with very little or no interest in financing the Agri-Business Sector. The financial volumes in Benin for credit to agriculture and agro-processing are low compared to the magnitude of the demand, with banks concentrating on short-term microcredit at high interest rate (on average 1.5-2% per month).

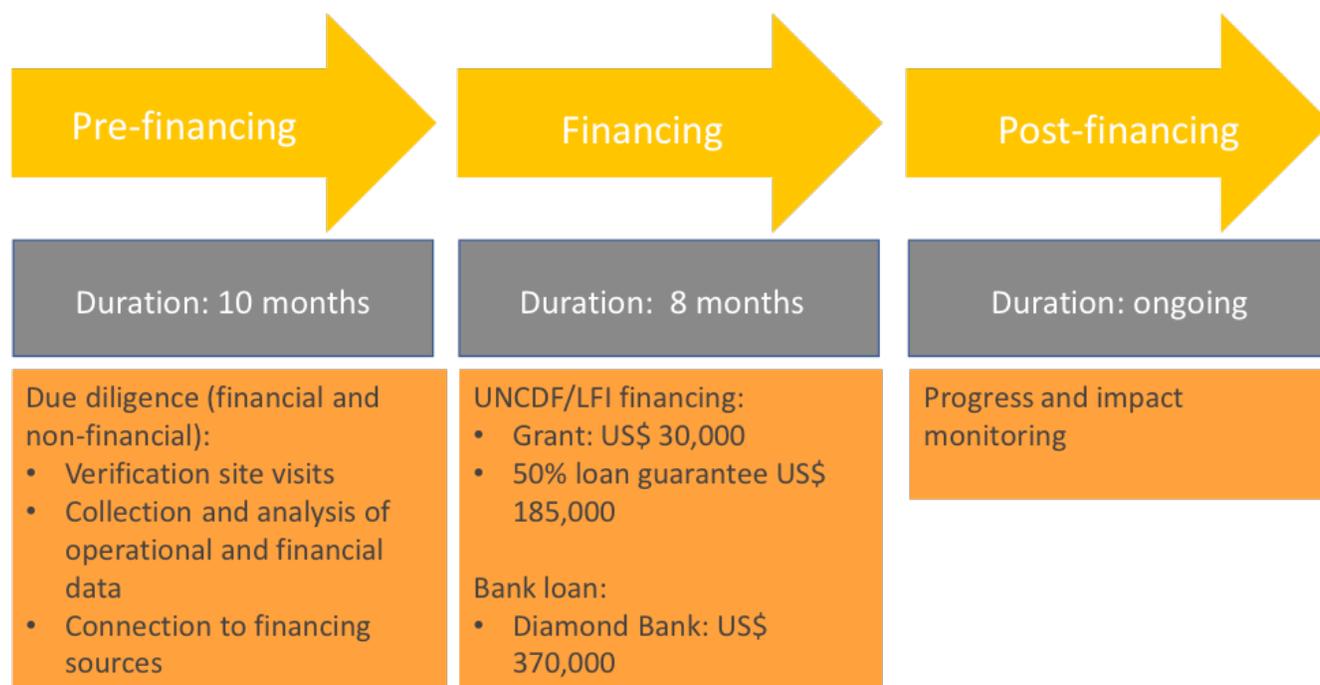
CIPTA needed a large loan to buy inputs in bulk and boost its production level. In the current market conditions, CIPTA was not able to access the level of capital needed from the banking sector. A blended finance solution such as those designed by UNCDF—using a mix of seed capital, targeted technical assistance, and partial loan guarantee—can de-risk the project and develop it into an investment-ready proposition.

Supporting the financing of the CIPTA project can have a transformative impact on the local economy—creating rural employment, increasing food security, and reducing malnutrition among vulnerable households. CIPTA sources part of the raw materials from its own farms and the rest from nearby growers, thus contributing to the development of a regional groundnut value chain. Since the owner has already made significant investments in machinery and the factory's processing operations are already running, UNCDF funding would serve as an accelerator of CIPTA's expansion and boost agricultural productivity among smallholder farmers in the region.



PROJECT IMPLEMENTATION

LFI's key activities under this project can be broken down into three distinct phases (see Figure 1 below). The financing phase was completed in December 2017 and the project has only just entered the post-financing phase. Overall, the initial two phases spanned a period of 18 months and involved the participation of multiple stakeholders (project developer, local government entities, local financial institutions, UNCDF).



LFI used a mix of technical assistance and financial assistance in this project intervention, with technical assistance being provided to the promoter during the first phase for project development, and to the lender in the second phase to design the capital structure and risk mitigation measures.

“Thanks to the risk mitigation instruments offered by UNCDF, it is the very first time Diamond Bank is undertaking an agro-processing deal of this magnitude in Benin.”

Pre-financing

During this stage, LFI investment officers worked closely with the project developer to conduct due diligence of the project – collecting and analyzing all relevant operational, financial, and legal information. The key tasks included:

- Site visit to verify and assess the project location.
- Enhance business plan and financial projections.
- Prepare LFI's internal investment documents to support the investment recommendation.
- Providing technical assistance to project developer to improve efficiency, transparency, and

Mr. Latif Raimi, Regional Manager
Diamond Bank Benin

accountability of his business.

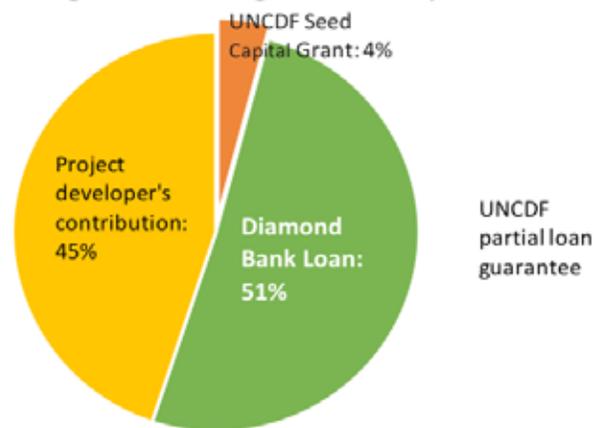
- Connect the developer to development partners and sources of financing.
- Assist developer in the preparation of loan documentation required by the bank.
- Manage targets and milestones of the developer, Diamond bank, guarantee institutions and UNCDF requirements.
- Support and guide the project developer to understand and meet bank loan conditions precedent to disbursement, such as existence of a partial loan guarantee.

Financing

While the developer has contributed a significant level of equity into the project (about \$327,000), CIPTA still required an additional US\$400,000 for a working capital credit line that is tailored to the seasonality of the crop. Despite Mr. Sossa's extensive experience, the CIPTA factory is still considered a start-up and therefore a high-risk transaction for banks. UNCDF recognized that it would be necessary to de-risk the transaction in order to attract private bank financing. This would entail co-financing of the investment by LFI and a risk-sharing arrangement to increase the bank's comfort level in underwriting a loan. The LFI team also provided technical assistance to assist the promoter in the negotiation process with financial Institution to unlock financing.

Thus, a decision was made to structure a blended financing solution consisting of the following:

Percentage of financing unlocked by LFI



UNCDF instruments: (i) a catalytic seed capital grant of \$30,000 to help the owner meet the equity contribution required by an external lender, and (ii) a 50% partial loan guarantee up to \$185,000 as a risk sharing arrangement with the bank.

Bank loan: The partial loan guarantee from LFI was key in getting Diamond Bank to agree to finance the \$370,000 working capital loan, over 90% of the developer's financing gap. To mitigate risk, the loan facility is structured so that disbursements are made in tranches and only after verifying physical presence of raw materials, with the maximum amount per tranche limited to XOF 20 million (US\$ 37,000 or around 10% of the total facility).

Post-financing

UNCDF LFI's assistance does not end with the funding approval. UNCDF will continue to provide monitoring of loan utilization, business advice to the developer on his operations to ensure repayment, and technical support to ensure that the project is achieving the intended socio-economic development impact.

RESULTS AND IMPACT

The CIPTA project provides further evidence that a blended financing approach is effective in de-risking an agro-processing activity and attract private sector investments into a previously unserved region. UNCDF funding successfully **unlocked 51% of the total project cost** and leveraged private funding by a **leverage ratio of 1:2**, and enabled the implementation of a US\$ 726,182 local development project in rural Benin. With appropriate risk mitigation options, local development projects such as Mwenge can access private sector capital, and domestic capital can be used to finance sustainable development and create opportunities for economic growth, employment generation, agricultural productivity, empowerment of women, and general improvement of people's lives.

The CIPTA project is expected to have significant transformational impact on the local economy in the following ways:



Economic Growth and Job Creation

Increased production by CIPTA is expected to stimulate the level of economic activity and create new employment opportunities for the local population. The factory is expected to employ directly 162 staffs—150 in real production activities and 12 in administration. This will contribute significantly to the improvement of rural livelihoods and the attainment of sustainable economic growth.



Strengthening Value Chain

The CIPTA project will strengthen the local groundnut value chain by linking 1,000 smallholder farmers in rural Djakotomey and surrounding villages involved in groundnut production. Further, the project closes the circle of the groundnut value chain in the territory of Azove by enhancing the processing and marketing of the groundnut, thus providing significant value addition to local agriculture activities.



Financial Sector Development

CIPTA's success can provide a positive demonstration effect and incentivize banks to increase lending to the groundnut value chain and other agro-processing projects in the future. Increase in household income and sustained economic growth in the region will open up additional funding opportunities for banks as new businesses (agriculture and non-agriculture) open.



Enhance the Local Fiscal Space

CIPTA will benefit local government budgets as additional taxes will be collected from the CIPTA factory and the peanut growers. Increased fiscal revenue will enable local government to maintain its promotion of the agricultural sector and invest in the supporting infrastructure needed for the commercialization of agricultural products.



Women Economic Empowerment

Groundnut is one of the major cash crops where women have great opportunity to generate income. CIPTA is expected to connect current women groups involved in nut processing activities to the project.



Decrease in Malnutrition

The CIPTA project can increase food availability for vulnerable groups where groundnut cakes and wafers are well-integrated into their dietary habits. Groundnut/peanuts contain a high level of protein, fat, and fiber. The protein is plant-based, the fat is unsaturated, and the fiber is complex carbohydrate which are all proved to be the best for human nutrition.



Improvement in Public Health

CIPTA plans to fight deforestation by transforming the shells of peanuts and the waste from nearest palm oil plantations into charcoal bricks and thus reduce wood fetching of women in the rural areas. The project developer has stated that this component of business operations will be initiated in the second stage of the project.



Contribute to global development agenda and national strategy for food security

The financing of CIPTA will contribute to the Sustainable Development Goal #2, Promoting sustainable agriculture, by increasing the agricultural productivity and the incomes of small-scale groundnut-farmers, markets, and opportunities for value addition and non-farm employment in the Mono-Couffo region in Benin. Moreover, the project feeds into the Government of Benin's Strategic Plan of Development of Food and Nutrition ("PSDAN", July 2009), a plan to reposition nutrition at the heart of development through a multi-sector program to combat malnutrition.



UNCDF LFI Benin Programme Board Members led by its Chairman Mr. Gnonlonfoun Rick, General Secretary, Ministry of Decentralization and Local Governance, Republic of Benin taking a closer look at the state of the existing production equipment. © UNCDF

LESSONS LEARNED

UNCDF's project financing approach is designed to provide additionality and promote market development in Benin by piloting business models that drive the market in the direction of transformational change to local economies. The aim is not to crowd out the private sector but to find the appropriate risk mitigation structures to unlock private financing. Key success factors and lessons learned were:

It is important to tailor the financing structure to reflect seasonality of the business.

Originally, the project developer requested a medium-term loan of five years, which would be more appropriate for purchasing of equipment. Since the developer has already acquired all the necessary machinery, UNCDF worked with the developer to tailor his financing request to a shorter timeframe (12 months) that corresponds better to his needs (working capital) and his business cycle (quick turnaround time for processing raw materials).

Flexibility is necessary when negotiating the financing instruments.

UNCDF originally approached FAGACE (Fonds Africain de Garantie et de Cooperation), a regional government-owned guarantee institution, to discuss the possibility of a third-party guarantee. Ultimately, the discussion with FAGACE was not successful but the key differential was UNCDF's ability to shift gear and take on the role of primary guarantor for the project. Even though this was the first time that the guarantee instrument was used in Benin, UNCDF has had experience implementing this instrument in other countries and so was able to expedite the approval process internally. If not for UNCDF's flexibility and willingness to make this financial commitment, Diamond Bank would not have proceeded with the loan approval.



“CIPTA Benin is well aware of the social role the company is expected to play. By increasing producer loyalty and using talented women in the processing of agricultural products... each actor involved in the value chain will have the deserved share of income which is incumbent to his effort for self-development and blossoming.”

Mr. Joel Sossa, CIPTA Project Developer



Capacity building combined with financing provide mutually reinforcing support and strengthens long-term sustainability of the project.

When requesting a commercial bank loan, the project developer must demonstrate not only financial viability but also managerial and operational competence. With UNCDF’s technical assistance, CIPTA was able to improve its marketing strategy and more accurately quantify potential demand and new clients. The company also received assistance to strengthen its internal systems for inventory management and monitoring operational costs, thereby building CIPTA’s capacity to manage the loan proceeds and loan repayment. Successful management of the Diamond Bank loan will heighten CIPTA’s ability to obtain follow-on loans and also increases the bank’s confidence and comfort level in lending to similar agribusinesses.

UNCDF & SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY 

17 PARTNERSHIPS FOR THE GOALS 

LFI with impact on



ABOUT UNCDF

The UN Capital Development Fund makes public and private finance work for the poor in the world's 47 least developed countries (LDCs).

With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments—through fiscal decentralization, innovative municipal finance, and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.



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