

UNCDF

LOCAL FINANCE INITIATIVE (LFI)

Case Study No.4: Talian Uganda

Unlocking Private Finance

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

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Unlocking Public and Private
Finance for the Poor



strategies have 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 4 covers LFI's facilitation of local financing for the Talian maize and cassava flour mill factory in Uganda.

PROJECT SUMMARY

Name: Talian Company Limited

Location: Mukono district in central Uganda and Kiryandongo district in western Uganda

Sector: Sustainable agriculture, food security

Purpose: Expansion of storage, purchase of machinery, and working capital to increase productive capacity

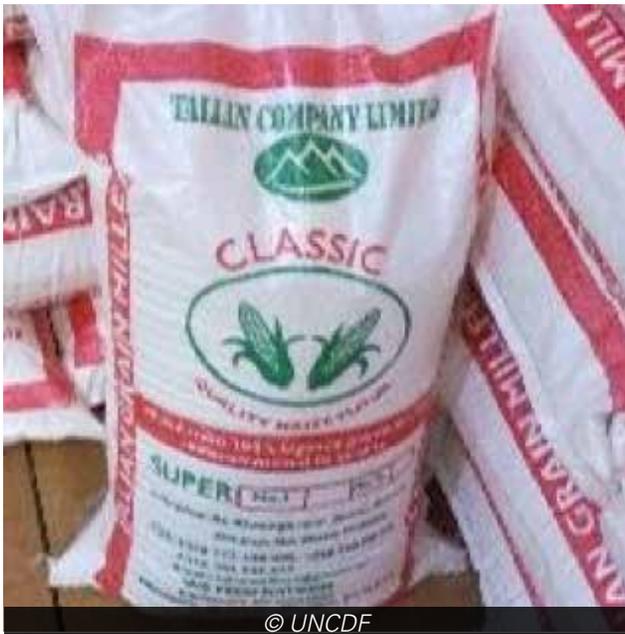
Total project cost: US\$ 1.3 million (UNCDF seed capital grant + external loan + owner's contribution)

MARKET CONTEXT

Historically, maize has been primarily a food crop for domestic consumption, but in 1981, the Government of Uganda (GoU) began to promote it as an export crop in an effort to diversify Uganda's sources of foreign exchange. With worsening food security in neighboring African countries, maize has become an increasingly important export cash crop for Uganda. Maize is now produced mainly for sale rather than domestic consumption, with 300,000 metric tonnes (MT) exported annually to neighboring countries (Kenya, Rwanda, Tanzania, Congo and South Sudan).



Cassava is one of the staple foods in Uganda. It is estimated that 60% of cassava production is destined for household consumption and 40% for marketing. Cassava production has been erratic, its value chain weak and informal, and with low yields largely due to disease prevalence. Only recently have improved varieties of cassava been introduced which improve its prospects as a cash crop. In 2009, Uganda was selected as a Regional Centre of Excellence for Cassava and this project has revived cassava production among smallholder farmers. In the past two years, the two leading breweries in Uganda have introduced local cassava beer brands, which has spurred rapid growth in demand for cassava flour. For instance, in



2017, Uganda Breweries Limited (UBL) reported a demand of 6,000 MT of high quality cassava flour (HQCF) compared to 2,500MT of maize flour, and it projects demand for HQCF to increase faster than all other raw materials. Uganda has a comparative advantage within East African Region to produce these two crops due to the good weather and soil, with two seasons of maize grain compared to other regional countries that have only one harvest season.

DEVELOPMENT CHALLENGE

Talian Company Limited is incorporated in Uganda and started operations in January 2012 with a mission to engage in quality grain handling and processing so as to provide a range of quality products that meet regional and international safe food requirements and standards. The company grows maize on a 500-acre piece of land in Mutunda Sub county, Kiryandongo District and runs a 30MT per day maize milling factory in Kiwanga, Mukono district. The company engages in other activities like cassava processing, maize grain post-harvest handling, and production of high quality flour for both the domestic and regional market.

In addition to growing maize on its own farm, the company purchases grain and cassava chips directly from farmers (65%) and through the appointed agents or suppliers (35%). The company has developed an out-grower's scheme consisting of 6,500 producers of both



maize and cassava in the district in order to have a local and reliable source of raw materials. In Kiryandongo and Masindi districts, Talian works with agents and suppliers in villages who buy from individual farmers and consolidate the products in small batches for delivery to the company's factory in Mukono. The company has trained staff who know how to test and select good quality maize and cassava chips for processing.

Talian has two key product lines:

- Maize and cassava flour for breweries. Uganda Breweries Limited (UBL) is the main customer of the company and Talian has become the brewery's preferred supplier with a two-year contract to deliver 3000MT and 6000MT of maize and cassava flour annually. The company also expects to get an order of 1,000MT per year from Bralirwa Ltd, a brewery company in Rwanda affiliated with the Heineken group.

Maize flour for consumption. Talian has established itself as a supplier of quality maize flour in the regional markets with large wholesale customers in southern Sudan, DR Congo and Rwanda. South Sudan and eastern DR Congo have perennial food deficits and the political insecurity in these areas curtails local production. Northern Uganda borders both regions and Talian has a potential first-mover advantage in these markets, along with a well-developed distribution network that further increases its competitive advantage.

"It is cheaper for Talian to buy from farmers directly, that is why I want to move grain storage closer to them so they can bring their grains directly to Talian. This way, the farmer makes more money and we get the maize cheaper by removing the middle man."

Francis Nyeko
Talian Managing Director

Given the increasing level of demand for its products, Talian is seeking funds to expand its operations by investing in new processing equipment, expanding storage facilities, improving its supply chain, and increasing its productive capacity. Since grain prices tend to be lower at harvest time, the company wants to build higher capacity storage to maintain a six-month supply of inputs. Talian also plans to grow its farmers' network to 11,305 members within three years to be its major supplier of grain for the factory. With the additional storage and financing, Talian can purchase maize in bulk

from its farmers' network rather than purchase through middlemen at higher prices. By cutting out the middlemen, Talian provides local farmers with a reliable and consistent source of revenue and potentially higher price for their grain.

PROJECT RATIONALE

With UNCDF technical and financial assistance, Talian will be able to access medium-term and substantial working capital funding with a more flexible and innovative approach to risk mitigation (e.g., revenue share on brewery contracts). Using the additional funding, Talian can meet its demand from scale buyers and accept opportunities that it has had to turn down in the past, thereby supporting the steady growth of its revenue and asset base, and improving its bankability.

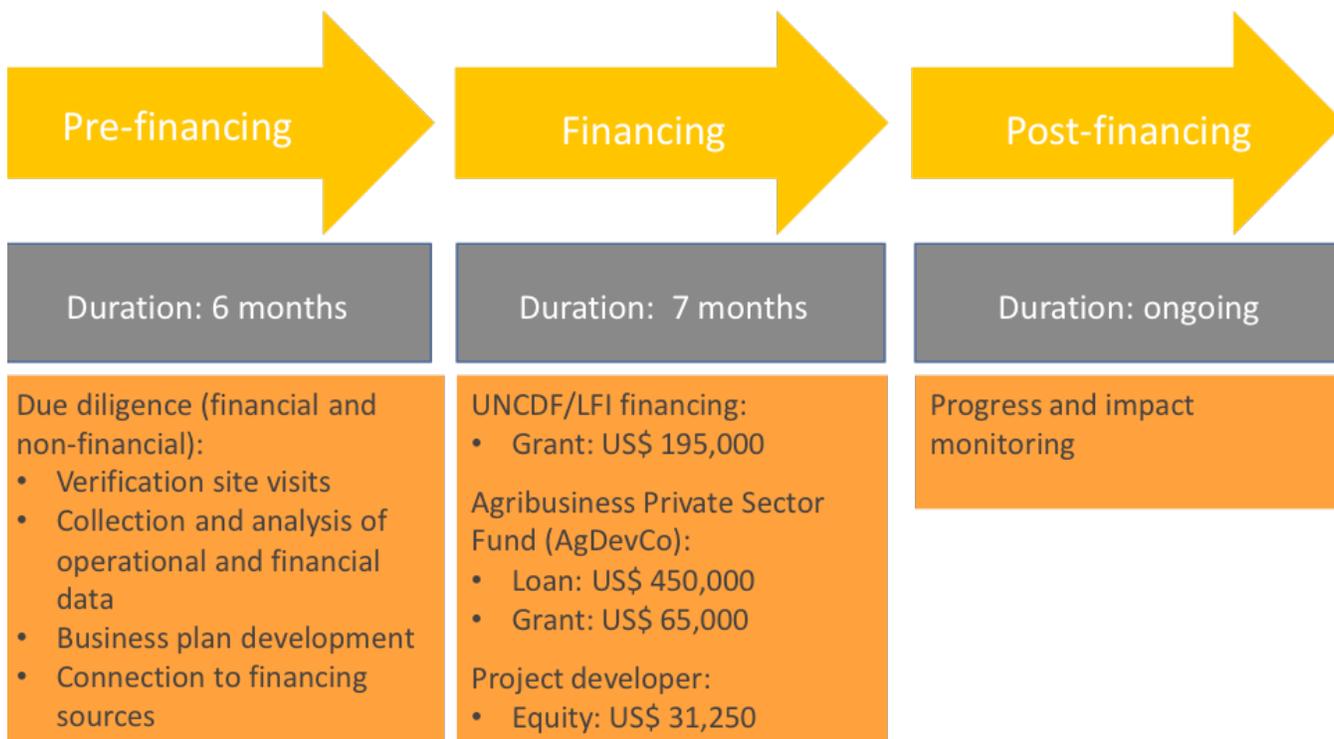
Secondly, UNCDF's intervention has encouraged Talian to invest in the maize and cassava value chain for the long-term and further develop its smallholder farmer network through training, agronomy and agro-inputs, and improved post-harvest handling. These activities will drive up farmers' yields, drive down their wastage, and ultimately increase their income.

Furthermore, Talian represents a platform business, anchored by scale and contract clients, that can serve as a leading player in improving regional food security, becoming a premier supplier of grain flours to Uganda, food-insecure neighbors (such as DR Congo, S. Sudan, Burundi), and relief food suppliers such as the UN World Food Programme.

PROJECT IMPLEMENTATION

LFI's key activities under this project can be broken down into three distinct phases (see Figure 1 below). Overall, the initial two phases spanned a period of 13 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 SME promoter during the first phase for project development, and the second phase to design the capital structure and credit enhancements/risk mitigation measures.



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:

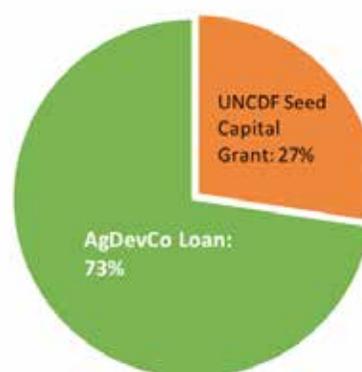
- Site visits to verify availability of raw material, existence of contractual arrangements with farmers (out-grower scheme), processing capacity and gathering market intelligence.
- Development of data collection tools for collecting operational and financial data.
- Verification of commercial viability of the expansion through detailed financial analysis.
- Determination of the optimal size of the project and structuring of the proposed investment to expand the factory.
- Preparation of LFI's internal investment documents to support a recommendation of financing investment.

- Preparation of investment package (e.g. financial model, info memo) for submission to third parties including potential lenders and equity investors.
- Connected the developer to local commercial financial institutions.
- Advised the project developer on changing the business plan to a moderate and more feasible plan that fits within the developer's targeted type of financing. The developer's original plan was to set up a 4,000MT storage silos as part of grain handling equipment. However, this plan was not commercially viable based on the LFI-developed financial model, so the developer revised his business plan.

Financing

Talian has already invested US\$ 582,459 in its current operations including land, the milling factory, and civil works. Nevertheless, the developer still faces a financing gap totaling US\$710,000. UNCDF recognized that it would be necessary to de-risk the transaction in order to attract private bank financing. In its intervention, LFI supported the promoter to negotiate with the financier to change the proposed investment structure, wherein UNCDF would provide additional funding for completion of the warehouses at the factory and the maize farm, thereby mitigating the risks perceived by the lender. Throughout the financing phase, LFI collaborated closely with both the lender and the developer. On the lender side, continued engagement, dialogue, and follow-up were needed to expedite the financing process. On the developer side, LFI provided advice on how to clear significant conditions precedent prior to the loan approval (e.g. submitting the Land title (security) for the factory premises, registering relevant board resolutions approving the financing, etc.).

Percentage of financing unlocked by LFI



Ultimately, the following investment structure was agreed upon for Talian:

- **UNCDF instrument:** a catalytic seed capital grant of \$195,000 to meet the developer's equity contribution in the agreed capital structure with the lender.
- **AgDevCo¹ financing:** (i) a grant of \$65,000 to help the developer cover the business development services needs and address Environmental, Social and Governance (ESG) costs; and (ii) a loan of \$450,000, of which \$150,000 goes toward financing the grain cleaning and drying equipment and the remaining \$300,000 for working capital to purchase maize in bulk during harvesting period when prices are low.

The UNCDF seed capital grant helped the developer to undertake construction of a 1200MT warehouse at the maize factory and another 2000MT warehouse at the Bweyale farm. The grant was instrumental in unlocking financing from AgDevCo on several levels. First of all,

¹: AgDevCo is a social impact fund supporting agriculture businesses that have linkages to small-scale and emergent farmers.



Grain dryer and cleaner under installation at factory. © UNCDF



Completed factory warehouse already under use. © UNCDF

Talian did not have sufficient collateral to meet the fund's lending requirements and would have had to downscale its project size and growth ambitions. By funding Talian's warehouse construction, UNCDF helped to increase the value of Talian's assets that can be used to secure the loan. This is especially important as financial institutions tend to undervalue machinery due to the low resale value and generally under-developed secondary market for farm equipment. Secondly, UNCDF's willingness to step in as a seed funder boosted the project's financial standing and was perceived by the lender as a useful and needed risk cushion.

Post-financing

LFI's assistance does not end with the funding approval. UNCDF will continue to provide monitoring of loan utilization (including monitoring construction of warehouse and purchase of equipment. Moreover, the developer will continue to receive business advice on his operations to ensure repayment, and a monitoring system will be put in place to ensure that the project is achieving the intended socio-economic development impact.

RESULTS AND IMPACT

The Talian project exemplifies how a modest amount of grant funding and tailored technical support can facilitate the entrance of private financing for local agricultural processing and accelerate the growth and commercialization of key strategic crops in Uganda. In this case, UNCDF support successfully **unlocked 73% of the total financing gap**, with a **leverage ratio of 1:3**, and enabled the implementation of a US\$ 1.3 million local development project in rural Uganda.

Talian's expansion is expected to have significant transformational impact on the local and regional economy in the following ways:



Economic Growth and Job Creation

Talian's increased production level will result in an enlargement of the network of farmers supplying raw materials to the factory. The number of farmers in Talian's network is expected to increase from 6,500 to over 11,000 over three years. More farmers will see an increase in income, thereby stimulating the local economy in the two districts involved. The project will also open up opportunities for non-farm employment, with the hiring of 46 additional permanent employees and at least 100 seasonal workers at the factory and the farm.



Strengthening Value Chain

The Talian project will strengthen the local maize and cassava value chain by linking over 11,000 smallholder farmers multiple villages and sub-counties of the Mukono and Kiryandongo districts. Further, Talian will enhance the processing capabilities of the localities, providing important value-addition to local agricultural activities. Increased export to regional markets will also translated to increased agricultural trade at the national level.



Financial Sector Development

The Talian project will provide a positive demonstration effect and incentivize other financial institutions to enter the market and increase lending to the maize and cassava value chains and other agro-processing projects in the future. Already, AgDevCo considers Talian as a long-term partner and is willing to provide second-around financing so the company can meet its ultimate productive capacity of 4000MT.



Enhance the Local Fiscal Space

Talian will benefit local government budgets as additional taxes will be collected from the Talian factory and the Maize and Cassava growers. Increased fiscal

revenue will enable the local governments to maintain their promotion of the agricultural sector and invest in the supporting infrastructure needed for the commercialization of agricultural products.



Women and Youth Economic Empowerment

The project will provide increased opportunities for women and youth to take up leadership roles and position in the maize value chain. Aside from direct crop cultivation, women and youth will be engaged in the sorting, cleaning, and other distribution and marketing activities further up the chain.



Increase in Food Security

The Talian project will increase production of maize flour and cassava flour which will improve food security within Uganda and neighboring countries. The by-products are also used in production of animal feeds in livestock farming, thus supporting sustainable production in that sector.



Eco-friendly Agriculture

Talian plans to employ an integrated and multi-disciplinary approach to addressing issues of climate change adaptation, mitigation and development, protect the environment and encourage sustainable soil fertility enhancement practices. The project will introduce tree planting to act as carbon sinks which reduce greenhouse gas emissions, and mitigate the effects of climate change.



Contribute to Global Development Agenda and National Strategy for Food Security and Agricultural Export

The financing of Talian will contribute to the Sustainable Development Goal #2, Promoting sustainable agriculture, by increasing the agricultural productivity and the incomes of small-scale maize and cassava farmers, markets, and providing opportunities for value addition. Moreover, the project will contribute to the continued growth and competitiveness of Uganda's maize subsector vis-a-vis the East African Community.

LESSONS LEARNED

UNCDF instruments are effective in de-risking a project and attract private sector financing.

While AgDevCo has been working in agriculture promotion and financing in Africa for nearly a decade, the organization values strategic partnerships with organizations who hold complementary objectives and approaches. Similarly, UNCDF seeks collaboration with financial institutions to maximize the impact of its investments. UNCDF's seed capital grant helped Talian complete construction of its warehouses, increased its asset base and built up its collateral, and reduced the developer's debt burden for the project. UNCDF's presence as the lead funding partner gave AgDevCo the assurance it needed to move forward with its own financing package. Moreover, the financial institution now views Talian as a long-term partner and has indicated its willingness to fund the larger 4000MT site in a second phase.

"We have many competitors in the market, but our technology is the best and thus we produce the best quality maize flour in the market. When you eat our product you're certain of quality, cleanliness and taste – those are the three things we are trying to sell. We are concerned about the health of our consumers and so our product is also fortified, it contains vitamins."

Francis Nyeko

Talian Managing Director

Technical support to the project developer to set realistic goals and financing needs makes a crucial difference in a project's bankability.

Project developers tend to have grandiose vision for their company and may set goals that are not operationally or financially viable. This is where LFI's technical support plays an indispensable part of the financing process. The original scope of the Talian project envisioned a total storage capacity of 4000MT financed entirely by debt. However, the LFI-developed financial model for the project showed that the approach is not commercially viable and the project developer was advised to adopt a more moderate approach. While there is sufficient demand for Talian's products, there is concern that the rapid pace of expansion may exceed the company's absorptive capacity and thus would be considered as a high-risk project to financial institutions. With LFI's technical

support, the developer scaled down its business plan—starting with a 1200MT warehouse at the maize factory and another 2000MT warehouse at the farm—and built in a more gradual ramp up.

Technical support should not be limited to financial modeling and business plan development and has more lasting impact when coupled with organizational development.

LFI's technical support goes beyond facilitating access to finance for a time-bound project. Equally important is the business development services (BDS) that aim to strengthen Talian's management and operational structure. To date, the company is run by its three shareholders, with Mr. Francis Nyeko being the primary owner and decision-maker. The owner has been more focused on business growth rather than day-to-day operations. For long-term sustainability, Talian needs to become more structured, broaden its management team, and recruit appropriately skilled and experienced people that are not family members. Since the company is expanding to operate in multiple locations, there is also a

need to establish a team that can oversee operations in the owner's absence. With UNCDF's advice and through the financing received from AgDevCo, Talian hired a senior finance person to improve internal controls and a procurement manager to manage the acquisition of construction materials and equipment.

Not all financial institutions are created equal so UNCDF plays an important role as a co-financier. While Talian had an existing line of credit with a local bank, that institution was not willing to increase the credit line. AgDevCo was a good match to Talian partly because the company matches its financial investment with a BDS grant to build the governance capacity of its borrower. AgDevCo's blended financing approach is well-aligned with the business advisory services that UNCDF has been providing to Talian. Hence, during the financing phase, UNCDF advised AgDevCo on which aspects of Talian's organizational development should be targeted for support, thereby avoiding duplication of efforts and increasing the cost-effectiveness of the grant.

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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