



LOCAL FINANCE INITIATIVE
GLOBAL REPORT
JANUARY - DECEMBER 2016



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LOCAL DEVELOPMENT | CATALYTIC FINANCING | TRANSFORMATIVE IMPACT

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FOREWORD

The economies and populations of many of the world's 48 Least Developed Countries (LDCs) are growing and some LDCs expect to graduate to middle income country status during the next ten years. Graduation means reaching the milestones established by the United Nations Conference on Trade and Development (UNCTAD) on the three criteria of Human Assets Index, Economic Vulnerability Index and Gross National Income per capita. Yet meeting these targets does not necessarily mean significant progress on the Sustainable Development Goals (SDGs) because, for Least Developed Countries attaining the SDGs requires economic and social transformation and not just incremental progress.

Economic transformation requires strategic investment in catalytic and productive infrastructure and services to increase productivity, increase the value retained in local and national economies and increase the quantity of higher value employment opportunities at the same time. This requires a symbiotic combination of public and private investment.

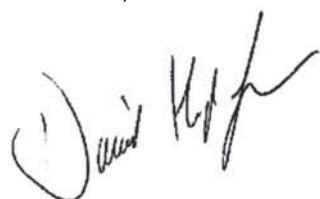
Whilst growing agricultural productivity is a feature of many LDCs, this is not always matched by concomitant increase in non-farm economic activity, a feature consistently recognised by UNCTAD. In addition, LDCs are facing the challenge of rapid urbanization and struggling to finance the required infrastructure for their towns and cities to become pleasant, sustainable and productive places to live.

Government fiscal resources, domestic banks, pension funds and foreign direct investment are sources of capital for LDCs. Yet the structure of markets and the perceptions of risk means that these funds are often not available for the type of catalytic investments that drive transformation.

In addition, the fundamental role of local governments in leading and enabling local economic development is not always recognized, and even when it is, there are often capacity and regulatory constraints that limit the ability of local governments to contribute with public investment and labour market development.

The Local Finance Initiative from the United Nations Capital Development Fund is designed to support LDCs to address these challenges. Starting in Tanzania, the initiative has now spread to six least developed countries – some in an advance stage of implementation and others in the scoping phase – with more in the pipeline for 2017. This 2016 report details the progress made to date.

I would like to express my appreciation to the Governments of Tanzania, Uganda, Benin, Bangladesh, Guinea and Lao PDR for their contributions during 2016. I would also like to recognize the efforts of the LFI team, led by Global Programme Manager, Peter Malika, and to UNCDF Senior Management led by Executive Secretary Judith Karl, for their commitment, support and leadership.



David Jackson

Chair, Local Finance Initiative Programme Board
Director, UNCDF Local Development Finance Practice

EXECUTIVE SUMMARY

Local Finance Initiative (LFI) was originally launched in Tanzania in 2012 as a three-year pilot with the aim of testing the concept of promoting transformative local economic development by bringing to financial closure investment opportunities with a catalytic impact. Following the success of the pilot, the LFI Programme was subsequently replicated in Uganda and Benin in October and November 2015 respectively, and during 2016 activities were undertaken for possible expansion to Guinea, Bangladesh, Lesotho and Lao PDR.

The intended overall outcome of the LFI Programme is to increase the effectiveness of financial resources for local economic development through mobilization of primarily domestic private capital and financial markets in Least Developed Countries (LDCs) to enable and promote inclusive and sustainable local development. To this end, the Programme focuses on 1) improving capacities of public and private project developers to identify and develop small-to-medium sized investment projects essential for inclusive local development in target countries, and 2) increasing the ability and willingness of the domestic financial sector to provide financing for small-to-medium sized local development investment projects.

LFI is a facility that provides seed capital guarantees and technical assistance to structure and make bankable investments for local economic development, women's economic empowerment, food security and land restoration, and climate change and clean energy. These investments are sourced from public and private sector sources including call for proposals, local government development plans etc. The core competency of LFI is providing the catalytic seed capital and targeted technical assistance to de-risk and make local level investments bankable. All LFI investments are associated with a UNCDF programme that is competent to validate, measure, and accompany the development impact in these thematic areas.

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.

LFI operates a dual key system, whereby each investment is vetted by the technical team responsible for impact (for example, in food security) and also vetted by the LFI team responsible for confirming investment bankability. This is an iterative process because increasing bankability may reduce impact and vice versa. Projects only advance to the next stage upon the approval of both teams. Impact measurements and criteria are associated with global standards and agreements. For example, during 2016 a joint UN Women, UNDP and UNCDF programme began testing a standard for women's economic empowerment. Similarly the UNCDF facility for local climate adaptation (LoCAL) commissioned New York University to begin the design of a private climate resilient investment standard in Cambodia. During 2016, UNCDF, FAO and OECD published a book on the territorial approach to food security which provides a basis for assessing impact. Finally, the LFI team and Mirova impact investors prepared the ground for LFI support to investments that meet the criteria of the (United Nations Convention for Combating Desertification (UNCCD) Land Degradation Neutrality Fund managed by Mirova.

LFI seeks to build national capacities to replicate and take to scale its models and tools. The objective is to create national platforms for local development finance in each LDC. These national platforms help build an ecosystem of capacities and institutions that unlock investment finance to support priority local projects. Simultaneously, the LFI team carried out detailed training of local banks in the appraisal of local economic development investments. Initial discussions have taken place with potential hosts of the national platform, including the Tanzania Investment Bank or separate entity such as an independent trust as an alternative.

As highlighted throughout this report, the LFI approach and its risk mitigation 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 in support of people, planet, and prosperity.

During the reporting period, January to December 2016, the LFI Programme provided targeted technical assistance to 11 local development projects, all of which reached an investment-ready stage and were presented to local banks, investors, and other partners to access additional capital of USD 28 million (2016) and USD 70 million 2015-2016 cumulatively. The total project cost of the LFI project pipeline is USD 359 million as of 31 December 2016. Furthermore, the programme invested USD 632,000 in the form of seed capital into nine public and private local investments in selected sectors such as agro-processing; local economic development, and renewable energy. Projects include a cassava processing plant, community radio infrastructure equipment, commercial fish farming, and clean energy power projects.

Looking ahead, UNCDF will continue to develop new relevant partnerships and project development tools that will build an investment pipeline of bankable projects and unlock public and private finance at the local level and subsequently improve local economies and livelihoods.

The LFI Programme has been instrumental in translating local economic development challenges into investment opportunities for both the public and private sectors in all the implementing countries, especially in Tanzania, Uganda and Benin. This report highlights key achievements of the LFI Programme and progress made towards achieving results from January to December 2016. It also identifies challenges that the programme has faced, and how these are being addressed.



Photo by: Sam Eaton/ UNCDF (Tanzania)

1 UNCDF BLENDED FINANCE INVESTMENTS IN LOCAL DEVELOPMENT

1. UNCDF BLENDED FINANCE INVESTMENTS IN LOCAL DEVELOPMENT

Local development is important for sustainable and equitable growth and for achieving the SDGs. For LDCs it is also an important feature of sustainable graduation from LDC status. Local development can accelerate performance in the Human Assets Index and the Economic Vulnerability Index – bringing LDCs closer to inclusive graduation. Currently, whilst many LDCs are meeting the graduation criterion of GNI per capita (USD 1,242), they are lagging in the other two indices mentioned above. Table 1 illustrates the status of LDCs in meeting the criteria.¹ In particular, Local development ensures that growth and the benefits of social and economic activity reach all territorial areas *in a sustainable way* – this addresses issues such as remoteness and economic vulnerability that are captured in the graduation indices. Local development can be defined as follows:

*"Clearly, it is not just development that happens locally (as all development ultimately does), but rather development that leverages the comparative and competitive advantages of localities and mobilizes their specific physical, economic, cultural, social and political resources. Said differently, in the expression local development the adjective local does not refer to the where, but to the who and the how of development promotion. It refers to the actors that promote it and the resources they bring to bear on it. Development is local if it is endogenous, open and incremental, that is: if it makes use of locality-specific resources, combines them with national/global resources and brings them to bear on the national development effort as additional benefit in a positive sum game." Source: Romeo, Leonardo G. "Decentralizing for Development: The developmental potential of local autonomy and the limits of politics-driven decentralization reforms." *The Imperative of Good Local Governance. Challenges for the next decade of decentralization (89-60)*:(2013).*

UNCDF measures its local development outcomes in terms of the increases in local fiscal space and the increases in local fixed capital formation generated by the investments it promotes. This is not only about the effect of each individual investment itself, rather it is the leverage and knock-on effect that the investments have in changing the investment environment and triggering growth in fixed capital formation and fiscal space at the local level. In addition to these general indicators, there are four specific thematic areas for which UNCDF measures its local development impact. They are: local economic development; women's economic empowerment; climate change and clean energy; food security and land restoration. In each case, an independent, verifiable and globally recognized measure is applied.

1 There are three criteria for LDC graduation: 1. Income criterion, based on a three-year average estimate of GNI per capita for the period 2011-2013, based on the World Bank Atlas method (under USD 1,035 for inclusion, above USD 1,242 for graduation as applied in the 2015 triennial review). 2. Human Assets Index (HAI) based on indicators of: (a) nutrition: percentage of population undernourished; (b) health: mortality rate for children aged five years or under; (c) education: the gross secondary school enrolment ratio; and (d) adult literacy. 3. Economic Vulnerability Index (EVI) based on indicators of: (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry and fisheries; (e) share of population in low elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production.

Table 1. Prospects for graduation from Least Developed Country status (15 June 2016)

1.	Countries already graduated from LDC status	Botswana (1994), Cabo Verde (2007), Maldives (2011), Samoa (2014)
2.	Countries expected to graduate from LDC status (GA resolutions A/RES/68/18, A/RES/70/78, A/RES/70/253)	Equatorial Guinea (2017), Vanuatu (2020), Angola (2021)
3.	Country recommended by the CDP (2012) for graduation; recommendation not endorsed by ECOSOC (matter deferred to 2018)	Tuvalu
4.	Country meeting two graduation thresholds, reviewed but not recommended for graduation by the CDP in March 2015 (matter deferred to 2018)	Kiribati
5.	Countries meeting two graduation thresholds for the first time in 2015 (likely graduation cases in the next review of the list of LDCs in 2018, toward graduation by 2021)	Bhutan, Nepal, Sao Tome and Principe, Solomon Islands
6.	Country meeting the "income only" graduation rule, i.e. meeting the per capita income graduation threshold at over 200% of the threshold, and not meeting any other graduation threshold (likely graduation cases in the next review of the list of LDCs in 2018, toward graduation by 2021)	Timor-Leste
7.	Countries meeting one graduation threshold in 2015, with prospects for meeting two graduation thresholds for the first time in 2018 (likely graduation cases in the 2021 review of the list of LDCs, toward graduation by 2024)	Bangladesh, Lesotho, Myanmar
8.	Countries meeting one graduation threshold in 2015, not yet near to meeting a second graduation threshold	Benin, Cambodia, Congo (Dem. Rep. of the), Djibouti, Ethiopia, Guinea, Mauritania, Sudan, Tanzania, Uganda, Zambia
9.	Country not meeting any graduation threshold in 2015, yet near to meeting two graduation thresholds, with prospects for graduation by 2021	Lao PDR
10.	Countries not meeting any graduation threshold in 2015, yet near to meeting one graduation threshold	Gambia, Haiti, Senegal, Togo, Yemen
11.	Countries not meeting any graduation threshold in 2015, and not near to meeting a graduation threshold	Afghanistan, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Eritrea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Somalia, South Sudan

Source: UNCTAD, Division for Africa, Least Developed Countries and Special Programmes, SIDS and Status Issues Section

1.1 Least Developed Countries, Domestic Capital Markets and Blended Finance

Weak domestic capital markets are one of the hindrances to sustainable local development in LDCs. Banks, pension funds and domestic financial institutions in LDCs have grown substantially over the last 20 years, benefiting from the growth of the global economy to 2007 and continued relatively unscathed through the 2008-2009 Great Recession due to continued high commodity demand from China and due to growing ties with regional economies (for example within ASEAN).² There are now USD 1 trillion in African pension funds and there is a far greater volume of bank deposits and fiscal resources, notwithstanding recent declines in some LDCs during 2015 as a result of the decrease in demand from China amongst other factors. Yet this domestic capital is rarely deployed for the purpose of local development, instead it is invested offshore, in large scale export oriented projects, or in real estate in large cities. These often lack the positive externalities and forward/backward linkages to the local economy required for local economic development. Furthermore, the lack of propensity to invest locally limits the development of the capital markets, both in terms of breadth and depth. Broad, deep, accessible and multi-sectoral capital markets are important for economic resilience. Local development finance at UNCDF has the objective of unlocking domestic capital markets and promoting their investment in local development through catalytic infrastructure, public private partnerships, special purpose vehicles and structured projects, municipal bonds and other municipal finance instruments, and small and medium enterprises (SMEs). Capacity strengthening and training of local banks and local governments is often a key feature of UNCDF's approach to local development finance.

The total project cost of each investment promoted by UNCDF is between USD 100,000 and USD 20 million with the bulk of the financing coming from domestic capital markets. In each case, the UNCDF input consists of a combination of technical assistance and/or seed capital grants and/or loans to a maximum value of around 20 per cent of the total project cost.

According to the World Economic Forum:

“The blended finance approach involves the complementary use of financing by government from the public budget; official development assistance from multilateral and bilateral donors, including grants, concessional and non-concessional loans; private equity and debt financing; public private partnership (PPP); risk mitigation and credit enhancement instruments, from both commercial and official sources; and accessing philanthropic funds. The basic objective is to lower investment risks and costs in order to attract private financing for emerging market projects. In general, blended finance involves: leverage for mobilizing private financing, impact on development, and acceptable returns for private investors.” *Source: World Economic Forum. “Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders.” ReDesigning Development Finance Initiative. World Economic Forum & OECD (2015): 1-28.*

2 These main exception being for LDCs in conflict or emerging from recent conflict.

For the local development finance pipeline of investments supported by LFI, blended finance means combining:

- public funding by local governments' capital investment;
- other public funds including labour market training;
- UNCDF grants, seed capital guarantee instruments and technical assistance;
- concessional finance to project developers from other concessional lenders where appropriate; and
- primarily LDC domestic capital from banks, pension funds and other sources.

UNCDF's local development finance investment pipeline for blended finance builds on, and is dependent on, the expertise, track record, and credibility that UNCDF has built up over many decades. One key characteristic of this is the capacity of UNCDF to calibrate the risk/return ratios for private investors that both enable blended finance and promote transformation appropriate to LDCs' development. Local development finance investments tend to have a 5 to 20-year financing schedule. Another characteristic is the 30-year experience in local government public capital investment, local procurement, and local contracting that can mitigate risks for revenue generating investments. Blended finance itself is not the solution, it is a means to an end; UNCDF is well placed to ensure that enthusiasm to implement the Addis Ababa Action Agenda and SDG 17 is favourable to LDCs and results in sustainable financing mechanisms rather than one-off interventions. Figure 1 provides an illustration of how blended finance works for local development finance at UNCDF.

Figure 1: Example of Local Development Blended Finance at UNCDF

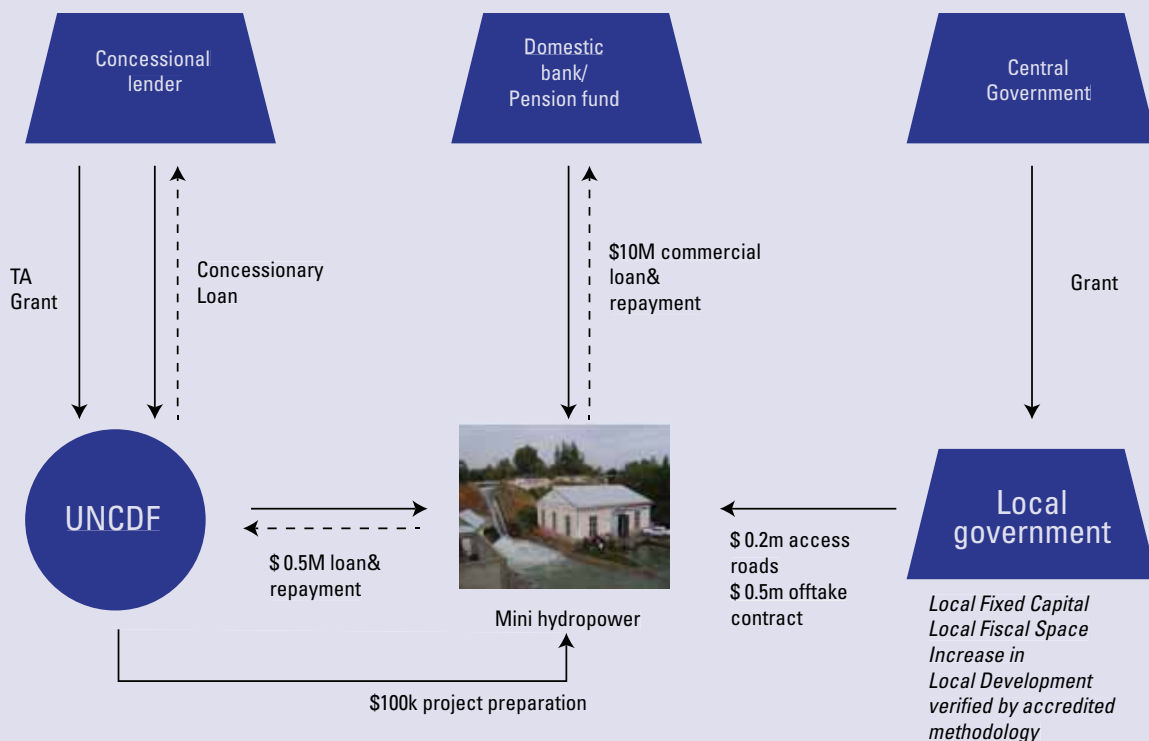




Photo by Jacqueline Namfua UNCDF (Tanzania)

2 THE DUAL KEY SYSTEM AND IMPACT MONITORING

2. THE DUAL KEY SYSTEM AND IMPACT MONITORING

LFI operates a dual key system, whereby each investment is vetted by the thematic, technical team responsible for impact (for example, in food security) and also vetted by the LFI team responsible for assuring bankability. This section briefly details the programmes and impact measures used by UNCDF for the four areas of women's economic empowerment, local economic development, climate change and clean energy and food security and land restoration, each of which is critical to the Sustainable Development Goals and will provide blended finance investments to the local development finance pipeline. These programmes are responsible for the investment selection process and are accountable for the development impact performance of the investments. This process is most advanced for the case of food security. The section below describes each area and details 2016 progress. Annex 1 provides the detailed flowchart for identification of dual key investments, and Annex 2 is an example of the clearance form for each stage.

2.1 Food Security and Land Restoration

UNCDF's Finance4Food programme (F4F) is operational in 5 LDCs: Benin, Mozambique, Burundi, Niger and Burkina Faso, and it is currently expanding to more LDCs. F4F works with local food systems to promote investments that boost food security. A key premise of F4F is that increased food production does not always equate to improved food security because food value chains can export nutrition and value from local economies. However, a local food system analysis can identify the value chains that increase food security. With UNCDF support, local governments and local producers are involved in designing blended finance solutions which support and enhance food security. The local food system analysis pinpoints which combination of the *five pathways to food security* is most appropriate to the local context. This methodology and the concomitant *territorial approach to food security* has been developed together with FAO and IFAD. UNCDF and FAO have recently published a book on the territorial approach.³ Discussions are taking place with the Islamic Development Bank on joint support to the F4F pipeline of investments in Benin, Senegal and Uganda.

A further dimension of F4F involves land restoration. Degraded and unproductive land is often the result of desertification, deforestation and unsustainable production processes. It also has low value. Yet once restored this land not only has greater productive and economic value, but it operates as a carbon sink that absorbs greenhouse gases and can contribute to Intended Nationally Determined Contributions (INDCs). During 2016, detailed discussions took place with the United Nations Convention to Combat Desertification (UNCCD) about how the F4F process can identify and prepare investments in partnership with UNCCD's Land Degradation Neutrality Fund (LDN). These investments would meet UNCDF's local development performance criteria on unlocking domestic finance and building local fixed capital whilst also meeting the LDN performance criteria.⁴

Annex 3 is the criteria used for applying the dual key system to the food security investments identified in Benin.

3 OECD/FAO/UNCDF (2016), *Adopting a Territorial Approach to Food Security and Nutrition Policy*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264257108-en>

4 Environmental and social performance standards of the LDN.



5 GENDER
EQUALITY

2.2 Women's Economic Empowerment

UNCDF, UN Women and UNDP have developed a local development programme entitled Inclusive and Equitable Local Development (IELD). This programme has begun in Bangladesh and Tanzania and will expand to other LDCs. IELD combines UNDP's country presence and technical support, UN Women's mandate as the UN entity empowered to promote the status of women, and UNCDF's investment mandate and LDC focus. IELD carries out local economic assessments with a gender lens to identify the impediments to women's economic empowerment in local economies. These could be related to transport, labour market access, training, child care, water and sanitation, security, access to investment capital for clusters in the supply chain, or any other feature. Each local economy is different and each solution will be a specific blended finance intervention that may include local government investments and revenue generating investments financed by domestic capital. Performance will be measured by the set of women's economic empowerment indicators developed by the three UN agencies and linked to the global EmpowerWomen.org⁵ initiative and to the high level panel on women's economic empowerment emerging from the World Economic Forum.⁶ During 2016 the LFI Bangladesh programme was approved and began work (see Annex 4).

2.3 Climate Change and Clean Energy

The Local Climate Adaptive Living Facility (LoCAL) is a:

7 AFFORDABLE AND
CLEAN ENERGY

"...standard and recognized country-based mechanism for Least Developed Countries, that supports direct access to the Green Climate Fund with the objective to transfer resources to local governments through national institutions and systems for building verifiable climate change adaptation and resilience." Source: Local Programme Board Decision, 2015 & 2016 ⁷

13 CLIMATE
ACTION

LoCAL enables LDC local governments to cope with the increased cost of building resilience to climate change and natural disasters. This includes support for adaptive land use planning, drainage and water management; implementing resilient building regulations; retrofitting infrastructure; strengthening roads and bridges; adapting agricultural systems; and promoting infrastructure for clean energy provision, such as micro hydro power generation. LoCAL combines performance-based climate resilience grants, which ensure programming and verification of climate change expenditures at the local level, with technical and capacity-building support. It is designed to reinforce existing sub-national fiscal transfers for public investment and uses the demonstration effect to trigger further flows for local adaptation – including through global climate finance for local authorities – through their central governments. The LoCAL investment selection methodology is aligned with the United Nations Framework Convention on Climate Change (UNFCCC) Strategic

- 5 EmpowerWomen.org is a global platform dedicated to empowering women to achieve their full economic potential, which facilitates networking, learning and sharing of experiences.
- 6 Launched at the World Economic Forum in Davos in January 2106, the Panel is expected to provide recommendations linked to the 2030 Agenda for Sustainable Development on how to improve economic outcomes for women and promote their leadership in driving sustainable and inclusive, environmentally sensitive economic growth. Its inaugural meeting was held on 15 March 2016 during the 60th session of the Commission on the Status of Women.
- 7 The LoCAL board is made up of LDC member states that have joined the mechanism (currently 13), a representative from the Green Climate Fund Secretariat, the Representative of LDCs on the UNFCCC – also a Green Climate Fund board member (currently Democratic Republic of Congo). The board is chaired by the coordinator of LDCs at the UN in New York (currently the Ambassador of Bangladesh to the UN) and the UNCDF Director of Local Development Finance.

Plan and acknowledged by the Green Climate Fund (GCF) as a trusted mechanism through which LDCs can directly access the GCF to finance local resilience. Cambodia, Tanzania, Benin and Mali are currently applying for Enhanced Direct Access through LoCAL.

LoCAL has a blended finance component named LoCARB (Local Climate Action for Resilience Boosting). LoCARB will work with municipalities, public private partnerships and the private sector to identify blended finance investments that comply with the LoCAL criteria and boost climate resilience. LoCARB investments may be eligible for concessional finance, particularly if they contribute to Intended Nationally Determined Contributions (INDCs) towards the Paris Agreement. During 2016 scoping work for LoCARB took place in Cambodia (see Annex 5).

2.4 Local Economic Development

For UNCDF, Local Economic Development is economic activity that strengthens links between actors and agents within a territorial area, in a way that increases the value retained within that area and increases the resilience and diversity of local economy. This can be measured in terms of increased employment, increased externalities, more forward and backward linkages between economic actors, and more synergies between public and private agents, for instance, demand for a more skilled workforce and a training college. An important indicator is the number of value chains that retain increased value within the territory, in an upwards spiral, rather than exporting value from the geographic area. UNCDF's interpretation of the term local economic development is specifically designed to support sustainable and equitable development in LDCs. Promoting this kind of local economic development has an impact on the Human Assets Index and the Economic Vulnerability Index *in addition to* the GNI per capita, which are the criteria for LDC graduation.

Working with local governments, UNCDF promotes local economic development in all the countries where the Local Development Finance team is fully deployed. This can be through regional programmes such as, LoTUS in the Greater Mekong Subregion, which seeks to promote local economic development in border regions between Lao PDR, Myanmar and Cambodia. It is also through country initiatives, for example in Guinea, where mining companies are channeling a proportion of their royalties back into the local economy through a mechanism designed by UNCDF and the local government.

In all cases, the Local Development Finance team produces blended finance solutions and investment opportunities that promote Local Economic Development within the context of the regional or country programme. These investment opportunities contribute to the full Local Finance Initiative pipeline in Benin, Tanzania, Uganda, Myanmar, Cambodia and Lao PDR (see Annex 6).





Photo by: Jjumba Martin / UNCDF Tanzania

3 LFI 2016 ACHIEVEMENTS AT A GLANCE

3. LFI 2016 ACHIEVEMENTS AT A GLANCE

De-risking high impact investments: UNCDF's LFI facility provides seed capital, guarantee instruments and technical assistance to de-risk and structure bankable investments for local economic development, women's economic empowerment, food security and land restoration, as well as climate change and clean energy. In 2016, 11 investment projects were completed, reaching an investment ready stage⁸ and presented to local banks, investors and other public sector partners to leverage additional investment capital. A total of USD 28 million (2016) and USD 70 million (cumulatively 2015-2016) is the amount of additional investment capital requiring leverage from public and private sector partners because of UNCDF's work. LFI directly assisted 45 active projects in Tanzania, Uganda and Benin with a total project cost of USD 359 million as of 31st December 2016.

Catalytic seed capital invested: A total of USD 632,000 in seed capital was invested into nine public and private sector projects in agro-processing, fish farming structuring, village micro grid and rural electrification that empower rural communities with a focus on youth and women beneficiaries.

Progress of project implementation in 2016: 1) The Ileje community radio station supporting mainly rural agricultural communities of approximately 125,000 people was installed and completed in 2016. The UNCDF investment of USD 105,000 for equipment and infrastructure was critical to complete the project and complemented the initial investment of USD 124,000 made by the local community and external partners. 2) The reconstruction of the FJS cassava processing plant is 80 per cent complete and includes the installation of new machineries and

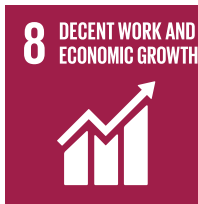


Photo by: Sam Eaton/ UNCDF (Tanzania)

Mpale is a solar village micro-grid investment in rural agricultural community in Korogwe district in Tanzania. The SME project developer is deploying a 50KW power generation targeting direct connection of 250 households, public facilities and small businesses. Majority of the people in the village were relying on unsafe and toxic kerosene as a lighting source.

Solar village micro-grid investment in Korogwe District

⁸ Investment-ready stage: UNCDF LFI technical team provided targeted technical assistance to local development investment projects and developers. Completed projects are now in 'investment-ready' stage which means that the TA (project development cycle) for UNCDF has been completed (appraisal, data collection, due diligence, analysis, project structuring, financial analysis, governance and compliance, final investment documents, facilitated submissions to banks/partners and subsequent follows). The TA provided by LFI de-risks these investments so that they become attractive for investment by the private and public partners.

a turnaround strategy, technical assistance and supported the re-negotiations with Tanzania Investment Bank, the original investor of USD 700,000. 3) The implementation of the Maguta small hydro project (phase 1) is at a 90 per cent completion rate in terms of installation of generation equipment and supporting infrastructure. UNCDF provided technical assistance to structure the transaction and total seed capital investment of USD 204,000. The project developer, Rural Energy Agency and the Italian partners have so far invested USD 5.9 dollars. To complete Phase 2, USD 3 million is required and bank applications have been submitted. 4) The construction of the Mpale solar village micro grid (picture below) is in progress. All above projects are expected to be commissioned no later than 2nd quarter 2017.



Capacity Development: 1) Trained more than 305 public and private sector institutions through one-on-one coaching and workshops for local government officials, financial institutions officials, local consultants, financial institutions and intermediaries, project developers and other public and private agencies; 2) Directly assisted 66 active investment projects with a focus on the bottlenecks and impediments blocking access or scale up of enterprises at the local and project level; 3) Completed legal and regulatory review: a starting point for enhancing the capacities of local government authorities (LGAs) is embedded in the legal and regulatory environment in which they operate. The LFI team completed the review of policies and legislations for sub-nationals to invest, own, manage and operate economic ventures.

Knowledge Management and Sharing: Three new project development and financing tool kits were developed for use and sharing with public and private stakeholders. These tools (agri-business, energy, and project management tool) help UNCDF investment officers and the local project developers they assist to effectively manage all relevant stages of a project development process from technical studies to regulatory compliances, key contracts, engineering, procurement and construction to the internal LFI due diligence process. Underway is a tool to help local governments to go through a disciplined process for developing income generating infrastructure projects based on the LFI experience and partners.



Partnership for Guarantees: We have engaged with third party guarantee providers depending on whether they support a portfolio or individual SME. The collaboration between UNCDF and USAID Development Credit Authority (DCA), The Private Agricultural Sector Support Trust (PASS) in Tanzania, and Africa Guarantee Fund (AFG) in Benin has started by sharing projects and information.



Photo by: Sam Eaton/ UNCDF (Tanzania)



Photo by: Jumba Martin / UNCDF (Tanzania)

4

COUNTRY PROGRAMMES

4. COUNTRY PROGRAMMES

Whilst LFI was operated in six countries (Tanzania, Uganda, Benin, Bangladesh, Lesotho and Lao PDR) during 2016, concrete structuring of investments took place in Tanzania, Uganda and Benin. This section highlights the results achieved in these countries during the year.

4.1 Tanzania

The theme of the new Tanzania Five Year Development Plan (FYDP II) “Nurturing Industrialization for Economic Transformation and Human Development”⁹ incorporates the main focus of the two predecessor frameworks, thus addressing issues pertaining to growth and economic transformation as well as poverty reduction and improvement of livelihoods. It says:

“Investment in harnessing Tanzania’s natural endowment is the driving force for sustainable transformation of our country. Tanzania has, in the recent past, been doing well in attracting investments, both local and foreign. However, challenge remains to scale up the amount and quality of investments in line with our desired transformation path, with the private sector riding on the forefront.” Source: Tanzania Ministry of Finance and Planning. National Five Year Development Plan 2016/2017-2020/2021

The transformative impact at the local level can be achieved when local actors can be linked to an appropriate mix of capital “blended finance” and capacity interventions to unleash local development. The work of LFI focuses on unlocking domestic capital to invest in local development.

4.1.1 Portfolio Overview

Figure 2 below highlights different stages of the project development and financing stages of LFI’s investment portfolio in Tanzania.

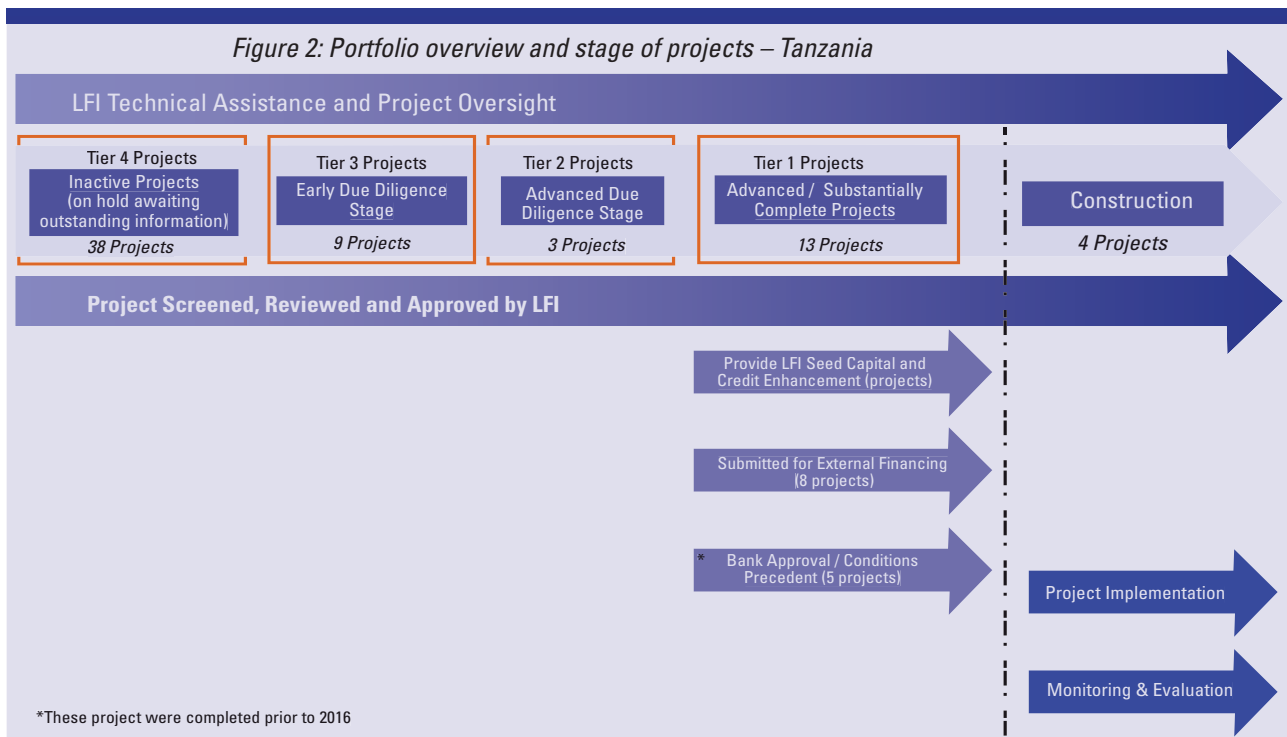
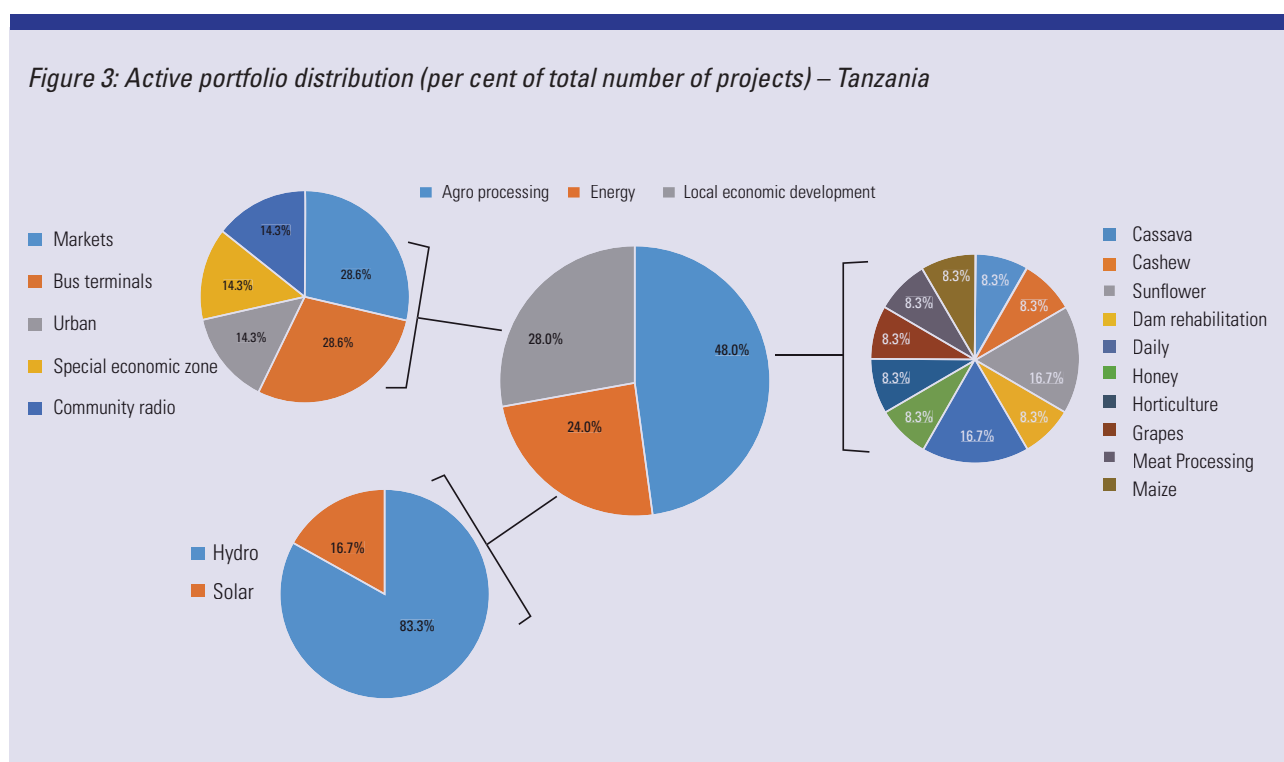


Table 2 provides a breakdown of the active portfolio into sectors/thematic and total value of the projects.

Table 2: Portfolio breakdown on number of projects and costs (tier 1, 2 and 3) – Tanzania

	Cost (US\$ million)	% of total	# of projects	% of total
Agro processing	43.3	21.0%	12	48.0%
Energy	49.1	23.8%	6	24.0%
Local Economic Development	113.8	55.2%	7	28.0%
Total	206.1	100.0%	25	100.0%

Figure 3 provides a distribution breakdown of the active portfolio into sectors and subsectors based on total number of projects (25).



4.1.2 Outcomes and Outputs

Outcome 1: Improved capacities of public and private project developers to identify and develop small-to-medium sized local investment projects essential for inclusive LED in Tanzania

This outcome targets the demand side of the equation and will result in an increased number of technically sound strategic LED investment projects ready for funding. Outputs and results are listed in Table 3 below.

Table 3: Outputs and results 1 – Tanzania

Outputs	Results
<p>1.1 A sustainable institutional structure, processes, methodologies and enabling tools to mobilize and invest funds to develop small, medium and large sized value addition projects are developed.</p>	<ul style="list-style-type: none"> The LFI technical team based in Tanzania has developed general and sector specific tools to help project developers both in public and private sector to identify, develop and finance LED investment projects. During 2016, 3 new toolkits for agro-business, energy, local economic development investments were created for internal use and sharing with external partners.
<p>1.2 Local capacity is established to enable stakeholders (national and local government officials and the private sector) to identify and develop investment projects essential for LED with support from development partners.</p>	<ul style="list-style-type: none"> Trained more than 100 public and private sector institution stakeholders through one-on-one coaching, training, and workshops were conducted for local government officials, financial institutions officials, local consultants, financial institutions and intermediaries, project developers and other public and private agencies. Directly assisted more than 25 active investments with a specific focus on the bottlenecks and impediments blocking access at the project level.
<p>1.3 LED projects are identified, developed and structured in Tanzania to jumpstart process and create a multiplication effect through "learn by doing" and incentivizing stakeholders.</p>	<ul style="list-style-type: none"> 11 investments projects reached an investment-ready stage and presented to local banks, investors and other partners to access additional investment capital. USD 28 million is the amount of additional capital required to be leveraged as a result of LFI interventions in 2016 on the 11 investments. One (Ileje Community Radio) investment project was completed and commissioned in 2016. Three investment projects are under construction and have reached over 75% rate of completion as of December 2016 and are expected to be commissioned by Q2 2017. 25 projects are in active status to be advanced to their next stage of development and financing.

Outcome 2: Increased ability and willingness of domestic financial sector to provide financing for small to medium-sized LED investment projects in Tanzania

This outcome targets the supply side of the equation and will result in an increasing number of LED investment projects developed at the local level that are actually financed. Outputs and results are listed in Table 4 below.

Table 4: Outputs and results 2 – Tanzania

Outputs	Results
<p>2.1 An enabling environment is created including tools and instruments; and mechanisms are developed to accelerate finance for local economic development investments including appropriate laws, regulations, procedures, BDSs and other investment vehicles conducive for creation of business.</p>	<ul style="list-style-type: none"> Completed the review of Tanzania relevant policies and legislations relating to LGAs' ability to invest, own, manage, and operate economic ventures (Local finance act, loans grant and guarantee act, PPP Act, PPRA act, village land act, land act, etc.). Following a participatory process at the local level, LFI recommended to one LGA and 7 community groups an appropriate structure for their Public Private Community Partnership (PPCP) commensurate with sector specific interventions, capital structure and nature of financing. The first investment of the separate investment company or Special Purpose Vehicle (SPV) is expected to be development of large scale commercial fish farming activities in the district enabling trade, entrepreneurship, income generation and empowerment of 10,000 households in Same District.
<p>2.2 Local capacity is established to increase the ability of the private sector to finance LED projects with appropriate credit enhancements.</p>	<ul style="list-style-type: none"> Invested USD 632,000 in the form of seed capital into public and private local investments in priority areas such as agro-processing, rural electrification, clean energy, and local economic development projects.

4.1.3 Case study: Tanzania Local Investment Project

AgroServe: Kagera, Tanzania | Maize Processing

Project Summary

Developer: AGROSERVE (private company)
Finance: Looking to secure a commercial loan of \$436,000
Type of infrastructure: Agribusiness - storage, equipment & logistical
Business model: AGROSERVE's aims to expand its installed mill capacity utilization from 18% to 90% over 5 years. Pursuant to this objective, AGROSERVE intends to strategically invest in storage facilities, processing equipment and outbound logistics in order to meet the local and regional market deficit for fortified maize flour and concentrated animal feeds.
Status: Under development → Commercial viability established
UNCDF support: Technical assistance under LFI and potentially funding assistance for post-harvest infrastructure and equipment.

Expected Development Impact

- AgroServe will provide a market and income for 4,250 smallholder farmers, of which 1000 are youths and 2,250 are women.
- Provide employment along the maize value chain e.g. production, processing etc.
- By fortifying maize flour with iron (NaFeEDTA), zinc, folic acid and vitamin B12 AGROSERVE will reduce the prevalence of anaemia and other nutrient deficiencies among pregnant and lactating mothers, children aged 6 to 59 months; and children aged 5 to 14 years old.
- The production of nutritional animal feed will develop the local and regional livestock sector
- Investment in storage facilities will address post-harvest losses

UNCDF Approach

UNCDF has provided technical assistance to the developer:

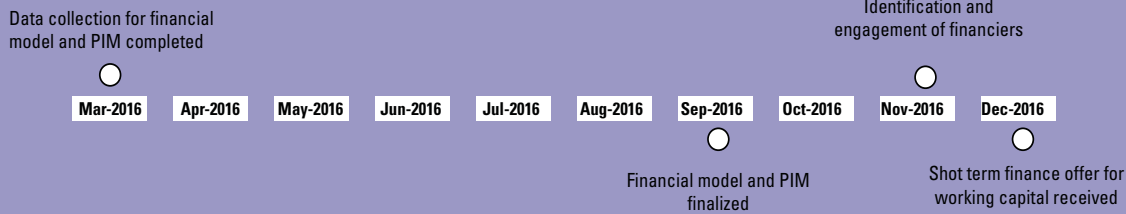
- Technical support to package expansion project
- Technical support to draft investment package including Information Memorandum, financial model, investment teasers etc.
- Technical support to facilitate engagement of project with potential funders

Reaching Financial Close - What's Next?

Looking towards financial close the outstanding issues are:

1. UNCDF provide seed capital/ concessional loans for fortification machinery and for the storage infrastructure.
2. UNCDF will continue to provide technical support to facilitate negotiations with grant, equity and debt providers

UNCDF Timeline & Milestones



4.1.4 Human stories Tanzania

Eager for lit villages: Maguta Project, Tanzania

“The first thing I would do when we get power in our village is to buy a wood cutting machine so I can make furniture. I learned how to make furniture from my father. The machines cost between Tsh 2-4 million (USD 898-1,795). I am saving money slowly,” said William Magatha, the project supervisor.



Photo by: Jacqueline Namfua/ UNCDF (Tanzania)

William Magatha is the project supervisor. He farms maize, beans and potatoes and has five children.

The Lungali Natural Resources Company Ltd (LNRC) was established to develop the Maguta Small Hydro Electricity Project (Maguta SHEPP), a 1.2MW hydropower plant located on the Lukosi River, in Kilolo District, Iringa Region. The goal is to increase rural electrification. Maguta SHEPP will provide affordable, clean and reliable energy to six villages located in Boma la Ng’ombe, Kilolo, Idete and Kidabaga wards of the Kilolo District in addition to selling excess power to the national power utility. Given its

commercial viability and transformative impacts, UNCDF, Rural Energy Agency (REA), Solidarity and Cooperation without Frontiers (SCWF) and Brulli Energia partnered to develop this project.

Once completed, more than 2,400 people will have access to power for the first time as well as schools, health centers and government offices. However, before the villagers can be connected to the power, they have some work to do. “We need to build durable homes so that we can benefit from the power. Most of us still live in mud houses with grass roofs. We’re trying to build modern homes so we can have electricity in our homes instead of it bypassing us after all the hard work we put into the project,” pointed out Mr. Magatha.

Ashraf Chussi is the Idete Ward Executive Officer. He represents four villages which have 1,730 households, seven schools and three dispensaries. But the entire village has no power. He pointed out many benefits that power will bring to his Ward, “We really need power to help our students so they can study more and our health facilities so they can better treat people. Now most people use kerosene lamps which are costly and can also be dangerous. The challenge is that we have many mud and grass houses, but we are educating the community through local meetings to build modern houses with bricks and tin roofs. We have about 542 households that are ready. When we get power, our carpenters will be able to make furniture right here in our village instead of just selling raw wood to others. Now our carpenters walk 22km to the next village to use their wood cutting machine to make furniture. They incur so many extra costs so it is expensive to buy their furniture. There will also be more employment for our youth.”

Mr. Chussi also said that, “This office has never had power! We can’t work with computers. We only use paper. Photocopying is an issue because of lack of power. So if we need to photocopy office papers we must travel to the next village with a motorbike (USD 4.50 each way) or local bus (USD 1.12 each way) at our own personal expenses. Sometimes you get to the next village and they also don’t have power. As a result, work productivity is very low. There isn’t a single fridge in our entire village because no one has electricity. So we must cook every day and it is costly to buy charcoal. It is hard work for our women because they spend all day in the farm and then they must cook for the family.”



Photo by: Jacqueline Namfua/ UNCDF (Tanzania)



Photo by: Jacqueline Namfua/ UNCDF (Tanzania)

The workers at the project site said that, “we’re working hard because we’re eager to get power in our villages and finally have light at night. And we also want to build furniture and maize grinding factories.”

Working with local government to improve access to information: Ileje Community Radio Project, Tanzania



Photo by: Jacqueline Namfua/ UNCDF (Tanzania)

Ileje community radio tower

"Receiving seed capital from UNCDF and investment of other partners is a huge deal for Ileje District. The funds have enabled us to establish our first community radio. The radio station will have educative and informative programmes, which will help to bring development to our community and people," said former Ileje District Commissioner, Rosemary Senyamule.

Ileje is a remote district in Songwe Region. Agriculture (subsistence farming) is the backbone of Ileje's economy, accounting for about 80 per cent of the total economic activity in the district. Given the remote location of the district, the majority of the community members have very limited access to information or any local or national media. Community members generally rely on radio to get the latest news and other key information and were forced to get it from nearby countries such as Malawi and Zambia. Newspapers are scarce and TV even more so. This situation motivated the Ileje District Council to explore the possibility of establishing its first ever community radio station to contribute to the development of Ileje District.

In 2014, the Ileje District Council and Ileje East Environmental Conservation Group started working on establishing a community radio

station dedicated to addressing the needs of the residents of Ileje District. The opportunity resulted from successful consultations between UNCDF (through its LFI Programme) and the Ileje District Council following a Local Development Finance workshop organized by UNCDF in Dar es Salaam in 2014.

The key objective of building the radio station is to reach the Ileje community through radio and provide reliable information, education and entertainment — to help address socio-economic issues at the community level, create awareness, empower marginalized groups and promote good governance.

The radio station is a joint venture equally owned by the Ileje District Council (50%) and Ileje East Environmental Conservation Group (50%). This project is an excellent demonstration of how ICT can be operationalized at the community level to improve access to information and ultimately empowering communities. The radio station will have educative and informative programmes, which are expected to bring a number of positive impacts to Ileje District and beyond. More specifically, UNCDF anticipates that the radio station will bring forth the following positive transformations to the community:

- Increased access to valuable information which will enable community members to make informed economic decisions. As a farming community, access to information and knowledge are vital factors for improving crop yields.

- Increased awareness and interest in social and economic issues such as environmental conservation, gender equality, reproductive health issues and family planning, HIV protection, good governance and accountability.
- Women and marginalized groups will be empowered by enabling them to actively participate in community discussions and have their voices heard.

The people of Ileje rely heavily on agriculture for their livelihood. Access to information is critical for local farmers to better understand the agriproduct market and earn higher profits. However, a lot of rural communities are informationally locked due to lack of access to information. Women in Tanzania carry out the vast majority of farming activities, but they do not have sufficient knowledge on market trends and prices. Consequently, they are unable to compete in the market, which results in the loss of revenue. The community radio station will play a key role in improving the economic environment and local livelihoods. Farmers will have easily accessible information such as weather conditions and latest farming techniques for improved crop yields, while also benefiting from having a platform to market their agricultural products.

Over the next few months, UNCDF will continue to work closely with the Ileje District Council to ensure that the radio station is fully operated. Remaining is testing the radio transmission and obtaining final clearance from the Tanzania Communications Regulatory Authority to go on air, and connecting the site with the national grid,.



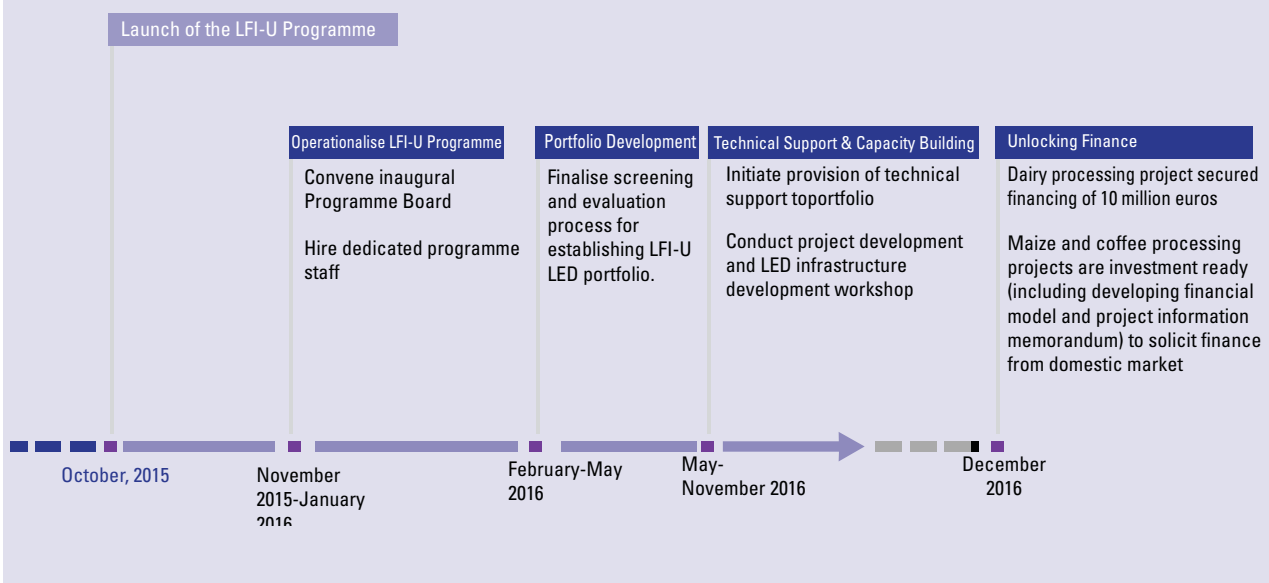
Photo by: Jacqueline Namfua/ UNCDF (Tanzania)

Global LFI Manager, Peter Malika is testing out equipment at the new community radio station in Ileje District.

4.2 Uganda

Following the official launch of the LFI Programme in Uganda (LFI-U) on October 8, 2015, the programme has taken numerous strides in implementation and has reached key milestones as illustrated in Figure 4 below. More specifically, LFI-U has formalized the governance and operational structure of the programme; finalized the LFI-U portfolio; provided technical and financial support to local economic development investment projects; and conducted capacity building technical workshops to financial institutions as well as public and private project developers.

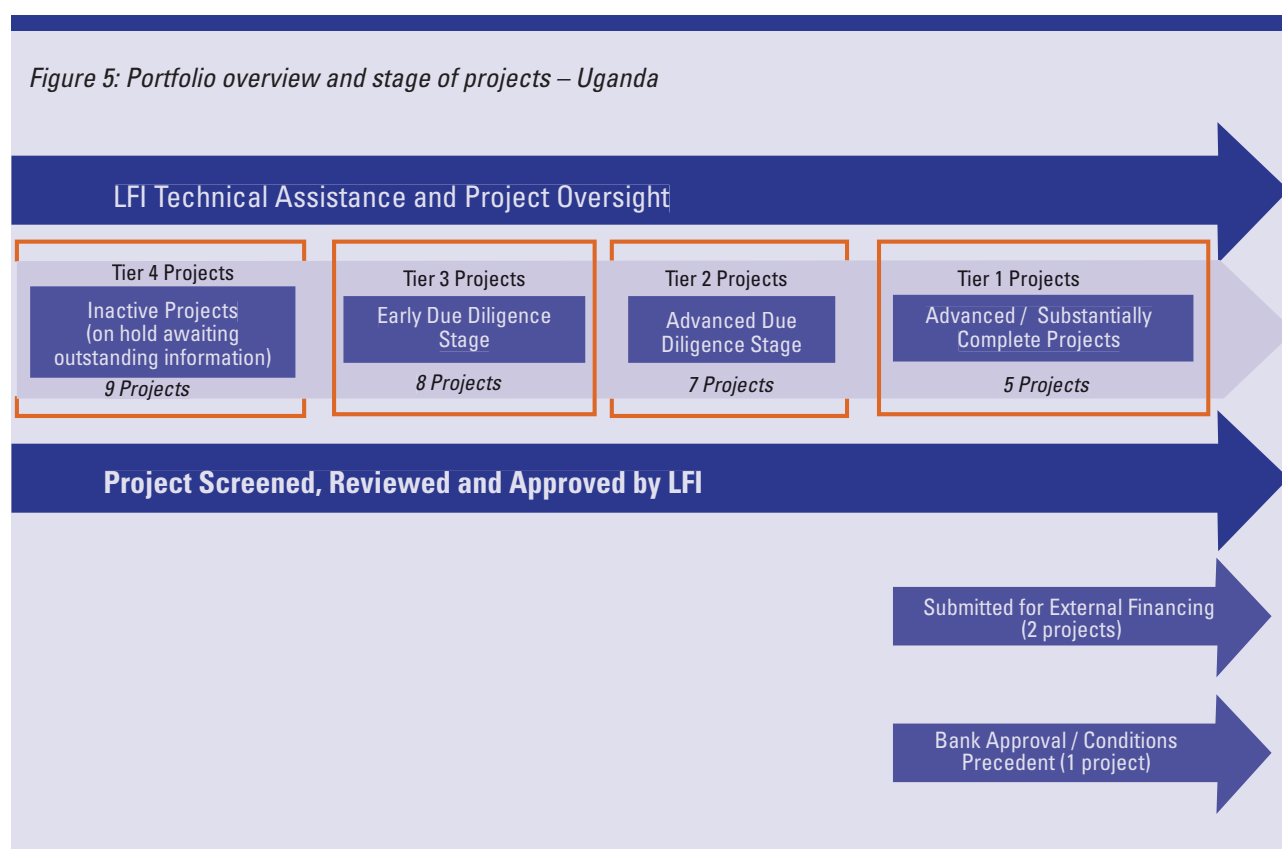
Figure 4: Timeline for launch of LFI-U to the end of 2016



4.2.1 Portfolio Overview

Identifying LFI-U projects entailed soliciting investment proposals through a call for proposals as well as from strategic partners. Following a comprehensive screening and evaluation process of 232 projects, a portfolio of 29 projects was selected (plus 1 prior to the call for proposal). The LFI-U technical team worked closely with project developers to advance its portfolio including drafting financial models, business plans and project structuring.

As depicted in Figure 5 below, the portfolio is divided into tiers according to the level of advancement of projects.



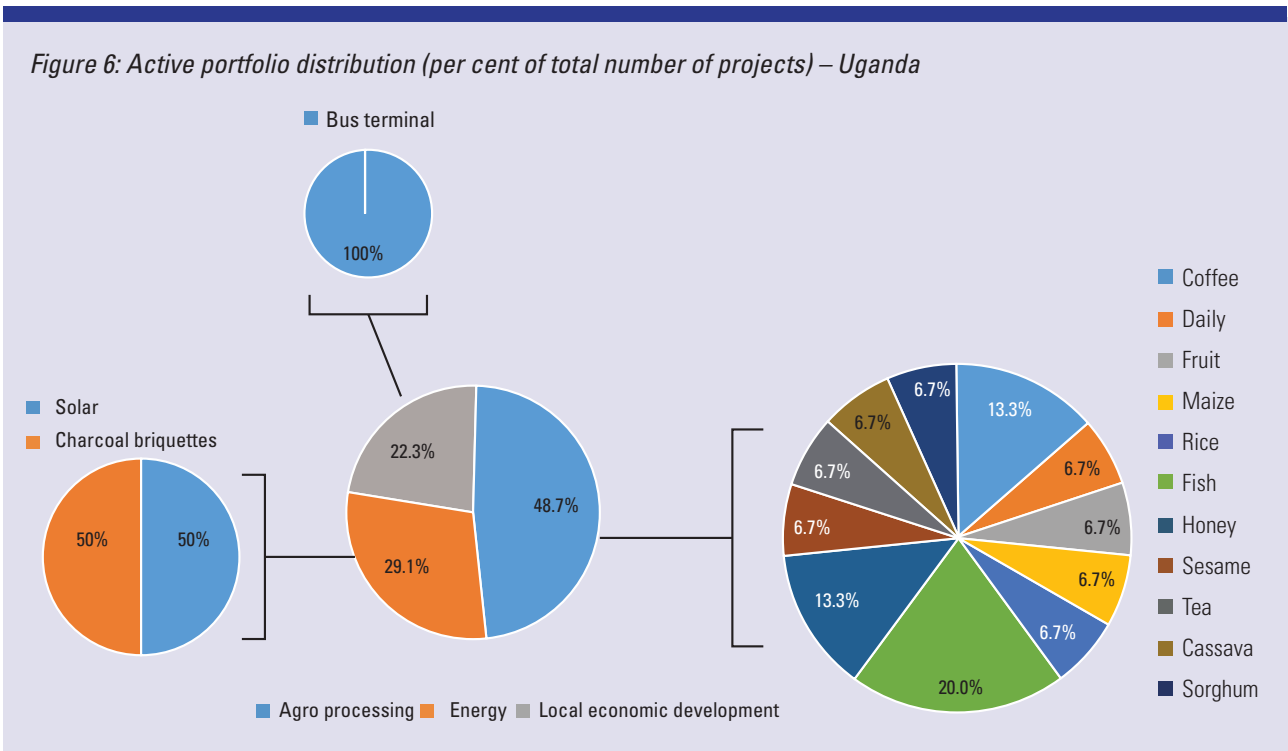
The portfolio consists of projects spread across 18 regions in Uganda and are drawn from the agro-processing, energy, and local economic development sectors/thematics. The sectoral distribution of the portfolio is provided in Table 5 below for the active portfolio (tier 1, 2 and 3 projects).

Table 5: Portfolio breakdown on number of projects and costs (tier 1, 2 and 3) – Uganda

	Cost (US\$ million)	% of total	# of projects	% of total
Agro processing	66.59	48.7%	15	75.0%
Energy	39.78	29.1%	2	10.0%
Local Economic Development	30.44	22.3%	3	15.0%
Total	136.8	100.0%	20	100.0%

The active portfolio is comprised largely of agro processing projects which constitute 75 per cent of total number of projects and 67 per cent of total costs. These projects were selected based on their commercial viability and impact on both food security and strengthening rural livelihoods through job creation and increasing smallholder farmers' incomes. The energy projects are concentrated on solar and briquettes production and distribution. These projects are expected to generate approximately 10MW and yield various transformative impacts including enhancing enterprise development and reducing CO₂ emissions, deforestation and unpaid care work for women. The 3 LED projects are all bus terminals being promoted by an LGA.

The distribution of the portfolio on sectors and subsectors based on total number of projects is depicted in Figure 6 below.



4.2.2 Outcomes and Outputs

Outcome 1: Improved capacities of public and private project developers to identify and develop small-to-medium sized local investment projects essential for inclusive LED in Uganda

This outcome targets the demand side of the equation and will result in an increased number of technically sound strategic LED investment projects ready for funding. Outputs and results are reported in Table 6 below.

Table 6: Outputs and results 1 – Uganda

Outputs	Results
1.1 A sustainable institutional structure, processes, methodologies and enabling tools to mobilize and invest funds to develop small, medium and large sized value addition projects are developed.	<ul style="list-style-type: none"> All project development and financing tools used by LFI Tanzania were adopted and are now in use by the Uganda team.

<p>1.2 Local capacity is established to enable stakeholders (national and local government officials and the private sector) to identify and develop investment projects essential for LED with support from development partners.</p>	<ul style="list-style-type: none"> • Trained 159 public and private sector institutions through one-on-one coaching; training and workshops were conducted for local government officials, financial institution officials, local consultants, financial institutions and intermediaries, project developers and other public and private agencies. • Directly assisted more than 13 active local development investments. • Provided dedicated technical support to the FCL dairy processing plant in the facilitation and negotiation on both debt and equity investment requirements. The investment in human capital and LFI technical assistance enabled the project to solicit solid interest from debt financiers for equipment and capital financing.
<p>1.3 LED projects are identified, developed and structured in Uganda to jumpstart process and create a multiplication effect through "learn by doing" and incentivizing stakeholders.</p>	<ul style="list-style-type: none"> • 3 investments projects were completed, reaching an investment-ready stage and presented to local banks to access additional investment capital. • US\$11 million is the amount of additional capital required to be leveraged in Uganda as a result of LFI interventions in 2016 on the above mentioned 3 investments.

Outcome 2: Increased ability and willingness of domestic financial sector to provide financing for small to medium-sized LED investment projects in Uganda

This outcome targets the supply side of the equation and will result in an increasing number of LED investment projects developed at the local level that are actually financed. Outputs and results are listed in Table 7 below.

Table 7: Outputs and results 2 – Uganda

Outputs	Results
<p>2.1 An enabling environment is created including tools and instruments; and mechanisms are developed to accelerate finance for local economic development investments including appropriate laws, regulations, procedures, BDSs and other investment vehicles conducive for creation of business.</p>	<p>N/A</p>
<p>2.2 Local capacity is established to increase the ability of the private sector to finance LED projects with appropriate credit enhancements.</p>	<p>N/A</p>

4.2.3 Case Study: Uganda Local Investment Project

TALIAN COMPANY LIMITED: Kirandongo, Uganda | Maize Processing

Project Summary

Developer: Talian Company Limited promoted by Mr. Francis Nyeko the managing Director.

Finance: Looking to secure a commercial loan of \$1,032,350

Type of infrastructure: Grain milling, handling and Storage Machinery including warehouse and logistical.

Business model: Working with the maize growing farmers' groups in Kirandongo and surrounding districts to purchase Maize grain during harvest season, clean dry and store it in Silos. Grain is then transferred to the Maize Milling factory that is processed to produce Maize Flour and Corn Starch that are sold Locally and in the East African Region markets.

Status: Under development → Finalizing TA documents

UNCDF support: Technical assistance under LFI and potentially funding assistance for procurement and setting up of the grain handling infrastructure under FSLR.

Expected Development Impact

The project is targeting to purchase the Maize grain from 10,000 rural smallholder grain farmers from the districts of Kirandongo and surrounding districts, the project Impact includes;

Improved post-harvest handling methods → The facility will lead to reduction in Post-Harvest Handling losses from the current 35% to 2%.

Increase farmers' earnings → The project will cut out the Middleman's share in the value chain for the targeted farmers.

Job creation → The project plans to employ directly 30 staff at the facility and indirectly within the district.

Food Security → The project will increase production of maize flour and cassava flour which will improve food security in the area and the country.

Women and Youth Economic Empowerment → The project will lead to women and youth empowerment by participating in activities along the maize value chain.

UNCDF Approach

UNCDF has provided technical assistance to the developer:

1. Identify the right size of the investment and financing structure.
2. Develop the project to investment ready position by preparing the Financial Model and the project information memorandum.
3. UNCDF will continue supporting with due diligence to reach financial close of the project

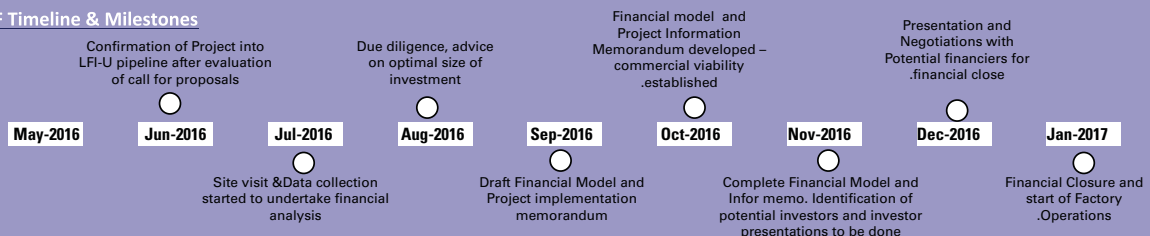
Additionally, UNCDF is looking into how we can support the factory operations through last mile financing.

Reaching Financial Close - What's Next?

Looking towards financial close the outstanding issues are:

1. Determining the best financing structure of the project components.
2. Finalizing the Financial Model and Information Memorandum
3. Presentation of project documentation to financial institutions, and negotiations

UNCDF Timeline & Milestones



4.2.4 Human Stories Uganda

Selling coffee with a story: NUCAFE Project, Uganda

UNCDF has provided technical assistance to prepare this project for investment by both UNCDF and local commercial banks. "At NUCAFE we like to promote coffee with traceability of the farming region because it carries different tastes and aroma. We are selling coffee with a story. Each bean is unique by the taste, farmer, and culture. We want to tell these stories on our packaging and on website.



Some of the NUCAFE coffee selection.

My favorite story is 'bunjako' coffee (Robusta) and it tastes almost like an Arabica because of the history of where it comes from in Lake Victoria. It's a big story for Uganda, because Robusta Coffee originated here," said Nuwagaba Deus, Entrepreneurship Services Manager at NUCAFE.

The National Union of Coffee Agribusinesses and Farm Enterprises (NUCAFE) is a social enterprise of coffee

farmers in Uganda working with 185 associations and cooperatives and more than 1,000,000 farmers. These farmers supply coffee beans to the NUCAFE factory in Kampala, Uganda. The project was set up to assist coffee farmers to own their coffee along the entire value chain and to make profits in order to sustain their livelihoods. Therefore, it applies the Farmer's Ownership Model (FOM) through a Farmer Groups (Association/cooperative) framework designed to enable small scale coffee farmers to empower themselves to sell coffee and garner better returns on their investment whilst also having a positive impact on their communities.

NUCAFE has been operational since 2003 and it is already transforming the community. It has increased farmers' income by over 30 per cent, created jobs, empowered women and youth economically and put in place sound environmental practices. To date, NUCAFE has invested more than USD 1,800,000 in infrastructure to provide business services for coffee farmers such as warehousing, coffee processing and value addition equipment, marketing services, entrepreneurship development and training. Mr. Deus said, "My dream at NUCAFE is to see growth in entrepreneurial ideas among farmers, and to teach members of our communities high levels of coffee farming techniques to give them an incentive to also get into coffee farming."

When a farmer has coffee beans ready for collection, they would contact NUCAFE who would then send out a truck. On average it costs about UGS100 (USD 0.028) for transportation to the farthest distance, hence why NUCAFE collects only a minimum of 10 metric tons. The quality of coffee beans is assessed by its size, color, density and aroma. NUCAFE has several quality machines imported from the Middle East and South America. Each machine has a very specific purpose such as distinguishing colors. Light colored beans mean that they were harvested prematurely or were infected with insects, therefore this allows them to advise the farmers accordingly or to sell them pesticide. NUCAFE also has a machine that works to remove stones and metal, after which they can pack the coffee beans.

NUCAFE also operates a small coffee shop in Kampala, which was opened in April 2015. NUCAFE is only focusing on the local market for now as there is a high demand for their coffee. "We contribute to domestic consumption of locally roasted and grounded coffee through our Omukago Coffee Shop franchise, where good quality coffee is served by professionally trained coffee barristers. The whole magic is basically the more coffee cups we sell, the higher the returns to the farmers," said proudly Joseph Nkandu, Executive Director, NUCAFE.



The NUCAFE factory in Namanve Industrial Park in Mukono District, Uganda.

Aiming for quality maize processing: *Talian Project, Uganda*

UNCDF has provided technical assistance to prepare this project for investment by both UNCDF and local commercial banks. “It is cheaper for me to go to farmers directly, but I need trucks. This is why I want to move closer to the farmers so they can bring their grains to me. This way the farmer makes more money and I get the maize cheaper by removing the middle man. Farmers around my factory always bring me their maize because I give them a good price,” said Francis Nyeko, Talian Managing Director.

The Talian Company started operations in January 2012 with a mission to improve the quality of grains and access to large markets by establishing a modern processing and storage. The company deals in maize processing, milling and production of high quality flour for both the domestic and regional market. The maize milling factory is setting up a 4000 mega ton grain handling facility in Kiryandongo District and is targeting to purchase maize grains from more than 10,000 rural smallholder grain farmers from the districts of Kiryandongo, Masindi, Lira, Oyam and Amuru, which are well known to produce large volumes of maize.

In the past five years, since the company has been in operation it has already managed to demonstrate significant impact to the industry and local community. There has been an improvement in post-harvest handling methods, increased farmers’ income, job creation, food security, and women and youth’s economic empowerment. Talian has invested more than US\$530,000 in a complete modern maize mill factory with a capacity of 30MT per day at Namanve Industrial Park in Mukono District. The company has also purchased 10 acres of land in Kiryandongo district where it plans to set up a modern grain handling factory (cleaning, drying and storage).

Currently, the company sells maize flour and has outlets and agents in Uganda, Rwanda and Southern Sudan where most of the products are sold. It also supplies the Uganda breweries with corn starch and maize grits to meet the 4,000MT annual demand by the brewery company. The company also produces maize brand for animal feeds as a bi-product of the maize flour.



Photo by: Jjumba Martin/ UNCDF (Tanzania)

Inside the Talian maize and cassava processing factory in Kiwanga, Mukono District.



Photo by: Jjumba Martin/ UNCDF (Tanzania)

The Talian maize and cassava processing factory in Kiwanga, Mukono District.

“My vision is to set up this silo in the maize production area. We will get the grain we want or need and it will help to sustain grain supply and get us more business. We also want to do more export now and then when the cash flow is there, we will tap into the local market. Currently we export to Rwanda and South Sudan. With these silos we can supply WFP, USAID and other millers. It will also supply us with the raw material we need for our milling factory,” said Mr. Nyeko.

Milling is still a new business in Uganda, therefore the company hired a consultant from Kenya, Tobias, to advise their business to ensure better results. Tobias trains the staff on the production process, quality control, hygiene and safety. With his support, the company has been able to produce a manual on good manufacturing practices and good hygiene practices.

“The maize goes through a very vigorous cleaning process. There are many controls throughout the entire process of milling the maize. It takes a whole day to fully process 30 tons of maize. The main use of the maize is for making ‘ugali’ (stiff porridge), corn starch for brewing local beer and the maize brand for animal feed, such as chickens. Nothing is wasted at the factory, all the dirt, dust, etc. has a purpose, for example, dust becomes manure. Only the stones and metal are garbage.” Mr. Nyeko continued, “We have many competitors in the market, but our technology is the best and thus we produce the best quality maize flour. 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,” stressed Mr. Nyeko.

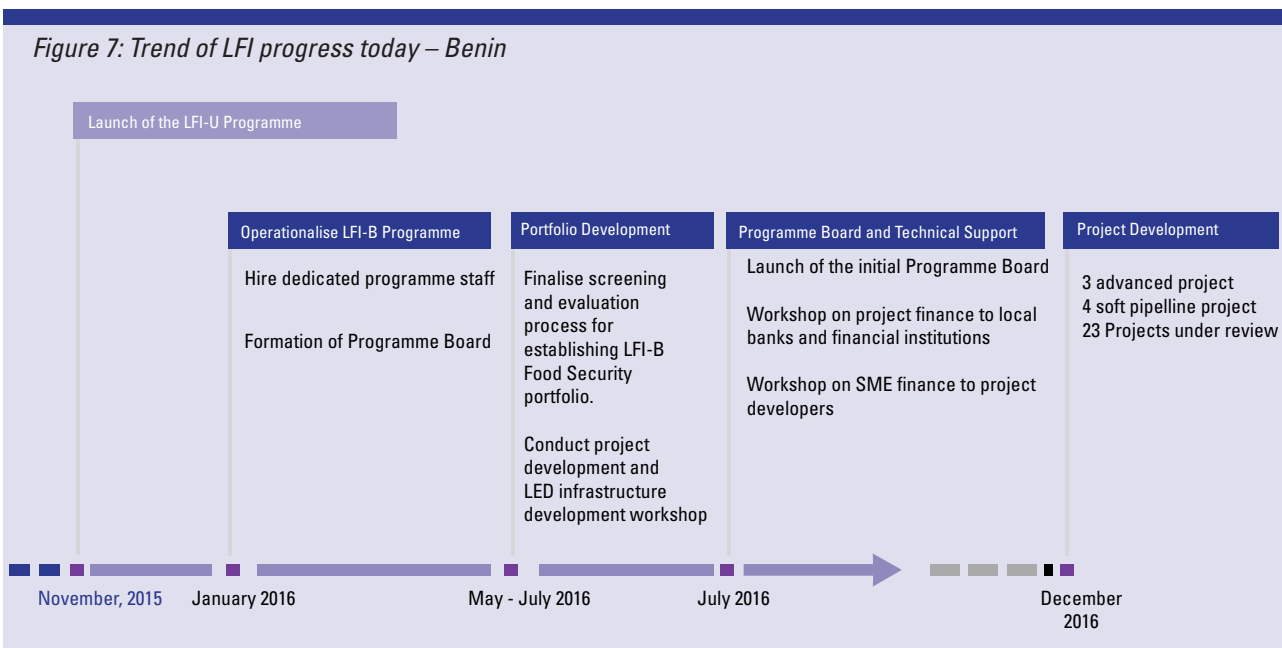
Monday Elias has been supplying maize to Talian for six years, which he gets from farmers directly. The main challenge he faces is the fluctuating prices from one farmer to another. The recent drought also caused prices to increase in just a number of days from UGS650-750 (USD 0.18-0.20) per kilo. He would then sell the maize to the factory at about UGS870-900 (USD 0.24-0.25) per kilo. With mobile phones being more prominent, farmers can now easily access market prices. “Currently I have 600 acres of land and I am growing maize. I have two tractors but I still need to work with other farmers to ensure we have enough supply. My dream is to make this company the main agro-processor in Uganda so that we can support the local market,” said Mr. Nyeko.

4.3 Benin

The LFI Programme in Benin (LFI-B) was launched in November 2015 as an integral part of the Global Local Finance Initiative Programme supported by the technical secretariat based in Dar es Salaam, Tanzania. LFI-B is designed to advance LED at both national and district levels in order to mobilize domestic resources through the private sector as well as to support the government to identify, develop, and finance small and medium sized investment infrastructure projects in energy, agro-processing, and LED sectors. The programme is also aligned with the goals of the United Nations Development Assistance Framework (2014-2018) and the Government of Benin's national development priorities. LFI-B is expected to strengthen Benin's global and regional competitiveness, enhance national and local business environment, reduce poverty and improve livelihoods at the local level.

The LFI-B Programme is implemented in partnership with the Ministry of Decentralization, Local Governance, Land Administration and Management. With financial and technical support from UNCDF, the ministry plays a key role in leveraging finances for local development projects.

Figure 7: Trend of LFI progress today – Benin



4.3.1 Portfolio Overview

In May 2016, a call for proposals was launched, inviting both public and private project developers to submit project proposals focusing on food security. The thematic focus was proposed by the LFI-B Programme Board based on Benin's development priorities and gaps. Other sectors will be given priority in future calls for proposals. A total of 94 proposals were received, and following a rigorous screening process, 30 projects were selected and have advanced in varying degrees based on tiers, where the most advanced projects are the ones about to reach financial closure. Figure 8 provides a breakdown of the LFI-B portfolio consisting of advanced projects, soft-pipeline projects and other projects under review.

The LFI Technical Team is in the process of conducting due diligence on the selected projects to identify specific interventions for each.

Figure 8: Portfolio overview and stage of projects – Benin

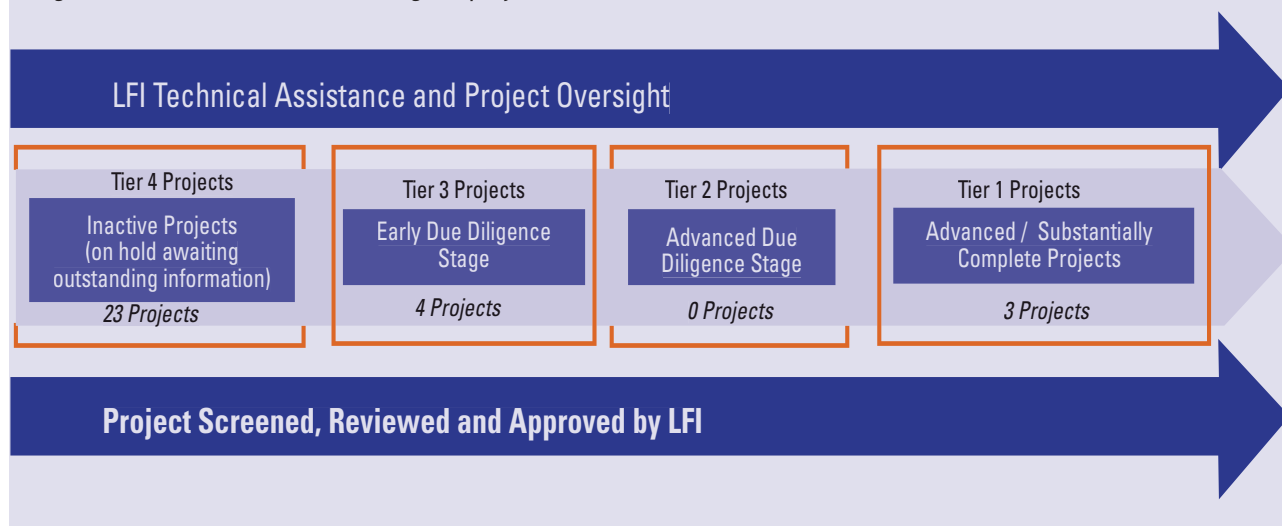


Table 8 below provides a breakdown of the LFI-B portfolio consisting of the tier 1, 2 and 3 projects. As the Programme Board decided to focus on food security, all projects are in the agro processing sector. The total cost of all tier 1, 2 and 3 projects is approximately USD 16 million.

Table 8: Portfolio breakdown on number of projects and costs (tier 1, 2 and 3) – Benin

	Cost (US\$ million)	% of total	# of projects	% of total
Agro processing	15.9	100.0%	7	100.0%
Energy	0.0	0.0%	0	0.0%
Local Economic Development	0.0	0.0%	0	0.0%
Total	15.9	100.0%	7	100.0%

4.3.2 Outcomes and Outputs

Outcome 1: Improved capacities of public and private project developers to identify and develop small-to-medium sized local investment projects essential for inclusive LED in Benin

This outcome targets the demand side of the equation and will result in an increased number of technically sound strategic LED investment projects ready for funding. Outputs and results are shown in Table 9 below.

Table 9: Outputs and results 1 – Benin

Outputs	Results
<p>1.1 A sustainable institutional structure, processes, methodologies and enabling tools to mobilize and invest funds to develop small, medium and large sized value addition projects are developed.</p>	<ul style="list-style-type: none"> The LFI technical team based in Tanzania has developed general and sector specific tools to help project developers both in public and private sector to identify, develop and finance LED investment projects. During 2016, 5 new toolkits for agro-business, energy, local economic development investments were created for internal use and sharing by external partners.
<p>1.2 Local capacity is established to enable stakeholders (national and local government officials and the private sector) to identify and develop investment projects essential for LED with support from development partners.</p>	<ul style="list-style-type: none"> Trained 47 public and private sector institutions through one-on-one coaching, training and workshops; and participants included local government officials, financial institutions officials, local consultants, financial institutions and intermediaries, project developers and other public and private agencies. Directly assisted more than 7 active investments with a specific focus on the bottlenecks and impediments blocking access at the project level.
<p>1.3 LED projects are identified, developed and structured in Benin to jumpstart process and create a multiplication effect through "learn by doing" and incentivizing stakeholders.</p>	<ul style="list-style-type: none"> In May 2016, a call for proposals was launched, inviting both public and private project developers to submit project proposals focusing on food security. A total of 94 proposals were received, and following a rigorous screening process, 30 projects with total costs of US\$98 million were selected and have advanced in varying degrees based on tiers 1,2,3 and 4, where tier 1 represents the most advanced projects (i.e. projects closest to reaching financial closure). 7 are in active status to be advanced to their next stage of development and financing.

Outcome 2: Increased ability and willingness of domestic financial sector to provide financing for small to medium-sized LED investment projects in Benin

This outcome targets the supply side of the equation and will result in an increasing number of LED investment projects developed at the local level that are actually financed. Outputs and results are shown in Table 10.

Table 10: Outputs and results 2 – Benin

Outputs	Results
2.1 An enabling environment is created including tools and instruments; and mechanisms are developed to accelerate finance for local economic development investments including appropriate laws, regulations, procedures, BDSs and other investment vehicles conducive for creation of business.	N/A
2.2 Local capacity is established to increase the ability of the private sector to finance LED projects with appropriate credit enhancements.	UNCDF provided technical assistance to finalize key investment documents and facilitating access to finance from the lenders and investors. Two project developers are now ready to submit their loan application and supporting documents to local banks.



Photo by: UNCDF

Women farming in Benin.

4.3.3 Case study: Benin Local investment Project

SANTANA: ADJAGBO, BENIN | Fruit Processing Plant

Project Summary

Developer: Santana project is developed by Mr. Gilbert ZANNOU the managing Director.

Finance: Looking to secure a commercial loan of \$362,673.48

Type of infrastructure: Fruit juice processing and export.

Business model: Santana is a registered business as sole proprietorship since 1998. The key business is fruit processing but mainly pineapple. Other products mix include: mango, baobab, ginger, and wine. The business currently employs 21 staff. The gender distribution is that 8 employees are women and 13 men. There is high demand of pineapple juice in Benin; serving key customers such as restaurants, hotels and supermarkets. But Santana also sell to foreign neighboring countries in the West Africa such as Senegal, Burkina-Faso, Niger, and Mali.

Status: Under development → Finalizing TA documents.

UNCDF support: Technical assistance under LIFE and potentially funding assistance from both F4F and LIFE s under FSLR.

Expected Development Impact

The project is targeting to ultimately purchase the pineapples from 200 rural pineapple farmers from the region of Zè and surrounding districts.

The project Impact includes:

Improved post-harvest handling methods → training of the farmers in the best Post harvest handling practices leading to reduction in Post-Harvest Handling losses.

Increase farmers' earnings → The Project Santana helps improve the income of producers by increasing the demand of the pineapple fruit and eliminating post-harvest losses in high season.

Job creation → Santana project will contribute to the reduction of rural poverty through agriculture promotion and job creation (creation of 50 direct jobs and 200 indirect jobs).

Women and Youth Economic Empowerment → The project will lead to women and youth empowerment by participating in activities along the pineapple value chain.

UNCDF Approach

UNCDF has provided technical assistance to the developer:

1. Identify the right size of the investment and financing structure.
2. Develop the project to investment ready position by preparing the Financial Model and the project information memorandum.
3. UNCDF will continue supporting with due diligence to reach financial close of the project

Additionally, UNCDF is looking into how we can support the factory operations through last mile financing.

Reaching Financial Close - What's Next?

Looking towards financial close the outstanding issues are:

1. Determining the best financing structure of the project components.
2. Finalizing the Financial Model and Information Memorandum
3. Presentation of project documentation to financial institutions, and negotiations
4. Procurement and utilization of cans as packaging.

UNCDF Timeline & Milestones

Confirmation of Project into LFI-B pipeline after evaluation of call for proposals

Jun-2016

Jul-2016

Aug-2016

Due diligence, advice on optimal size of investment

Sep-2016

Oct-2016

Complete Financial Model and Infor memo. Identification of potential investors and investor presentations to be done

Nov-2016

Dec-2016

Site visit and Data collection started to undertake financial analysis

Financial model and Project Information Memorandum developed – commercial viability established.

Presentation and Negotiations with Potential financiers for financial close.



Photo by: UNCDF (Tanzania)

The Santana company distribution vehicle.

4.3.4 Human Stories Benin

Pineapple juice now in cans: Santana Project, Adjagbo, Benin

UNCDF is supporting Santana project to prepare their project to be investment ready and facilitate access to additional capital from local banks. The growing fruit juice processing industry in Benin helps to increase income for smallholder farmers and thus improve local livelihoods. The Santana Company has been in this industry since its establishment in 1998 in Benin. Its key area of business is fruit processing, with a focus on pineapple juice. The business currently employs 21 people, 13 of whom are permanent employees and 8 are part-time workers.



Photo by: UNCDF (Tanzania)

Pineapple juice in bottles ready for sale.

During a recent visit to the project site, Mr. Gilbert Zannou, the project developer noted that, "Santana project has significant impact on revenue generating for pineapple farmers from Allada Region. Some raw materials for the project come from my own farm, but the rest is procured from other local farmers. There is high demand for pineapple juice in Benin nowadays. We are currently supplying restaurants, hotels and supermarkets." Santana also sells its pineapple juice to neighboring countries including Senegal, Burkina Faso, Niger, and Mali.

One of the key challenges facing the Santana project is production standards and hygiene conditions. In order to meet the country specific requirements, there is a need to modernize the processing plant and storage facilities. Currently all production is done manually which is labor intensive and inefficient. The plant is only able to produce 2,400 75cl bottles per day. Therefore, modernizing the plant will help to improve business processes and thus enhance imports and exports, increase access to markets for over 200 small out-growers' produce and create more than 250 jobs.



Photo by: UNCDF (Tanzania)

At the Santana factory in Adjagbo, Municipality of Calavi, South West Benin - these women are cleaning recycled bottles that will be used to contain pineapple juice.

From cashew nuts to white almonds: *KAKE 5 Project, Savalou, Benin*

UNCDF is supporting KAKE 5 project to prepare their project to be investment ready and facilitate access to additional capital from local banks. Mr. Dominique Soulin, Managing Director of KAKE 5 pointed out that, “this is a labor intensive project that in five years it will create 497 direct jobs, of which 90 per cent are meant for women. It will strengthen the business link with the producer group by increasing their income and strengthening their capacity. To this end, 10,000 producers will be impacted by this project by 2021. The project encourages reforestation through the plantation of 200 hectares of cashew nuts that it plans to create and put into operation for the benefit of the community.”

The company KAKE 5 started its operations in 2011 and is specialized in transforming cashew nuts into white almonds, as well as producing unfolded almonds and roasted almonds for domestic and international markets. It currently works with 3,000 producers and will reach more than 10,000 producers by the end of the expansion of this project. Expanding the project will enable KAKE 5 to offer new products to the market, increase its production capacity to an annual target of 5,000 tons of almonds by 2021, establish a cashew plantation and community field for its workers and create about 350 jobs.

The cashew plantation will supply cashew nuts and also produce cereal. It will provide necessary seeds to the community for the operation and maintenance of the plantation. This project adds value to the cashew value chain with a significant increase in the quantity of processed nuts, which in turn will motivate farmers to increase production and ultimately increase their earnings. The entire value chain will be affected from local production of nuts to the sale of white almonds. This project will also participate in community development through local taxes paid to the local government.

KAKE 5 has partnered with two other cashew processing plants in Benin to create an economic interest group called Benin Gold Cashew Industries. This group is responsible for marketing and exporting the products under the Benin Gold brand created for this purpose. It is the leading cashew nut brand in Benin and is also recognized globally. In 2014, the brand was awarded the Arch of Europe prize for the best quality product in Germany.

The workers at the project site said that, “The project will maximize yields and diversify livelihoods. We’re increasing the quality and quantity of cashews produced through adopting good agricultural practices.”



5 LESSONS LEARNED AND CHALLENGES

5. LESSONS LEARNED AND CHALLENGES

5.1 Human Capacity Development

The significance of human capital investment and building key partnerships:

The programme drew important lessons from its support of Farmers Creameries Limited (FCL), a dairy processing plant, in 2016. Most notable is the significance of human capital investment as a means of bridging the funding gap for LED investment projects. Specifically, the programme continued to fund the expense of an experienced CEO who was instrumental in building FCL's managerial capacity and governance structure. This managerial resource was further strengthened through targeted technical assistance in the engagement of appropriate financiers and transaction structuring. This enabled the CEO to effectively champion the merits of the project as well as the expectations and needs of Uganda Crane Creameries Cooperative Union (UCCCU) members (shareholders) to prospective financiers.

The investment in human capital and LFI technical assistance enabled the project to solicit solid interest from debt financiers amounting to approximately US\$8.4 million for equipment and working capital financing. In addition, equity financiers and development partners were increasingly enthusiastic about supporting the project financially and through additional technical assistance. This programme also took stock of partnerships that were instrumental in advancing FCL to reach financial closure. This included guarantee organizations, international and local banks, equity financiers and development partners. Looking ahead, these partnerships will be further strengthened in a bid to facilitate UNCDF's efforts of creating an ecosystem of relevant stakeholders that are jointly vested in the development of critical LED infrastructure projects in Uganda and LDCs alike.

UNCDF assisted a cassava processing plant to secure appropriate equipment and technology following the failure of existing equipment and the business. Our support included evaluation of potential suppliers of equipment, reference checks, engagement of inspection, verification, testing and certification of established reputable companies prior to shipment of equipment.



Photo by: UNCDF (Tanzania)

New equipment at FJS cassava processing plant

5.2 Investment Project Development

The importance of acquiring the right technology: Lack of proper planning, selection and acquisition of appropriate equipment technology can cause the entire business to fail, for example, in agro-processing business. The identification, selection and procurement of the right plant equipment and technology is a significant challenge and if not properly addressed can result in loss of investment capital and collapse of the business. Many SMEs focus their entire efforts on securing investment capital and forget or do very little due diligence on the technology and track record of the equipment manufacturers.

Valuation of non-monetary contribution to SMEs: SMEs are generally developed by close family members, partners, trusts and/or community organizations, etc. The majority of them do not keep records of cost and time spent to grow the business from an idea to an investment ready project. There are different methods of monetizing the valuation of “sweat equity”¹⁰ that have been invested into the business. This is an obstacle for SMEs if not properly documented and presented because potential lenders would not appreciate and monetize the efforts when calculating appropriate equity ownership/percentage.

Quality of investment proposals: The quality of investment proposals received from the various calls for proposals revealed that additional technical support is needed for local investment project developers to meet submission requirements. In order to ensure that UNCDF receives qualified proposals, it is important to simplify messaging and conduct a pre-submission workshop to guide interested applicants by sharing samples of completed applications and additional information in a question and answers format.

5.3 Financing Stage Delays

Delays in financing bank approved investment projects: In financing transactions, conditions precedent (known as CPs) are the specific conditions set by a bank or investor that must be fulfilled for disbursement of the funds to implement the project. In 2016, delays to reach the disbursement stage were caused by: 1) project developers’ lack of experience and resources to clear the set conditions set by the bank; 2) and project owners’ lack of sufficient capital such as owners’ equity contributions to complement lenders’ debt. In most cases the equity gap is significant and LFI seed capital is not sufficient to attract lenders to release funds. In this situation, concessional loans will make a big difference and minimize delays. 3) Local economic conditions (e.g. high interest rates) have an impact on project developers’ decision to accept or not to accept expensive financing adding more risks to the project and its sustainability. If there is no way to reduce the interest rate, then becomes even more important to combine grants and concessional loans to reduce interest amount payments as well as exposure to the banks. 4) Other significant factors include the maturity of the domestic capital markets, types of local investment projects supported by the Programme (projects are selected by the impact on local communities but they tend to be riskier than those preferred by commercial banks), and lack of capacity of local developers to understand and challenge restrictive loan terms combined with challenging business environments they operate in.

10 Sweat equity is the non-monetary contribution individuals make when developing a project, such as rehabilitating homes for resale or starting a new business venture. For example, a newly formed company’s founders, advisors and board members contribute their time building the business. Source: <http://www.investopedia.com/terms/s/sweatequity>

Based on the lessons learned from the above delays, the LFI Technical Team has dedicated three investment officers to work full time to facilitate and negotiate bank terms and manage key milestones and timelines to disbursement in Benin, Uganda and Tanzania. LFI now has a mature portfolio of investment ready projects currently being appraised at banks with close follow up and coordination from the Team.

5.4 External Factors

In Tanzania for example, the following external factors caused the delay of some of the projects especially those originated by LGAs.

- **Liquidity constraints in the capital markets** can occur due to government actions like limiting public expenditures. These decisions have affected the liquidity for most commercial banks and resulted in creating a hostile lending environment for greenfield projects such as the ones in the LFI portfolio;
- **Government policy changes:** The implementation of the rural off-grid village solar investment was significantly delayed because the announcement that a national grid connection will be implemented in an area where a local project developer was initially cleared to invest in without fear of the grid coming to the remote village. This action resulted in additional costs to the project to be incurred by the developer in order to be grid compliant after all the equipment was ordered and delivered to project site.
- **Leadership changes in local authorities:** Frequent leadership changes and political appointments at local authority level have delayed the development and financing of local development investments especially after elections, new appointments and transfers. To avoid the risk of focal point(s) leaving the locality and delays in the implementation of the project, it is important that localities establish project teams with representation from a number of departments and to adequately document all the projects steps and approvals at all levels to ensure continuation as planned.
- Local governments need the **capacity, change in mindsets and political will** to be in a position to mobilize local financial resources for local development.

11 A special variation of PPP is public-private community partnership (PPCP) in which the local community is one of the partners involved. PPCP counters some of the concerns raised in relation to PPP projects, as it ensures a local foundation and focus on local development rather than profitability as the only parameter of success. PPCP is widely used in water and sanitation projects but is also applied in projects aiming to reduce the digital divide. (<http://www.igi-global.com/dictionary/public-private-community-partnership-ppcp>)



6 SOLUTIONS TO THE CHALLENGES

6. SOLUTIONS TO THE CHALLENGES

This section provides some examples of how the LFI team attempted to address challenges related to the ability of both public and private sector partners to develop and finance local economic development investments.

Key Challenge

The policy, legislative and regulatory environment will not yield the expected results unless they are linked with institutional frameworks to stimulate bottom-up participation of local communities.

As a solution to remedy the challenge, the LFI programme is piloting the implementation of a local investment project in Tanzania with appropriate governance structures to bring in local communities in the ownership and management of local investments under the Public Private Community Partnership (PPCP)¹¹. Upon successful completion of the project, the local government, villages and established community groups will participate in governance, investment and profit sharing.

Key Challenge

Smallholder farmers do not have access to credit to overcome production and supply constraints.

UNCDF works with financial institutions to primarily support agricultural processors to access equipment and working capital finance. Through its extensive farmer mobilization efforts (contract farming), a sunflower processing company has access to raw materials (sunflower seeds) from over 7,500 registered farmers in 50 villages in Singida Region, Tanzania. The partnerships that UNCDF facilitates where possible are with financial institutions that can assist farmers to form savings and loans groups to enhance their bargaining power and access to credit. Financial institutions will be providing credit to the groups to enable them to alleviate problems linked to capital shortfalls. Because the farmers will be organized into groups, there is collective responsibility and the financial institutions will also provide financial literacy training to the members to improve their financial management skills and ultimately increase their vertical and horizontal yields. Farmers will also be formally introduced to the formal banking system where all transactions between the company and its farmers will be processed via the financial institution.

Key Challenge

Small and medium holder farmers are often faced with three key challenges/constraints in raising production and income: 1) lack of best practices; 2) lack of access to favourable markets; 3) lack of supporting infrastructure.

UNCDF is supporting a private sector horticulture project developer to access finance to undertake a commercial investment in production, storage, packaging and logistics capacity. This business model supports the smallholder farmers by providing training on best farming practices, access to storage facilities, markets and a share of the revenues beyond farm gate prices. This approach addresses the first two challenges directly. The remaining major constraint faced by the farming community is the deteriorated community irrigation system, which no longer meets the community water needs and significantly limits smallholders' production and hence livelihoods. The District Council is the owner of the communal infrastructure, but it does not have the financial resources to undertake the much needed rehabilitation of the irrigation system. Realizing the impact on smallholder farmers of fixing the system and the positive spill-overs from the commercial farm business to smallholders and vice versa, UNCDF is working with the District Council to facilitate the efforts of mobilizing funding for the rehabilitation of main canal project.

Key Challenge

There is a huge need for in-depth training and dissemination of LFI knowledge products. Feedback from technical workshops largely reflected that training sessions were too time constrained to delve into various project development and financing topics in detail.

To tackle this issue, UNCDF has made a number of efforts including: 1) setting up training sessions with a lower 'teacher/student' ratio and incorporating content for both diverse SMEs and local government investments in terms of the level of support needed for their projects; 2) extending the training to over three days to ensure a more effective trainer/ participant ratio and ample time for each training module; 3) publishing knowledge products for each training module and widely disseminating them to key stakeholders and partners; 4) organizing zonal training sessions for LGAs throughout the year that focuses on developing revenue generating infrastructure projects and addressing the capacity gaps and challenges they face.

Key Challenge

Most SMEs do not have business succession plans, which may deter the flow of funds from investors into the business. This creates a significant risk because the owner is usually the only one managing all important aspects of the business.

This is a capacity and information sharing issue. As part of the due diligence process, UNCDF works with the project developers/entrepreneurs to understand the business continuity aspects and succession planning in the case of the owner leaving the business.



Photo by: Sam Eator/ UNCDF (Tanzania)

7 FINANCIAL DELIVERY

7. FINANCIAL DELIVERY

The reporting period covers the first year of implementation of the Global LFI Programme after being piloted in Tanzania and Uganda. Therefore, considering changes in the scope and coverage of the programme, it is difficult to compare the funding situation of the current financial year and previous ones.

For the period of January – December 2016, the Global LFI Programme received USD 2,154,852 as per Table 11 below and managed to deliver up to 85 per cent of the received budget. Funding from Sida Booster Fund contributed about 52 per cent of the entire funding for the Global LFI Programme.

Table 11: 2016 Global LFI Programme Budget and Expenditure by Source of Funding

Source of funds	Budget (USD)	Expenditure (USD)	Delivery Against Budget (%)
One UN Fund-Tanzania	685,280	680,161	99%
Sida Booster Fund	1,130,000	823,504	73%
Sida Booster PFIS	339,572	332,652	98%
Total	2,154,852	1,836,317	85%

The financial delivery on One UN Fund for Tanzania is raised at country level hence only applicable to the LFI Tanzania Programme. Therefore, only funding from Sida Booster Fund and Sida PFIS are available for allocation to the three countries currently implementing the Global LFI Programme (Tanzania, Uganda and Benin).

The financial delivery on funding from Sida Booster Fund has contributed to pull down the financial performance because of delays in preparations and starting the implementation of the programme in Uganda and Benin (refer to Table: 12 below). The main reasons for the delays include hiring national staff for the programme as well as advertising and selection of a portfolio of projects to work on. Benin for example, the national staff was hired in February 2016; and the programme activities had to start in May 2016 due to the country's general election. Since the LFI Programme Board and Steering Committee are composed of government officials; it was necessary to wait until the election passes so as to proceed with implementation of the Benin Programme.

Table 12: 2016 Global LFI Programme Budget and Expenditure by Country

Country	Budget (USD)	Budget Allocation (%)	Expenditure (USD)	Delivery Against Budget (%)
Tanzania	1,807,894	84%	1,639,208	91%
Uganda	211,504	10%	86,500	41%
Benin	135,454	6%	110,610	82%
Total	2,154,852	100%	1,836,318	85%

In terms of programme activities, the Global LFI Programme is delivered through implementation of two outcomes. The funding allocation to the two outcomes is almost equal and the financial delivery per outcomes is as per Table 13 below.

Table 13: 2016 Global LFI Programme Budget and Expenditure by Outcome

Outcomes	Budget (USD)	Budget Allocation (%)	Expenditure (USD)	Delivery Against Budget (%)
Outcome 1: Improved capacities of public and private project developers to develop small-to-medium sized infrastructure projects	1,022,618	47%	931,410	91%
Outcome 2: Increased ability and willingness of domestic financial sector to provide financing for small to medium-sized LED infrastructure projects	1,132,234	53%	904,909	80%
Total	2,154,852	100%	1,836,318	85%

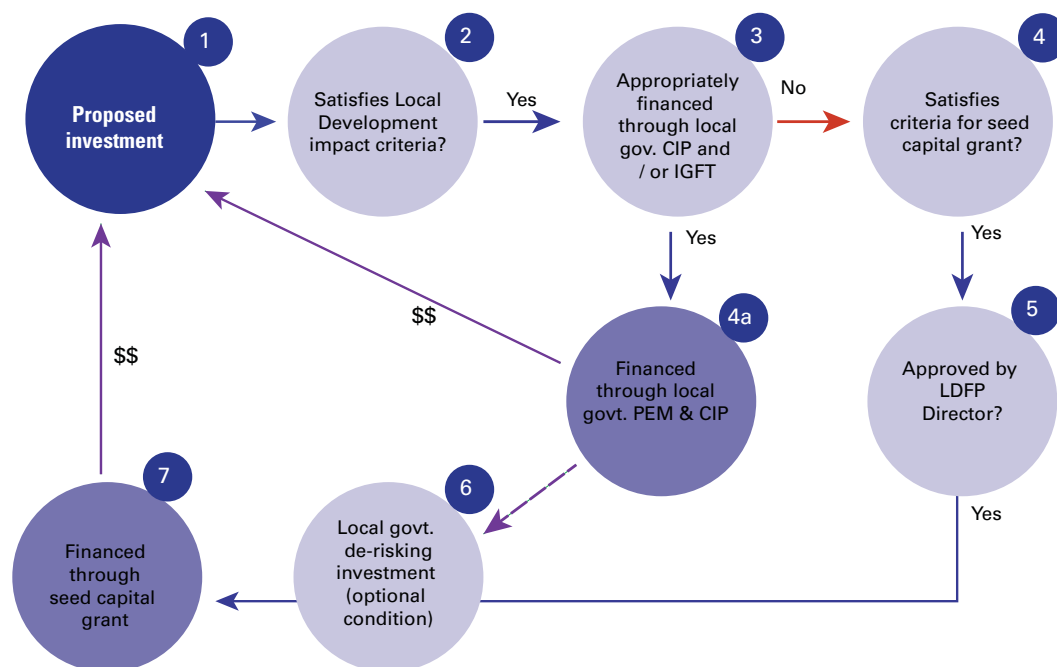


8 ANNEXES

8. ANNEXES

Annex 1. Selection Process of LFI Investments

Currently the LFI team supports the provision of seed capital and technical assistance to blended finance investments. The following graph illustrates the basic decision making flow that is currently operating within UNCDF's Local Development Finance Practice (LDFP):



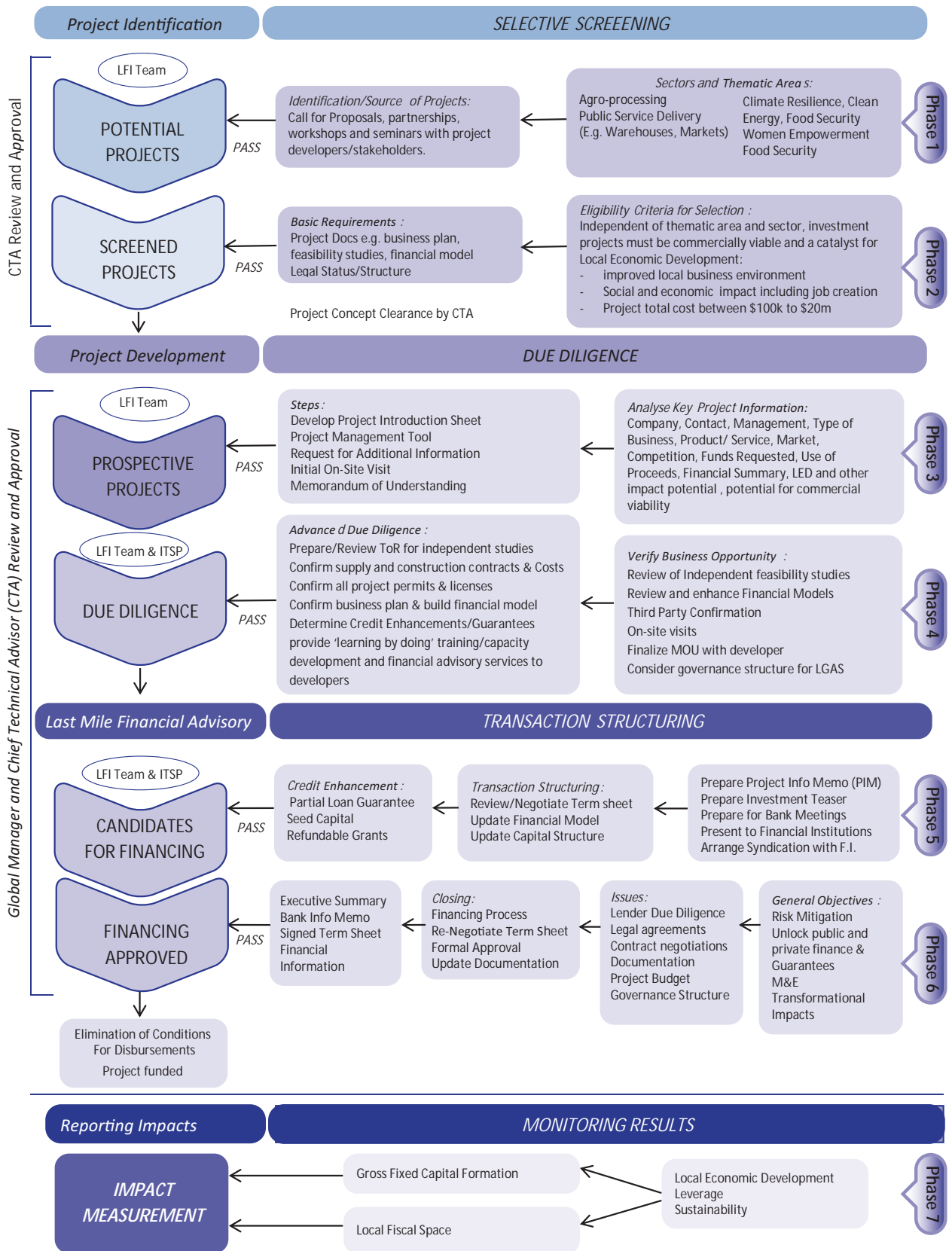
- 1) The proposed investment is identified by the relevant Local Development Finance programme, often through the local government planning process or through a specific call for proposals.
- 2) The investment is assessed for its local development impact according to the criteria outlined above. This includes whether it increases local fixed capital, local fiscal space and whether it meets the performance criteria of the thematic areas (Women's Economic Empowerment, Climate and Clean Energy, Food Security and Land Restoration, Local Economic Development). If relevant, the proposal is approved and signed off by the local government concerned through the local planning process.
- 3) Can the proposed investment be appropriately financed through the public capital investment programming system, without recourse to blended finance? If so, then the investment is pursued by the local government, perhaps with the support of the MIF facility but without input from the LIFE facility – see 4a in the figure below.
- 4) Does the proposal meet the criteria for blended finance? If so, then the LIFE team assesses the bankability of the project and together with the sponsor from the respective Local Development Finance programme proposes the value of the seed capital required to mitigate risk and / or make the proposal

investment ready. The proposal is approved and signed off by respective technical advisor, LIFE advisor and, where relevant MIF advisor.

- 5) A proposal for seed capital grant is sent to LDFP management for approval. The seed capital could be funded from a variety of sources, some earmarked to specific development themes and the LD Director will make the decision based on criteria such as portfolio balance (for example, between countries) as well as on the merits of the individual investment. There will also be quality control check by the LDFP Programme Manager. The proposal is approved and signed off by the Local Development Finance Director.
- 6) Sometimes investments that are financed directly by local governments under 4a are specifically designed and planned to mitigate the risk for other blended finance projects supported by or sponsored by the same local government. An example could be an access road to a waste disposal plant. The access road is built by public funding only and the waste disposal plant by blended finance.
- 7) The seed capital grant proposal is approved by UNCDF Senior Management prior to disbursement.

UNCDF LFI Programme Process Flow & Methodology

Process for Identification, Development and Financing of Local Development Investments



Annex 2. Screening Criteria of Food Security and Nutrition Investments

(An example of an investment screening in progress according to the 7 pathways to food security as part of the UNCDF LFI Local Food System investment pipeline)

1) Compliance analysis

Criteria	Fully Relevant	Potentially Relevant	Partially relevant	Not Relevant	Indicators	Comments
1. Compliance with the SDGs N°2	X				2.3.2 Average income of small-scale food producers, by sex and indigenous status	
2. Compliance with the Istanbul Program of Action (IPoA)	X				Diversify local productive and export capability with a focus on dynamic value added sectors in agriculture, manufacturing and services	
3. Compliance with the Addis Ababa Agenda of Action (AAAA)	X				strengthen efforts to enhance food security and nutrition, focused on smallholders, women farmers and agricultural cooperatives and farmers' networks	
4. Compliance with Country National Strategic Framework and Policy on FSN	X				Related Indicators as reported	
5. Inclusion of the Investments outcomes/ outputs in the Country National Action Plan on FSN	X				Tanzania Agriculture And Food Security Investment Plan (TAFSIP) SO 2: Accelerated productivity rate of growth and commercial agriculture: No of smallholders engaged in commercial farming	
6. Compliance with the UNCCD Land Degradation Neutrality (LDN) Fund requirements					To be collected with the LDN F secretariat	
7. Compliance with the UNCDF Strategic Framework/LDFP Business Plan 2014-2017 and contribution to corporate indicators					LDFP Business Plan indicators 1.2.7, 1.2.8	

2) Food and Nutrition Security analysis

Local Food System development strategy	Fully Relevant	Potentially Relevant	Partially relevant	Not Relevant	Indicators (replace default indicator if necessary during the project Feasibility study)	Comments
1. Increase local food production and transformation						
1.1. Intensify and diversify local food production	X				Areas newly affected to food production (hectares)	N/A
	X				Additional local food production targeted (tons)	10MT per day sunflower oil
	X				Number of food producers and transformers targeted to receive technical advisory services	4,500 registered farmers in 50 villages
1.2 Reduce food losses		X			Decrease in food losses targeted (tons)	Correct postharvest handling and appropriate storage facilities
2. Improve articulation of local food supply chain						
2.1 Improve articulation of local food producers and transformers	X				Number of producers and transformers newly linked to the relevant food supply chain	2,500 registered farmers in 50 villages
2.2 Improve the effectiveness of local food markets				X	Additional food stocked and marketed in the territory (tons)	
2.3 Improve the financial support to the food supply chain	X				Number of value chain actors targeted for credit	inputs supplied through a credit based scheme
2.4 Improve the management capacity of food value chain actors		X			Number of value chain actors targeted for business advisory services	Farmers increasingly organized
3. Improve revenue of poor and vulnerable households						
3.1 Improve revenues of poor households	X				Number of food producers and transformers expected to increase cash revenues	2500 contract farmers to increase income earned from farming activities
		X			Number of new wage employment planned to be created locally	The presence of large oil refinery plant will stimulate other formal economic activities such as banking, micro finance, transport and logistics and informal economic activities such as food entrepreneurship.
				X	Number of landless people expected to gain access to productive assets through involvement in the project	

Local Food System development strategy	Fully Relevant	Potentially Relevant	Partially relevant	Not Relevant	Indicators (replace default indicator if necessary during the project Feasibility study)	Comments
3.2 Setup transfer and social aid support to poorest households		X			Number of poor and vulnerable households planned to receive cash and in kind support	provision of social loans to farmers to cover for school fees and emergencies like funerals
				X	Volumes of food planned to be stocked for emergency and relief	
4. Improve nutrition and hygiene						
4.1. Improve local capacity to support nutrition training and nutritional surveillance				X	Increase in number of mothers trained in basic nutrition	
				X	Increase in number of children covered by nutritional surveillance programmes	
				X	Increase in number of children benefitted with nutrition programmes	
4.2 Improve water and sanitation related hygiene				X	Increase in number of households with access to safe drinking water	
				X	Increase in number of households with access to sanitation facilities	
4.3 Improve access to enriched food and balanced diet	X				Number of families consuming new aliments contributing to balanced diet and improved nutrition	the Company will fortify the oil with vitamin A that will help to increase the shelf life of the oil products whilst also enhancing the nutritional value
5. Strengthen the role of women in food and nutrition security						
5.1 Improve the position of women in the food supply chain				X	Number of women targeted to improve land tenure and other productive assets security	
		X			Number of women targeted to participate in production and transformation process	Intention stated to target women participation
				X	Number of women targeted to benefit from labour saving technologies and facilities	



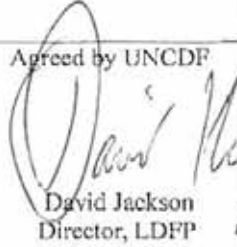
Local Food System development strategy	Fully Relevant	Potentially Relevant	Partially relevant	Not Relevant	Indicators (replace default indicator if necessary during the project Feasibility study)	Comments
6. Improve the environmental and economic resilience of the local food system						
6.1 Improve environmental and climatic resilience of the food production systems		X			Number of farmers targeted to benefit from climate smart innovation (irrigation, improved husbandry techniques etc)	Type of husbandry techniques not specified
				X	Extension of key ecosystems planned for management and/or protection	
6.2 Improve economic resilience of food chain actors				X	Number of actors covered by insurance and comparable services	Nothing specified
7. Improve the governance of the Local Food System						
Improve the involvement of local authorities in food system governance		X			Degree to which local authorities will be involved in monitoring and regulation of activities linked to the investment	Singida district involved in registering farmers, might play a role in overseeing contract farming conditions, conflict management etc
Improve the involvement of producers, transformers and other value chain actors in local governance		X			Degree to which relevant value chain actors will be involved in the governance of the investment	Potential involvement of contract farmers associations
Improve the involvement of civil society organizations in local governance				X	Degree to which relevant CSOs will be involved in the governance of the investment	Nothing specified

Annex 3. LFI Bangladesh Project



COUNTRY FRAMEWORK DOCUMENT

The Government of the People's Republic of Bangladesh United Nations Capital Development Fund (UNCDF)

Title of Project/Number	Local Finance Initiative (LFI) support to SMEs in Bangladesh: BGD/2016/01	
Implementing Partners	SME and Special Programmes Department, Bangladesh Bank and UNCDF	
Start date:	October 2016	
End date:	December 2017	
Management arrangement:	Direct Implementation (DIM): UNCDF	
Brief Description:		
<p>This proposal provides the framework for collaboration between the SME and Special Programmes Department of the Bangladesh Bank and the United Nations Capital Development Fund (UNCDF) to strengthen gender sensitive SMEs and their interface with institutions providing domestic capital and thereby contribute to women's economic empowerment and local economic development in Bangladesh.</p> <p>The LFI - SME Bangladesh pilot project aims to provide financial and technical support to facilitate the enhancement of capacity in the areas of business development and establish a pipeline of 'bankable' gender sensitive Small and Medium Enterprises, able to secure access to institutional finance. The intervention will use the 'cluster approach' of Bangladesh's Bank SME policy, and draw on UNCDF's Local Finance Initiative (LFI) programme, to unblock resources of domestic capital available to invest in SMEs that are female-owned or employ a high percentage of women or can contribute to improving livelihoods of large number of women, by providing demand-driven assistance and risk mitigation strategies that reduce private sector lenders'/ investors risk.</p>		
UNDAF outcome:		
Economic Growth is achieved in an inclusive manner, extending opportunities to the rural and urban poor and protecting the vulnerable from shocks (Pillar 2)		
Project outcome:		
Gender sensitive SMEs in selected cluster will be in a position to secure access to finance on a sustainable basis for expanding their enterprises, thereby establishing a pipeline of investments that increase incomes of women in the geographical areas of the selected clusters and contribute to local economic development.		
Output 1: Business development plans for a targeted pool of gender sensitive SMEs in selected cluster, establishing a pipeline that can access SME finance.		
Output 2: Increase the ability and willingness of the domestic financial institutions to finance gender sensitive SMEs, and introducing mechanisms that contribute to risk mitigation		
Output 3: Implementation, monitoring, evaluation and management support ensured.		
Project Duration:	Fifteen months	Sources of funded budget:
Anticipated start/end dates:	10/2016-12/2017	
Total estimated budget:	US\$250,000	SIDA Booster Fund US\$ 250,000
Agreed by ERD	Agreed by Bangladesh Bank	Agreed by UNCDF
 26.10.2016 Shamima Nasrin Additional Secretary Policy Relations Division Ministry of Finance Govt. of Bangladesh, Dhaka	 23.10.16 Swapnil Kumar Roy General Manager	 David Jackson Director, LDFFP
Swapnil Kumar Roy General Manager SME & Special Programmes Department Bangladesh Bank Head Office, Dhaka.		

General Background

Least-developed countries (LDCs) are among the fastest growing economies in the world. Despite the wealth creation associated with such growth, deepening inequality is leaving the vast majority of societies and peoples, and especially the LDCs, living on less than \$1.25 a day, the majority of whom are women and girls. Unfortunately, this pattern of economic growth has not trickled down or created a base of opportunities to those who need it most, poor women and men, girls and boys. The elimination of gender inequalities in all aspects of life is critical for the post-2015 development agenda and the Sustainable Development Goals (SDGs), serving as a catalyst to accelerate sustainable development overall. Studies have shown that women's economic empowerment can raise economic productivity, reduce infant and maternal mortality, improve nutrition, promote health, increase the chances of education for future generations, and help advance women's rights. To accelerate progress in the years ahead, we have a shared responsibility to recognize women as vital development agents and identify transformative solutions that remove barriers to the realization of their full economic potential.

A key reason why economic growth has failed to provide opportunities for poor women and men is because of the lack of recognition of the synergies between gender equality, economic growth and poverty reduction, which in turn has led to development policies and planning, budgeting frameworks and investments failing to take into consideration the differentiated needs and responsibilities of women and men. In Bangladesh, the lower status of women in patriarchal structures of the society has made them socially excluded from mainstream institutions and productive economic activities. Research suggests that there are shortcomings in the existing social norms, values and poor implementation of the law in favour of women, which contribute to women's vulnerabilities and deprive them of their rights. These impediments not only impact women themselves but also the household and society as a whole. Women are essential actors in the sustainable and inclusive growth of the economy - when empowered, they invest more in their children and families, pass down important knowledge on the management of natural resources, and contribute significantly to human capital and survival of the household. The Government of Bangladesh continues to prioritize women's economic empowerment, but achieving equal status will require institutional reform and incentives for implementations of programmes that integrate women in all aspects of life. Unless these unequal structures are properly addressed in Bangladesh, poverty alleviation will be impaired.

Poverty in Bangladesh is also related to the unequal access to employment opportunities in the labour market and the ability to attract investments and provide productive employment for women and men. The promotion of productive employment and investments is thus necessary to lift the poor, particularly the most vulnerable, such as women, out of poverty. Contrary to the widespread belief and practices of the conventional banking system, enterprises established by women are credit worthy and women can use the credit productively to become true agents of change in the economic growth of their local communities. Engaging them in economic activities, and assisting them by addressing bottlenecks and unlocking domestic capital, could expand the entrepreneurial class of women, widen the scale of productive female farmers yielding more food to feed the hungry, and help establish a cluster of women enterprises or gender sensitive businesses that would diversify the local economies and contribute to an inclusive and sustainable economic growth.

Situation Analysis of Bangladesh

Since independence in 1971, Bangladesh increased its real GDP per capital income by more than 130 percent, cut poverty rate by 60%, and is on a good track to achieve the majority of the MDGs (IMF, 2013). Despite this progress, the country still ranks among the LDCs with extensive poverty, inequality and deprivation. According to the Poverty Reduction Strategy Paper (PRSP) drafted in March 2013 by the Government of Bangladesh, in consultation with development partners, an estimated 47 million people are living below the poverty line with a significant proportion living in female headed households, in remote areas, and consisting of socially excluded and other vulnerable people (IMF, 2013).

The United Nations Conference on Trade and Development (UNCTAD) Least Developed Countries Report (2013)¹ describes the challenge for Bangladesh as to be able “to create a dynamic rural economy that both attracts investment and provides productive employment for the population” (UNCTAD, 2013). Although exports of textiles and garments constitute its principal foreign exchange earnings, the industry only accounts for only 4 million employees. With 71 % of the population rural, 46% are in the agricultural sector and the remainder in the non-farm (RNF) sector. The agriculture sector accounts for 21% of GDP in Bangladesh, and the RNF sector for 33%. Nearly half (53%) of the rural population is classified as poor and the average rate for poverty reduction has only been a 1% per year (UNCTAD, 2013).

In spite of the obvious role of agriculture in the rural employment, the sector cannot fully absorb rural labour force or generate sufficient income (UNCTAD, 2013). The rural economy is a dynamic one, mostly composed of SMEs run by entrepreneurs with relatively high skills (World Bank, 2007)². The UNCTAD report argues that the main drivers of change in Bangladesh are technological innovation in agriculture and increased linkages between rural and urban areas (improved transportation, communications, electrification), growing market linkages and access, skill development, availability of financial services (UNCTAD, 2013). The report also indicates lack of investment in public goods for business owners, especially in remote areas, accompanied by high barriers for poor or vulnerable groups to markets, high transaction costs for access to existing markets, and a general asymmetry of market information, with these barriers being more acute for women.

A World Bank Survey (2013)³ found that one of the most pressing constraints⁴ to entrepreneurs in Bangladesh is lack of access to finance. Despite numerous efforts, access to institutional finance for SMEs is still greatly limited, with recent studies indicating that less than 30 per cent SMEs have access to institutional loans (Zaman & Islam, 2011)⁵. Of the most affected are women, who continue to suffer from the unequal distribution of physical assets, such as land, capital, and credits. According to the World Bank survey (2013) only 12.7% of female feature in the ownership of firms in Bangladesh, and only 4.8% of their top managers⁶ are female.

¹ http://unctad.org/en/PublicationChapters/ldr2013_ch3_en.pdf

² World Bank (2007). Bangladesh Data - World Bank Enterprise Survey of Business Managers - World Bank Group.

³ <http://www.enterprisesurveys.org/data/exploreeconomies/2013/bangladesh#gender>

⁴ After being presented with a list of 15 business environment obstacles, business owners and top managers in 1,442 firms in Bangladesh were asked to choose the biggest obstacle to their business, the top three constraints were reported were political instability, electricity, and access to finance. (see <http://www.enterprisesurveys.org/data/exploreeconomies/2013/bangladesh#gender>)

⁵ http://www.academia.edu/9002247/Small_and_Medium_Enterprises_Development_in_Bangladesh_Problems_and_Prospects

⁶ <http://www.enterprisesurveys.org/data/exploreeconomies/2013/bangladesh#gender>

The industrial sector has a growing base of domestic entrepreneurs, of which a good portion (around 10%) is women. It is well acknowledged that SMEs in Bangladesh have now become a potential lifeline to generate jobs. If women or gender-sensitive SME, within this mid range layer of the pyramid, are given access to financial services and other necessary support to bypass the barriers they face, women can find their way to economic emancipation and play their role in the inclusive economic development of the country. A growing body of research shows that enhancing women's economic participation improves national economies, increases household productivity and living standards, enhances the well-being of children with positive long term impacts and can increase women's agency and overall empowerment (UN Women, ILO 2012).

Problems faced by SMEs in Bangladesh.

There is wide recognition in the Government of Bangladesh that SMEs can play a significant role in developing various sectors and in boosting job creation, as well as the active undertaking of various measures by the Government - such as the establishment of National Taskforce on Small Enterprise Development; a Small Enterprise Cell and a Small Enterprise Foundation; and the creation of a Special Funding Arrangements for SME. In the last five years, many important steps have been initiated by the Bangladesh Bank in the areas of SME and agriculture financing. A total of Tk 7.78 billion to 10,000 women entrepreneurs has been refinanced under BB refinance scheme and during the last one year, banking sector has financed Tk 3.95 billion to 3,317 new women entrepreneurs which is 5.0 per cent of the total new SME borrowers.

However, the overall SME performance in the country has been inadequate (IMF, 2013). There are numbers of constraints, which include:

- i. **Inability to market product:** Most SMEs in Bangladesh lack the necessary tools in both accessing sufficient resources for marketing investments, as well as the marketing skills required to carry on an efficient strategy. A serious constraint is the lack of market information regarding the demand and supply of products as well as the fluctuation of market prices.
- ii. **Inability to maintain product quality and standards:** A major constraint to the success and sustainability of SMEs is the inability to maintain the quality of products. This puts locally produced goods at a disadvantageous position vis-à-vis competing imports.
- iii. **Lack of investment and working capital:** Access to finance and working capital is particularly important to enable SMEs expand their business, to introduce new products and to market them. Banks in general do not consider SME financing as a profitable undertaking. It has been found that in most cases banks and non-bank financial institutions require collateral in the form of land and buildings for advancing loans to their clients. The value of the real-estate security is usually set at twice the amount of loan, which many enterprises fail to provide as collateral. Because they are viewed as high risk borrowers due to their low capitalization, insufficient assets and high mortality rates, they are also not offered acceptable loans and interest rates.
- iv. **Lack of skilled technicians and workers:** Despite the fact that Bangladesh is a labour-abundant country, it lacks a skilled workforce. The shortage of technical skills and trained workers inhibits SMEs from reaching their full potential.

The Local Development Finance Programme Approach:

UNCDF's Local Development Finance Programmes (LDFP) responds to the organization's corporate mandate by promoting poverty reduction through local development in several principal thematic areas: climate change and food security; social protection; gender and the economic empowerment of women; local economic development; and information and communications technologies (ICT) for local development. Projects, themes and instruments are adapted to specific local contexts.

The LDFP helps to unlock, leverage, and increase capital flows to local institutions while working closely with local governments to mobilize, allocate, invest and account for these increased investment flows. To achieve this, UNCDF's financing tools and investment instruments play a critical role in providing innovative options to sustain and accelerate local investments that seek to benefit those who need it most, whether they be poor women and men, girls and boys. Depending on the level and framework of cooperation, one or a combination of UNCDF's financing tools and instruments can be applied to achieve the targeted results the organization seeks.

The Local Finance Initiative (LFI) is a UNCDF's investment mechanism and a set of tools that enable LDC's to unlock the flow of domestic capital to invest in local development. LFI supports public and private investments and projects that have impact in the local economies by providing technical expertise to incubate viable projects and provide support when required through seed capital grants, guarantees, credit enhancements and other risk mitigation strategies to attract further financing from local domestic capital.

In the context of LFI-SME Bangladesh, UNCDF in partnership with its development partners and the Bangladesh Bank, will utilize its Local Finance Initiative (LFI) programme.

Programme approach

UNCDF's LFI-SME approach in Bangladesh builds on the solid experience of the LFI Programme in Africa on facilitating structured project finance supported with seed money grants, in working with local governments and private enterprises that have a strong local development impact. The approach is adapted in Bangladesh to promote private sector initiatives that have a meaningful development impact on the livelihoods of poor women, at a scale large enough for their impact on increasing in net fiscal space or fixed capital formation at the local level, to be measured. By working with a group of small enterprises under specific clusters, UNCDF's LFI-SME approach can be used to significantly expand capacities and develop a pipeline of viable propositions to unlock domestic finance for that cluster. Therefore, developing the business case and facilitating the financing for a pipeline of enterprises under a cluster, will contribute to LFI-SME's outcomes and the expected development impact.

The LFI-SME approach to combine incubation, facilitation and catalytic financing becomes a strong platform for action, given that banks in Bangladesh, in general, do not provide such support and lend reluctantly to women entrepreneurs. Even when it comes to expansion of viable projects, banks and non-bank financial institutions require collateral in the form of land and buildings for advancing loans to their women clients, who suffer because of socio-cultural barriers to directly owning such collateral. Moreover, they tend to be viewed as high risk borrowers due to their low capitalization, insufficient assets and high mortality rates, and tend to be offered difficult terms for loans.

Output 1: Business development plans and capacity support for a targeted pool of gender sensitive SMEs in selected cluster establishing a pipeline that can access SME finance

Output 1.1: A pool of gender sensitive SMEs identified from a cluster for pipeline development

This output will focus on developing a pipeline of viable gender sensitive SME projects, which will be provided with incubation support to secure local financing

Indicative activities:

- Review of financing proposals from gender sensitive SMEs in the target cluster
- Support the SMEs that have viable projects to develop investment ready proposals that will be attractive to local lenders
- Small set of “proof of concept” projects selected for further technical support to secure local financing

Output 1.2: Business development incubation support for selected gender sensitive SMEs in selected cluster to improve capacity to access to SME finance

Indicative activities:

- Need assessment for incubation support for targeted gender sensitive SME entrepreneurs
- Prepare incubation support action plan to develop capacities and generate outputs
- Implement incubation support activities with targeted entrepreneurs

Output 2: Increase the ability and willingness of domestic financial institutions to finance gender sensitive SMEs, and introducing mechanisms that contribute to risk mitigation

This output will focus on addressing barriers to unlocking domestic capital for identified gender sensitive SME entrepreneurs to expand their businesses.

Indicative activities:

- Engaging with financial institutions operating in selected clusters for lending to gender sensitive SME entrepreneurs to reduce barriers
- Facilitating interface between financial institutions and gender sensitive SME entrepreneurs
- Establishing a financing mechanism to support gender sensitive SME entrepreneurs

Output 3: Implementation, monitoring, evaluation and management support ensured.

This output focuses on ensuring appropriate project management support for delivery of the other three outputs.

Indicative activities:

- Setting up of Project Monitoring Committee
- Recruitment of staff and office set up
- Technical assistance for activity design and implementation
- Financial management
- Implementation support

Justification/value addition by the proposed intervention

- Current projects/initiatives focus mostly on supply side of SME finance, with less attention on demand side.
- Current initiatives do not give enough attention to the issues of gender and gender-sensitive enterprises;
- Cluster-based approach is not exercised in SME financing by banks, causing female marginalised SME entrepreneurs deprived of access to SME finance.

UNCDF focusses on gender equality and women empowerment in all its local development projects. Since its Sirajganj Local Governance Fund Project to LGSP-LIC and ongoing UZGP and UPGP, it has gathered considerable experience on local economic development for women. For example, its fiscal transfer to local government bodies is contingent upon including one-third female-led/owned local development schemes. It has facilitated setting up of Women Development Forum at Upazila level, which is turning into a strong local level advocacy platform for all women-related issues. UNCDF's block grants are being spent in schemes creating income generation for women. It will add value/supplement ongoing initiatives by focussing on:

- Cluster-based local economic growth
- Demand side interface of SME financing
- Priority will be given to gender-sensitive SME entrepreneurs, who are too large to qualify for microfinance but too small for conventional bank loans ('Missing Middle')

Geographical Coverage:

SME Department of Bangladesh Bank has divided the whole country into 42 clusters. A cluster is defined as a local agglomeration of enterprises (mainly SMEs but often also including some large enterprises) which are producing and selling a range of related and complimentary products/services. For example, flower cultivation and marketing of Godkhali, Jessore is a cluster. A value chain analysis has been conducted to identify clusters for the project intervention taking into account the SME clusters of Bangladesh Bank and country's poverty map. Based on value chain analysis and poverty mapping, specific cluster/s will be identified during inception of the project. Indicative clusters primarily identified are: towel manufacturing in Khulna, mat making in Rangpur, weaving in Sylhet, bamboo and cane industry in Munshiganj and handicrafts industry in Jamalpur.

Assumptions and Risks

Risk	Risk mitigation measure	Risk rating
Adequate number of female SME entrepreneurs may not be available in clusters.	Change strategy to go beyond BB defined clusters and other areas to get targeted beneficiaries	medium to high
Overlapping among a number of other similar initiatives and stakeholders to target same beneficiary group.	Coordination with other initiatives and stakeholders to avoid overlap	medium to high
Improper targeting of seed capital/collateral support	Proper eligibility criteria will be established	medium to high

Project Monitoring Committee: There will be a country level project monitoring committee that will consist of following members:

- Secretary, Banking and Financial Institution Division (BFID), Chair
- A Deputy Governor from Bangladesh Bank
- Representatives from SME and Special Programmes Department of Bangladesh Bank (3)
- Representative from Banking and Financial Institution Division (2)
- Representatives from UNCDF (1)
- Representative from participating financial institutions (2)
- Representative from SME Foundation (1)
- Representative from ERD

The monitoring committee will provide oversight and strategic direction to the project, that includes:

- (a) Providing policy guidelines to the project
- (b) approval of any implementation decision
- (c) providing guidance to facilitate link between project activities and other related development initiatives.

Monitoring and Evaluation

LFI-SME is designed with the underlying assumption that the success and expansion of this initiative will not be possible without continuous monitoring and evaluation of results. Where progress is positive, lessons learned will be intensively shared to other pilot countries. Where progress is lagging, a reassessment of the activities and interventions, causes and effects, will be examined and readjusted in order to positively achieve the targeted results.

Fund Management Arrangements

Programmatic and financial accountability rests with the participating UN organization and (sub) national partners that are managing their respective components of the global programme. UNCDF will programme the funds and manage its activities specified in this document agreed by participating organizations, in line with its established rules and regulations. The administration of this programme shall be governed by UNCDF's policies, rules and regulations, as defined in the UNCDF Principles of Programme and Policy (POPP).

As may be required, separate Letter of Agreement (for implementation support cost) and MoU (for WESF fund transfer) will be signed between UNCDF and SMESPD of Bangladesh Bank for managing funds.

2. Partnerships

To complement UNCDF's expertise in local public financial management and local investment planning, other partners (e.g. SME Foundation, BSCIC, Women Chamber of Commerce) are necessary to contribute to capacity building, finance and market access for gender-sensitive SME entrepreneurs. It offers relevant organizations and agencies an opportunity to be involved in the technical development, demonstration and advocacy of this initiative.

3. Visibility and communications

All of the LFI-SME knowledge management and promotional materials will include the logos of partners and UNCDF.

Proposed Structure of Women Entrepreneur Support Fund (WESF)

A small business applies for a loan with a lending institution with requirement of collateral support. The lender first reviews the application under conventional business loan criteria. If the lender finds the collateral is lacking they will evaluate the loan request and see if it qualifies for the collateral support. If the lender determines that loan request qualifies for collateral support, it is asked to sign program participation certifications and pay a program participation fee. The collateral support provides "bridge" portion of loan approval process.

Benefits of collateral support

- It encourages lenders to provide loan approvals to small businesses that might otherwise not qualified due to lack of collateral.
- Gives a business another chance for loan approval if they previously were rejected for a loan due to insufficient collateral.
- Allows a business to keep their relationship at their current bank (if it participates in collateral support).

Who can participate in collateral support?

Most medium businesses can qualify for collateral support. Businesses will also need to receive approval from the SME Department of Bangladesh Bank to proceed.

Are there types of loans that do not qualify?

Most loan proposals qualify for Collateral Support. There are a few purposes that make a loan ineligible for enrollment in the WESF, including certain speculative activities and passive real estate investment.

What types of collateral support can business get?

Business term loans and lines of credit which may include:

- Heavy Equipment
- Acquisition of a place of business
- Construction, or renovation of a place of business

Nature

The facility will undertake financial guarantee aimed at encouraging targeted financial institution to lend to the targeted SME [with particular focus on women entrepreneurs in this class brackets] clients for the development of the SME sector in Bangladesh. The guarantee may be provided through a specially established facility at Bangladesh Bank for the time being. Gradually the facility can be converted into a full-fledged guarantee corporation for broadening access to finance and supporting the development of the SME sector in Bangladesh.

In the later stage when the facility may be developed into an independent entity where both public sector as well as private sector (including banks, NBFIs and trade associations, civil society organizations) may participate as shareholder

The proposed facility will undertake guaranteeing loans extended to targeted sector/groups/community clients with specific conditionalities attached to the lending. The facility will have the following features:

- ↳ In the case of a start-up company, strong evidence of high added value / market niche must be provided.
- ↳ The company / the applicant should provide evidence in the form of a business plan with a clear cash flow plan that has the ability to repay the loan. (support might be needed)
- ↳ The applicant should keep regular accounting records and should produce standard financial statements.
- ↳ PFIs will undertake capacity building programs for such borrowers in the area of business management, book keeping and financial management.
- ↳ Such capacity building expenditure undertaken by PFIs may be treated as CSR expenditure up to a certain level.
- ↳ For a loan exceeding 500,000 the company must have financial statements. PFIs may help in preparing such financial statements for the borrower.
- ↳ Applicant companies must comply with sound environmental practices according to Bangladeshi legal requirements.

Ineligible Business Activities under the scheme are:

- ↳ Financing existing portfolio in the form of renewal or enhancements.
- ↳ Credits not compliance to the prudential regulations of Bangladesh Bank.
- ↳ Manufacturing or selling of munitions articles or services.
- ↳ Credits to projects that violate workers right, and non-complaints to local laws in force.
- ↳ Environmentally, socially and ethically damaging project like:
 - Gambling
 - Drugs
 - Tobacco
 - Alcoholic drinks
- ↳ Banking and insurance
- ↳ Real-estate developments
- ↳ Trading of currency or securities.
- ↳ Primary agricultural production



Annual Work Plan-2016, "Version - A"

Local Finance Initiative (LFI) support to SMEs in Bangladesh: BGD/2016/01

Economic growth is achieved in an inclusive manner, extending opportunities to the rural and urban poor and protecting the vulnerable from shocks (Pillar 2) Gender sensitive systems in selected clusters will use micro position to secure access to financing on a sustainable basis for expanding their enterprises, thereby establishing a pipeline of investments that increase incomes of women in the geographical areas of the selected clusters and contribute to local economic development.

Components	SL	Activities	Time frame	Imp Agency	Responsible Party	Donor	Budget Code	Budget Description	2016 Amount (USD)	2017 Amount (USD)
Output 1: Business development plans for a targeted pool of gender sensitive SMEs in selected clusters, establishing a pipeline that	1.1	Training/Workshop	Q4	UNCDF	UNCDF	SIDA-00555	75700	75700-Training/Workshop/Conference	15,000	4,000
	1.2	Implementation Support Cost		UNCDF	UNCDF	SIDA-00555	71200	72100-Contractual Services-Companies	500	1,500
	1.3	Travel for monitoring visits		UNCDF	UNCDF	SIDA-00555	71600	71600-Travel	15,500	5,500
Total of Output 1:									15,500	5,500
Output 2: Increase the ability and willingness of the domestic financial institutions to finance gender sensitive SMEs, and introducing mechanisms that contribute to risk mitigation	2.1	Design a women entrepreneur support fund including its financial modeling.		UNCDF	UNCDF	SIDA-00555	71300	71300-National Consultant		19,000
	2.2	Release of collateral support/seed money		UNCDF	UNCDF	SIDA-00555	72100	72600-grants		100,000
	2.3	Travel for monitoring visits		UNCDF	UNCDF	SIDA-00555	71600	71600-Travel		2,000
	2.4	Training/Workshop		UNCDF	UNCDF	SIDA-00555	75700	75700-Training/Workshop/Conference		9,000
	2.5	Study Tour		UNCDF	UNCDF	SIDA-00555	75700	75700-Training/Workshop/Conference		14,000
Total of Output 2:									142,000	142,000
Output 3: Implementation, monitoring, evaluation and management support ensured.	3.1	Investment Officer		UNCDF	UNCDF	SIDA-00555	71400	71400-Contractual Service-Individual		38,500
	3.2	Direct Project Cost (DPC)		UNCDF	UNCDF	SIDA-00555	61100	61100-Salary-NP Staff		14,000
	3.3	Office Rent and fittings		UNCDF	UNCDF	SIDA-00555	73100	73100-Rental & Maintenance- Premises		5,000
	3.4	Equipment/furniture		UNCDF	UNCDF	SIDA-00555	72200	72200-Equipment and Furniture		3,500
	3.5	Mobile/internet		UNCDF	UNDP	SIDA-00555	72400	72400-Communication & Audio Visual Equipment		2,000
	3.6	Travel (Local)		UNCDF	UNDP	SIDA-00555	71600	71600-Travel		0
	3.7	Translation and Printing		UNCDF	UNDP	SIDA-00555	71300	71300-National Consultant		5,000
3.8	Miscellaneous		UNCDF	UNDP	SIDA-00555	74500	74500-Miscellaneous Expenses		481	
Total of Output 3:									68,481	68,481
Total of Programmable Fund (2+3)									15,500	215,981
GMS 8%									1,240	17,279
Total Budget									16,740	233,260

Activity	Total 2016	Total 2017
Output-1	15,500	5,500
Output-2	-	142,000
Output-3	-	68,481
Actual/Atlas Budget 2016 & 2017	15,500	215,981

SIGNATURE

Name and designation / Responsible Pa Name and designation / Responsible Party:

Jesmi Hasan
Jesmi Hasan
Programme Analyst, UNCDF

Annual Work Plan-2016, "Version - A"



Atlas Award ID: 00097117
 Atlas Project ID: 00100957
 Project/Programme Title:
 LINDAF Bangladesh Outcome:
 Applicable Key Result Area (from UNCDF Strategic Plan):

Local Finance Initiative (LFI) support to SMEs in Bangladesh: BGD/2016/01
 Economic growth is achieved in an inclusive manner, extending opportunities to the rural and urban poor and protecting the vulnerable from shocks (rural gender sensitive services in sectors/cluster with no or a positive access to finance or a substitute access for expanding their enterprises, thereby establishing a pipeline of investments that increase incomes of women in the geographical areas of the selected clusters and contribute to local economic development

Components	SL	Activities	Time frame Q4	Imp Agency	Responsible Party	Donor	Budget Code	Budget Description	2016 Amount (USD)	2017 Amount (USD)
Output 1: Business development plans for a targeted pool of gender sensitive SMEs in selected cluster, establishing a pipeline that	1.1	Training/Workshop		UNCDF	UNCDF	SIDA-	75700	75700- Training/Workshop/Conference	15,000	4,000
	1.2	Implementation Support Cost		UNCDF	UNCDF	SIDA-	71200	72100- Contractual Services-Compass		
	1.3	Travel for monitoring visits		UNCDF	UNCDF	SIDA-	71600	71600-Travel	500	1,500
Total of Output 1:									15,500	5,500
Output 2: Increase the ability and willingness of the domestic financial institutions to finance gender sensitive SMEs, and introducing mechanisms that contribute to risk mitigation	2.1	Design a women entrepreneur support fund including its financial modeling.		UNCDF	UNCDF	SIDA-00555	71300	71300-National Consultant		18,000
	2.2	Release of collateral support/seed money		UNCDF	UNCDF	SIDA-	72100	72600-grants		100,000
	2.3	Travel for monitoring visits		UNCDF	UNCDF	SIDA-	71600	71600-Travel		2,000
	2.4	Training/Workshop		UNCDF	UNCDF	SIDA-	75700	75700- Training/Workshop/Conference		8,000
	2.5	Study Tour		UNCDF	UNCDF	SIDA-	75700	75700- Training/Workshop/Conference		14,000
Total of Output 2:									-	142,000
Output 3: Implementation, monitoring, evaluation and management support ensured.	3.1	Investment Officer		UNCDF	UNCDF	SIDA-	71400	71400-Contractual Service-Individual		38,500
	3.2	Direct Project Cost (DPC)		UNCDF	UNCDF	SIDA-	61100	61100-Salary-NP Staff		14,000
	3.3	Office Rent and fittings		UNCDF	UNCDF	SIDA-	73100	73100-Rental & Maintenance- Premises		5,000
	3.4	Equipment/Furniture		UNCDF	UNCDF	SIDA-	72200	72200-Equipment and Furniture		3,500
	3.5	Mobile/Internet		UNCDF	UNDP	SIDA-	72400	72400-Communication & Audio Visual Equipment		2,000
	3.6	Travel (Local)		UNCDF	UNDP	SIDA-	71600	71600-Travel		0
	3.7	Translation and Printing		UNCDF	UNDP	SIDA-	71300	71300-National Consultant		5,000
	3.8	Miscellaneous		UNCDF	UNDP	SIDA-	74500	74500-Miscellaneous Expenses		481
Total of Output 3:									-	68,481
Total of Programmable Fund (1+2+3)									15,500	215,981
GMS 8%									1,240	17,279
Total Budget									16,740	233,260

Activity	Total 2016	Total 2017
Output 1	15,500	5,500
Output 2	-	142,000
Output 3	-	68,481
Actual/Atlas Budget 2016 & 2017	15,500	215,981

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 Name and designation / Responsible Party Name and designation / Responsible Party:

Jesmi Hasan
 Programme Analyst, UNCDF

Annex 4. LoCARB Scoping in Cambodia

Market-Based Innovations in Subnational Climate Change Management: LoCARB



Christina Aguila, Erika Harris, So Hyun Park, Iliana Paul

NYU Robert F. Wagner School of Public Service
on behalf of United Nations Capital Development Fund

Executive Summary

The United Nations Capital Development Fund tasked the Capstone Team from New York University's Robert F. Wagner School of Public Service (the Team) to research and produce a report on how to build upon the Local Adaptive Climate Living Facility (LoCAL) program to unlock private capital for climate resilience-building revenue-generating activities.

In addition to conducting extensive research in New York and to better understand the opportunities and challenges for creating such an initiative, the Team traveled to Phnom Penh and Takeo Province in Cambodia, to gather key information from various stakeholders on the capacity of local government, local adaptation needs, challenges and opportunities for local businesses and investing in those businesses.

Climate change poses a disproportionately large risk in Cambodia because of its status as a Least Developed Country (LDC). The primary consequences of a changing climate in Cambodia will manifest as less predictable temperatures and rainfall, which may differ greatly from village to village and commune to commune. This means more extreme temperatures, flooding and severe drought. For the vast majority of Cambodians who are subsistence farmers, climate change poses a significant risk for their lives and livelihoods.

The Royal Government of Cambodia (RGC) acknowledges and understands the risks posed by climate change. There are now a number of national strategies and institutions to manage the problem, but local governments are not necessarily equipped to respond to the needs of their citizens. LoCAL, and the Team's new LoCARB proposal, is designed to help local governments build their capacity to deliver services in order to meet these needs. *The Team proposes the new Local Climate Action and Resilience Building through Blending (LoCARB to build upon the existing UNCDF LoCAL mechanism).*

LoCAL currently works by providing Performance-Based Climate Resilience Grants (PBCRGs), which flow through the existing intergovernmental fiscal transfer system. By directing additional resources to local governments in the form of budget support, LoCAL ensures that Cambodians have access to locally-appropriate solutions. The projects that LoCAL can help finance, however, are limited to small-scale infrastructure and awareness-raising efforts. There are a number of constraints, including the need for additional resources, that limit the local governments' ability to invest in other climate change resilience solutions. A truly robust mechanism for developing and deploying climate solutions would enable these types of projects, as well as ones that can attract private sector resources to help sustain and scale local enterprises.

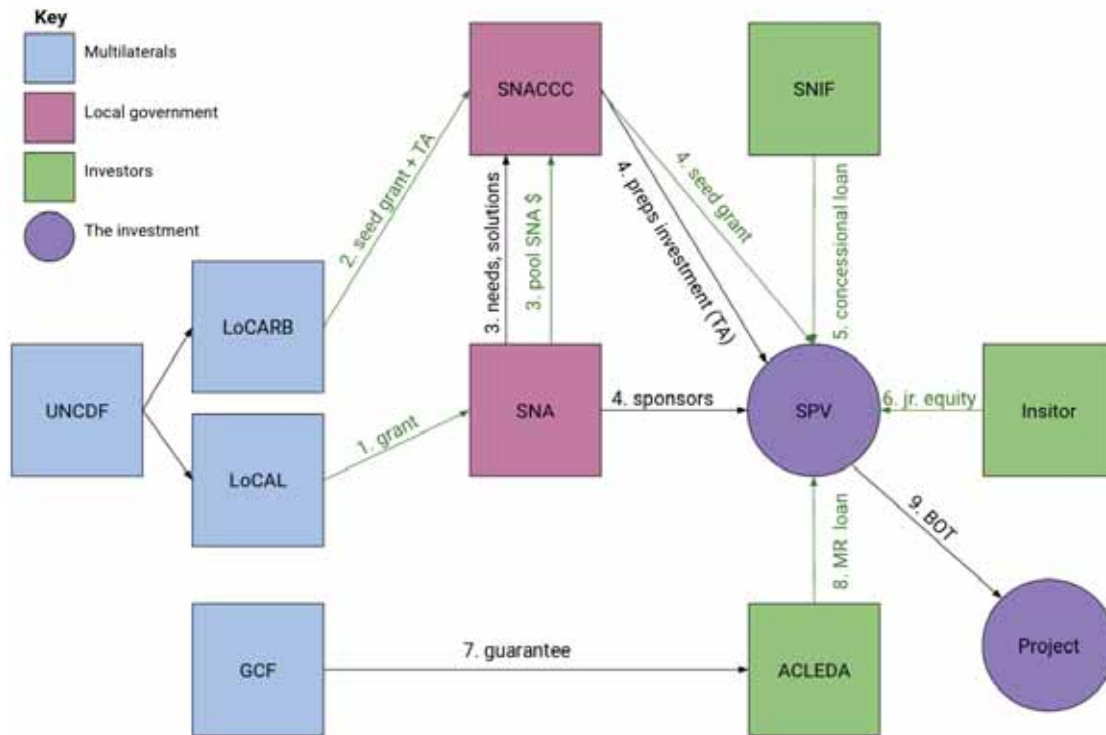
Underlying these important elements are external challenges to the creation of a new phase of LoCAL. There are very real constraints to creating a more stable business environment and a more attractive

investment environment. The Team has taken these realities into consideration in crafting the proposal for the new phase of LoCAL.

The Team recommends the creation of LoCARB, a new element or phase of the LoCAL program. One new key development will be to add a new capacity to the existing local government associations, which the Team currently refers to as the Subnational Climate Change Capacity (SNaCCC). *The SNaCCC capacity will give local governments the additional resources, expertise and mandate needed to address locally-identified challenges through revenue-generating climate solutions, sufficiently profitable to attract private capital.* The revenue-generating element of these solutions will help to sustain efforts over the long term, while serving to help attract private sector investment to bring these solutions to scale. With the SNaCCC in place, LoCARB will facilitate the cooperation and coordination of various actors. Briefly, *LoCARB will utilize a toolkit of funding, technical assistance, partnerships and financial mechanisms to:*

- *Contribute to climate resilience and vulnerability reduction;*
- *Continue to build the capacity of local governments;*
- *Foster revenue-generating activities and local economic development; and*
- *Unlock private capital to support climate change adaptation and mitigation solutions*

LoCARB will expand the scope and reach of LoCAL by developing and supporting the SNaCCC, a facility that has the authority, buy-in, capacity, know-how and resources to set up blended finance schemes to fund local revenue-generating adaptation and mitigation ventures. LoCARB will take advantage of existing stakeholder networks as well as foster new partnerships to match project proposals with the most appropriate business model and financing strategy. *The following diagram is an example of how the LoCARB mechanism could function, but what role each actor might play would vary depending on project type and size.*



Sample LoCARB diagram

The LoCARB mechanism is necessarily flexible because there are a myriad of projects, partners and investors. The Team envisions possible roles for public and private domestic financiers, as well as international public and private funders. These investors have varying degrees of risk appetites and the diagram above is just one example of many possible arrangements that demonstrates how LoCARB projects can be supported and prepared to unlock private sector capital.

LoCARB would be an exciting development for Cambodia, as well as the many other countries in which LoCAL currently operates. The Team believes this combination of multi-sector partnerships and resources is the next frontier of climate change solutions. UNCDF is in a unique position to pilot such innovations and show the world what is possible.



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