



Unlocking Public and Private  
Finance for the Poor

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# MID-TERM EVALUATION

LOCAL FINANCE INITIATIVE  
GLOBAL PROGRAMME

November 2017

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## EVALUATION TEAM

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# Executive Summary

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## Background

The UN Capital Development Fund (UNCDF) works in least developed countries (LDCs), where it implements programmes along two dimensions of poverty reduction: Financial Inclusion, which expands the opportunities for individuals, households and small businesses to participate in the local economy and manage their financial lives; and Local Development Finance (LDF), which uses fiscal decentralization, innovative municipal finance and structured project finance to mobilize public and private funding for local economic development.

The Local Finance Initiative (LFI) is one of several programmes under the LDF umbrella. The overarching goal of LFI is poverty reduction and the achievement of the Millennium Development Goals, specifically Goal 1: *Eradicate extreme poverty and hunger*, and to contribute to Goal 3: *Promote gender equality and empowerment* and Goal 7: *Ensure environmental sustainability*.

The overall outcome sought by LFI is to “increase the effectiveness of financial resources for local economic development (LED) through mobilisation of primarily domestic private capital and financial markets in developing countries, to enable and promote inclusive and sustainable local development.” The financing raised is invested in public, private or public-private partnership projects in specific sectors: food security, agro-processing, local services, clean energy and climate resilience.

## LFI Activities

LFI has had country programmes underway since 2012. Currently, LFI has country programmes and offices in Uganda, Tanzania and Benin. The Global LFI programme was launched in 2014 and is based in Tanzania.

LFI provides direct technical assistance and grants for technical assistance and seed capital to the developers of selected projects. LFI resources are used to (i) structure infrastructure projects, (ii) prepare technical and market studies for projects, (iii) prepare analyses and documents required by financial institutions and (iv) co-finance projects. LFI promotes the use of non-recourse project finance structures in LED projects.

LFI also describes its activities to include: (v) capacity-building, to increase: (a) government capacity for project development and finance and promotion of business-enabling environments and (b) financial sector capacity for project financing; (vi) monitoring and evaluation; (vii) general advocacy to promote the LFI programme approach and results and (viii) provision of subordinated debt, loan guarantees and credit enhancement.

Programme outcomes include:

- Improved capacities of public and private project developer to identify and develop small-to-medium sized infrastructure projects essential for inclusive LED.
- Increased ability and willingness of domestic financial sector to provide financing for small to medium-sized LED infrastructure projects.

LFI had a combined portfolio of 52 projects in Tiers 1-3 by December 2016 for the three countries.

## Mid-term Evaluation

The mid-term evaluation of LFI was commissioned by the Evaluation Unit of UNCDF consistent with UNCDF's Operational Plan. The objectives are to review initial progress in piloting LFI and to propose adjustments to the programme as UNCDF contemplates rolling it out in additional countries.

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The evaluation has applied OECD-DAC evaluation criteria of relevance, efficiency, effectiveness, (likely) impact, sustainability, gender, and human rights; and adhered to United Nations Evaluation Group (UNEG) Norms and Standards of Evaluation and UNEG Guidance on Integrating Human Rights and Gender Equality in Evaluation.

The evaluation was guided by the LFI programme theory of change (TOC), evaluation questions in the terms of reference, and an evaluation matrix. It applied a mixed method approach and used a combination of qualitative and quantitative evidence. Information for the evaluation was derived from: (a) document review, (b) data analysis, (c) interviews, (d) country visits to Tanzania and Uganda, (e) attendance at LFI Uganda Programme Board and Steering Committee meetings and (f) development of case studies.

## **Evaluation Findings**

### **Relevance and Quality of Design**

LFI is highly relevant in all three countries evaluated. Poverty reduction—the ultimate aim of LFI—is also a national priority in each of the countries. The national development plans of the participating countries also identify lack of capital for both private and public sector investments as undermining LED. LFI is also relevant because the sectors in which it works (such as agro-processing, local infrastructure and decentralized power production) are priority sectors for development in each country.

LFI's TOC suggests that all results flow from project preparation and financing, including changes in the legal and regulatory framework and the operational framework. It also suggests that project implementation will lead to improved international LED support frameworks and more support from the international community. But the TOC does not show the chain of causality between project development, financing and implementation, nor any need for oversight of the financing process and project implementation.

The Resources and Results Framework (RRF) for the first phase of LFI in Tanzania (LFI-T Phase 1) included outcomes and activities related to the development of an improved institutional framework. These were eliminated in the LFI global programme and subsequent country programme RRFs. This seems to have led to reduced attention to institutional reforms and national capacity building in later work plans.

LFI does not have tools to systematically monitor targets or identify the factors affecting project financing and implementation. A proper monitoring and evaluation system would make LFI more relevant by making clearer both the potential impacts and the key impediments at the programme and project level.

LFI offers unique combination of technical assistance, seed capital and help with access to financial institutions in both Tanzania and Uganda. However, numerous other private, public and non-governmental projects provide technical support and facilitation of financing.

The programme design is coherent with overall programme objectives, but there is concern with the translation from programme design to implementation arrangements. Currently, there are no global activities distinct from those being implemented in individual country programmes. This situation may change with the launching of the financing platform, which could add value to the programme.

National governments support LFI. To them and LGA officials, LFI represents a unique opportunity to mobilize finance for LED projects. However, the programme is judged to be too ambitious for the available funding and the current approach to resource allocation.

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Donors need better evidence that the “LFI model” is working. Only the UN (46%) and Sida (54%) have funded LFI. UNCDF continues to seek other donors, but no new commitments have been received. LFI anticipates providing financing assistance to other UNCDF programmes such as F4F, LoCAL, Municipal Investment Finance (MIF) and Microlead under the “dual key” system.

LFI’s effort to mobilize funds in domestic financial markets is probably the most ambitious innovation attempted so far in the LD programme area. LFI is in an advanced pilot stage and still in search of a model that will be sustainable in LDCs. The programme was judged to have adequate focus on three key cross-cutting issues: gender, environmental management and food security.

### **Efficiency in the Use of Resources**

LFI’s business processes and systems were considered inadequate in certain areas such as human resources planning and project cost management. Nor are there systems for charging staff costs to projects or consolidating project information at the portfolio level.

There may be too much emphasis put on the size of the pipeline over the quality of projects and the likelihood that they are implemented.

Banks are approached on a case-by-case basis once loan applications are completed. A less “arms-length” approach wherein bankers are more closely involved in LFI might help to mobilize financing for projects.

LFI needs partners due to its limited resources, the broad scope of issues being addressed and its finite presence in the LDCs. No significant formal partnerships that leverage LFI’s own human and financial resources were identified.

With respect to the allocation of staff time, it might be more effective for LFI to outsource more of its analytical work so that professional staff can focus on the finance-related aspects of programme delivery.

LFI has difficulty predicting when projects will complete various steps in the project cycle. Having systems for better estimating the time required by projects to advance might be useful in allocating staff time and grant resources.

LFI is frequently missing programme targets but not revising them and sometimes not reporting against them. The departures from targets appear to be the result of resource shortfalls and underestimation of the time required to support existing projects.

Programme participants generally consider the quality of LFI’s technical assistance to be high. LFI does not charge for its support services, nor put any limit on the technical assistance provided. There is also considerable demand for training activities, but LFI needs to compile and summarize feedback in order to gauge participant satisfaction and training impact.

LFI has no articulated policy agenda globally or in any country, arguing that it has limited scope to influence policy making. Nevertheless, the TOC continues to include outcomes such as “National legal frameworks improved” and LFI has made some small but important contributions to policy.

Staff members repeatedly identified “financial closure” as a project-level goal, although senior members of the LFI team disputed its importance. LFI’s is not the normal definition of financial closure in the financial field, which entails meeting all preconditions to disbursement. This should be rethought since stopping at this point relieves LFI of responsibility for assisting developers to meet conditions precedent, negotiate loan terms, manage construction and start project operations.

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The performance of LED projects is related to their impact on the ground. Currently, LFI make no demands on the project developers it assists with respect to the sharing of benefits including the reimbursement of cash grants.

LFI has not formally designed or implemented the monitoring system described in its monitoring framework. LFI also received significant advice on the design of a system to monitor LED impacts on the ground it has not yet acted upon.

LFI Steering Committee (SC) and Programme Board (PB) composition differs in the three countries, and in none is the banking sector represented. The information provided to SCs and PBs varies in quality and precision, and can be inconsistent from one meeting to the next. SC and PB members and their organizations get little acknowledgement from UNCDF for their contributions, at least in printed documents. Similarly, UNCDF and LFI are not acknowledged on the websites of government counterparts.

LFI's relationships with the Tanzania Investment Bank (TIB) and the Uganda Development Bank could serve as models in other countries. However, there is no strategy for other types of partnerships, which might entail joint activities, exchanges of information, or sub-contracting of services.

### **Effectiveness**

LFI is largely intended to be a capacity building programme, in which the project development and financing process is used as a sort of laboratory for those whose capacity is being built (hence the use of the phrase "demonstration project"). The two programme outcomes that all LFI RRFs share concern capacity for project development and capacity for project financing (Outcomes 1 and 2, respectively).

A challenge for LFI with respect to capacity-building is addressing the unique capacity requirements of private sector, public sector and public-private partnership developers. With such a broad agenda, and limited resources, LFI requires a better-defined capacity-building strategy and a well-organized capacity-building effort. Some elements could include: a capacity needs assessment, stronger emphasis on the capacity building needs of counterparts in addition to developers, evaluating how to make capacity building gains sustainable, selecting projects that are sure to complete the project cycle in a reasonable time period to gain lessons from these experiences and improved communications with stakeholders and dissemination of lessons learned.

### **Impact on Broader Policy, Financing and Economic Systems**

Policy and legal reform was an outcome only in the LFI-T Phase 1 RRF, as mentioned earlier, but remains a key pillar of the TOC and an output in subsequent RRFs. Reforms carried out to date are small in scale but may have large impacts, including supporting the development of a governance structure in Tanzania for LGA income-generating investments using SPVs. These targeted reforms point to an effective role for LFI in the policy area.

LFI does not have a systematic approach to supporting changes in the enabling environment. It lacks up-to-date diagnoses of the country policy and legal factors undermining LED financing and work plans that show how LFI and partners will help government address these situations.

UNCDF expected to raise significant additional donor resources from both domestic and international sources for LFI. Yet resource mobilization efforts at the national and international levels have not raised significant additional resources nor diversified the donor base.

For private financing, LFI projects are competing against many other potential clients, since lenders are not committed ex-ante to LFI's objectives and have no particular allegiance to the projects LFI has prioritized. It is not possible to say LFI has increased the available funding for LED projects, partly

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because there is no earmarking or setting aside of funds for LFI or LED projects in any country. Although good project preparation is important, mobilizing new private finance for LED projects requires more than this, due to systemic constraints such as the prevalence of short-term funds in the financial sectors and the low income levels in the LFI countries. High and variable interest rates in both Tanzania and Uganda make borrowing expensive and projects less feasible.

Strategies originally proposed by LFI to encourage banks to lend, such as loan pools and various forms of credit enhancement, are not being actively pursued. Consequently, LFI seems to be moving away from a principal focus on mobilizing private funds toward a “blended finance” approach. Diversifying funding sources could lower the risk of any one source not being adequate, but might also undermine the fundamental goal of LFI—raising private financing for LED—thereby diverting attention from LFI’s original purpose and unique contribution in the development finance field. It also risks losing focus on risk management, a fundamental condition for market development.

### **Sustainability of Programme Results within the Broader Policy Environment**

Improvement in the national legal framework is one of the core elements of the LFI TOC. Future financial and social performance of the LFI portfolio will be affected by conditions such as timely access to finance and the presence of an investment-friendly business environment. However, LFI’s engagement at the national level to create an enabling environment is limited.

Even so, LFI is carrying out or proposing to carry out other activities that will contribute to sustainability. These include setting up National Platforms in LFI countries, establishment of the LED Unit and work to establish public-private governance structures for LGA projects.

To date, there is no sample of completed projects whose prospective financial and social performance can be assessed. Delivering a well-performing LED project means overcoming risks associated with management capacity, operations, market conditions, etc. LFI cannot address all these risks, but it may be able to mitigate some of them by forming more strategic partnerships with development agencies and other partners to create longer-term oversight for projects, especially for higher-risk projects, once they leave LFI’s hands. This could be an important benefit of “dual key” projects where another UN technical agency is involved.

### **Gender Equality and Women’s Empowerment**

The evaluation shows that the programme is well-positioned to contribute to gender equality and gender mainstreaming in LED. LFI programme documents speak clearly about seeking gender-related outcomes. LFI staff members are sensitive to gender issues and are committed to supporting projects that contribute to women’s economic empowerment. The programme focus on agricultural-based investments could be an important entry point for women. UNCDF’s agreement with IELD has the potential to fill gaps identified in the gender framework. These include developing a gender action plan, updating the LFI RRF to incorporate results indicators related to gender and defining a strategy to reward staff for efforts to further the goal of women’s economic empowerment.

It is too early to predict how women and men are likely to benefit from the LFI project activities because most projects are at the initial stages of financing and implementation. The evaluation team noted that LFI is actively seeking to support viable investment proposals proposed by women developers, but its strategy has yet to be fully consolidated.

The sustainability of gender-related outcomes will depend on instilling the philosophy of women’s economic empowerment in counterpart organizations and on developing leadership among women entrepreneurs. Selecting and supporting of women-owned projects is part of this formulation, but it may take more effort to convince leaders to continue with these efforts. UNCDF management can contribute



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by setting a high standard when reviewing annual work plans and establishing and monitoring programme benchmarks.

## Conclusions

**Mobilizing private financing in LDCs is not easy.** The lack of long-term private finance in LDCs is both a problem and a symptom of much larger and more systematic institutional weaknesses. These weaknesses include high risks and limited risk management tools, and thin financial sectors with scarce long-term funding and an aversion to risk.

Interventions such as LFI can motivate stakeholders to pursue the benefits of private finance for LED while working with government to identify and carry out reforms. Supporting individual investment projects helps actors understand their roles in the future financing system and shows where the current system is weak. However, financing individual projects benefit project sponsors but in and of itself does little to help create a sustainable financing system for LED investments.

**The LFI model won't be sustainable without institutional reforms.** UNCDF provided mixed messages regarding the place of policy and institutional reform in LFI, both the programme's theory of change and in the results and resources frameworks identify the need for such reforms (and LFI's support for them). This work has received a lower priority than activities that potentially can produce more tangible results, such as project preparation and financing. However, projects will continue to require extraordinary effort and financial support without systematic changes. LFI needs to support policy and institutional reforms, but in discrete areas and in closer collaboration with other national and development partners. It implies that government officials develop their own capacity to lead LED finance-related policy reforms, possibly by coordinating training with academic institutions or other development partners.

**LFI is too short-lived to work in isolation.** Resources for partnership building in LFI are limited, as are partnerships beyond those that support core functions (e.g. with development banks). No significant initiative has been identified yet that resulted from a formal partnership arrangement. The sustainability of the LFI approach depends on its experience being disseminated and built upon over time. The unique nature of LFI's work is not a reason to limit partnership-building; to the contrary. For instance, a partnership with an academic institution to teach LED finance and fiscal decentralization could have a far-reaching impact.

**Capacity building depends on completing projects.** The project development and financing process is not just an end in itself in programmes such as LFI, but is a tool for identifying weaknesses in the overall development and financing system and for building capacity on both the demand and supply side. The long-term effects of financing individual projects are limited (some developers may never borrow again). But project development and financing system is important for building the capacity of key stakeholders, so emphasis should be put on selecting projects that will complete the project cycle, even if they are not "catalytic." In addition, it is necessary that LFI work to extract lessons from individual projects and share them with counterparts during the remainder of the programme.

**LFI is under-resourced for the commitments it is making.** The resources (financial, technical and human) available for LFI are insufficient for the tasks at hand and the commitments made with governments. To mask the effect of the shortfalls, LFI avoids measuring its results objectively against RRF milestones and at times overstates its accomplishments. Some remedies being considered, such as reducing LFI's focus on the objective of mobilizing private financing, risk undermining the original purpose of the programme. A more rigorous resource mobilization effort is crucial. In the short term,



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better monitoring, more transparency with counterparts and more strategic allocation of resources could help reconcile commitments and resources.

## Recommendations

The evaluation has produced a number of recommendations that call for changes in various aspects of the programme in order to increase the likelihood that it will produce its intended outcomes and support UNCDF's longer-term LDF agenda in LDCs.

1. **Stay committed to the original private financing objective of LFI.** The unique feature of LFI is its stated commitment to mobilizing private financing for LED. Seeking financing from non-governmental and sector-specific sources can provide a more diverse funding base for LFI and its supported projects, but this will have corresponding costs. The evaluation team concluded that LFI needs a closer relationship with the financial sector and that all avenues for mobilizing private finance have not been adequately investigated.
2. **Refocus on the capacity-building purpose of LFI.** The principal outcome of LFI should be strengthened capacity: to develop projects, to finance projects and to support policy reforms aimed at improving the domestic capital mobilization for LED investments. But over the evaluation period LFI spent only 2 percent of its resources on learning and workshops. It is recommended that LFI develop and follow a capacity building strategy after analysing with government and other development partners how and where LFI can contribute the most to building capacity that will persist after the programme ends. It is also recommended that LFI select projects with their capacity-building potential in mind and create a budget earmark for training.
3. **Develop a project support strategy.** To help increase the effectiveness of LFI's support, LFI should define a clearer project support strategy that establishes policies for:
  - Project selection (CFP or other)
  - Allocation of staff and other resources to projects
  - Categorization of projects (assignment to Tiers and identification of bottlenecks)
  - Conditions on developers in return for LFI support
  - Exit strategy from a support relationship

Policies should be enforced through MOUs signed with each developer before assisting a project. LFI also needs to estimate the cost of project preparation upfront, ensure there are adequate resources available and monitor expenditures. In some cases, LFI might require developers to co-finance preparation and/or develop lower-cost interventions. It is also recommended that LFI reassess the use of non-reimbursable grants to project developers, especially for seed capital.

4. **Engage more strategically on the policy and legal reform agenda.** In collaboration with other agencies and economists and other experts, LFI should develop a more robust analysis of the impediments to domestic capital mobilisation to support LED. It should also update the Uganda and Tanzania financial scans, in order to identify more clearly the reforms already underway in these countries and those still needed. It is recommended that with the support of involved agencies, LFI more clearly define its niche and visible contribution to the reform agenda.
5. **Leverage LFI expertise through information sharing and communications.** LFI should develop a knowledge management and information sharing strategy to leverage and disseminate LFI concepts and tools. To ensure sustainability, UNCDF should identify means and strategic partners for disseminating its expertise, perhaps through joint training, syllabus development, policy roadmaps, a report card and/or the development of a web site or LED finance dashboard.

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Government counterpart agencies also need to be asked to share information publicly about the purposes and activities of their work with LFI.

6. **Build programme leadership and improve governance.** LFI should consider simplifying the LFI governance structure to include only a Programme Board or Steering Committee in each country with equal representation from public and private sector (particularly the financial sector), perhaps supported by an executive subcommittee. These entities need to be empowered through clearer terms of reference and more effective management tools, allowing them to better monitor and lead the programme. SC/PB members should also be acknowledged in LFI publications.
7. **Strengthen project monitoring and project management systems.** LFI needs better monitoring and management systems to optimize its support to developers and other programme activities and to measure results. Both the Theory of Change and the global and country Results and Resources Frameworks should be reviewed and possibly revised in collaboration with a monitoring expert and government counterparts. It is recommended that the programme agree on standard terminology and identify outcome-oriented SMART monitoring indicators that better align outputs to available resources. LFI also must develop tools to assess the LED impact of LFI investments over time. A mutually agreeable entity should be found to continue the LED monitoring process after LFI phases out.
8. **Capitalize on linkages with other UNCDF programmes.** The evaluation team recommends that LFI be proactive in defining how other UNCDF programmes can provide sector-specific technical support to developers and thereby complement the finance-related support of LFI, while being willing to work in sectors where this support does not exist if they are government priorities. LFI also needs partners who can facilitate contacts with women entrepreneurs and support women-owned businesses with the potential to deliver LED benefits. LFI should support and closely monitor the work of IELD, while cultivating relationships with other organizations that support women's entrepreneurship. It is also recommended that the synergies between Financial Inclusion and LFI be more clearly identified and better exploited.
9. **Cultivate strategic partnerships.** It is recommended that LFI conduct a stakeholder mapping exercise in each country so that it can strategically identify and target potential partners (public sector, private sector, financing institutions, and development partners) with which to collaborate. It should also to provide adequate resources to nurture, formalize and operationalize key national and local partnerships. Other recommendations include that LFI move from an ex-post to an ex-ante financing approach with donors, refine the national platform concept and ensure that the proposed financing/guarantee facility not compete with country programmes for donor support.
10. **Fund LFI adequately or scale back commitments.** It is recommended that LFI's resource mobilization strategy be more aggressive, in order to provide adequate resources for the programme. This could entail partnering in fundraising with agencies promoting private finance or with complementary UNCDF programs, approaching financing sources involved in output-based aid, focussing more on addressing equity constraints and recycling programme resources through reimbursable grants. If it is not possible to fulfil financial commitments made with government counterparts, UNCDF should consider scaling back LFI and concentrating only the highest priority activities or locations, or possibly becoming an adjunct to another donor programme. The entry into new countries should only occur once a financial scan is prepared by an objective third party and operational and policy conditions are met. Conditions should include having the resources to provide adequate staffing in new countries.

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## Programme Data Sheet

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<b>Countries</b>	Tanzania, Uganda, Benin
Programme Title (Long)	Local Finance Initiative
Programme Title (Short)	LFI

### Financial breakdown by donor in US\$

Donor	2012	2013	2014	2015	2016	Total	Share	Balance
One UN Fund	453,682	422,913	161,544	498,758	678,226	2,215,122	36%	71,416
Sida-PFIS	-	-	684,024	846,376	332,652	1,863,053	31%	43,073
Sida-Booster Fund	-	-	-	542,445	860,190	1,402,636	23%	2,549,879
UNCDF	41,352	272,617	171,495	108,422	-	593,887	10%	-
<b>TOTAL</b>	<b>495,034</b>	<b>695,529</b>	<b>1,017,063</b>	<b>1,996,002</b>	<b>1,871,069</b>	<b>6,074,697</b>	<b>100%</b>	<b>2,664,367</b>

### Disbursements by purpose in US\$

	2012	2013	2014	2015	2016	Total
Grantees	0	0	205,000	526,729	566,394	1,298,123
UNCDF	495,034	695,529	812,063	1,469,273	1,304,675	4,776,574
<b>TOTAL</b>	<b>495,034</b>	<b>695,529</b>	<b>1,017,063</b>	<b>1,996,002</b>	<b>1,871,069</b>	<b>6,074,697</b>

<b>Executing agency</b>	<b>UNCDF</b>
Implementing agency	UNCDF
Approval date of the project	March 2012
Project duration as per project document	March 2012 – December 2016
Evaluation date (completion)	September 2017

<b>Other UNCDF projects in-country</b>	
Previous UNCDF projects (if relevant)	NA
Previous evaluations (if relevant)	None
Dates of mid-term evaluation	Present evaluation



## Acronyms and Abbreviations

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<b>ADB</b>	Asian Development Bank
<b>AWP</b>	Annual Work Plan
<b>CFP</b>	Call for Proposal
<b>EOBD</b>	Ease of Doing Business
<b>FCL</b>	Farmers' Cooperatives Limited (Uganda)
<b>F4F</b>	Finance for Food
<b>GCH</b>	Global Clearinghouse for Development Finance
<b>ICT</b>	Information and Communications Technology
<b>IELD</b>	Inclusive and Equitable Local Development
<b>IFC</b>	International Finance Corporation
<b>IFI</b>	International Financial Institution
<b>IO</b>	Investment Officer
<b>LDC</b>	Least Developed Countries
<b>LDF</b>	Local Development Finance
<b>LED</b>	Local Economic Development
<b>LFI</b>	Local Finance Initiative
<b>LGA</b>	Local Government Authority
<b>LoCAL</b>	Local Climate Adaptive Living
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MDG</b>	Millennium Development Goals
<b>MIF</b>	Municipal Investment Finance
<b>MOLG</b>	Ministry of Local Government (Uganda)
<b>MOU</b>	Memorandum of Understanding
<b>NPL</b>	Non-Performing Loans
<b>OECD-DAC</b>	Organization for Economic Cooperation and Development – Development Cooperation Directorate
<b>PB</b>	Programme Board
<b>PBIF</b>	Pacific Business Investment Facility
<b>PD</b>	Project Development
<b>PF</b>	Project Finance
<b>PI</b>	Project Investment
<b>PO-RALG</b>	President's Office-Regional and Local Government (Tanzania)
<b>PPP</b>	Public Private Partnership
<b>REA</b>	Rural Electrification Authority (Tanzania)
<b>RFA</b>	Request for Applications
<b>RRF</b>	Resource and Results Framework
<b>SC</b>	Steering Committee
<b>SDC</b>	Swiss Development Cooperation
<b>Sida</b>	Swedish International Development Agency



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<b>SME</b>	Small and Medium Enterprise
<b>SPV</b>	Special Purpose Vehicle
<b>TIB</b>	Tanzania Investment Bank
<b>TIDE</b>	The Inclusive Dairy Enterprise
<b>TOC</b>	Theory of Change
<b>UNCDF</b>	United Nations Capital Development Fund
<b>UNEG</b>	United Nations Evaluation Group
<b>WBE</b>	Women’s Business Enterprise

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## Acknowledgements

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We owe special thanks to the Evaluation Unit at UNCDF headquarters in New York for the guidance and support it provided to the evaluation team.

Ganesh Rauniyar, Team Leader

Priscilla Phelps, Team Member



# LOCAL FINANCE INITIATIVE GLOBAL PROGRAMME

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## MIDTERM EVALUATION

### I. OBJECTIVES AND SCOPE OF THE EVALUATION

The United Nations Capital Development Fund (UNCDF) applies its Local Development Finance (LDF) approach and instruments in the areas of decentralisation and local development, climate change and clean energy, food security and land restoration, women's economic empowerment and local and cross-border economic development.<sup>1</sup> The Local Finance Initiative (LFI) is a pilot LDF investment mechanism and set of instruments to unlock domestic capital for infrastructure projects critical for unleashing the potential of local economies.<sup>2</sup> This section of the report outlines the purpose, objective and scope of the midterm evaluation.<sup>3</sup>

#### A. Purpose of Evaluation

The mid-term evaluation of LFI is a requirement of UNCDF's Operational Plan<sup>4</sup> and was commissioned at a crucial point in its implementation by the Evaluation Unit of UNCDF. A number of country programmes are underway under the current global LFI programme.

UNCDF is establishing a financing facility to support the next phase of implementation. This facility would be mainstreamed into other UNCDF thematic initiatives supporting key sectors in LDCs such as climate change, food security, and women's economic empowerment.

The objectives of this evaluation are (a) to review progress in piloting the initiative midway through the implementation period in Benin, Tanzania and Uganda and (b) to consider how the LFI approach can best be rolled out more broadly. The evaluation draws from experience in Tanzania, where LFI has been in operation the longest, as well as from recent experiences in Benin and Uganda.

The evaluation is consistent with UNCDF's commitment in LFI programme documents and framework agreements to conduct a midterm evaluation. It was commissioned in accordance with UNCDF's Evaluation Plan 2014-2015 and its Evaluation Policy, which sets out a number of guiding principles and key norms for evaluation in the organisation.<sup>5</sup>

The evaluation was conducted by two independent evaluators with an aim to make the evaluation findings useful for the programme and to support broader decision making by UNCDF management.

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<sup>1</sup> <http://www.uncdf.org/local-development-finance>.

<sup>2</sup> <http://lmftf.uncdf.org/what-we-fund/local-finance-initiative-lfi>.

<sup>3</sup> The terms of reference for the midterm evaluation were developed by the Evaluation Unit of UNCDF. They are found in Supplementary Appendix A.

<sup>4</sup> UNCDF, 2016, UNCDF Operational Manual, p. 26.

<sup>5</sup> The revised UNDP evaluation policy was approved in 2011 to establish a common institutional basis for the UNDP evaluation function. The policy seeks to increase transparency, coherence and efficiency in generating and using evaluative knowledge for organisational learning and management for results, and to support accountability. The policy also applies to the associated funds and programmes of UNDP, including UNCDF and the United Nations Volunteers programme. <http://web.undp.org/evaluation/policy.htm#vi>.

The findings should also be useful to UNCDF's government counterparts and other key stakeholders with an interest in LDF, including major development partners.

## **B. Objectives of Evaluation**

The objectives of the evaluation were to:

- Assist UNCDF and its partners to understand the relevance, efficiency, and effectiveness of LFI programme implementation to date;
- Assess likely impact and sustainability of the LFI approach in the programme countries – and particularly Tanzania - if programme implementation proceeds as planned;
- Assess the applicability of the LFI approach as a specific instrument within other UNCDF global programmes such as Finance for Food (F4F) and Inclusive and Equitable Local Development (IELD);<sup>6</sup> and
- Assess how effectively UNCDF has positioned itself with governments and other key actors in the development finance space in the targeted countries, with a view to replication and scaling-up of the approach in the future.

## **C. Scope of Evaluation**

The evaluation covers the period 2012 to 2016, including the initial pilot initiative in Uganda, the Tanzania country programme (Phase 1 and 2), the Benin country programme and the LFI Global Programme. (Figure 1 shows the time period of each activity.)

Based on the early experiences in Uganda and Tanzania, LFI was mandated to expand to other countries with the launch of the global programme April 2014, with the Secretariat based in Das es Salaam, Tanzania.

The evaluation draws primarily from LFI experience in Tanzania and Uganda.

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<sup>6</sup> See <http://www.uncdf.org/en/finance-food-f4f> for background on Finance for Food and <http://www.uncdf.org/en/ield> for more information on IELD.

## II. PROGRAMME PROFILE

### A. Programme Description

#### 1. Overview

UNCDF works in least developed countries (LDCs) to implement programmes along two dimensions of poverty reduction: Financial Inclusion, which expands the opportunities for individuals, households and small businesses to participate in the local economy and manage their financial lives; and Local Development Finance (LDF), which uses fiscal decentralization, innovative municipal finance and structured project finance to mobilize public and private funding for local economic expansion and sustainable development.<sup>1</sup>

LFI is one of several programmes under the LDF umbrella. The others include: country-based local development projects implemented through local development funds, the multi-country Local Climate Adaptive Living Facility (LoCAL), F4F and IELD.<sup>2</sup> The overarching goal of LFI is poverty reduction and the achievement of the Millennium Development Goals (MDGs), specifically Goal 1: *Eradicate extreme poverty and hunger*, and to contribute to Goal 3: *Promote gender equality and empowerment* and Goal 7: *Ensure environmental sustainability*.

The LFI global programme aims to “increase the effectiveness of financial resources for local economic development (LED) by mobilizing primarily domestic private capital through the financial markets in developing countries.”<sup>3</sup> The program works on the “demand side” of LED project finance by helping the sponsors of local infrastructure projects prepare them to raise domestic financing.<sup>4</sup> It also works on the “supply side” with financial institutions and regulators, to increase the availability of private financing for LED. And it aims to strengthen the enabling environment for private market financing of LED projects by addressing weaknesses in policy and legal frameworks.

LFI has evolved from a component of the Uganda District Development Programme III, a fiscal decentralization programme implemented between 2008 and 2012, to a multi-country Global Thematic Initiative approved in February 2014, and operating in Tanzania, Uganda and Benin and expanding into additional countries in Africa and Asia. Figure 1 shows the programme start dates by country and phase covered by the evaluation.

**Figure 1: LFI Programme Start Dates by Country and Phase for the Evaluation Period**

Phase	Start /End	2012		2013				2014				2015				2016					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Tanzania (1)	Jun'12- Jun'15	Year 1				Year 2				Year 3											
Tanzania (2)	Jul'15-Jul'19														Year 1				Year 2		
Uganda (Pilot)	May '12-Aug '13	Year 1-2 (16 months)																			
Uganda	Mar'15-Dec'17													Year 1				Year 2			
Benin	Nov'15-Oct'19																Year 1				Y2
Global	Apr'14-Dec'17									Year 1				Year 2				Year 3			

<sup>1</sup> UNCDF AT 50/Innovative Financing Solutions for Last Mile Development: 2016 Annual Report.

<sup>2</sup> UNCDF, “Local Development Finance: Global Challenges, Local Solutions” brochure, [no date].

<sup>3</sup> UNCDF, 2014, LFI Global Programme programme document, “Statement of Overall Outcome.” For the global programme, the outcome indicator is “percent gross increase in fixed capital formation for individual projects / investments under \$20m located within sub national territorial jurisdictions supported by LFI programme.”

<sup>4</sup> A project may be private, public or operating under public-private partnership arrangement.

## 2. Evolution of LFI

UNCDF identifies three stages in the evolution of the LFI programme between 2012 and 2016, as shown in Figure 2. The changes over time relate to: (i) the implementation approach (from international consultants to local UNCDF staff), (ii) the forms of support (adding seed capital and technical assistance grants) and (iii) increased emphasis on involvement of local government authorities (LGA) and public-private partnerships (PPP).

In the first stage, an international technical service provider, the Global Clearinghouse for Development Finance (GCH), was selected by UNCDF to help launch and implement LFI. GCH operated from March 2012 to June 2013 with funding from the Swiss Development Cooperation (SDC) and the Swedish International Development Agency (Sida). GCH identified projects, developed programme tools, established a dialog on LED finance with donors and other stakeholders, and organized training for government officials, bank staff and private investors. Once the Dar es Salaam office opened and local staff was hired, GCH's involvement was phased out.

In the current stage, LFI has begun to promote the “dual key” system under which it will provide project financing support to other UNCDF programmes and other UN agency country programmes. The programmes are expected to help LFI identify pipeline projects in their respective programme areas and compensate LFI for its services. The 2016 Benin call for proposals (CFP) that focused solely on food security collaboration with UNCDF's F4F programme) reflects this approach.<sup>5</sup>

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<sup>5</sup> Because LFI operated under the same Theory of Change and nearly identical Results and Resources Frameworks during the evaluation period, the evaluation team considered the stages described in this section to be part of the normal maturation of the programme.



**Figure 2: The Evolution of the Local Finance Initiative**

Stage 1 (2012-13)	Stage 2 (2014-15)	Stage 3 (2015-16)
<ul style="list-style-type: none"> <li>• LFI Programme operating in Tanzania (Framework Agreement for Phase 1 signed 6/2012) and Uganda (Framework Agreement, signed 6/2012).</li> <li>• Programme implemented by Global Clearinghouse for Development Finance (though 4/2013)</li> <li>• Programme managed by UNCDF Head of Partnerships and Business Development</li> <li>• Direct technical assistance (TA) and limited seed capital provided</li> <li>• Use of credit enhancement anticipated, but did not materialize</li> <li>• Examples of projects identified during this period: Farmer's Creameries Limited (U), Delight (U), Kibaha Modern Market (T), Olam Crop (U), <b>Amfri Fruit processing</b> and others</li> </ul>	<ul style="list-style-type: none"> <li>• Global programme approved 4/2014 with secretariat in Tanzania</li> <li>• LFI Programme operating in Tanzania (Framework Agreement for Phase 2 signed 7/2015) and Uganda (Framework Agreement signed 3/2015)</li> <li>• Programme managed by Programme Manager based in global secretariat, supported by local staff</li> <li>• Programme implemented directly by UNCDF</li> <li>• Direct TA continues; expansion of grants for seed capital and technical assistance</li> <li>• New emphasis on the role of local governments, public private partnerships and local economic development</li> <li>• Examples of projects identified during this period: FJS Africa Starch Company Ltd. (T), Luswisi Hydro Power Project (T), and others</li> </ul>	<ul style="list-style-type: none"> <li>• LFI Programme operating in Tanzania, Uganda and Benin (Framework Agreement signed 11/2015)</li> <li>• Direct TA and grants for seed capital and TA continue</li> <li>• Concepts of "dual key" process, blended finance and linkage of LFI with other country programmes introduced</li> <li>• Benin CFP for food security investments linked to the Finance 4 Food programme</li> <li>• Women's economic empowerment initiative with IELD signed 2/2016 with potential for Tanzania, Uganda and Bangladesh programmes</li> <li>• Anticipating start-up of LDF investment platform and expansion of UNCDF mandate to include guarantees and loans</li> <li>• Examples of projects identified during this period: Nelwa's Gelato (T), Santana (B), CIPTA (B), and others</li> </ul>

### 3. Strategy

LFI's principal focus is on building local capacity for developing, financing and implementing local investment projects, so that a sustainable LED investment system is created.<sup>6</sup> Its strategy for doing this is to select and support the development of demonstration LED investment projects, in coordination with national and local governments and private sector entities, and to match these projects with sources of private finance. By completing these investment projects, weaknesses in the enabling environment can be identified and addressed and stakeholders can acquire the capacity to develop and finance future projects.

The investment projects that LFI supports are in sectors where there is a convergence between UNCDF's comparative advantage and the respective government's priority local development objectives. Sectors include food security, agro-processing, local service delivery, clean energy and climate resilience.<sup>7</sup> LFI exemplifies UNCDF's "last mile financing" strategy, which focuses on geographical areas and populations that normally do not attract private investors.<sup>8</sup> LFI believes that "blocked domestic and private financial sectors," results in a suboptimal allocation of funds to development projects. Removing these blockages requires reducing risks and perceived risks and lowering transaction costs for LED stakeholders and participants in the financial market.

<sup>7</sup> In Benin, the sector choice is food security.

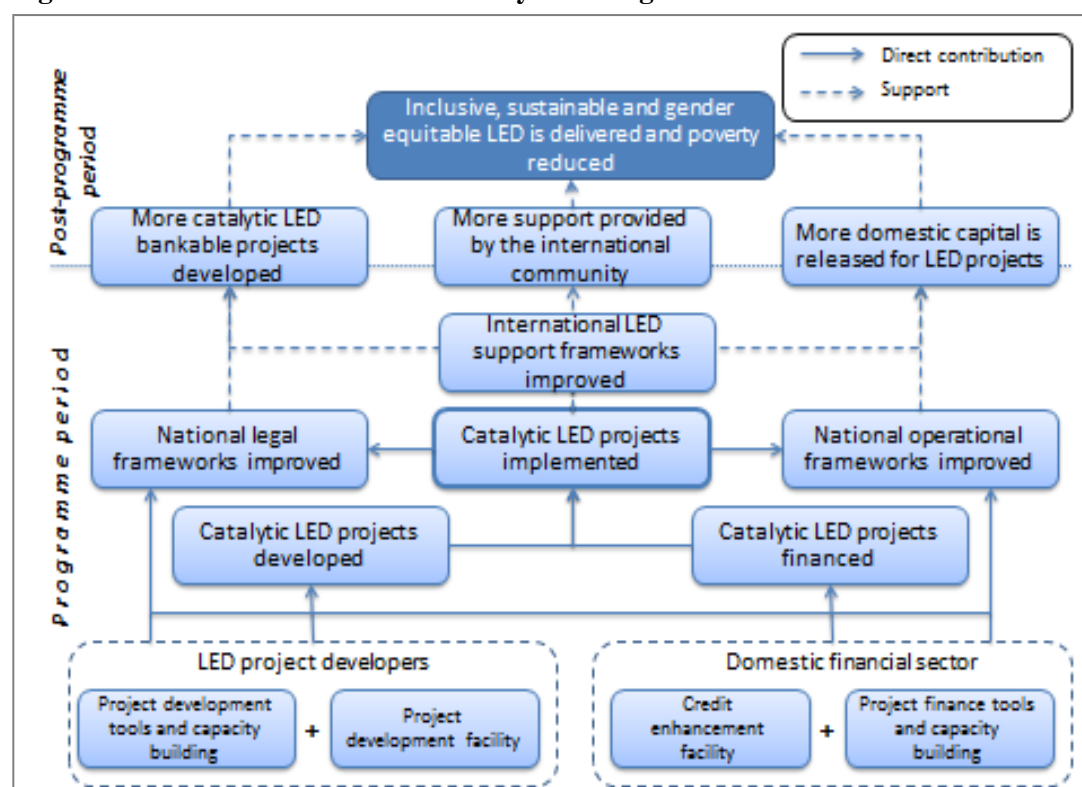
<sup>8</sup> UNCDF defines "last mile financing" as "private, domestic and foreign investments that flow to sub-national areas such as the urban and rural areas of LDCs and other developing countries where UNCDF and the supported governments identify needs for capital investments based on diagnostics and pilots." UNCDF Strategic Framework: 2014-2017, Note on Modifications to the Proposed Revised Integrated Results and Resources Matrix, April 2016.

#### 4. Theory of Change and Results Framework

LFI is based on a programme theory of change (TOC) that has been used in global and country LFI programme documents with only minor changes over time in the overall result (to reflect gender and inclusion concerns) (Figure 3). The TOC shows two principal drivers of change: project development (PD) and project financing (PF). PD and PF produce two results (respectively): “LED projects developed” and “LED projects financed,” which together lead to the implementation of catalytic LED projects (PI).

The inputs to project development are: (i) capacity building, (ii) tools and (iii) a project development facility. The inputs to project financing are: (i) capacity building, (ii) tools and (iii) a credit enhancement facility. Both PD and PI are shown to contribute directly to “improved legal and regulatory frameworks.” Similarly, both PD and PI contribute directly to “improved operational frameworks.” PI also leads to improved “international LED support frameworks.” Together, improved legal/regulatory frameworks, improved operational frameworks and improved international support frameworks indirectly support: (i) more bankable projects being developed, (ii) more domestic capital being released, and (iii) more support [to LED projects] from the international community. These last three outcomes contribute indirectly to the final programme result, which is more inclusive and sustainable LED delivered and poverty reduced in participating countries.

**Figure 3: Local Finance Initiative Theory of Change**



The Results and Resources Framework (RRF) for LFI is found in Appendix 1. The overall outcome for Phase 1 of the Tanzania programme (LFI-T Phase 1) was “Tanzania financial systems unblocked to enable and promote inclusive and sustainable local economic development.”<sup>9</sup> In subsequent country programmes, the overall outcome is to “release additional domestic and private capital for inclusive

<sup>9</sup> UNCDF uses the Results and Resources Framework to identify and measure the accomplishment of programme objectives. RRFs include multi-year information on outcomes, outcome indicators and targets, programme activities and budget.

and sustainable LED, executing demonstration projects coupled with targeted capacity-building interventions.”

For the country programmes, the indicators for the overall outcome are (i) increase in net local fiscal space and (ii) increase in local gross fixed capital formation.

In the programme document RRF for LFI-T Phase 1, UNCDF identified five outcomes for LFI.<sup>10</sup>

- Improved capacities of public and private project developer to identify and develop small-to-medium sized infrastructure projects essential for inclusive LED.
- Increased ability and willingness of domestic financial sector to provide financing for small to medium-sized LED infrastructure projects.
- Improved business-enabling environment for domestic resource mobilization for inclusive LED, ensuring integration into existing government processes, programmes, and structures.
- Increased interest and support of the development community for inclusive LED project development and finance.
- Increased effectiveness and leverage of limited public sector funds, both of the host government and development partners, by mobilizing private sector finance for catalytic LED projects.

Beginning with the global programme RRF prepared in 2014, LFI outcomes were reduced to the first two listed above. Outcomes 3-5 would be accomplished as a by-product of work on outcomes 1-2, as the global programme document explains:

*Implementation of . . . catalytic projects will feed into the national process of policy, legislative, regulatory, and operational review to create an adequate enabling environment for local development financing through the domestic financial sector.*

## 5. Programme mechanisms

LFI provides direct technical assistance and grants to project developers for technical support and seed capital to selected projects. LFI resources are used to:

- (i) Structure infrastructure projects [LFI staff technical assistance],
- (ii) Prepare technical and market studies for projects [LFI staff or consultant technical assistance],
- (iii) Prepare analyses and documents required by financial institutions [LFI staff technical assistance], and
- (iv) Partially finance projects [seed capital grants].

LFI promotes the use of non-recourse project finance structures to mobilize finance for LED projects and it refers to all projects it assists as “infrastructure projects,” whether public, private or public-private participation (PPP) projects. An LFI flow chart that shows the seven phases of its development financing process is shown in Appendix 2.<sup>11</sup>

LFI describes its activities to also include:

- (v) Capacity-building, to increase: (i) government capacity for project development and finance and ability to promote business-enabling environments and (ii) financial sector capacity for project financing,
- (vi) Monitoring and evaluation,

<sup>10</sup> Outcomes and corresponding results (referred to as outputs in the RRF) are as shown in Appendices 1, 4 and 5. [If you’re renumbering – need to change this.]

<sup>11</sup> LFI, [no date], “LFI Financing Methodology (Project Finance), Process for Identification, Development and Financing of Projects.” Internal document.

- (vii) General advocacy to promote LFI programme approach and results, and
- (viii) Provision of subordinated debt, loan guarantees and credit enhancements.<sup>12</sup>

## 6. Key management functions

**Investment project selection.** LFI identifies the projects it will support through calls for proposals (CFP) or in response to requests or referrals for assistance from partners. Projects can have a value between \$100,000 and \$20 million. Project developers can be local governments, private sector small and medium enterprises (SMEs) or organizations involved in PPPs.

LFI applies the following selection criteria during the initial project screening: (i) commercial viability, (ii) developmental impact (job creation; income generation; empowerment of disadvantaged groups including women, youth and rural populations; and trade and market access for agricultural produce) and (iii) availability of documentation (articles of incorporation, financial statements or projections, etc.).<sup>13</sup> The developers also need to demonstrate adequate management skills and compliance with applicable laws.

Both public and private project developers respond to the same CFPs, which seek “catalytic LED infrastructure projects.” LFI sometimes holds a pre-bid meeting for potential applicants. For projects still under consideration after the initial screening, LFI completes a nine-page Screening Tool that includes a “go/no-go” recommendation regarding LFI support. LFI has no set time limit to complete a CFP process.

Once a project is selected for assistance, project developer may sign a Memorandum of Understanding (MOU) with LFI that describes the support to be provided and the developer’s obligations. MOUs generally have a duration of two years. Some MOUs mention the possibility of the project receiving a grant. In the event UNCDF provides a grant, a separate Grant Agreement is signed describing the nature of support to be provided.

**Programme and project management.** LFI uses several worksheets and other tools to manage or monitor the project pipeline. For example, an Excel spreadsheet categorizes projects into four tiers, depending on their time to achieve “financial closure.” This information is regularly reported to UNCDF and the governments. Table 1: LFI Project Categories shows the definitions of the four tiers.

**Table 1: LFI Project Categories**<sup>14</sup>

Tier	Status	Description
Tier 1	Advanced / substantially completed	Reached or about to reach the financial closure within 6-9 months
Tier 2	Advanced due diligence stage	Expected to reach financial closure within 9 to 18 months. Would need additional support from LFI
Tier 3	Early due diligence stage	In very early stage and may require LFI’s intensive support.
Tier 4	Inactive	Awaiting information or considered dormant. Inactivity may be due to lack of continued interest by developer or investor or financial difficulties.

Source: LFI

Other programme management tools include a bi-weekly portfolio review, held in person and/or by conference call with the three LFI offices, and financial reports provided by the accounting system.

Management tools for investment projects include a centralized filing system housed in Google Drive; a standard file structure for each project; the Project Management Tool (Excel spreadsheet that lists due

<sup>12</sup> UNCDF, Tanzania Call for Proposals: <http://www.uncdf.org/sites/default/files//cfp-lfi-august2016.pdf>.

<sup>13</sup> Tanzania Call for Proposals, project information request.

<sup>14</sup> The total number of LFI projects in tiers 1-3 at year end 2016 is shown in Table 3.

diligence requirements and critical next steps); and standard formats for preparing various documents and financial models. Financial models have been customized for the LFI priority sectors.

**Staffing.** Tanzania serves as the LFI global programme headquarters. LFI staff by location is shown in Table 2. However, Table 2 does not show how staff time is allocated to programmes; for example, the time Tanzania staff spends working on the global programme or other country programmes.

**Table 2: LFI Staffing by Location, 2012-2016**

Country/year	2012	2013	2014	2015	2016
Tanzania	2	4	5	8	10
Uganda					1
Benin					1
Total	2	4	5	8	12

Source: LFI

**Governance.** Each government with which LFI works signs a Framework Agreement with UNCDF that describes the programme strategy and roles and responsibilities of various stakeholders.<sup>15</sup> A country Steering Committee (SC) and a Programme Board (PB) are created comprising representatives of the principal government counterpart, other government agencies, UNDP, and the private sector (in Tanzania). Framework agreements state that SCs meet once a year to provide strategic guidance, including reviewing progress reports and plans, defining strategies and ensuring stakeholder coordination. SCs also oversee evaluations and ensure findings are applied. PBs are to meet every quarter (or more frequently if requested) to provide operational guidance and oversee budget execution.

**Programme monitoring and reporting.** LFI programme monitoring is accomplished using data from programme management tools and ad hoc analysis. Country programme reports are prepared semi-annually. There are no formal systems to track RRF indicators the programme level or to consolidate or analyse individual project information, such as milestones or lag times.

## 7. Approval and execution of budget

UNCDF approves LFI programme budgets with funded and unfunded amounts, as shown in Appendix 3, Table A. Each country programme budget also projects the additional amount needed to cover the “credit enhancement gap” and the amount of “leverage from capital markets.”<sup>16</sup> Total (funded) country programme budgets shown in the RRFs and framework agreements at the time of approvals was \$10.4 million for 2012-2016, as shown in Appendix 3, Table B. The total of all annual budgets approved through Annual Work Plans was \$9.2 million (90% of initial programme budgets). Actual LFI expenditures were \$6.07 million for the 2012-2016 period, as shown in Appendix 3, Table B (this represents 58 percent of RRF budgets and 66 percent of Annual Work Plan [AWP] budgets). Appendix 3, Table C shows funding allocations by country.

Appendix 3, Table D shows that grants to developers for seed capital and external technical assistance made up 21 percent of all expenditures. Staff, consultants and travel absorbed 53 percent of the budget, while two percent of the budget went to workshops and other learning activities. The remaining 24 percent covered UNCDF overhead cost (10%), other direct cost (9%) and rent (5%).

<sup>15</sup> Framework Agreements include information such as the global programme document, country RRF, multi-year budget and monitoring framework.

<sup>16</sup> For example, for LFI-T Phase 2, the programme budget was \$5.1 million, the credit enhancement gap was set at \$14 million and the capital markets leverage was estimated at \$29 million.

## 8. Expected direct and indirect results of LFI

The principal results expected from LFI's work are shown in the RRFs of LFI-T Phase 1 and 2, the global programme, LFI-U and LFI-B. For LFI-T Phase 1, targets were identified at the Outcome level only. For all other programmes, targets were associated with Outcome indicators.

Appendix 4 shows the outcomes and outcome targets for the completed LFI-T programme Phase 1:

- 50% change in the number of LED projects identified and developed
- 50% change in LED projects financed <sup>17</sup>
- All major changes effected in national policy, legal, regulatory and operational frameworks
- At least five new national and/or local partnerships (programmes, services) established
- 100% rate of disbursement of the LFI-T Fund
- 100% increase in the amount of bank finance mobilized (minimum of \$8 million)
- 100% increase in the amount of institutional investor finance mobilized (minimum of \$2 million)
- Debt service coverage ratio of at least 1.0 of LFI-T projects

Outcome targets for the ongoing programmes are shown in Appendix 5 and include:

- Three countries in Asia and Africa adopt LFI programmes (global outcome).
- Methodology and process flows are developed, adopted and updated.
- At least 76 projects are identified and screened. (Yr 1: Tanzania: 10 [identified], Uganda: 6, Benin: 10; Yr 2: Tanzania: 25/15 [identified/screened], Uganda: 15/12, Benin: 10; global: 20).
- At least 12 projects reach financial closure or are substantially complete. (Yr 1: Tanzania: 2, Uganda: 2, Benin: 2; Yr 2: Tanzania: 2, Uganda: 2, Benin: 2. Global: 2.)
- Three scans are conducted of local economies and LED investment opportunities.
- Processes for identifying and developing LED projects are updated.
- 60 developers from private, public and local governments engaged in project development. (Tanzania: 20, Uganda: 20, Benin: 20. Global: 20.)
- Twelve LFI stakeholder groups participate in technical forums for project finance and SME finance (4 per country).
- Two potential providers of private finance and credit enhancement are identified.
- A [system for] assessment of the impact of LED infrastructure projects [is established].

## 9. Stakeholders and policy/institutional setting

**Key stakeholders.** LFI has a large number of stakeholders, including national and local governments, potential project sponsors and those involved in some aspect of project finance. They include:

<sup>17</sup> Output target 2.3 called for 10 to 15 LED projects to be financed.



- National governments (ministries of finance, planning, agriculture, commerce and local government, and financial market regulators)
- Regional and local governments
- Development partners
- Lenders and investors including institutional investors (pension funds and insurance companies)
- International financial institutions (IFIs) and development finance organizations
- Providers of credit enhancement and guarantees
- Technical service providers
- Potential private sector project sponsors including SMEs and cooperatives
- Industry and professional associations

**Policy and institutional setting.** As LDCs, Tanzania, Uganda and Benin face “severe structural impediments to sustainable development.” They are highly vulnerable to economic and environmental shocks and have low levels of human assets.<sup>18</sup> The inherent riskiness of LDCs and their shallow (small and illiquid) and volatile financial sectors make it difficult to finance investment commercially.

**Tanzania.** While the banking sector is considered sound except for recent increases in non-performing loans (NPLs), the government considers the shallow capital market to be a development finance challenge.<sup>19</sup> Economic growth is forecast at around 6% annually over the next decade, due partly to stronger consumer demand boosted partly by rising financial inclusion. Poverty declined from 34 percent in 2007 to 28 percent in 2012. Nevertheless, the GDP per capita remains at about \$1,000, where it has been for several years. In 2017, Tanzania is ranked at 132 out of 190 countries for ease of doing business (EODB), a 12-point improvement from 2016.

**Uganda.** Both domestic and foreign currency lending are very tight in Uganda, with bank interest rates ranging as high as 30% and prime rates over 20%. Uganda’s banks are also experiencing increases in NPLs. The proportion of Uganda’s population below the poverty line declined rapidly from 31.1% in 2006 to 19.7% in 2013. However, indicators for access to basic services and education are lagging. The country’s economic growth is forecast at around 5% over the next several years. GDP per capita, now around \$630, has stayed between \$600 and \$650 for years. Uganda’s EODB ranking improved 1 point in 2017, placing it 115 out of 190 countries.

**Benin.** Benin remains constrained by inadequate domestic financial resources (lack of liquidity).<sup>20</sup> Credit to the private sector expanded in 2016, but the banking system is vulnerable due to estimated NPLs of 23%. Economic growth in Benin was estimated at 4.0% for 2016 and forecast at around 6% for the next several years. Inflation was negative (-0.8%) in 2016, attributed to low oil prices and good agricultural production. The proportion of the population below the poverty line rose from 36.2 percent in 2011 to 40.1 percent in 2015. GDP per capita is expected to remain at around \$770 for 2016-2017. Benin’s EODB ranking worsened by 2 points in 2017 to 155 out of 190 countries.

## B. Implementation Status

In Tiers 1-3, LFI had a combined portfolio of 52 active projects in energy, agro-processing and local economic development in December 2016 as shown in Table 3.<sup>21</sup> Benin solicited and selected only

<sup>18</sup> United Nations Development Policy & Analysis Division web site. <https://www.un.org/development/desa/dpad/least-developed-country-category.html>.

<sup>19</sup> [http://www.mof.go.tz/mofdocs/msemaji/Five%202016\\_17\\_2020\\_21.pdf](http://www.mof.go.tz/mofdocs/msemaji/Five%202016_17_2020_21.pdf)

<sup>20</sup> <https://www.imf.org/external/pubs/ft/scr/2011/cr11307.pdf>

<sup>21</sup> The evaluation team received several different versions of the LFI project portfolio. The *Local Finance Initiative Global Report, January – December 2016* was used to prepare Table 3.



agro- processing projects as the result of following the “dual key approach.” Agro processing predominates in the Uganda and Tanzania as well.

The combined results of LFI programme implementation during the evaluation period are shown in the RRF in Appendix 1 and discussed below. Appendix 1 incorporates the five outcomes of the Tanzania Phase 1 RRF and the two outcomes of all subsequent RRFs.

**Table 3: LFI Portfolio by Country and Tier 1-3, Year End 2016**

Sector	Tanzania	Uganda	Benin	Total
Agro processing	12	15	7	34
Energy	6	2	--	8
Local economic development	7	3	--	10
<b>Total</b>	<b>25</b>	<b>20</b>	<b>7</b>	<b>52</b>

Source: UNCDF Local Finance Initiative Global Report, January – December 2016

## 1. Tanzania

Phase 1 of the Tanzania country programme (LFI-T, Phase 1) was launched in March 2012, led by the President’s Office–Regional Administration and Local Government (PO-RALG), supported by the Tanzania Investment Centre. Phase 2, approved in 2015, extended the programme through July 2019. During Phase 1, LFI set up the SC and PB and developed programme management and technical tools and procedures. LFI developed marketing material, conducted outreach to financial institutions and donors and established a relationship with the Tanzania Private Sector Foundation.

LFI carried out several training activities, including one for public officials and another for bank officials and project developers in 2014 that attracted 120 participants. Projects were identified in Phase 1 through consultation with stakeholders including government and partners. By the end of Phase 1, LFI-T had a pipeline of 30 projects including eight Tier 1 projects.

During Phase 1, \$1.2 million in grants were awarded. LFI shows that sixteen projects were submitted for financing, six projects were approved by lenders and five projects were completed. However, no bank loans were disbursed or projects completed with private credit.

As the result of two CFPs in Phase 2 (February 2015 and August 2016), 33 projects were added to the Tanzania pipeline. For the second CFP, LFI held a pre-submission workshop for potential developers.

In Phase 2, LFI-T updated project tools developed in Phase I and disseminated them in various outreach and training events, including a project finance workshop for 90 participants conducted with the Tanzania Private Sector Foundation. LFI-T also helped MO-RALG design a structure that will allow LGAs to operate commercially viable projects using special purpose vehicles (SPVs). LFI-T staff also supported the Uganda and Benin LFI country programmes.

In Phase 2, nine projects were submitted for financing, of which five projects were approved. According to LFI, four projects are under construction (Maguta Hydro Power, Mpale Solar, FJS Starch, and Lupali Small Hydro) and one project has been completed (Ileje Community Radio station, a project initiated by UNDP and financed with LFI and UNDP grants). (See Appendix 6 for a table of projects with financing arrangements to date.)

## 2. Uganda

Three short-term agreements covered the pilot phase of LFI in Uganda, the first of which was signed in May 2012. A Framework Agreement was signed in September 2015 to launch a 30-month LFI

programme. Counterparts include the Ministry of Local Government and the Uganda Investment Authority. LFI-U helped government set up the SC and PB and undertook outreach activities.

A CFP was held in October 2015. Screening was completed in June 2016 with assistance from the LFI technical team. Of 227 proposals received, 28 projects were shortlisted for LFI support. LFI adapted the tools developed by LFI for the Ugandan context. These were used in training events including a public sector workshop attended by 217 participants.

Three projects were submitted for financing, of which one (Talian) has secured commercial financing. (See Appendix 6.)

### **3. Benin**

A four-year LFI programme was launched in Benin in November 2015.<sup>22</sup> The coordinating authorities are the Ministry of Finance, Planning and Economic Development and the Ministry of Local Government. LFI set up the SC and PB and has organized outreach activities. LFI-B adapted the LFI tools for its use and supported a total of 47 individuals with coaching and training.

LFI-B held a CFP on 23 March 2016 for projects related to food security only. Of the 97 proposals received, 30 projects were short-listed for LFI support. Through the end of 2016, no projects were ready to submit for financing. (See Appendix 6.)

### **4. Financing mobilized**

To date, \$1.8 million in development agency funding has been raised for LFI-assisted projects (see Appendix 1, footnote 4). LFI has also mobilized \$1.3 million in grant funding (see Appendix 3).

It is difficult to quantify total private financing (debt or equity) mobilized by projects assisted by LFI, for a number of reasons.<sup>23</sup> Appendix 6 shows LFI-assisted projects with funding mobilized or with financing agreements or offers in hand as of August 2017 for all three countries.

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<sup>22</sup> A national election in 2015 delayed launching of LFI-Benin until November 2015.

<sup>23</sup> These reasons include the unique situation and status of each project, the difficulty of attributing any particular financing to LFI's assistance and the lack of standard terminology and categories to describe the status of individual projects as they move through the financing cycle. For instance, the evaluation team found no consensus definition among LFI staff of terms such as loan agreement, loan offer or loan term sheet.

### III. EVALUATION METHODOLOGY

The mid-term evaluation of the LFI programme was carried out during the period of December 2016 to October 2017 in accordance with the terms of reference for the evaluation developed by the UNCDF Evaluation Unit in November 2016. It is consistent with UNCDF Evaluation Policy<sup>1</sup> and is based on the OECD-DAC principles<sup>2</sup> and the UNEG Norms and Standards for Evaluation.<sup>3</sup> The evaluation is based on a mixed method approach using a combination of qualitative and quantitative evidence. The evaluation process involved three stages:

**Inception (December 2016 - January 2016):** The evaluation team prepared an inception report for the evaluation based on a review of available documents and interviews with senior staff from the UNCDF headquarters and the global LFI team. The Inception Report was approved by the UNCDF Evaluation Unit in January 2017. Appendix 7 contains the final list of documents reviewed.

**Data collection (20 January – 4 February 2017 and 20 March – 2 April 2017):** During field missions to Tanzania and Uganda, the evaluation team collected available data, visited selected project sites and interviewed key stakeholders representing programme beneficiaries, financiers, government officials, private sector interest group and development partners and UNCDF staff. The team also interviewed headquarters staff. The evaluation team attended the March 2017 Uganda Programme Board and Steering Committee meetings. Appendices 8 and 9, respectively, contain a list mission site visits and stakeholder contacted by the evaluation team.

**Report writing (April - October 2017):** The evaluation team prepared the draft and final midterm evaluation reports based on document reviews and data analysis. After presenting the draft report, the evaluator team presented emerging findings to UNCDF staff and highlighted the gaps in documentation and data. The final report incorporates the additional information provided following presentation and discussion of the draft report.

#### A. Theory of Change

The evaluation is based on the programme TOC outlined in the LFI programme document and shown in Figure 3. The evaluation assessed the underlying assumptions and application of the TOC in programme implementation and its relevance in the prevailing context in the participating countries.

#### B. Evaluation Questions and Evaluation Matrix

The evaluation covered programme activities in the three countries where LFI operated through December 2016 (Tanzania, Uganda and Benin). It applied the OECD-DAC criteria of relevance, efficiency, effectiveness, impact, sustainability, gender, and human rights to assess the following aspects of the programme and its methods and results to date.

- The relevance of programme design and its strategic fit to the needs of LDCs and UNCDF's corporate mandate;
- Efficiency in resource use and processes involved in generating outputs and outcomes;
- Effectiveness of the programme in generating outputs and outcomes in line with expectations in the agreed programme document and identification of the factors enabling or constraining programme outputs and outcomes;

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<sup>1</sup> UNDP, 2016, "The UNDP Evaluation Policy." <http://web.undp.org/evaluation/policy.shtml>.

<sup>2</sup> OECD Development Assistance Committee, 1991, "Principles for Evaluation of Development Assistance," <https://www.oecd.org/development/evaluation/2755284.pdf>.

<sup>3</sup> United Nations Evaluation Group, 2016, "Norms and Standards for Evaluation." <http://www.unevaluation.org/document/detail/1914>.

- Likely socio-economic, environmental and institutional impacts of programme interventions on intended beneficiaries of local economic development interventions; and
- Likely sustainability of programme benefits over the economic life of investment projects under the programme and beyond that LFI sponsors.

The evaluation team developed an evaluation matrix (Appendix 10) based on key questions and sub-questions contained in the terms of reference for the evaluation (Supplemental Appendix A). The matrix contains the specific questions and sub-questions under each of the evaluation parameter as well as specific indicators, means of verification, and data sources.

### C. Data Sources

The evaluation utilised four key data sources:

- Programme documents including progress reports produced by the programme
- Secondary data on LFI projects including finance data, provided by the programme staff
- Primary data collected by the evaluation team during their country visits to Tanzania and Uganda through:
  - A series of interviews and focus group discussions with key groups of stakeholders (Appendix 9). The interviews included government officials, project developers, development partners, country Programme Board members
  - Attendance at the Country LFI Programme Board/Steering Committee meeting held in March 2017 in Kampala
  - Project Profile Summary Data on a sample of advanced stage projects. The evaluation team developed the Project Profile Sheet (Appendix 11) and requested the programme staff in all three countries to complete the required information based on their project files. The team received 8 profiles from Tanzania, 3 from Uganda and one from Benin. The dates on some of the projects carried over from Phase I could not be retrieved from the system by the programme staff. The LFI Secretariat provided financial data requested by the evaluation team
- A case study analysis of five sample projects. The evaluation team reviewed a sample of projects in Tier 1 in both Tanzania and Uganda and analysed five projects in detail (see Appendix 12). The projects selected represented key sectors covered by LFI and these vary in size, type of ownership, sector and location. In four of the five cases, LFI provided both advisory services and grant funds. No baseline data was available for the projects other than information collected by LFI at the application and screening stage and captured in the project database.

The case studies are listed in Table 4, summarized at the end of Section IV.C and included in Annex 12.

The evaluation triangulated the data from the four sources to the extent possible. Limited information was available for gender-disaggregated analysis. Furthermore, given the limited number of projects and their different types and sizes, data aggregation was deemed less relevant. A proper evaluation of impact and sustainability was not possible, given the early stage of LFI projects. The Ileje community radio station was the only project visited that was operational at the time of the visit.<sup>4</sup>

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<sup>4</sup> Ileje Community Radio was initiated with UNDP support and completed with an LFI grant, but it did not involve any private capital mobilization.

**Table 4: LFI project case studies**

Name	Sectors	Location	Original Source of Contact	Project Size (US\$ M)	LFI Role*
A. Farmers Creameries Ltd.	Private (cooperative) -- Agro-processing	Uganda (urban/ rural)	LFI outreach ("Legacy project")	\$13.2	BBDA, G
B. FJS Africa Starch Company Ltd.	Private -- Agro processing	Tanzania (rural)	Tanzania Investment Bank	\$.4	BDA, G
C. Kibaha Modern Market	Public -- Local economic development	Tanzania (urban)	LFI outreach ("Legacy project")	\$10.1	PDA, G
D. Luswisi Hydro Power Project	PPP -- Rural electrification	Tanzania (rural)	Request from Government	\$14.0	PDA, G
E. Nelwa's Gelato	Private/WBE – Agro-processing	Tanzania (urban)	Chamber of Commerce	\$.22	BDA, G

\* BDA = business development advisory, PDA = project development advisory, G = grant

## D. Sampling Strategy

The evaluation team developed a sampling frame to select field visits, taking into consideration the stage of project development (tier), location and accessibility, developer type and sector, using a list of active LFI-T and LFI-U projects as of December 2016.

Of the 25 projects considered for visits, 13 were in Tier 1, three in Tier 2 and nine in Tier 3.<sup>5</sup> Twelve projects were in agro-processing, six in rural electrification, six in public service infrastructure and one in ICT. Two projects were public-private partnerships (PPP), seven were public sector projects and 16 were private sector projects. Eleven projects had received funding support from LFI. The projects were geographically situated in 13 separate locations.

The site visits were weighted toward Tier 1 projects in the hope of observing more tangible progress towards implementation than would be expected in Tier 2 and Tier 3 projects.

Table 5 shows the projects visited by the evaluation team.

**Table 5: LFI-Tanzania Investment Projects visited by Midterm Evaluation Team**

Name of Project	Tier	Sector	Location	Type of Developer
Ileje Community Radio	1	ICT	Mbeya, Tanzania	Public
FJS Starch Processing Co Ltd	1	AG	Pwani, Tanzania	Private
Kibaha Market Project	1	PSI	Pwani, Tanzania	Public
Kibaha Bus Terminal Project	1	PSI	Pwani, Tanzania	Public
EA Power Limited	1	RE	Mbeya, Tanzania	Private
Nelwa's Gelato	2	AG	Dar es Salaam, Tanzania	Private
Luswisi Small Hydro	1	RE	Mbeya, Tanzania	PPP
Coco Beach Urban Development	2	PSI	Dar es Salaam, Tanzania	Public
Farmers' Creameries Limited (FCL)	1	AG	Mbarara, Uganda	Private (cooperative)
Delight (CHEERS)	2	AG	Kampala, Uganda	Private
NUCAFE (interview at LFI office)	1	AG	Kampala, Uganda	Private
Talian (interview at LFI office)	1	AG	Kampala, Uganda	Private

Note: ICT = information, communication and technology, Ag=agro-processing, PSI = public service infrastructure, RE = rural electrification.

<sup>5</sup> See Table 1: LFI Project Categories for a description of the Tiers used by LFI to categorize projects.

## E. Analytical Method

The analysis is largely qualitative in nature due to the limited quantitative data available at the project level. Secondary data from the programme in a form useful for evaluation purposes was limited.

The evaluation team carried out the following activities in order to assess the relevance of the programme and the efficiency of programme management:

- Reviewed projected and actual activities and outputs (and any modifications to projections), against the country RRFs and summarised them at the global programme level.
- Reviewed country program budgets (and any modifications) and compared to actual expenditures during the period covered by the evaluation and summarised them at the global level.
- Sought to identify any credit enhancements provided and private finance leveraged, and compare them to the global programme targets for credit enhancement and leverage, including any modifications that may have been made since approval. The evaluation team found limited finance leverage and did not find any evidence of credit enhancements to date.
- It intended to assess the cost effectiveness of programme outputs, including cross-country comparisons but this was not possible because almost all projects were still at the developmental stage.

To evaluate the programme's attention to gender issues, the evaluation team analysed a range of project information and asked interview questions, considering issues such as:

- How projects were solicited and whether a special effort was made to contact women's businesses enterprises (WBE) and organisations that work with them,
- How gender and human rights issues were considered in screening projects,
- The share of WBEs included in the pipeline,
- How the characteristics of WBEs and their owners/sponsors differed from those of other projects and whether these differences require additional attention to ensure success in the programme, and
- Whether the programme was taking measures to address these requirements.

The evaluation team adhered to the UNEG Guidance on “Integrating Human Rights and Gender Equality in Evaluation” and as a result asked about gender and human rights issues in interviews, surveys and other primary data collection activities; and used gender-neutral language in interviews, focus group discussions, communications, data collection tools, and the evaluation report.

## F. Counterfactual and Additionality

The programme had not established a baseline for any of the projects. The evaluation did not find any valid comparable counterfactual<sup>6</sup> projects. Other projects including market infrastructure supported by DANIDA and rural electrification projects in both private and public sectors supported and facilitated by Rural Electrification Authority (REA) had some commonalities but were judged inadequate to be used as counterfactuals.

One of the unique features of LFI-supported projects is that they tend to be in locations or sectors not attractive to private financial institutions. Generally, banks prefer to minimize risks and transaction costs and view more risky and complex projects less favourably.

The evaluation team considered additionality in one or more forms such as the failure of the capital market to provide finance for small and medium infrastructure, environmental and socioeconomic

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<sup>6</sup> Counterfactuals projects are those that would be similar to the proposed projects in all respects with the exception of programme intervention.

benefits to the wider community and job creation by facilitating or unblocking access to capital from the domestic market.<sup>7</sup>

## G. Limitations of the Evaluation

The evaluation provides a performance assessment of the LFI global programme with a particular focus on LFI activities in Tanzania and Uganda at midterm based on available evidence, including facts and figures. Some of the challenges encountered included:

- *Availability and quantity of data.* The current form in which data are available required substantial efforts in extracting information. The evaluation team had to rely on LFI staff to provide the information required for the evaluation. Some of these data were made available through an online drive, but others required considerable effort to secure due to weaknesses in systems for information management.
- *State of monitoring system.* The monitoring system is cumbersome and does not permit efficient tracking of projects largely due to limited information recorded in the digital files.
- *Early stage of projects.* None of the investment projects had reached production or service delivery stage, with the exception of the Ileje community radio station.<sup>8</sup> This created difficulties in assessing project benefits from a development effectiveness perspective.
- *Number of project visits.* Due to scattered locations of the LFI supported projects, it was not possible to visit all projects and hence a stratified sampling approach was used to select the projects for sites visits, as described previously.

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<sup>7</sup> Additionality is a determination of whether a proposed activity will produce some "extra good" in the future relative to a reference scenario (baseline),

<sup>8</sup> At the time of evaluation team's visit, the radio station was not operating due to limited electricity supply off the grid.





## IV. EVALUATION FINDINGS

The evaluation findings are presented based on the evaluation criteria agreed in the inception report for this evaluation, organised according to the key questions under each criteria and in accordance with the terms of reference and evaluation matrix developed at the inception stage. As explained earlier, the evaluation findings are derived from the several lines of evidence with an emphasis on qualitative data.

### A. Relevance and Quality of Design

#### *1.1. How relevant is the Local Finance Initiative (LFI) to the programme countries in which it has intervened?*

The aim of the LFI programme to deliver inclusive, sustainable and gender-equitable LED is highly relevant in all three countries evaluated. Poverty reduction—the ultimate aim of LFI—is also a national priority in each of the three LFI countries.

The lack of capital for both private and public sector investments undermines economic development generally and LED in particular, as has been recognized in the national development plans of the participating countries:<sup>1</sup>

- Tanzania’s Vision 2025 calls for investment in infrastructure with the involvement of the private sector and communities and the National Five-Year Development Plan (2016/17-2020/21) focuses on implementation constraints for LED including the need to track LED plans prepared by local communities.
- Uganda’s Second National Development Plan (2015/2016-2019/2020) calls for the promotion of LED and states that the private sector has an important role in sub-national development and finance.
- Benin’s Vision 2025 seeks to promote private sector revitalization and business development to achieve sustainable acceleration of economic growth and transformation.

LFI is also relevant because the sectors with which it works are priority sectors for development in each country, including agro-processing, local infrastructure and decentralized power production. LFI’s targeting, in geographic areas where private sector investors are reluctant to invest and with project developers that might otherwise be unattractive due to their inexperience, also contributes to its relevance.

As shown in the TOC in Figure 3, the overall objective of LFI is to deliver inclusive, sustainable, gender-equitable LED and reduced poverty. The TOC shows that all outcomes flow from the processes of project development (PD) and project financing (PF). These two activities support (respectively) “LED projects [being] developed” and “LED projects [being] financed” (PF), which together lead to the implementation of catalytic LED projects (PI). The chain of causality in the TOC suggests that all results flow from project preparation and financing, including changes in the legal and regulatory framework and the operational framework.

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<sup>1</sup>Planning Commission, [no date], The Tanzania Development Vision 2025, <http://www.mof.go.tz/mofdocs/overarch/Vision2025.pdf>; Ministry of Finance and Planning, 2016, “National Five-Year Plan 2016/16-2020/21-Nurturing Industrialization for Economic Transformation and Human Development,” [http://www.mof.go.tz/mofdocs/msemaji/Five%202016\\_17\\_2020\\_21.pdf](http://www.mof.go.tz/mofdocs/msemaji/Five%202016_17_2020_21.pdf); The Republic of Uganda, 2016, Second National Development Plan 2015/16-2019/20, Uganda Vision 2040: “A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years,” <http://npa.ug/wp-content/uploads/NDPII-Final.pdf>; IMF, 2011, “Benin: Poverty Reduction Strategy Paper,” IMF Country Report No. 11/307, <https://www.imf.org/external/pubs/ft/scr/2011/cr11307.pdf>; and Benin Vision 2025, <http://fortuneofafrica.com/benin/2014/02/06/benin-vision-2025/>.

But the TOC does not show the chain of causality between PD and PF and PI. It seems to assume that once projects are developed and approved by the financiers, financing and implementation will follow. The TOC does not show any need for oversight of the financing process and project implementation, although this is frequently an element of programmes similar to LFI such as the Pacific Business Investment Facility (see box).

The TOC also does not show how PI leads to improved legal and operational frameworks. Nevertheless, the RRF for the LFI-T Phase 1 included outcomes and activities related to the development of an improved institutional framework—specifically, support to policy reforms and national capacity development—but these outcomes were eliminated in the global programme and subsequent national programme RRFs. This change may have led to reduced attention to institutional reforms and national capacity building in subsequent work plans.

The TOC also suggests that PI will lead to improved international LED support frameworks and to more support from the international community. The RRFs and programme designs go further in identifying the central place of international (and local) partners in LFI, but neither is specific on the criteria for partner selection or on how partnerships will be employed or maintained.

Monitoring should provide feedback from projects to the programme, but LFI does not have tools to systematically monitor targets or identify the factors affecting project financing and implementation. Not collecting, disseminating or applying this knowledge to make programme activities more effective reduces LFI's relevance. For instance, issues such as delays in project preparation and lack of equity may be more related to management shortcomings in the firms or LGAs and lack of risk management tools than with shortcomings of the financial sector, but the emphasis remains on preparing financial applications.

The programme documents all include a proposed monitoring framework, but it is not yet implemented, including in the global programme. A proper monitoring and evaluation system would make LFI more relevant by making clearer both the potential impacts and the key impediments at the programme and project level.<sup>2</sup>

LFI's relevance is also a function of its ability to consolidate and analyse lessons learned at the global level. The respective country framework agreements govern the use of country resources, but the relationship between the national and global programmes is unclear. The current global programme document roughly summarizes the outcomes and adds up the resources of the existing national programmes, but no distinct activities, budget or outcomes are identified for the global programme.

### ***1.2. How well is LFI situated in comparison to similar initiatives by other national and international development partners?***

LFI appears to be unique in both Tanzania and Uganda in offering the combination of technical assistance, seed capital and help with access to financial institutions.

#### **Pacific Business Investment Facility**

The Pacific Business Investment Facility (PBIF) of the Asian Development Bank (ADB) has similar features to LFI. Its business advisors (recruited from the private sector) assist projects in accessing commercial financing.<sup>1</sup> While PBIF does not provide seed grants, it supports businesses well beyond the point of accessing finance and closely monitors progress for two years on benchmarks such as jobs created or saved and profitability. In two and half years, PBIF has helped 12 enterprises access financing and 29 others submit applications to financiers with all requirements met.<sup>1</sup> PBIF's is funded with \$11.0 million from Australia's Department of Foreign Affairs and Trade and an ADB contribution of \$1.5 million.

<sup>1</sup> PBIF, 2017, TA 8729-REG: Pacific Business Investment Facility Quarterly Report (June 2017).  
[http://bifadb.org/images/report/Quarterly\\_Report\\_30\\_June\\_2017.pdf](http://bifadb.org/images/report/Quarterly_Report_30_June_2017.pdf).

<sup>2</sup> This would require a review of project indicators, which are currently related more to the achievement of outputs than to project and programme outcomes.

However, numerous other private, public and non-governmental projects provide technical support, facilitation of financing and/or financing on favourable terms particularly for agro processing and renewable energy projects.<sup>3</sup> To name a few examples, the International Finance Corporation's (IFC) \$5 million Scaling-up Renewable Energy in Low Income Countries Programme launched in 2015 in Tanzania promotes commercially viable mini-grid business models and advises banks on financing mini-grid developers.<sup>4</sup> REA in Tanzania provides advisory services to developers interested in investing in hydropower generation. In Uganda, private dairy companies provide technical support to dairy farmers. In both Tanzania and Uganda, national organisations and development partners are implementing programmes to increase capital investment and to match projects with investors, such as Uganda's BID Network.

LFI believes its assistance is superior to other providers. The evaluation could not determine whether this is true.

Given the number of projects with similar activities in LFI countries and elsewhere, it should be possible to benchmark LFI for cost, quality and programme results. Using its own monitoring data, LFI could also develop programme averages that would allow internal monitoring. Neither of these has yet been done.

Before LFI was launched in Tanzania and Uganda, GCH prepared financial scans for each country. These included the identification of stakeholders and partners with similar programmes, but this information has not been updated since 2012. (The analysis conducted for Benin was more cursory.) LFI staff members participate in development partner forums and other events, and as a result are aware of other partners' interventions, but LFI could not provide an up-to-date assessment of the activities of its "competitors" in the space where it is providing services.

At the LFI-Uganda PB and SC meetings in March 2017, the Board Chair requested that LFI conduct a mapping exercise to identify key players so that LFI could better identify its niche and partnership opportunities with other organisations.

### ***1.3. How coherent is the programme design to the achievement of overall programme objectives?***

The programme design is coherent with overall programme objectives at both the policy and project level.

Since LFI was first implemented as a pilot programme in Uganda, the goals were not only to scale up individual country programmes but to transform LFI into a global programme. The design appears to be sufficiently flexible for this to occur without losing the coherence of the programme. For example, the expansion of LFI into Benin with a food security focus and linkage to the F4F programme still fits within the larger LFI programme concept. The selection of specific sectors and geographical locations in consultation with government also appears to work well.

The programme design requires the establishment of PBs and SCs in each country. And while these bodies have consistent purposes, the programme allows government to select the members they consider appropriate.

There is more concern with how programme design has been translated into implementation arrangements. For example, the added value of the global programme to date is limited. LFI cannot

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<sup>3</sup> Evaluation team attempts to meet with African Development Bank, World Bank and International Finance Corporation on several occasions were not successful.

<sup>4</sup> According to the IFC, mini-grids are technically and commercially viable for high-density populations living outside the reach of the national electricity grids.

<https://ifcextapps.ifc.org/ifcext%5Cpressroom%5Cifcpressroom.nsf%5C0%5C9037B9413030641B42257EDF0034358B>

consolidate objective data from each country programme at the global level for analytical purposes. Nor are there any global activities distinct from those being implemented in individual country programmes. This situation may change with the launching of the financing platform, which could add value to the programme.

While the PB and SC structure allows flexibility to government counterparts, the evaluation team believes that LFI should encourage governments to achieve a better balance between public and private sector representation in all countries, given the programme's private finance objectives, especially through the involvement of financial sector representatives.

An important factor affecting the coherence between programme design and achievement of programme objectives is the shortage of funding relative to the budgets in RRFs and AWP. The programme objectives are judged to be too ambitious for the available funding and current approach to resource allocation. Nevertheless, there may be ways the programme objectives could be accomplished within the existing budget. For example, LFI might find less costly approaches to the practice of having LFI Investment Officers (IOs) provide all technical support to developers and facilitation with financial institutions. This could include establishing partnerships that supplement staff functions such as volunteer advisors, group entrepreneurship classes that developers pay for and earlier involvement of financial institutions.

#### ***1.4. How well have LDCs and development partners at the central and local levels supported the LFI programme objectives?***

National governments support LFI programme objectives according to interviews conducted and as demonstrated by their willingness to enter into country framework agreements and participate in PBs and SCs. Both national government and LGA officials are convinced that LFI represents a unique opportunity to mobilize finance for LED projects.

The evaluation team spoke with only one local development partner other than LGAs. In Uganda, the Inclusive Dairy Enterprise (TIDE) project is working with the UCCCU dairy producers who would partially own the project being assisted by LFI (Farmers Creameries Ltd. [FCL] processing plant). While TIDE was aware of LFI's involvement, the TIDE project does not depend on the FCL project being financed.<sup>5</sup>

Donors seem to need better evidence that the "LFI model" is working before committing resources. As shown in the Programme Data Sheet, only the UN (46%) and Sida (54%) have funded LFI, although UNCDF continues to seek other donors to support the programme. UNCDF reported being in discussions with other development partners interested in supporting LFI-type initiatives, but it has yet to receive any new commitments. The evaluation team also reviewed an assessment of LFI by one donor who concluded that the project has yet to demonstrate "proof of concept."

UNCDF believes there will be mutual benefit in LFI providing financing assistance to other UNCDF programmes such as F4F, IELD, LoCAL, MIF, and Microlead under the "dual key" system. So far, these connections are quite limited. However, the dual key approach introduced in Benin and the joint programme document signed recently with IELD should demonstrate how these synergies can be built.

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<sup>5</sup> The FCL project is described in Appendix 12, case study A.

***1.5. How well designed is the LFI programme with a view to later transition, expansion and replication in line with UNCDF's maturity model?***

UNCDF's "maturity model" consists of three stages: innovation, consolidation and scale up.<sup>6</sup> The intention with LFI was to develop a successful model, test it in Tanzania and replicate it in other countries while scaling it up in Tanzania. The time required to develop the model to a mature state was not estimated at the outset, although the replication goal in the global RRF is eight countries by year five (2017 or 2018).

The LFI programme design represents a departure from previous LD programmes, given that LFI attempts to mobilize funds from private domestic financial markets. While each new programme is an advance on its predecessors, the move from donor funding to market funding for infrastructure is probably the most ambitious transition LD has attempted to date.

After more than six years, the LFI model has evolved, and the programme has been expanded to other countries, but it is difficult to characterize the model as "mature," given the changes still being made in programme design, the number of differences between the TOC and RRFs and programme operations and the lack of a rigorous monitoring framework.

The evaluation team considers LFI to be in an advanced pilot stage and still in search of a model that works and will be sustainable in LDCs. The recommendations in this evaluation should help accelerate the programme's transition to a more mature state.

***1.6. To what extent did programme design sufficiently took into account crosscutting issues?***

The programme design has adequate focus on three key cross-cutting issues.

**Gender:** The LFI global programme document states that gender will be mainstreamed by (i) embedding gender equality criteria in tools for project selection and development and (ii) advocating for women's participation in development activities supported at the local level, including in local government structures. The expectation is that this two-pronged approach will not only give women the opportunity for capacity building, it will help ensure that women entrepreneurs have equitable access to productive resources. To understand this aspect of the programme design, the evaluation team reviewed programme materials (including those for outreach), the project portfolio and arrangements made by LFI to work with IELD.

The evaluation team found that while framework agreements became increasingly explicit over time about the importance of ensuring women's involvement in various aspects of LFI, there is no articulated strategy to operationalize this objective nor any gender-specific indicators in the LFI RRFs. Due to LFI's efforts, the project portfolio includes women-owned businesses, but it is a small percentage of all projects, and none are close to reaching the point of borrowing.

Increasing women's engagement in the programme could be challenging. UNCDF's joint programme with IELD, under which UN Women will assist UNDP and UNCDF to develop strategies to strengthen women's economic empowerment in local development programmes, appears to be a sound way to confront this challenge. However, this initiative is largely unfunded, not LFI-specific and has already

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<sup>6</sup> "UNCDF's core is a major contributor to the innovation stage, by providing the organisation's backbone of expertise and infrastructure, and risk capital to try out new finance models and derive learning. UNCDF's non-core, including the current Trust Fund mechanism, supplements the core and allows UNCDF the flexibility to allocate resources where they are most needed, to further test, then replicate, consolidate, and scale up (usually through parallel resources from public and private domestic sources, large development banks, and/or private international actors)." UNCDF, 2016, Last Mile Finance Trust Fund – A partnership for the LDCs, New York (p. 11).



been operating for nearly two years without demonstrable benefits for LFI. It will fall to LFI to clarify the results expected from this joint programme and to help deliver the joint programme goals.

**Environmental management:** LFI programme documents assume that LFI projects will demonstrate prudent management of local resources and environmental impacts and wherever possible contribute to environmental sustainability.

LFI follows UNDP's environmental safeguard requirements in investment proposals. It also requires that project sponsors conform to the environmental review process called for in each country's environmental management framework (law or other) and implement any requirements that result from national environmental reviews. LFI has not independently reviewed the soundness of national laws, nor would this be expected of an individual programme of the scale of LFI. However, staff members seem to be diligent in ensuring programs have complied with national requirements.

**Food security:** The global programme document recognizes the importance of the private sector, including SMEs, in ensuring food security and the need to develop new financial mechanisms for food production and marketing. LFI anticipated that food security would be a government priority for LFI, especially in Africa, and that the programme could focus on improving all four pillars of food security—availability, stability, accessibility and utilization. This possibility has been strengthened by linking LFI with the F4F programme.

## B. Efficiency in the Use of Resources

### *2.1 What is the quality of programme management and how well has the initiative delivered its expected results to date?*

**Programme management.** Management functions<sup>7</sup> for all three LFI countries are carried out from the Tanzania office, although many aspects of planning, staffing and control are prescribed by UN policies and systems. Recruitment and direction of local staff, business processes and resource management are mostly handled locally by an internationally recruited Programme Manager. LFI takes key management decisions in consultation with the LDF Practice at UNCDF headquarters in New York.

*Business systems.* The programme's business processes and systems make it difficult for the Programme Manager to optimize programme resources. LFI lacks proper systems to plan and allocate human resources on a weekly or monthly basis and to analyse project costs. Staff, consultants and travel accounted for 53 percent of programme resources during 2012-16, but there is no system for charging these costs to projects, an essential tool for analysis and control of project costs and for calculating the value of LFI-donated labour.

Information management could also be strengthened. While project file structures and document names are standardized, LFI cannot consolidate project information at the portfolio level because it is maintained in individual Excel spreadsheets, rather than in an integrated project management system. The lack of programme-level systems also delays reporting to UNCDF, donors, PBs and SCs, and made providing programme data to the evaluation team quite laborious and time consuming.

*Calls for proposals.* The CFPs to identify projects have been managed well, if measured by the response in all countries, especially the private sector response. Broad publicity and pre-submission workshops have contributed to this. A good response to CFPs also stems from the developers' expectation of getting grants to fund LED investments.

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<sup>7</sup> Traditionally, management functions are defined to include: planning, organizing, staffing, directing and controlling.

The materials submitted for CFPs are frequently incomplete and of poor quality. LFI spends significant time completing and reworking the information to produce viable project proposals. Other concerns with the CFP process were identified, including: a) the low response rate from LGAs and women-owned firms, and b) whether LFI selects more projects than it has the resources to support. For example, Uganda selected 28 projects from its October 2015 CFP, but Uganda's sole LFI IO has been told to focus on 2 or 3 projects, leaving the other "selected" project developers somewhat in limbo. Given the uncertainties associated with LFI-type projects, it makes sense to have a project pipeline, but there may be too much emphasis put on the size of the pipeline over the quality of projects and the likelihood that they are implemented.

While CFPs provide transparency to the project selection process, LFI has not assessed whether CFPs are the best tool for project identification. They take considerable staff time and most submitted projects are rejected. The evaluation team concluded that too many projects are being accepted – more than LFI has the resources to support in a reasonable time period, which has led to a practice of leaving LFI's commitment to the "selected" projects somewhat vague and open-ended.

Requests for applications (RFAs) have not been used to preselect financial institutions, although this approach was originally considered, because LFI believes banks wouldn't tolerate being scrutinized in such a way. Banks are approached on a case-by-case basis once loan applications are completed, based on the preferences of developers and perceived interests of the bank. Given the number of projects that are delayed indefinitely attempting to meet the conditions precedent of lenders, a less "arms-length" approach might be more efficient at mobilizing bank financing for LFI projects.

*Partnership development.* LFI needs partners due to its limited resources, the broad scope of issues being addressed and its finite presence in the LDCs. LFI commits in programme documents to develop partnerships to increase impact and ensure complementarity with the efforts of the "UN family and Bretton Woods institutions; private sector; national and sub-national governments; national and international development agencies; and civil society." The evaluation team did not consider entities serving their prescribed purpose in the programme (e.g. government counterparts and financial institutions) to be development partners as described in Annex 5 of the LFI-T programme document.<sup>8</sup> Using the Annex 5 description, formal partnerships that leverage LFI's own human and financial resources were judged to be very limited.

*Use of human resources.* The Programme Manager together with IOs make up the Investment Committee, which reaches consensus decisions on project selection, next support steps and workloads. IOs generally have finance and/or private sector backgrounds, and believe they have (or have acquired) adequate sectoral expertise to provide technical support to LFI project developers, including in complex sectors such as hydropower and agro processing. If certain technical expertise is required beyond the IO's knowledge, LFI engages external consultants on behalf of the developers to complete the unfinished tasks in the process of developing a bankable proposal for consideration by the lending agencies.

The evaluation team observed that some project delays could be attributed to LFI itself, including failure to anticipate certain predictable project challenges. For example, since LFI-T Phase 1, LFI has supported the Kibaha modern market (see case study C. in Appendix 12), which requires formation of a Special Purpose Vehicle (SPV). However, a consultancy to propose the SPV structure was contracted only in 2016. Lack of equity is causing delays in numerous projects, but so far LFI has limited ability

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<sup>8</sup> Development partners were identified as those: (i) providing targeted support in project development, credit enhancement, technical assistance, training, guarantees and grants; (ii) engaged as LED champions and (iii) supporting scale-up of LED activities.



to help project developers raise equity. This raises a question about the allocation of staff resources, and whether it might be more effective for LFI to outsource more of its analytical work so that IOs and the Programme Manager can focus on mobilizing finance and other finance-related aspects of programme delivery.

**Project management.** At the project level, timeliness of LFI support is closely tied to the responsiveness and motivation of project developers to provide information or fulfil a requirement. Several aspects of project development move slowly:

- Delays in notifying developers whether they will receive LFI assistance. (Nine months passed between the first CFP in Uganda and final selection.)
- Extended response times on requests for grant funding (the FCL manager left the company due to delays in LFI's decision whether to provide an additional grant).
- Overall project development cycle, sometimes causing technical or marketing studies to become out of date. (For examples of the latter two points, see the FCL case study in Appendix 12).

These and other uncertainties make it difficult for LFI to predict or influence when projects will complete various steps in the project cycle. An analysis of the assignment of projects to tiers in four consecutive progress reports showed that certain projects remained “Tier 1” throughout the two-year period, while other projects appeared and disappeared from Tier 1 with each report without advancing. Having a more accurate system for estimating the time and resources required by projects to advance would be useful in allocating staff time and grant resources.<sup>9</sup>

The risks associated with slow project development are often mitigated in donor projects by providing intensive real-time, on-site technical assistance at the project level (especially for municipal projects) or requiring the developer to provide dedicated staff as a condition of support.

**Delivery of results.** Although the small LFI-T Phase 1 team was very active, it did not meet a number of the targets established in the programme documents and AWP. At the same time, the funds provided were approximately 70 percent of the amount originally budgeted [\$3.5 million versus \$5.1 million (estimated)]. By programme end, UNCDF projected it would finance 10 to 15 LED projects (Output target 2.3), form 5 new partnerships (Outcome target 4), increase the amount of bank financing by 100 percent to at least \$8 million, mobilize \$2 million from institutional investors and mobilize \$20 million of credit enhancement. None of these targets were met, nor were targets revised. The monitoring system proposed for the programme [programmatic component (d) in the LFI-T programme document, page 32] was not put in place, nor were baselines established, which made tracking and reporting on all commitments difficult. Remarkably, when UNCDF published its final report for LFI-T Phase 1, the original RRF outcomes were not reported on nor even mentioned.<sup>10</sup>

The combined results projected for LFI-T Phase 2 and the other programmes through 2016 are somewhat less ambitious (see Programme Profile, Chapter II.A.8) but are also behind schedule. Results should have included, among others: (i) completion of LED scans in three new countries, (ii) at least 12 projects substantially complete, (iii) 60 additional developers engaged in project development, (iv) two new providers of private finance and credit enhancement identified, and (v) a system in place to assess the impact of LED projects. There are partial results in all areas, such as additional projects added from

<sup>9</sup> In commenting on the draft evaluation, LFI estimated that project development (feasibility and engineering studies, statutory and compliance requirements, financial modeling and business planning) takes 18 to 24 months; and procurement, construction and commissioning take an additional 12 to 24 months, depending on the project. However, LFI could provide no data on actual time periods for assisted projects.

<sup>10</sup> UNCDF/LFI, 2015, “Local Finance Initiative End Term Report, July 2012 – June 2015, Documented Results, Lessons Learned and Recommendations for Scale up and Sustainability.” [Tanzania Programme, Phase 1.]

the Uganda pipeline. The departures from targets appear to be the result of resource shortfalls and underestimation of the time required to support existing projects.

**Cost effectiveness.** Total expenditures of the LFI programme were \$6.07 million for 2012-16, of which 21 percent or \$1.3 million was used for grants. (An analysis of programme costs is found in Chapter II, Section A.7). The ratio of private financing raised to UNCDF funding would show how effectively LFI funding was used to leverage private financing. However, it is difficult to calculate this until private loans directly attributable to LFI efforts are closed and/or disbursed. In addition, to calculate leverage at the project level, LFI needs to first track actual LFI costs per project, as discussed elsewhere in this report.

As designed, the benefits of LFI go beyond financing, and include improved operational and legal frameworks and strengthened local capacity. LFI believes that all projected benefits are being and will continue to be realized, albeit with delays. However, a complex set of outcomes coupled with an inadequate monitoring system, as discussed earlier, does not permit the programme's intangible benefits to be monitored.

## ***2.2 What is the quality of programme outputs delivered to date?***

*Technical and financial support.* The main programme output is the technical and/or financial support provided by LFI to project developers. Programme participants generally consider the quality of the technical assistance they receive and the dedication of LFI staff to be high. Several project developers noted that they did not know where they could get comparable assistance. The content of technical and financial analyses appears uniformly rigorous across projects, due to the use of LFI's standard analytical tools.

LFI does not charge for its support services, nor put any limit on the cost or quantity of technical assistance project developers can receive. Many projects appear to have no MOUs that describe the nature and duration of LFI assistance.<sup>11</sup> A number of developers have received assistance for years (the period of assistance for case study projects ranges from 2 to 5 years). Each IO manages several projects simultaneously (a common practice in projects of this kind) and the programme has no formal quality control process for these services (e.g. peer review of documents or means to receive anonymous feedback from developers).

LFI cannot demonstrate that its support has led directly to the implementation of any significant projects, so it is reasonable to question their value. However, the evaluation team received almost universally positive feedback on the quality of services provided by LFI.

*Training.* Training activities attract large numbers of participants, which indicates a high level of interest. The training materials reviewed were well-prepared and technically sound (and ambitious in scope, given the context). The concepts underlying LFI's project development and financing activities are complex and may be difficult to convey in a training session of 1-2 days. LFI provided sample copies of feedback forms from two training participants to demonstrate that feedback is being collected, but no evidence that the feedback from trainees is being compiled, summarized or used to modify subsequent events or activities. This makes it difficult to gauge participant satisfaction or training impact.

*Policy reform and support to counterparts.* Other expected LFI outputs include advice on policy reforms and support to institutional counterparts. Policy reform was a separate outcome in LFI-T Phase 1 (Outcome 3) and figures prominently in the theory of change. LFI-T Phase 1 committed to having all

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<sup>11</sup> Of the five projects for which case studies were prepared, three had MOUs. .

major policy issues identified and addressed in 4 years. LFI has not articulated a policy agenda in any country, arguing that a small project such as LFI has limited scope to influence policy making. Even the LFI-T Phase 1 final report does not mention any reforms attributable to the programme.<sup>12</sup> In subsequent programme documents, policy reform virtually disappears, except where “appropriate regulations” are mentioned in Output 2.1 as a feature of an enabling environment. Nevertheless, the theory of change continues to include “National legal frameworks improved” as an outcome of the programme.

Even if outputs are of high quality, there is no guarantee they provide added value. A country could be oversupplied with quality training, for example, that is not contributing to the realization of development results for a number of reasons. LFI cannot clearly state or demonstrate the value it adds or could add to the LED financing process. An analysis of this kind is needed and should have a major influence on the allocation of resources to activities; i.e. committing more resources to LFI activities that add the most value to the LED financing system.

### ***2.3 What is the current and likely performance of investments financed at the local level in LFI programme countries?***

To date, there is no universe of completed projects on which to base a prediction about the performance of investments. The best information available to the evaluation team to judge performance came from site visits and the case studies prepared as a part of the evaluation (a summary of the case studies is included at the end of this section and detailed case studies are located in Appendix 12).

LFI projects must first receive financing and enter into operation. LFI staff lack a consensus on how performance is measured at this first stage. Staff members repeatedly identified “financial closure” as a project-level goal, although senior members of the LFI team disputed its importance. As defined by LFI staff, “financial closure” means the delivery of a full loan application to a potential lender and the subsequent receipt of a response generally, in the form of a loan offer, term sheet or both.

This is not a normal definition of financial closure in the financial field. It ordinarily means the time in a financing process when all loan conditions have been met, all documents executed and loan drawdown can begin.<sup>13</sup> Further, the LFI-T Phase 1 programme document clearly defines the goal as the financing and implementation of projects as does the LFI global programme document (albeit with only an outcome indicator and no related outputs in the latter case).

If LFI uses the first definition of financial closure as the goal (receipt of a financing offer), it relieves itself of any responsibility for assisting developers to navigate some of the most important risks associated with project finance: meeting conditions precedent, negotiating final loan terms, managing construction and starting project operations.

The quality of leadership in the firm or organization sponsoring a project is one predictor of project performance. The evaluation team concluded that LFI had made a genuine effort to assess management capacity and—in the case of the private sector projects visited—seemed to have made good judgments, although the group of projects visited was not a representative sample. And not all private projects had the leadership in place to secure financing and launch operations. FCL (one of LFI’s more ambitious projects) has been unable to keep a management team in place without periodic infusions of cash from LFI (see FCL case study in Appendix 12).

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<sup>12</sup> UNCDF/LFI, 2015, “Local Finance Initiative End Term Report, July 2012 – June 2015, Documented Results, Lessons Learned and Recommendations for Scale up and Sustainability.” [Tanzania Programme, Phase 1.]

<sup>13</sup> For example, see: European Investment Bank, “EPEC PPP Guide,” <http://www.eib.org/epec/g2g/iii-procurement/32/323/index.htm>.

For public sector projects, it is more difficult to use leadership as a criterion for success, since LFI has experienced both executive staff reassignments and new officials elected during the course of LGA project preparation. To provide stability to local government projects, it may be necessary to provide more long-term project-level technical support to LGAs.

The performance of LED projects is also related to their impact on the ground. This is a function of how benefits generated by the investment are shared between project developers and suppliers, users, employees and other project stakeholders.<sup>14</sup> Currently, LFI MOUs and Grant Agreements make no demands on project developers receiving assistance with respect to the sharing of benefits (for instance, agreeing to minimum wages, decent working conditions, maximum prices, mediation of disputes, etc.). Even the requirement that cash grants be reimbursed to LFI mentioned in the LFI-T Phase 1 programme document has been dropped.

To assess local impact, it is also necessary to have a measurement system. This topic is discussed in Section 2.4, below.

### Summary of Project Case Study Findings

The evaluation team analysed a sample of projects in Tanzania and Uganda as part of the evaluation process. The case studies are found in Appendix 12. Key findings from the review of cases follow below.

**To date none of the projects profiled has mobilized private funding.** LFI has worked with these projects for up four years (e.g. Farmers Creameries and Kibaha Modern Market), yet none of the projects has become operational or has a firm, unconditioned private financing commitment in hand. FJS Africa Starch is the closest to beginning operations, with equipment financed by an LFI grant. Kibaha Modern Market received a highly conditioned loan offer from TIB, after which Kibaha Town Council decided the project had to be redesigned and scaled back. Moreover, due to delays in project construction, several vendors have already constructed permanent unplanned structures in the designated area and market is functional with partially covered shades and partial open space within the area.

**There is a shortage of project preparation resources.** At least two of the larger projects (Farmers Creameries and Kibaha Market) are experiencing the lack of project preparation as a bottleneck that keeps what might be feasible projects from being financed. The lack of resources has kept both developers from hiring the necessary management capacity to keep the projects moving forward. LFI has injected valuable technical and financial inputs at certain points on both projects, but LFI's resources have not been sufficient to bring either project to closure. Further, the lack of resources for project preparation has caused delays that could affect the feasibility of both projects. Ideally, LFI would be overseeing dedicated local project development teams hired specifically to fully prepare these projects. Larger projects have higher project preparation costs. LFI needs more resources to help deliver the results it is promising, or it should reduce the maximum size of the projects it assists in the future. Unless the project preparation bottleneck is solved, and more projects reach the point of financing, LFI cannot prove (or disprove) that its project financing approach is feasible.

**Contacts with financial institutions happen late.** LFI may work for one or more years with sponsors before making contact with financial institutions. In one case (Newla's Gelato) an entire Information Memorandum was prepared before two banks rejected the project because it was perceived to be a start-up. The Luswisi project is likely to experience delays while financing is

<sup>14</sup> International Finance Corporation, 2010, "Strategic Community Investment: A Quick Guide, Highlights from IFC's Good Practice Handbook."

mobilized because there does not appear to be any concerted equity raising effort taking place, which could be happening even while the engineering study is carried out. LFI might consider forming an advisory or "pre-loan" committee of bankers to review projects with LFI at an early stage. LFI might also dedicate one staff person specifically to helping project sponsors with fundraising.

**Cost-effectiveness of LFI assistance cannot be assessed.** As explained earlier, LFI keeps no records of the hours spent on client projects. With the available currently information, it is not possible to estimate the full financial contribution of LFI to the projects it supports or the time required to carry out new tasks or to assess the benefit produced relative to LFI's cost. In some cases, the value of staff time could be higher than the grants awarded to projects. (In the cases studied, staff advisory time is shown as "no valuation.") An effort to record and value staff time might help LFI staff members better identify with the private market forces that are driving its clients' decisions.

**LFI's relationships with clients are very informal.** In only two of the six projects analysed had a memorandum of understanding (MOU) been signed with the developer. (Draft MOUs were found in some cases, but no signed versions, which could be just a record keeping issue.) The LFI MOU uses very open-ended language on the services to be provided (Article II. Areas of Cooperation) that puts no upper or lower limit on the time to be spent, the date for delivery of these services or the outcomes expected. The wording of the MOU may limit LFI's obligations (LFI staff expressed this belief). However, several developers mentioned that their expectations were not met or that they were confused about the exact support being provided and the delivery timeframe. The failure to sign MOUs and the vague language of the MOU could ultimately create liabilities for UNCDF and at a minimum a reputational risk with governments and clients.

The case studies reveal some general patterns in LFI assistance. Along with the site visits, they also provide clues about the future contributions of these projects to local economic development. Nevertheless, it is impossible at this stage to assess the impacts on backward and forward linkages, since those relationships have not yet been established since the majority of the projects are not yet in full operation.

*Source: LFI Case studies, Appendix 12.*

#### **2.4 What is the quality of programme monitoring systems?**

Detailed programme monitoring frameworks were reportedly prepared for all LFI programmes.<sup>15</sup> The LFI-T Phase 1 programme document envisioned development of a monitoring system using existing monitoring tools, as well as performance tracking tools to be introduced under LFI-T. These tools and systems would be used to track project status, financing mobilized, policy and operational reforms; and partnerships, programs and services provided for LED with international development community support. Indicators were also to be developed to monitor the economic development impact of the programme.

An integrated programme and project monitoring system using the methods described in the LFI-T monitoring framework (quarterly progress reports, automatic reports from on-line tools and tracking of LED project finance) has not been designed or implemented. UNCDF considers the current programme monitoring system, as described in Chapter II, Programme Profile to be adequate, but the evaluation team disagrees. A monitoring system should consolidate, monitor and report on the status of individual projects and progress delivering other programme outputs and addressing project bottlenecks.

<sup>15</sup> The evaluation team received and reviewed only the MF associated with LFI-T Phase 1.



UNCDF received significant advice on the design of a system for monitoring LED impacts on the ground from the NYU Robert F. Wagner School of Public Service in 2015, but the evaluation team learned that this advice has not yet been acted upon.<sup>16</sup>

### ***2.5 How well are partner contributions and involvement in programme implementation working?***

Members of SCs and PBs and their organizations are priority counterparts for LFI (although the evaluation team did not consider all members to be partners). SCs and PBs are meeting in all countries, although not on their planned schedules (at least 4 times per year for SCs; once per year for PBs). In the past 2 years, the Tanzania and Uganda SCs have met approximately every 8 months.

SC and PB composition differs in the three countries. Local authorities are represented on both Tanzania and Uganda SCs, as are various public agencies including the Ministry of Agriculture and REA in Tanzania and the ministries of Trade, Industry and Cooperatives and Agriculture in Uganda. In Tanzania, the private sector is represented on the PB by the Private Sector Foundation, but there is no private sector representation in Uganda or Benin. Nor does any country have financial sector representation on its SC, even though the financial sector is a major LFI stakeholder. (Private sector representation is not required by the respective framework agreements, but there could be significant strategic benefits.)

The information provided to SCs and PBs varies in quality and precision, and can be inconsistent from one meeting to the next, which could weaken these entities' oversight function. Terminology is not specific and results are reported in very general terms. It was observed that project status is reported identically in repeated reports (i.e. same number of months to financial closure), with little explanation of lack of progress or miscategorization.

SC minutes contain reminders to LFI staff of issues that have not been addressed since previous meetings and expressions of concern about the lack of progress in implementing projects. For example, the Uganda SC reminded LFI staff of an agreement made during programme development that had not been followed up on, which was to create a platform for project developers, financiers and other stakeholders to network, share experience and resolve constraints. Minutes are also very brief and contain many grammatical errors.

SC and PB members and their organizations get little acknowledgement from UNCDF for their contributions, at least in printed documents. For example, the final report for LFI-T Phase 1 makes no mention of the role of the SC and PB, nor their members.<sup>17</sup> A similar omission is made in LFI Annual Reports, including the most recent 2016 report.<sup>18</sup> Similarly, UNCDF and LFI are not acknowledged on the websites of government counterparts, that is, the Ministry of Local Government in Uganda or the President's Office-Regional Administration and Local Government (PO-RALG) in Tanzania.

LFI-T has productive partnerships with the Tanzania Investment Bank (TIB), as does LFI-U with the Uganda Development Bank (UDB). These relationships go beyond lending and could serve as models in other countries. TIB refers clients to LFI-T that are in need of support and has invited LFI into at least one major project (Coco Beach Urban Development in Dar es Salaam). The relationship with TIB

<sup>16</sup> NYU Robert F. Wagner School of Public Service, 2015, "LEDBOX: A Local Economic Development Toolkit to promote local transformative infrastructure in Least and Developed Countries, May 7, 2015." Power point presentation. [https://wagner.nyu.edu/files/careers/Capstone\\_Booklet\\_2016.pdf](https://wagner.nyu.edu/files/careers/Capstone_Booklet_2016.pdf).

<sup>17</sup> UNCDF/LFI, 2015, "Local Finance Initiative End Term Report, July 2012 – June 2015, Documented Results, Lessons Learned and Recommendations for Scale up and Sustainability." [Tanzania Programme, Phase 1.]

<sup>18</sup> United Nations Capital Development Fund, 2017, Local Finance Initiative Global Report, Global Report, January–December 2016. Dar es Salaam. <http://www.uncdf.org/article/2163/local-finance-initiative-global-report-january-december-2016>.

has also yielded a few expressions of interest from TIB, although TIB had yet to disburse a loan as of year-end 2016.<sup>19</sup>

LFI also participates in local and international events on topics relevant to the programme, including the Development Partners groups, Powering Africa Forum, Financing for Development (Addis 2015), Midterm Review of Istanbul Programme of Action (Antalya 2016) and others. Staff members network extensively with development partners and make an effort to involve local counterparts in these events.

The evaluation team reviewed the draft 2016 Resource Mobilization strategy, the focus of which is on partners with the ability to contribute financial resources to support LFI. This is important, but is not the only reason to form partnerships. There is no strategy for other types of partnerships, which might entail joint activities, exchanges of information, or sub-contracting of services.

## C. Effectiveness

***3.1. How far is the programme contributing to improvements in capacity and changes in the behaviour of public and private sector project developers to identify and develop small to medium-sized infrastructure projects at the local level in programme countries?***

***3.2. How far is the programme contributing to the improved capacity and changes in the behaviour of the domestic financial sector to providing financing for small- to medium-sized infrastructure projects at the local level in programme countries?***

The LFI TOC makes it clear that LFI is largely intended to be a capacity building programme, in which the project development and financing process is used as a sort of laboratory for those whose capacity is being built (hence the use of the phrase “demonstration project”). The two programme outcomes that all LFI RRFs share concern capacity for project development and capacity for project financing (Outcomes 1 and 2, respectively).

Even so, the TOC recognizes that it is not the lack of capacity alone that is impeding LED project financing. Policy and legal issues need to be addressed. Tools and procedures are needed to make project development and financing more systematic. (In fact, the design of reforms and development of tools and procedures create other “laboratories” for capacity development.) And participants in the system must be able to align project risk and return if projects are to be financed and implemented. LFI describes one of its roles as “de-risking.” LFI’s tools for this include project analysis and structuring and seed capital for credit enhancement. Developing risk reduction strategies for projects is an important area for capacity building.<sup>20</sup>

A challenge for LFI with respect to capacity-building is addressing the unique capacity requirements of private sector, public sector and public-private partnership developers. With such a broad agenda, and limited resources, LFI requires a well-defined capacity-building strategy and a well-organized capacity-building effort. The evaluation team received positive feedback from the project developers visited and noted the constructive relationship with key counterparts, but could not verify whether the current approach to capacity building is reaching its desired results due to a lack of verification within the programme (for example, assessments of specific capacities before and after). Nor did it appear that alternative approaches had been considered such as classes for groups of developers or engagement of academic institutions. LFI needs a more strategic to accomplish the programme’s original objectives for capacity building.

<sup>19</sup> UNCDF provided Non-disclosure Agreements (NDAs) with banks as evidence of formal collaboration.

<sup>20</sup> Grants are LFI’s tool for credit enhancement. The LFI-T Phase I programme document included a section on how LFI would expand credit enhancement, an agenda that should continue to be pursued.

The following findings contributed to the evaluation team’s conclusions regarding the capacity building strategy:

*LFI has not systematically assessed capacity needs or developed roadmaps for capacity building.* Such an exercise could have helped to ensure that limited resources are being used effectively. It could have started with identifying specific indicators of capacity on both the development and financing side and defining which dimensions of capacity it hopes to influence, namely: institutional arrangements, leadership, knowledge and accountability.<sup>21</sup>

*LFI seems to prioritize its own capacity needs over those of counterparts.* Having in-house capacity is certainly necessary for LFI to deliver on programme outcomes. However, some recalibrating may be needed to prioritize more the capacity building needs of counterparts, based on several observations: (a) LFI staff tend to conduct analyses internally when outside experts (and LFI oversight) might be more efficient; (b) LFI has focused on developing tools that serve LFI (project screening tools, for example) more than counterpart agencies; (c) LFI has no platform for sharing tools, reports, data, project case studies, etc. with partners; (d) in Uganda, MOLG commented to the evaluation team that the ministry would prefer the IO be housed in the ministry so its staff could absorb his expertise; and (e) an apparent lack of emphasis on capacity building in local institutions (academic institutions, business support entities, etc.) that have the potential to sustain LFI approaches over time.

*Current capacity building activities may not produce sustainable results.* Developing public, private and PPP projects as well as working on policy and legal reforms require a range of capacities in various types of organizations. LFI’s current capacity-building mechanisms include technical assistance for project developers and training for current and potential project developers and bank officials, delivered by LFI staff.<sup>22</sup> There is strong demand for this training, as mentioned elsewhere, but LFI cannot assess its impact, and it may not be reaching the organizations that will sustain development of the system that is envisioned.

LFI emphasizes its capacity-building with individual project developers. This is a crucial activity, but will have limited impact on building an expanded, sustainable LED financing system. LFI’s real leverage is with key organizations that will have a multiplier effect on project development and financing and will carry on policy and legal reforms in the future, building their expertise over time.

*Project selection could better support the programme’s capacity-building purposes.* If the purpose of LFI’s project development and financing activities is ultimately to build capacity, then projects need to move through to implementation in a reasonable amount of time. The demonstration effect is being lost due to the lack of project completion. In effect, the emphasis on finding “catalytic” projects—especially when these are green field projects (which are notoriously difficult to finance) or large, complex projects—may be undermining the capacity-building purpose of the programme. Complex and green field projects can take many years to complete, and require grants for technical support well beyond LFI’s means, as the FCL project demonstrates.<sup>23</sup>

*Awareness of LFI and its objectives is not very high.* The RRFs and LFI staff mention the need for awareness of LFI in two contexts in particular: (a) awareness of project developers of LFI CFPs and (b) awareness of bankers of the LFI programme and of the non-recourse project financing model. LFI and MOLG concluded from the most recent Uganda CFP that different awareness-building measures were

<sup>21</sup> See *Capacity Development: A UNDP Primer* (<http://www.undp.org/content/undp/en/home/librarypage/capacity-building/capacity-development-a-undp-primer.html>) and *UNDP: Measuring Capacity*. LFI should also apply a similar framework for the private sector.

<sup>22</sup> According to figures provided by LFI, less than 1% of 2016 expenditures was spent on learning activities.

<sup>23</sup> The \$13 million FCL project has received 5 years of LFI support and is far from completion. See Appendix 12 case study.



needed to stimulate interest in CFPs within the public and private sectors. That MOLD did not successfully mobilize local governments (by its own admission) suggests that LFI may have overestimated its counterpart's outreach capacity. Or it may be that without more training to understand what launching a privately financed project or PPP entails, local governments reticence to submit proposals is well-placed. In this case, awareness is a by-product of capacity building.

LFI mostly uses UN-based tools (UN website, Twitter account, etc.) for communicating its aims and activities. It does not have its own web site or a communications effort on LED for the general public.

Awareness of LFI is high in both countries in the development banks (TIB and UDB), where LFI's outreach efforts have resulted in exchanges of information, referrals of clients and a willingness to consider LFI projects for financing. These are important relationships that LFI has been wise to cultivate. Awareness of LFI in commercial banks contacted is quite high in Tanzania where LFI has operated the longest. In Uganda, the process has just commenced and at this stage even some bankers who had been contacted by LFI staff understood little about the programme.

LFI's government counterparts do not mention the programme or its activities on their web sites. Doing so would help build public awareness in the public sector and development community.

A number of LED developers shared their original misperceptions about LFI and the purpose of the CFPs and training events, pointing out particularly the difficulty of interpreting the CFP application. Some participated in CFPs and training expecting that it would make their projects eligible for grant funding.

*It is difficult to measure whether LFI has made banks more willing to lend (i.e. "unblocking" private finance). Larger banks in all countries are aware of the non-recourse project financing (NRPF) model but any experience is with larger projects, not with small and medium-sized infrastructure projects promoted by LFI or outside of traditional sectors.*

Further, as in all emerging markets, there are numerous impediments to the use of NRPF and to lending to the public sector generally. These include high risk aversion (usually due to the banking laws), lack of tools for credit evaluation, limited experience with PPPs, and the difficulty of enforcing claims on property (especially for public assets) and other loan covenants. These conditions create real risk (not just "perceived risk"). When combined with high and variable interest rates and poor economic conditions outside of capital cities, they make lending to LFI-type projects difficult for banks. LFI's value added is in helping LGAs identify and carry out these projects and in helping banks understand how to utilize private financing and PPPs for LED projects.

The LFI-T Phase 1 programme document promised that LFI would introduce new financing approaches such as pooled financing and credit enhancement, which are designed to reduce lender risk. LFI is seeking to partner with agencies that provide credit enhancement, such as USAID's Development Credit Authority, which could increase the number projects financed. This could be done on a transactional basis or by means of existing bank guarantee facilities, either of which are likely to require significant technical support from LFI or another development partner.

## D. Impact on Broader Policy, Financing and Economic Systems

### ***4.1. To what extent is the programme on track to supporting the building of an improved policy and institutional enabling environment to channel resources (both domestic and international) to financing local level infrastructure in LFI target countries?***

The programme TOC envisaged the need for improvements in national legal frameworks. As mentioned earlier, policy and legal reform was an outcome only in the LFI-T Phase 1, but remains an output in subsequent RRFs.

UNCDF provided inconsistent responses as on whether promoting reforms in the enabling environment is a focus of the programme. According to the LFI Programme Manager, LFI has not yet initiated any overall policy reform agenda in any of the countries covered by this evaluation, but has taken a more situational approach to address specific policy reform needs. This is driven by the perception of LFI that legal, policy and institutional reforms take time and higher level engagement with the government and other constituencies than LFI has the resources to maintain.

The evaluation team found that LFI staff members maintain regular contacts with government counterparts who attend PB and SC meetings and in particular with the PB and SC Chairs. PO-RALG has adopted the "LFI approach" for local governments, which means using SPVs and PPPs for financing revenue-producing local infrastructure projects. Tanzania has also established a PPP Unit within PO-RALG.

LFI has supported the development of a governance structure in Tanzania for LGA income-generating investments using SPVs, by identifying how to address challenges including approval of LGA funds, statutory requirements and government approvals; and has contracted studies on specific SPV structures. In Uganda, an SPV was established for the FCL project to create a separate business entity for the project.

Reforms carried out to date are small in scale but may have a large impact and they point to an effective role for LFI. Even if LFI's policy interventions are to be targeted, the programme could take a more systematic approach to supporting changes in the enabling environment. However, it lacks up-to-date country diagnoses of the policy and legal factors undermining LED financing and work plans that show how LFI and partners will help government address them.

### ***4.2. To what extent can programme activities be linked to increases or decreases in the domestic and/or international resources set aside for infrastructure development at the local level?***

There is no evidence to date that the LFI can be linked to increases or decreases in the domestic and/or international resources available for infrastructure development.

UNCDF expected to raise significant additional donor resources from both domestic and international sources for LFI beyond the initial contribution from Sida. As described to the evaluation team, and shown in the Programme Data Sheet on page resource mobilization efforts by the Programme Manager at the national level and by UNCDF at the international level have maintained a small but stable funding stream, but these efforts have not raised significant additional resources nor diversified the donor base. (The evaluation team was not able to verify how ambitious these activities have been.)

For private financing, LFI projects are competing against many other potential clients, since lenders have not committed ex-ante to LFI's objectives and therefore have no particular allegiance to the projects LFI has prioritized. The commercial financial institutions interviewed by the evaluation team stated that they are always looking for "good projects," and are happy to have another contact (LFI) that is a potential source of projects, in addition to providing free project preparation support. But

nothing LFI has done to date has increased the available funding for LED projects, because under current arrangements there is no earmarking or setting aside of funds for LFI or LED projects.

Mobilizing programme funds has also been difficult because each source is dependent on the other. In particular, while donor funds can provide risk reduction that will get private investors more interested in participating in LFI, donors want to see that private investors are already on-board. Donors interviewed by the evaluation team expressed their willingness to provide resources once LFI activities demonstrated more tangible results (“proof of concept”).

Mobilizing new private finance for projects requires more than just good project preparation, although it is important. In both Tanzania and Uganda, the financial sector is small and constrained. In the absence of capital markets, banks are the only borrowing option. Banks in turn are dependent on either mobilizing savings or accessing central bank lines of credit. Savings instruments are nearly all short-term and are limited due to the low income levels in the countries. Furthermore, high and variable interest rates in both Tanzania and Uganda make borrowing more expensive and projects less feasible. (Refer to Section II.A.9 for a discussion of economic conditions in the countries.)

Given these uncertainties, financial institutions in both Tanzania and Uganda currently have a small appetite for long-term LED investments without a high proportion of equity in the financial structure or government guarantees. Unfortunately, it does not appear that strategies originally proposed by LFI to encourage banks to lend, such as loan pools and various forms of credit enhancement, are being actively pursued.

Consequently, LFI seems to be moving away from a principal focus on mobilizing private funds toward a “blended finance” approach, which would mix public, private and/or non-governmental funding, depending on the project. On one hand, diversifying funding sources could lower the risk of any one source not being adequate. On the other hand, this move increases the complexity of LFI’s fundraising efforts, since each source requires its own approach and has its own project cycle and financing priorities.

Creating its own loan and/or guarantee fund could help LFI overcome funding constraints. It will also increase fundraising costs. More importantly, it could undermine the fundamental goal of LFI—raising private financing for LED, thereby diverting the programme’s attention from its original purpose and unique contribution in the development finance field. UNCDF also risks losing its focus on risk management, a fundamental requirement for market development, and creating the dynamic where private financiers—once exposed to low-risk or no-risk lending—will fail to develop their own risk-reduction strategies and tools and consequently avoid riskier clients such as those LFI is assisting in the future.

#### ***4.3. To what extent is the LFI programme likely to contribute to initiating or sustaining broader economic development in the localities where it is present?***

The LFI TOC envisions that the implementation of “catalytic projects” will produce development impacts including contributing to employment generation, income production and ultimately to poverty reduction in the participating countries. Since the projects are at different stages of development, and few have been implemented, it is difficult to predict their contribution to local economic development in the places where they are (or will be) located.

One of the criteria for project selection is the potential benefits the project will provide to local communities. The subsequent impact of selected projects should be captured by the results monitoring system. However, the indicators needed to do so have not yet been designed or incorporated in the project monitoring system. Nevertheless, based on the project visits and review of project information,

the evaluation team believes that there is good potential to generate such impact if the projects are implemented effectively and efficiently.

## **E. Sustainability of Programme Results within the Broader Policy Environment**

### ***5.1. To what extent is change in the policy and institutional level supported by the programme likely to continue over time?***

LFI focuses strongly on the preparation of investment projects, as if this were the principal impediment to LED financing. But this is clearly not the case, and in fact improvement in the national legal framework is one of the core elements of the LFI TOC.

LFI is carrying out or proposing to carry out activities that will contribute to the operational aspects of sustainability. These include setting up National Platforms in LFI countries (although concrete results so far are limited). In Uganda, LFI has supported establishment of the LED Unit within the Ministry of Local Government. LFI's work to establish public-private governance structures for LGA projects will contribute to sustainability. LFI has supported the establishment of SPVs for Same District Council, Kinondoni Municipality, Arusha City, Kibaha Town Council and Ileje District Council. These are useful initiatives that need to be followed through to implementation.

There are clearly other operational impediments to LED finance, including the lack of policies and procedures in various aspects of the process and inefficiencies in applying policies that do exist. For example, in Tanzania there is enormous uncertainty associated with the government approval of LGA borrowing. As a result, financial institutions will not entertain loan applications from local governments without pre-clearance from the government. Government attributes the delays to the implied government guarantee its review implies, even when LGA revenues are the source of repayment. However, financial institutions do not consider the government's approval of borrowing to be a guarantee. An effort to reconcile these various perspectives (whether by LFI or in collaboration with other donors) backed by updated policies and procedures, would provide more certainty to the market and contribute to long-term sustainability.

LFI did not mention any concern about crowding out local and/or private sector technical assistance activities due to LFI's lack of fees, but this is a legitimate sustainability concern that could be analysed in the context of defining the terms of reference of the National Platforms.

Stakeholders in both public and private sectors recognize the need to create an institutional environment conducive to supporting access to finance for LED activities. This improved institutional environment would have lower risks, a larger pool of financing, greater financial inclusion, a larger menu of investment and borrowing options and lower and more stable interest rates. However, as discussed elsewhere, LFI's engagement (and its ability to engage) at the national level to create this enabling environment is limited. The lack of these conditions undermines the sustainability of any other reforms.

### ***5.2. What are the prospects for continued financial and social performance of the portfolio of LFI-supported investment projects over time?***

By design, the LFI programme is to provide revenue to the developers and socioeconomic benefits to the wider local communities, particularly for the poorer segments of the population now mostly engaged in primary production and/or wage employment. Yet to date, the projects in LFI's portfolio in all three countries are mostly in the process of accessing finance (See Appendix 6 for a list of projects in various stages of financing.). As a result, there is no sample of completed projects whose prospective financial and social performance can be assessed.

Careful selection of LFI projects and rigorous due diligence is intended to help ensure that investments are both profitable and beneficial for the local communities. Delivering a well-performing LED project means overcoming a myriad of risks associated with management capacity, operations, market conditions, etc. These risks make financial institutions reticent to lend to the types of borrowers that LFI is supporting.

Not being able to prepare a quality loan application is certainly an impediment to borrowing. But there are equally important impediments and risks throughout the project cycle, including those associated with implementation. Future financial and social performance of the LFI portfolio will also be affected by conditions such as timely access to finance and the presence of an investment-friendly business environment. While LFI cannot address all the risks associated with the types of projects it is supporting, it may be able to mitigate some of them by forming more strategic partnerships with development agencies and other partners to create a “continuum of care” (longer-term oversight) for projects, especially for higher-risk projects, once they leave LFI’s hands. This could be an important benefit of “dual key” projects where another UN technical agency is involved.

## **F. Gender Equality and Women’s Empowerment**

### ***6.1 To what extent is the LFI programme aligned with UNCDF’s gender mainstreaming strategy and LDCs’ national gender-related goals?***

As described throughout the evaluation, gender equality is a core objective of the LFI programme. The programme documents speak clearly about seeking gender-related outcomes. In addition, the evaluation team observed that LFI staff members are sensitive to gender issues and are committed to supporting projects that contribute to women's economic empowerment.

Women play an important role in agriculture in LFI countries. Therefore, the programme focus on agricultural-based investments could be an important entry point for women's economic empowerment.

The evaluation shows that the programme is well-positioned to contribute to gender equality and gender mainstreaming in LED. UNCDF’s agreement with IELD has the potential to provide significant benefit and to fill gaps identified in the gender framework. These include developing a gender action plan, updating the LFI RRF to incorporate results indicators related to gender and defining a strategy to reward staff for efforts to further the goal of women’s economic empowerment.

### ***6.2 Did the LFI programme strategically allocate resources (funds, human, time and expertise) to achieve gender-related objectives?***

The programme’s resource allocation seems to be gender neutral. Of the seven Investment Officers at LFI (five in Tanzania, and one each in Benin and Uganda), the gender composition is 6 male and one female. Overall, female staff account for 30% of the total (4 out of 12, all based in Tanzania).

### ***6.3 How are women and men likely to benefit from the LFI project activities?***

As stated earlier, it is too early to predict how women and men are likely to benefit from the LFI project activities because most projects are at the initial stages of financing and implementation. Generally, men benefit more than women from programmes such as LFI unless women’s enterprises are sought out, or the programme targets sectors where women are active.

The evaluation team noted that LFI is actively seeking to support viable investment proposals proposed by women developers, but its strategy has yet to be fully consolidated. It was not evident that LFI had identified sectors where women are heavily represented. The pipeline of projects in all three countries suggests substantial focus on agro-processing investment proposals, which could be a means for

preferentially benefitting women, but a concerted effort would be required to identify and follow up on these opportunities.

It should also be noted that the evaluation team did not identify any human rights concerns in carrying out the evaluation and concluded that LFI staff are prepared to address these issues should they be found.

***6.4 Are the gender-related outcomes likely to be sustainable?***

The sustainability of gender-related outcomes will depend on instilling the philosophy of women's economic empowerment in counterpart organizations and on developing leadership among women entrepreneurs.

Selecting and supporting of women-owned projects is part of this formulation, but it may take more effort to convince leaders to continue with these efforts. LFI in association with IELD and other agencies needs to focus strongly on these issues in the remaining programme period, in order to ensure their sustainability. UNCDF management can contribute by setting a high standard when reviewing annual work plans and establishing and monitoring programme benchmarks.





## V. CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions of the Evaluation

The midterm evaluation of UNCDF's LFI programme concludes that the programme is relevant for the countries in which it operates and well-aligned with national priorities, as it aims to address one of the key development constraints in LDCs—lack of access to finance for LED.

LFI is implemented by a motivated team with good local knowledge and backed by governments that are committed to the programme's goals and convinced of the value of its approach. While LFI is not the only entity supporting project development (especially in sectors such as agro processing), there are strong indications that the combination of support LFI provides—grants, technical assistance and facilitation of private financing—is attractive to private project developers. On the public sector side, the LFI approach is unique, but the need for technical support at both national and local levels and the financing challenges are much greater and it is more difficult to assess demand.

LFI is a small programme and tangible results for the 2012-2016 time period are limited and in some cases difficult to attribute to the programme. Poverty reduction—the programme's overall goal—depends on LED, which in turn depends on implemented projects operating successfully and producing local economic value. Not only is the number of implemented projects very small so far, to date there is no agreement on how to measure LED impacts nor have measurement tools been developed to do so.

Less tangible results concern behaviour change in government and private entities (principally banks) responsible for the development and financing of LED projects. These depend on capacity building, new organizational practices and in some cases institutional reforms. In the public sector, LFI has been successful in convincing government officials that private financing for LED is worth pursuing, but it risks losing their interest without more tangible results. While LFI staff members are very busy with projects, the overall programme seems to lack momentum and strategic direction.

The following are several broad conclusions that the evaluation team reached regarding the LFI programme based on the findings in each dimension of the evaluation and nearly nine months of communication with LFI and UNCDF staff and stakeholders. They are followed by specific recommendations in each dimension of the evaluation process.

#### 1. Mobilizing private financing in LDCs is not easy

The lack of long-term private finance for any purpose in LDCs is a problem, but also a symptom of much larger and more systematic weaknesses in the economy and institutional framework. These weaknesses are precisely what make the country an LDC.

Common weaknesses relevant to local development financing exist in LFI countries: high risks associated with all aspects of financing and limited risk management tools, and thin financial sectors that have limited funding and are adverse to risk. Institutional development is a long-term process that addresses these conditions, allowing the financing system to sustainably grow and develop.

In fact, there is often in LDCs no lack of theoretical knowledge of how to finance projects in the manner promoted by LFI (LDC bank personnel may have been educated and worked in more developed countries) but there is a lack of experience due to the difficulty of doing so. When risks are high, banks are also unlikely to innovate (for instance to finance LGA projects), since innovation can create more risk and higher transaction costs. Similar constraints exist for raising equity but equity holders stand to gain more in the long run (so may accept greater risk) and can often intervene if the project is faltering.



The lack of experience and innovation also affects the demand side—why bother to propose new financial structures if there will be no interest from the financial institutions?

Development agency interventions such as LFI can help stakeholders—including financial institutions—better understand the mutual benefits of a financing system for LED (or other purposes) that involves private finance. They can also facilitate the engagement of key local actors and assist them to define and commit to a path of reforms to pursue over the medium to long term. In this context, implementing individual investment projects provides evidence of where the system is weak, which can help with identifying how to address those weaknesses. For example, high equity requirements are a tool used by the banks to reduce lending risk. These risks might be mitigated in other ways, but first they must be clearly identified.

The introduction of UNCDF’s own financing and guarantees could play a constructive role in expanding finance and promoting financial system reform or it could introduce new distortions that will slow reforms. It should be done with caution and with a clear vision in mind in particular of how private financing will be channelled to local government projects in the future (which may not be through banks).

More important is to implement the entire LFI programme keeping in mind the systematic nature of the problem. Focusing programme resources so heavily on the financing of individual projects, no matter the source of funds, without drawing lessons for the larger reform process, may be a victory for individual project sponsors but may not move LFI countries closer to having sustainable financing systems for LED in the future.

## **2. The LFI model won’t be sustainable without institutional reforms<sup>1</sup>**

UNCDF provided mixed messages to the evaluation team regarding the place of policy and institutional reform in the LFI programme. The need for such reforms (and LFI’s support for them) is clearly stated in both the LFI theory of change and in the results and resources frameworks.

Given LFI’s financial constraints, it is understandable that work on policy and institutional reform would be sacrificed to accomplishing other, more tangible results such as project preparation and financing. However, financing LED projects will continue to require extraordinary effort and financial support unless systematic changes take place in the enabling environment.

LFI has neither the financial resources nor the technical expertise at the country level to develop or implement roadmaps for sustainable LED financing system development. To complicate matters further, some priority reforms are distinct for private sector and local government financing, so there might need to be separate roadmaps. However, if these reforms are not being carried out, the LFI model will never succeed.

The evaluation team concludes that LFI can and should support policy and institutional reform aimed at improving the business environment for LED investments, but in discrete areas and in collaboration with government and non-governmental partners. In order for LFI’s contribution to be strategic, it would need to: (a) form partnerships with agencies working on larger scale reforms that support financial market financing of LED, and (b) in consultation with them and based on a rigorous and up-to-date analysis of binding constraints to identify LFI’s niche in the larger institutional reform process.

It is also crucial that the capacities to identify and lead LED-related policy reform exist in government. Therefore, the programme needs to be concerned with how its government counterparts can develop

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<sup>1</sup> The phrase “the LFI model” means using non-recourse project finance structures and local bank funding to finance small to medium-scale, revenue-producing infrastructure projects with a positive impact on local economic development, which are sponsored by local governments, private parties or a combination of the two (PPPs).

these capacities. This could entail engaging academic institutions or other donors to provide training on the policy reform process in general and on the specific reforms that support LED financing.

### **3. LFI is too short-lived to work in isolation**

Building effective partnerships can extend the reach of one programme by leveraging the resources of others, even though doing so also has risks and costs. The evaluation team observed that resources for partnership building were limited, which helped to explain why the programme's main "partnerships" were those that supported core programme activities (lending with the development banks and programme management with government counterparts, for example). No significant initiative was identified that resulted from a formal partnership arrangement.

The unique nature of LFI's work was sometimes stated as a reason its partnership-building was limited. However, the sustainability of the LFI approach depends on its experience to date being disseminated and built upon over time, which can be supported through strategic partnerships. It also depends on LFI not crowding out local actors and supporting the development of sustainable organizational models. For instance, a partnership with an academic institution to develop courses and internships in LED finance or with banking associations to link them with their international peers, for example, could have far-reaching impacts even after UNCDF is no longer present.

### **4. Capacity building depends on completing projects**

Developing and financing successful projects will produce long-term economic benefits and encourage replication. At the same time, the project development and financing process in LFI is not an end in itself, as discussed previously, but is a tool that will help LFI counterparts identify and address weaknesses in the overall development and financing system and contribute to capacity building on both the demand and supply side.

Each investment project builds some capacity in the project developer, but the long-term effect of this is limited (some developers may not even borrow a second time). More important is that the project development and financing process be used to build the capacity of key stakeholders and to give them the opportunity to "role play" their functions in the future financing system, even if what exists today is not yet sustainable.

Two conclusions emerge from this assertion. First, that it is important to complete projects in order to build capacity, even if they are not the highly "catalytic" projects that LFI aspires to deliver. Where there are trade-offs between selecting less catalytic projects that can be completed or sacrificing the project's capacity building goal, project completion should be the priority. Otherwise, the programme's goals for both capacity building and institutional reform are less likely to be accomplished.

Secondly, LFI lacks a rigorous process for identifying project development challenges, extracting lessons learned and sharing that information with counterparts. The project development process is a sort of laboratory that has the potential to instruct the programme. Yet the LFI team could not readily identify the principal bottlenecks affecting the portfolio based on experience to date. There is a wealth of knowledge being produced by each project's development and financing experience that needs to be monitored, tapped and analysed with counterparts in the remaining period of the programme.

### **5. LFI is under-resourced for the commitments it is making**

A principal conclusion of the evaluation is that UNCDF has defined complex and ambitious objectives for LFI and made significant progress in some areas, such as project identification. However, the available resources (financial, technical and human) are insufficient for the tasks at hand. The result is a programme that has made commitments and created expectations that exceed its ability to deliver.

Management and staff seem reticent to admit to the mismatch between promised outcomes and available resources. This situation and its implications for programming are also not being discussed candidly with LFI counterparts. To mask the effect of the shortfalls, LFI avoids measuring its results objectively against RRF milestones and at times overstates its accomplishments. Some remedies being considered, such as reducing LFI's focus on the objective of mobilizing private financing, risk undermining the original purpose of the programme.

The evaluation emphasizes the need for better monitoring, more transparency with counterparts and more strategic allocation of resources among various LFI activities as means to reconcile programme commitments and resources at midterm.

## B. Recommendations

The following recommendations are based on the results of the LFI mid-term evaluation. They call for changes in several aspects of the programme in order to increase the likelihood that it produces its intended outcomes and supports UNCDF's longer-term local development finance agenda in LDCs.

1. Stay committed to the original private financing objective of LFI. The unique feature of LFI is its stated commitment to mobilizing private financing for LED. Predictably, this has proven to be difficult. Seeking financing from non-governmental and sector-specific sources can provide a more diverse funding base for LFI and its supported projects, but this will have corresponding costs. The evaluation team concluded that the avenues for increasing private finance have not all been adequately investigated. Specific recommendations include:
  - 1.1 Increase ex-ante collaboration with financial institutions through formation of a financial sector working group or advisory committee in each country, a representative of which would participate in the respective Programme Boards.
  - 1.2 Conduct a stakeholder analysis with the specific goal of identifying national and international agencies involved in policy reforms leading to a deeper and more stable financial sector in each country. The organizations could differ from one country to another but could include respective ministries of finance, central banks, chambers of commerce, trade and investment boards, and associations of financial institutions, as well as the IMF, UN agencies, IFIs and key bilateral agencies. Cultivate relationships with these organizations (as a group and individually) and enlist their help to identify the reforms on which LFI should focus.
  - 1.3 After carefully studying the operational options for the LFI financing platform in each country (which could include lending, guarantees, other forms of credit enhancement, pooled financing, assisting projects to raise equity, serving as intermediary for mission-oriented investors, etc.), work with these stakeholders also to identify the appropriate strategy for the platform.
2. **Refocus on the capacity-building purpose of LFI.** The principal outcome of LFI should be strengthened capacity: to develop projects, to finance projects and to support policy reforms aimed at improving the business environment for domestic capital mobilization for LED investments. Even under the most optimistic scenarios, UNCDF is unlikely to be present in LFI countries long enough to put in place the enabling conditions and capacities for LED finance—this process will take a long time and will need to be continuously recalibrated as the institutional environment evolves. Specific recommendations include:

- 2.1 As part of the stakeholder mapping exercise, identify other public and private sector training organizations with which LFI could coordinate to deliver on its capacity building goals related to LED investment and contact them to explore options.
  - 2.2 In collaboration with the SC and PBs, relevant government agencies, academia and others, define in concrete terms the public and private sector capacities required to sustain the LFI approach. The strategy should cover both what UNCDF or LFI can do and the support LFI can seek from national and international organisations.
  - 2.3 Develop a capacity building strategy and plan that supports the required capacities in collaboration with relevant partners.
  - 2.4 Include as a priority that local government ministries in each country are able to identify impediments to LED finance and needed reforms, and understand how to communicate these issues within government. Strengthening this capacity could include developing a tool such as “report card” on subnational business conditions and financing that could be regularly updated by these ministries.
  - 2.5 At the same time, and given the capacity building focus of the programme, LFI should establish an annual budget benchmark for capacity building and fully fund it.
  - 2.6 When conducting training activities, ensure that participant evaluations are collected and afterwards analysed and that the feedback is used to improve on future training activities. Also verify whether capacity development activities have longer-term impact by following up with a sample of participants six to twelve months after training events.
  - 2.7 Reassess the criteria used to select projects with the understanding that completing the project development, financing and implementation cycle plays an important role in accomplishing LFI’s capacity-building objective.
3. **Develop a project support strategy.** While a number of project support activities such as preparation of documents have been standardized, LFI’s overall approach to project support is too ad hoc and open-ended. Instead, the programme should have a more results-oriented approach, including when allocating its scarce project support resources. This would create a more private sector-like culture within LFI, establish better incentives with developers and ultimately make LFI’s support more effective.
- 3.1 Define a clearer project support strategy that relates project development and finance to capacity building and establishes explicit policies for:
    - Project selection (CFP or other)
    - Allocation of staff and other resources to projects
    - Categorization of projects (assignment to Tiers and identification of bottlenecks)
    - Awarding of grants
    - Conditions on developers in return for LFI support
    - Exit strategy from a support relationship
  - 3.2 Establish a mandatory policy to sign an MOU with each developer before assisting a project, and consider demanding more of developers in return for LFI support, such as that they co-finance preparation and/or provide dedicated staff as a condition of LFI support. Reasonable costs could be determined by benchmarking on other technical assistance providers.
  - 3.3 Develop and implement a tool to estimate the full cost of project preparation upfront, including studies and support from LFI staff, in order to ensure that there are adequate

- resources available to complete project preparation in a reasonable time frame. Monitor expenditures against estimates.
- 3.4 Give greater priority to project implementation, given the importance to LFI's capacity building objective of completing the project cycle. Take measures to ensure that more projects complete the project cycle and become operational through measures such as: (i) selecting more feasible projects, in order to reach "proof of concept" of the LFI approach; (ii) allocating technical assistance resources to fewer more strategic projects with tangible demonstration effects (including possibly dropping some projects altogether); and/or (iii) building closer relationships ex ante with financial institutions and credit enhancers, and with development partners able to support projects operationally.
  - 3.5 Design lower-cost project support interventions, such as finding partners and/or experts in various fields able to hold entrepreneurship classes for project developers, rather than providing all support on a one-on-one basis, which is very expensive and reduces resources for other critical programme activities.
  - 3.6 Reassess the practice of providing non-reimbursable grants to project developers, especially for seed capital, since this practice limits the pool of resources available for project support.
  - 3.7 Consider modifying the lower and upper project size thresholds. Projects at the current lower threshold of \$100,000 may not be cost-effective for LFI. Projects at the upper threshold of \$20 million require technical skills and have preparation costs that far exceed LFI's resources. Projects at the upper end of the range are also difficult for banks to finance in LFI countries.
4. **Engage more strategically on the policy and legal reform agenda.** Unblocking domestic capital will only be possible with long-term legal, policy and institutional reforms that create enabling conditions. Most of these activities are being undertaken by government and supported other partners with whom LFI is not directly involved. But LFI can still make meaningful contributions to this effort and help ensure its counterparts are prepared to engage in policy discussions. Recommendations include:
- 4.1 Work with SCs and PBs and LGU officials to develop a robust conceptual framework for analysing impediments to LED finance, Seek the collaboration of think-tanks, development partners, economists, policy makers and the ministries of finance and planning of each country, and utilize the research and knowledge of other organizations such as the IFIs and IMF. Identify the specific policy changes required to address the identified impediments and the roadmap to implementation.
  - 4.2 Engage knowledgeable third parties to update existing country scans and identify reforms needed and those already underway in each country. Design terms of reference for preparing new country financial scans and a protocol for keeping existing scans up to date..
  - 4.3 Network locally with organizations involved in institutional reforms that support LFI's goals. Work with these organizations to define LFI's niche and contribution to institutional and policy reform. For example, what could LFI do to make government's approval of LGU projects simpler and more predictable?
5. **Leverage LFI expertise through knowledge and information sharing and communications.** As development assistance declines in LDCs, local institutions will be responsible for carrying on the LED agenda being promoted by LFI. For that reason, it is important that LFI raise the

visibility of what it is attempting to do and make its knowledge less “proprietary.” Specific recommendations include:

- 5.1 Develop a strategy and operational plan for knowledge management and information sharing aimed at ensuring expansion, improvement and sustainability of the LFI approach.
  - 5.2 Identify strategic partners who can assist with dissemination of LFI concepts and identify opportunities for joint knowledge sharing, joint training, syllabus development, development of new tools, etc.
  - 5.3 Develop a multi-lingual web site or other platform to share information and invite feedback on LFI projects, programme tools and methodologies, training materials and data with interested external stakeholders, as originally envisioned for the programme. The purposes are to share information and encourage innovation and expansion of LED finance( not promotion of LFI).
  - 5.4 Request all government counterpart agencies to include information on LFI and its purposes and activities on their web sites. LFI should prepare this information so that it is relatively consistent across the global programme.
  - 5.5 Organize dissemination and knowledge sharing platforms by co-hosting events in collaboration with national and international partners and document lessons what works and what does not and ways to improve performance.
6. **Build programme leadership and improve governance.** LFI considers SCs and PBs to be key partners, but in fact these entities are in charge of the programme, with LFI staff serving as the secretariat. SCs and PBs need to be empowered with better information and tools to manage LFI’s work in order to serve their proper management and oversight functions. Specific recommendations include:
- 6.1 By the first quarter of 2018, update LFI’s TOC and the global and country RRFs. and repeat the review at least bi-annually in consultation with SCs, PBs, and government and private sector counterparts.
  - 6.2 Agree to and maintain a firm planning and reporting cycle for each country programme. As soon as annual reports are available (no later than February 15), review each year’s AWP in light of available funding. Report to the PBs and SCs on a timely basis, whether meetings are scheduled or not, using objective information and standard formats. [See Recommendation 8.]
  - 6.3 In each country, consider putting in place a simplified governance structure (for example, a Programme Board with an Executive Committee, a stronger Steering Committee, or another set-up). Empower the entity through clearer terms of reference and more effective management tools across all countries, allowing them to better monitor and lead the programme. Clarify that LFI is a Secretariat, which is guided by the PBs and SCs. Include at least one representative of the financial sector and other private sector representation in each Programme Board and/or Steering Committee. [See Recommendation 1.1.]
  - 6.4 Define the capacity building priorities of PB/SC members and incorporate in the capacity building strategy. Report regularly on progress. [See Recommendation 2.3.]
  - 6.5 Clarify the purpose and value addition of the LFI global programme. Clarify with the PBs/SCs the relationship between country-level and global governance structures.



- 6.6 Ensure that the PB/SC members are regularly acknowledged by name and agency, including in LFI publications.
7. **Strengthen LFI project monitoring and management systems.** LFI needs better monitoring and management systems to optimize the results from its available resources and to measure results. Being able to account for all resources devoted to projects (including staff time) and track the cost and outputs of other activities will allow LFI to be run in a more businesslike manner. These are particular priorities. Specific recommendations include:
- 7.1 Work with UN monitoring experts to update LFI results indicators so that they are more outcome-oriented and measurable (SMART indicators) that better align inputs and outputs to available resources.
- 7.2 Clarify internally and externally that LFI's principal objective with respect to projects is not loan applications delivered to financial institutions or the receipt of financing offers from banks or other sources (LFI so-called "financial closure" ), but the full implementation of the assisted projects.
- 7.3 Standardize LFI project terminology and procedures so that the definition of Tiers and the criteria for assigning projects to Tiers can be more easily communicated and project progress can be more effectively monitored throughout the project development, financing and implementation cycle. Review the status of each project on a quarterly basis and update Tier assignments based on progression towards end results.
- 7.4 Develop a project (loan) management system that will allow closer tracking of individual projects and the overall LFI portfolio. LFI could request help with this initiative from its new financial sector advisory board. [See Recommendation 1.1.]
- 7.5 Implement a system to support the allocation of LFI resources (including LFI staff time) to project assistance and other programme activities and allows time, costs and outputs to be tracked. An importance input to these decisions would be an analysis of LFI's value-added in the various areas it works, which should be conducted and updated periodically.
- 7.6 In collaboration with governments, develop a system to objectively assess the LED impact of LFI investments, using the Wagner School's 2015 recommendation or a similar framework. Provide opportunities for input from project developers, LGAs and other stakeholders. Include this information in LFI's monitoring system.
- 7.7 The UNCDF accounting system does not appear to provide information that is especially useful for programme management purposes for reasons of format and timeliness. Evaluate whether it can be made more useful through revisions to budget and expenditure coding, design of additional reports or other changes that align the information with that produced by other activities mentioned in this section.
- 7.8 Agree with PB/SC on formats and reporting cycles for programme activities and status of individual projects.
- 7.9 Identify a mutually agreeable national entity in each country to continue the LED monitoring process after LFI phases out and support its appropriation of the LED impact monitoring framework.
8. **Capitalize on linkages with other UNCDF programmes.** LFI is already exploring how to develop synergies with other UNCDF programmes such as IELD and F4F, particularly in the area of project identification. This is in line with the proposed "dual key" system under which UNCDF will focus more strongly on project preparation, and take advantage of technical expertise in other

UN programmes. The Benin CFP seems to indicate that this approach will be useful. Specific recommendations include:

- 8.1 In implementing the dual key system, avoid letting LFI become too internally focused on UN clients (F4F and others) while losing its focus on government and the institutional issues that affect financing in all sectors and the importance of external partnerships.
  - 8.2 Beware that UN programmes may not exist in all the sectors that are priorities for the government, and be willing to operate in some sectors with technical support from government or external partners.
  - 8.3 Define with sector-specific programmes such as F4F the technical support they can provide to developers to complement the finance-related support of LFI. If, for example, F4F can help monitor project revenues and ensure that loan repayments are made, this lowers lender risk and reduces (but does not eliminate) LFI's responsibility for post-financing follow-up with projects.
  - 8.4 Be very proactive to reach agreement with IELD on the concrete results LFI expects from its work and closely its delivery. Assign primary responsibility for following up on this agreement to one IO.
  - 8.5 Seek additional (especially local) partners who can facilitate contacts with women entrepreneurs and support women-owned businesses with the potential to deliver LED benefits.
  - 8.6 Develop a specific proposal to strengthen the complementarity between the LDF and Financial Inclusion practices at the agency level and for country-specific cases. For example, should LFI be favouring local governments who have received training and funding from Local Development Funds? If market financing is hampered by a mismatch between savings and lending, which may be affecting various UNCDF programmes differently, how can UNCDF present a unified approach to governments and local financial sectors? While UNCDF seems to be aware of these connections, they are not fully reconciled internally or communicated clearly to counterparts.
9. **Cultivate strategic partnerships.** The number of stakeholders for market-based LED finance programmes is large. Partners can be found at international, national and local levels. Building and managing these relationships can absorb scarce human and financial resources, yet it can also help LFI leverage its resources and ensure its sustainability.
- 9.1 Contract an expert to conduct a stakeholder mapping exercise in each country to help LFI identify and target potential partners (public sector, private sector, financing institutions, and development partners).
  - 9.2 Provide adequate resources to nurture, formalize and operationalize the key national and local partnerships, going beyond mutual familiarity.
  - 9.3 Use partnerships to build sustainability and leverage LFI resources. [See Recommendations 2.3, 3.5, 5.2, 8.2 and 8.5.]
  - 9.4 Move from an ex-post to an ex-ante financing approach in country programme documents, to avoid promising large amounts of funding that are never raised and give donors an opportunity to get in on the ground level.
  - 9.5 Clarify the strategy and practicalities of establishing national platforms, an approach that could not be clearly explained to the evaluation team and which must be accompanied by a financing strategy.



- 9.6 In pursuing LFI's financing and guarantee programme, consider how to ensure that it does not reduce LFI's potential fund raising for national technical support. Consider launching a "capital campaign" that includes donor commitments for both technical and financing activities, oriented around the key issues and objectives of the Addis Ababa Action Agenda.
10. **Fund LFI adequately or scale back commitments.** The evaluation team is aware of the challenges involved with raising external funds for a programme such as SFI. Nevertheless, UNCDF needs a more aggressive and expansive resource mobilization strategy to provide adequate resources for LFI.
- 10.1 Enlist international and national organizations interested in promoting private financing for local development in the fundraising effort.
- 10.2 In cases where fundraising efforts fail, carefully analyse the reasons and use the feedback to improve future resource mobilization efforts.
- 10.3 Confront the issue of inadequate project equity, which is thwarting the ability to close bank loans for a number of projects in the LFI pipeline.
- 10.4 Fundraising for outcome-based themes may be more likely to mobilize support than a standalone LFI program. Consider incorporating LFI into its broader fundraising plan for LED investment rather than treating it as a standalone programme.
- 10.5 Look for financial partners involved in output-based aid, such as the World Bank, African Development Bank and other IFIs. These programmes are growing in importance at the policy level, but IFIs often have problems delivering the required technical support.
- 10.6 Look for opportunities to leverage or "recycle" programme resources, such as the use of reimbursable grants and co-financing requirements for developers.
- 10.7 If it is not possible to fulfil financial commitments made with government counterparts, consider scaling back LFI and concentrating only the highest priority activities or locations, or possibly become an adjunct to another donor programme.
- 10.8 Establish minimum policy conditions and funding benchmarks (for government and UNCDF) that must be reached before new country programmes can start up. For example, key policy reforms should be underway and funding should be sufficient to support a three-person office in each new location for two years, support a specific number of projects with a target number of hours of assistance and provide adequate grants to a given number of projects.