

## Summary of the LFI Programme Board Comments on the Mid-Term Evaluation

November 2017

The LFI Programme Board noted the presentation of the LFI Mid-term Evaluation by the head of the UNCDF evaluation unit. The Board thanks the evaluation team and highlights the following areas for consideration in the Management Response:

- **Tailored capacity development strategy:** the Board agrees with the evaluation observation that capacity building and the development of national platforms for local development finance are critical to the sustainability of the LFI programmes. Therefore the board will include targeted capacity development strategies for each participating LFI country in the Annual Workplan from Jan 1 2018 onwards. These will take into account the regulatory environment, local government system and investment climate in each country.
- **Local Government PPP units:** Inspired by the LFI programme, Tanzania and Uganda have already established PPP units. The Board encourages the LFI programme to support other LFI member states that wish to establish these units.
- **Private finance liaison function:** The Board welcomes the observation of the evaluation about the sustainability of seed capital, guarantee capital and loan capital for the LFI pipeline. It suggests that consideration is given to establishing a Private Finance Liaison function within PPP offices to mobilize this finance for long term investment through national platforms for local development finance. This function can help to establish the necessary financing partnerships for the national platform in each country. It requests that LFI support the establishment of this function.
- **UNCDF LDC Investment Platform:** The Board notes with satisfaction that UNCDF has established an investment platform for Least Developed Countries (LDCs) and that UNCDF has begun to lend to and provide guarantees to sub-sovereign investments within LDCs. The Board further notes with satisfaction that LFI is providing a pipeline of investments to the LDC Investment Platform and that the first loan to a LFI transaction has been approved. The Board encourages this development and supports the capitalization of the LDC investment platform to maximum effect.
- **De-risking bankable investments:** The Board notes the blockages to unlocking investment finance from domestic banks in different countries. The reasons why domestic banks are not willing to finance projects vary from case to case. Therefore, the Board proposed that LFI should develop a bottom up, toolbox approach that includes grants, loans, guarantees and other financing instruments from both domestic and non-domestic sources, concessional and non-concessional. These can be deployed through local governments, special purpose vehicles and public private partnerships. The desired outcome of LFI is a system or mechanism for local development finance that enables local governments and other local actors to drive economic transformation as defined and determined by local decision making processes
- **Demonstration sites and beacons:** The Board stressed that each LFI supported transaction is important for its contribution to the learning process. The more transactions the more learning. LFI should seek to diversify the blend of financing applied and the sectors invested in with a view to establishing demonstration sites, examples and beacons that can trigger further local

economic development investments that are inspired by this demonstration effect. This can be linked to the UNCDF maturity model, in which up front resources are applied to finance the first phase, partners are sought out for the second phase and then the focus is on results measurement as sustainable financing is brought on board for a full scale up. The same logic can be applied to each type of LFI investment.

- **Three expansion criteria:** The Board reaffirmed the decision on the three conditions for the LFI membership endorsed in the 2017 May Board Meeting: 1) Letter of application delivered to the Chair of the LFI board and signed by the Permanent Secretary or equivalent level of the Government Ministry or Government Department responsible for local government affairs with no objection from the Ministry of Finance; 2) Proven existence of the source of funding for LFI seed capital (from government, local government, development partners or other sources); 3) Sufficient regulatory environment to enable investment in LFI pipeline (this includes regulatory environment for public private partnerships with local government and for SME investments). It is critical for the applicant country to balance financing and capacity. Furthermore, the Board emphasized that the expansion is not exclusive to certain countries. The objective is to provide an open and transparent access for all LDCs.
- **Resource management tool:** Based on the evaluation recommendations, the Board approved the procurement and development of a professional web-based financial management platform to ensure transparency and quality in the financial management of LFI transactions. It will be open to all the stakeholders and member states will jointly manage the system. This system will be transitioned to LFI member state as the national platforms for local development finance are built.
- **Portfolio management:** The Board notes the evaluation recommendation on transparency and clarity on the allocation of resources between LFI countries, investment themes, grants, loans and guarantees. The Board also notes the creation of a Local Development Finance investment committee to process applications for UNCDF seed capital, loans and guarantees. Furthermore the Board notes the expansion of the LFI pipeline both in terms of number of projects and in terms of countries covered by the programme. In response the Board encourages LFI to create a Portfolio Management function that will work with the Programme Manager on higher level portfolio management and liaison with the LDC Investment Platform and other potential funders or partners to the portfolio. This will free up the Programme Manager and LFI team to focus on the transaction structuring and capacity development that is fundamental to the programme.
- **Impact monitoring:** The Board notes the LFI evaluation comment on impact monitoring of LFI investments. The Board recognizes the following role of impact monitoring:
  - It ensures that local impact and local demand for the investment is central to all LFI transactions and this measurement is institutionalized as LFI is scaled up.
  - It enables impact to be monitored over the length of the financing agreement, which may be exceed the life of the LFI programme itself. Therefore the Board strongly encourages the impact measurement of LFI investments to be linked to national or international development policies and agreements, such as local, municipal, national or regional development plans and international obligations like the Paris Agreement. In this respect the Board welcomes the evaluation recommendation to connect LFI pipeline to seed capital and resources from other UNCDF projects that are designed to

address issues such as Climate Adaptation, Food Security, and Women's Economic Empowerment.

- **Amendment of the LFI prodoc and an internal review:** The Board noted that a lot of progress has been made since the evaluation and that further changes will be made in the light of the evaluation report. Therefore the Board recommends that the LFI prodoc is amended to reflect these changes. The Board further recommends that an internal review of progress against the evaluation response is conducted before the final evaluation.