



**UNCDF Local Development Finance
Investment Committee
Terms of Reference**

October 2017

1. Background

UNCDF's Local Development Finance Practice (LD) is a center of excellence and innovative fund for local government finance and local economic development finance in the world's 47 least developed countries (LDCs). LD promotes and supports transformative investments through local governments and domestic financial institutions (banks, pension funds) in LDCs by piloting and scaling up innovative financing mechanisms and policies in the public and private sectors.

LD revenue generating investments bridge financial gaps for local development and deliver measurable impact on climate change resilience, clean energy, women's economic empowerment, food security, land restoration and other themes, thereby contributing to local economic growth and improvement in people's quality of life at the grassroots level.

LD revenue generating investments are targeted for domestic banks, concessional funders and impact investors. The purpose of UNCDF support is to unlock these sources of finance by de-risking the investments.

To ensure the selected investments meet both financial and thematic impact requirements, according to measurable indicators, the LD Investment Committee needs to be established to provide oversight on the investments and support the decision-making process on seed capital grants, bond purchases, loans and guarantees and other financial support provided to these investments.

2. Purpose

The LD Investment Committee ensures that the Local Development Finance Practice at UNCDF:

- Has a standard approach to its local development finance investment pipeline and applies a quality assurance process;
- Demonstrates unified and defined criteria and procedures for investment decisions to its internal and external stakeholders and co-investors;
- Strengthens the accountability, reputation and professionalism of UNCDF as a key player in revenue generating investments for local development impact;
- Allows for an expert level space for diverse intellectual debate amongst senior staff about impact criteria and the trade off with financial commitment.
- Institutionalizes the investment process within the LD center of excellence and within the investment cycle;
- Enables LD colleagues to "own" decisions on the pipeline and its direction;
- Ensures that the technical custodian of the investment theme (for example, Women's Economic Empowerment, Climate Change, Food Security, Local Economic Development, etc.) and the financial custodian (the LFI, MIF and LD management teams) have an institutional means of ensuring the quality of the portfolio;
- Provides LD technical staff with a platform to tackle internal reviews, evaluation and the pipeline financial health and projections;

- Provides LD management with additional knowledge, skills and tools which can help the practice to grow in new programming countries.
- Provides the UNCDF LDCIP and UNCDF senior management with an awareness of upcoming requests for loans, guarantees and other financial commitments.
- Provides transparency to UNCDF's partners and stakeholders on its investment decisions.

The LD Investment Committee and its decisions will enable the LD practice to report effectively on the implementation of the UNCDF Strategic Framework, IRRM and LD Theory of Change. It will bring added value to LD investment methods, tools and mechanisms so that the investments are aligned with UNCDF development objectives (e.g. when considering high risk investments in innovative instruments vs. growth of pipeline, impact returns vs. financial returns, market distortions, choices of co-investors, geographical focus etc.). It will also play an advocate role on behalf of the practice to government stakeholders, private sector and donors.

The LD Investment Committee shall comply with the UNCDF corporate regulations on Investment Committees, UNCDF Loan and Guarantee Policy, UN standards and all international transparency standards.

3. Committee Composition

The LD Investment Committee shall be composed of:

Voting members

- Director of Local Development Finance Practice (Chair)
- Deputy Director of Local Development Finance Practice (Alternate Chair)
- Local Development Finance Regional Technical Advisors

Non voting members

- The Coordinator of the Investment Committee designated by the LD Director (currently the Local Development Finance Programme Manager) and other IC secretariat staff.
- Local Finance Initiative Global Manager and staff (Observers)
- Municipal Investment Finance Manager (Observer)
- Managers and or staff of Local Development Finance programmes that submit investments to the LD Investment Committee (as appropriate)

4. Committee Meetings

The LD Investment Committee shall meet as required by the chairperson according to the provisions of section 7 below. The IC may hold meetings either virtually with members providing comments via e-mail, videoconference, teleconference, in person or, when necessary, a combination of each.

The quorum is at least 50% of the currently serving RTAs plus the chair or the vice chair.

5. Roles and Functions

The role of the Investment Committee (IC) is to oversee the implementation of the LD revenue generating pipeline, serving as the decision-making body over the seed capital grants, loans and guarantees, including:

- Review and approval of applications to the UNCDF Least Developed Country Investment Platform (LDC IP) for loan/guarantee/bond purchase with respect to the investments in the LD pipeline.
- Review and approval of seed capital grants to the LD investments in the pipeline prior to submission to UNCDF Executive Secretary for signature;
- Ensure that the LD pipeline meets minimum LD impact expectations and that the investment conditions are appropriate;
- Appraisal of expansion in new countries or to new investment themes;
- Recommendation of actions in the case of default;
- Guidance and strategic direction to the revenue generating pipeline;
- Approval of the LD pipeline funding policy, particularly eligibility and selection criteria;

6. Scope of the Investments

The LD Investment Committee will review requests for grants before they are submitted to the UNCDF Executive Secretary for signature. It will review requests for loans, guarantees and bond purchases before they are submitted to the UNCDF LDC-IP and then processed according to the UNCDF loan policy. These include:

- Grants, loans or guarantees to private sector entities;
- Grants, loans or guarantees to public sector entities, either at national, sub national or municipal level.
- Reimbursable grants to any entity;
- Loans or guarantees to local governments or other public sector institutions, such as municipal development funds under the jurisdiction of the Ministry of Finance;
- Grants to local governments that are directly associated with the financial structure of a Public Private Partnership or if they are directly associated with de-risking a Public Private Partnership;
- Grants to local governments that are directly associated with the financial structure of municipal bonds or municipal borrowing.
- Grant, loans, guarantees to Public Private Partnerships or bond purchases from them.
- Purchase of municipal bonds.

The LD Investment Committee does NOT govern or review the following grants:

- payments to central or local public authorities that are designed as part of UNCDF's support to fiscal decentralization reforms and intergovernmental fiscal transfers (commonly know as Local Development Funds);
- payments to governmental or non-governmental entities that have the objective of capacity building, advocacy, knowledge management or technical service provision.

These are governed through existing mechanisms and policy signed off by the Executive Secretary of UNCDF with quality assurance performed through the practice and local UNCDF country teams. On an exceptional basis, the Director of Local Development Finance may refer one of these payments to the Investment Committee for information purposes.

7. General

7.1 Scheduling a Committee Meeting and Setting the Agenda

The Committee will meet on a need-to-convene basis i.e. when there is at least one proposal to consider or when there is a matter that requires investment committee decision. The committee is convened by the Director or Deputy Director of the Practice upon recommendation from the Coordinator of the Investment Committee that all preparatory process is complete. The Coordinator is responsible for ensuring that all Local Development Finance staff are made aware of the required process. The Coordinator/Secretariat will notify (via email and calendar invite) the Committee members at least 3 business days before a planned committee meeting is to take place.

The Committee Coordinator/Secretariat will collect documents to be discussed and circulate an agenda, approved by the Director or Deputy Director at least 3 business days before the meeting.

7.2 The Committee Meeting and Decision Making

For investment proposals (grant, loan, guarantee, bond purchase) there will be a presentation to the committee on the financial merits and impact merits of the proposal. Under the LD 'dual key' approach presentations will be made jointly by staff from the development programme accountable for originating the proposal / monitoring its impact **and** by staff from the Local Finance Initiative and (where appropriate) the Municipal Investment Finance programme accountable for the financial due diligence and financial structuring of the transaction. In many cases a Regional Technical Advisor will be part of the team originating and promoting the investment proposal. This advisor does not vote at the Investment Committee and operates as an observer for during the consideration of the proposal that they are promoting. After the presentation, Committee members will discuss relevant issues and may ask questions to the presentation team. After the presentation and discussion, the presentation team and observers will leave the meeting and the Chairperson will facilitate the voting process until a committee decision arrives. The UNCDF Executive Secretary and UNCDF Investment Platform team may join the meeting as observers and may remain during the voting process.

As far as possible the Committee decisions should be made by unanimous consent. If a consensus cannot be reached the chair may defer decision or may call for a vote. In the case of voting each member has a single vote. The chair has a casting vote in the case of a tie.

7.3 Committee Decision to Recommend

The Committee will provide a recommendation. There can be three categories of recommendation: 1) Recommendation to go ahead; 2) Recommendation conditional on a number of changes being made to the proposal; 3) Rejection, which would require a new presentation to be made at a later

date for approval.

7.4 Minutes and Meeting Papers

The minutes of each Committee meeting will be prepared by the Secretariat. Full copies of the minutes, including attachments, will be provided to all members via electronic mail within three workign days of each meeting. The minutes with the recommendation will need to be attached to the decision documents presented to the Executive Secretary (grant) or the UNCDF LDC-IP for subsequent discussion at a corporate Impact Investment Committee (loan, guarantee, bond).

7.5 Confidentiality and Conflict of Interest

Members of the Investment Committee (IC) undertake to keep in strict confidence all proprietary, commercial or other sensitive information that it may come across in the course of their role and responsibility in the IC.

All Committee members are required to report any potential conflict of interest, in addition to the interest of preparing for a grant/loan or guarantee approval, with regard to the proposed investment. The Committee member shall report the potential of conflict to the Chair, who may recuse the member from any participation in activities related to the project. The Chair is required to report any potential conflict of interest to the Executive Secretary of the organization.

7.6 Proxies to Meetings

No proxies are permitted and members must attend / deliberate in person (subject to the provisions of section 4 above)

7.8 Roles and Responsibilities of Chairperson

The Investment Committee (IC) will be chaired by the Director or Deputy Director of the Local Development Finance Practice. The Chairperson is responsible for:

- Conducting all IC meetings;
- Managing voting, when necessary according to the provision of section 7 above;
- Signing IC minutes and decision papers;
- Representing the IC to internal UNCDF stakeholders, like the Executive Secretary and the UNCDF LDC IP;
- Representing the IC to external stakeholders.
- Monitoring compliance with IC decisions and recommendations.

In the unlikely event that the Director and Deputy Director are not available, the Director of the Local Development Finance practice may delegate (in writing) the chairing on the IC to the acting Officer in Charge of the Local Development Finance practice. This provision is for extreme circumstances when the Deputy Director and Director are both

not able to attend either in person or remotely and when there is a time sensitive decision required that cannot be delayed until the Director or Deputy Director is available. Examples include a serious breach of payment by a creditor or a time sensitive decision for a grant that would unlock a further loan to an investment by a third party.

7.9 Roles and Responsibilities of the Coordinator / Secretariat

The Coordinator / Secretariat of the IC is to:

- Maintain online and printed documents and records pertaining to the Local Development Finance pipeline and liaise regularly with the global LFI Manager, MIF Manager, Regional Technical Advisors, other LD programme managers, Director and Deputy Director of Local Development Finance.
- Manage the seed capital resources allocated by the LD director to the Local Development Finance pipeline and, through liaison with the LFI Manager and MIF manager distribute the resources between the investments in the pipeline, according to guidance from the IC;
- Manage the resources allocated for lending by the LD director to the Local Development Finance pipeline and distribute the resources between the investments in the pipeline following liaison with the LFI Manager, MIF manager and the UNCDF Investment Platform Manager, according to guidance from the IC.
- Provide regular updates to the LD Director and Deputy Director on the financial status of the pipeline and the sector and regional distribution of seed capital and of investment volume;
- Receive guidance from the LD Director and Deputy Director on the preferred sector and regional distribution of seed capital and investment volume;
- Negotiate and conclude partnership arrangements with co-investors to the LD pipeline following approval from the LD Director in consultation with the LFI Manager and MIF Manager;
- Support the submission of proposals to the Investment Committee, ensuring that the dual key process is followed, full documentation is prepared and that both keys are activated;
- Manage the follow-up to disbursement for proposals that pass the Investment Committee in liaison with UNCDF Investment Platform manager and other appropriate UNCDF staff, including ensuring adequate monitoring is in place and adequate provisions exist for repayment of loans and reimbursable grants;
- In liaison with the respective LD manager, ensure that systems are in place for the post disbursement impact monitoring of investments, and that this monitoring is carried out by the relevant staff, international agency, government agency or local government agency;
- Ensure timely follow-up and restructuring in the event of any default, in liaison with the LFI Manager and / or MIF manager;
- Manage a real time financial software programme that makes the LD investment platform available to all stakeholders including LD staff and other UNCDF staff with password controlled secure access to confidential parts of the pipeline in accordance with policy defined by the LD director and IC.
- Manage a separate real time software programme that acts as a digital database and repository of information pertaining to each UNCDF supported investment, whether revenue generating or not with password controlled secure access to confidential parts of the database in accordance with policy defined by the LD director and IC.
- Manage a hard copy library of the key information pertaining to each UNCDF revenue generating investment that includes evidence of key steps in appraisal (such as environmental

impact assessment, and evidence of key steps in approval according to the approval process defined by the LD director (eg the A,B,C,D forms or successor arrangements).

- Ensure real time connections and mutual updating between the two software programmes.
- Provide a monthly report on progress to the LD Investment Committee which includes detailed analysis of future commitments and outstanding obligations; potential liquidity constraints, future income requirements and all other considerations required to maintain a healthy and growing portfolio.
- Ensure that minutes and communications of IC meetings and other pipeline related issues are circulated in a timely manner.

7.10 Supporting staff

The staff member designated as Coordinator of the LD IC will be supported by other staff in delivering these tasks.

Annex. LD Investment Process indicating the pipeline governed by the LD IC and managed by the pipeline Coordinator / Secretariat

