

Unlocking Finance & Impact for Public and Private Sector Development in LDCs “Dual-Key”



UN
CDF

Unlocking Public and Private
Finance for the Poor

UN CAPITAL DEVELOPMENT FUND Center of
Excellence for Local Government Finance & Local Economic
Development Finance

The Dual-Key is supported by:

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Our Services:

Capacity Strengthening

Capacity to local governments to promote local economic development, economic analysis, planning, capital investments, Capacity to enterprises on business plan development, financial modeling and other tools.

National Platforms & Mechanisms

Development and testing of national platforms & mechanisms for local government finance and local economic development finance, including local development funds, municipal bonds, guarantee schemes, technical assistance facilities, financing networks.

Enabling Environment

Policy, legislative and regulatory support to promote local economic development, private sector development, including technical assistance and advocacy.

Pipeline of Revenue Generating Investments

Development of pipeline of revenue generating investments in catalytic sectors that drive local value chains and add value to local economies and proof of concepts to market regulators, domestic financial institutions, commercial banks, international financiers.

Our Approach to Private Sector Development

The Local Development Finance Practice of the United Nations Capital Development Fund has developed an innovative in-house capacity to support Least Developed Countries (LDCs) in improving their private sector development and local economic development with the aim to:

- 1) Systematically identify and encourage productive and catalytic investments in the LDCs that drive inclusive local economic development;
- 2) Strengthen small and medium-sized enterprises (SMEs) to make them bankable and investment ready for domestic financial institutions - developing local capital markets;
- 3) Unlock domestic private finance for private and public private investments that are revenue generating, but most importantly, have a transformative and measurable impact on the local economy.

“We target local investments which drive local value chains that add value to local economies” – David Jackson, Director, LDFP, UNCDF

Dual Key: Unlocking Finance and Impact

The dual key means that both a financial key and an impact key are necessary to unlock the door: We support Local Partners to source investments, undertake full due diligence, structure the investments, assess the development impact and the financial impact additionality.

State of the Art Pipeline Development Process



Stage 0: Pipeline Sourcing



Stage 1: Soft Pipeline:
Due Diligence – Pre-qualifications met



Stage 2: Technical Assistance Complete:
Development Impact & Financial Keys Unlocked



Stage 3: Investment Ready: Submission to UNCDF Local Development Investment Committee (LDIC), Submission to Domestic Banks, International Financiers, Submission to UNCDF Lending Platform



Stage 4: Financial Closure: Seed Capital Grant Approved by LDIC; loan or guarantee approved by UNCDF Lending Platform, Signed Bank loan term issued, International Finance loan term issued



Stage 5: Financial Disbursement: Conditions met



Stage 6: Construction phase & Implementation



Stage 7: Assessment of performance & evaluation



Stage 8: Impact measurement and reporting

Investment Categories

Our Investment Categories

The Local Development Finance Center of Excellence invests in the following Investment Categories:

- 1- Project Finance
- 2- SME Finance
- 3- Municipal Finance

Pipeline Sourcing

Working through and with local governments, municipalities, development partners and the private sector, our pipeline is sourced systematically and thematically from:

- ✓ Thematic Call for Proposals in the areas of Women's Economic Empowerment (WEE), Local Economic Development (LED), Food Security and Nutrition (F4F), Climate, Energy.
- ✓ Local Governments Planning Process
- ✓ Municipal Innovations/Bonds
- ✓ LED Assessments and LED Strategies
- ✓ Investment Bonds
- ✓ Network of Domestic Banks and Financiers
- ✓ UN Agencies through joint programmes
- ✓ Other Development Partners such as the United Cities and Local Governments Network (UCLG)

STAGE 1: SOFT PIPELINE



- ✓ Initial Due-Diligence Process
- ✓ Pre-Qualifications Met
- ✓ First Decision Point: Go or No Go

Initial Appraisal: Initiation of Pre-assessment Phase and start of Dual key.

Impact pre-assessment (WEEI, F4F, LED, Climate, Energy etc.)

Data Collection, Rapid Financial Assessment, Stress Test, Site Visit

Approximation of investment size and capital requirements

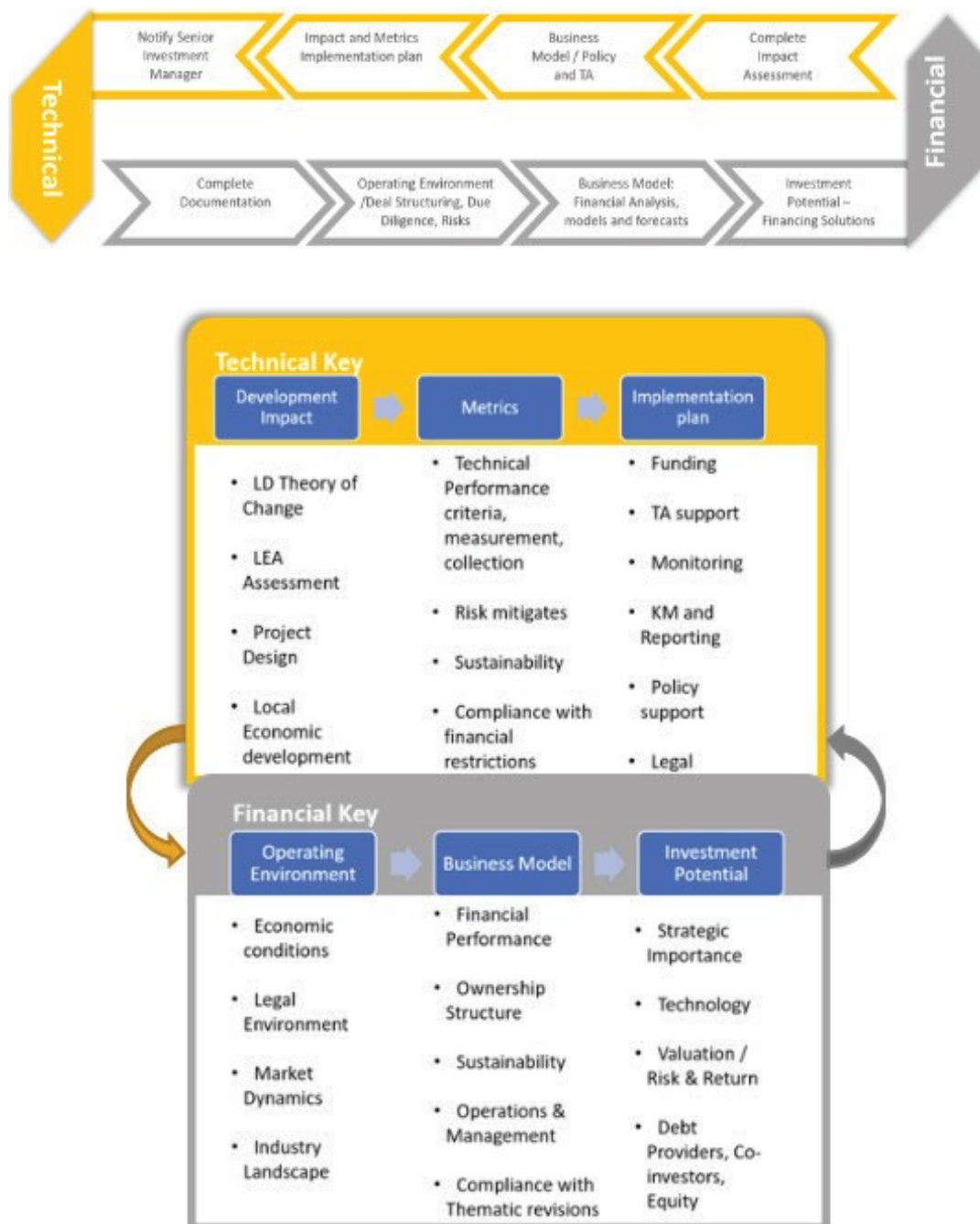
Assessment of investors' appetite/sources

Availability of finances, source, type, timing

Risks

STAGE 2: TECHNICAL AND FINANCIAL KEYS UNLOCKED

This represents the second decision point in this process. The thematic development project undertakes full impact measurement assessment and analysis through global standards and agreements. Simultaneously the financial transaction team verifies financial sustainability and investment potential. Both the impact team and the financial team need to be satisfied before the investment moves ahead.



STAGE 3: INVESTMENT READY

- ✓ Consult, negotiate, structure & select appropriate investment options
- ✓ Prepare Investment Teaser, Project Information Memorandum (PIM), Complete Financial Models etc.
- ✓ Present investment opportunity to lenders and investors
 - Secure loan term sheets
 - Review & categorize loan conditions – deal breakers
 - Agree on the final capital structure
 - Update financial models & key investment documents with new terms
 - Secure a final loan offer or loan agreement
 - Relationship management
 - Support lender due diligence
- ✓ Co-Finance: UNCDF Loan or Guarantee
- ✓ UNCDF Grants: Prepare Investment Recommendation
- ✓ Metrics and Monitoring Framework Complete
- ✓ Submit to Senior Investment Manager
- ✓ Submit to LD Investment Committee where the impact team and the financial team defend the transaction to the local development finance team and to independent expert advisors.



STAGE 4: FINANCIAL CLOSURE

This Process represents the formal approval of the investment in the pipeline management process. It entails all internal UNCDF approvals and lenders approvals:

UNCDF:

LD Investment Committee Approved

UNCDF Grant/Reimbursable Signed

UNCDF Loan/Guarantee Approved by Investment Platform

Loan Agreement Signed

Domestic Financiers:

Loan Agreement signed by Lender and Developer

Conditions precedent are manageable (e.g. collateral, man management, valuations, owner contribution etc.)

Project implementation plan confirmed

Public Funding Confirmed

International/Other Financiers:

Grant agreement signed by funder and developer (other UN or dev partners e.g. AFD)

Loan Agreement signed by Lender and Developer (IMIF, Build Fund, etc.)

Conditions precedent are manageable

STAGE 5: FINANCIAL DISBURSEMENT

- ✓ All conditions cleared or mitigated Funds
- ✓ drawdown schedule confirmed All lender
- ✓ internal approvals confirmed
- ✓ Disbursement process has started & funds deposited in the project account
- ✓ UNCDF Project Funds Transferred to loan account
- ✓ UNCDF Loans/Guarantees Monitoring starts



STAGE 6: CONSTRUCTION PHASE & IMPLEMENTATION



Monitor the project implementation plan milestones and timelines (construction, equipment, inventory, management etc.)

- ✓ Post investment TA support where relevant
- ✓ Collect business reports
- ✓ Keep the relationship with developer warm
- ✓ UNCDF loans – payment of interest and principle

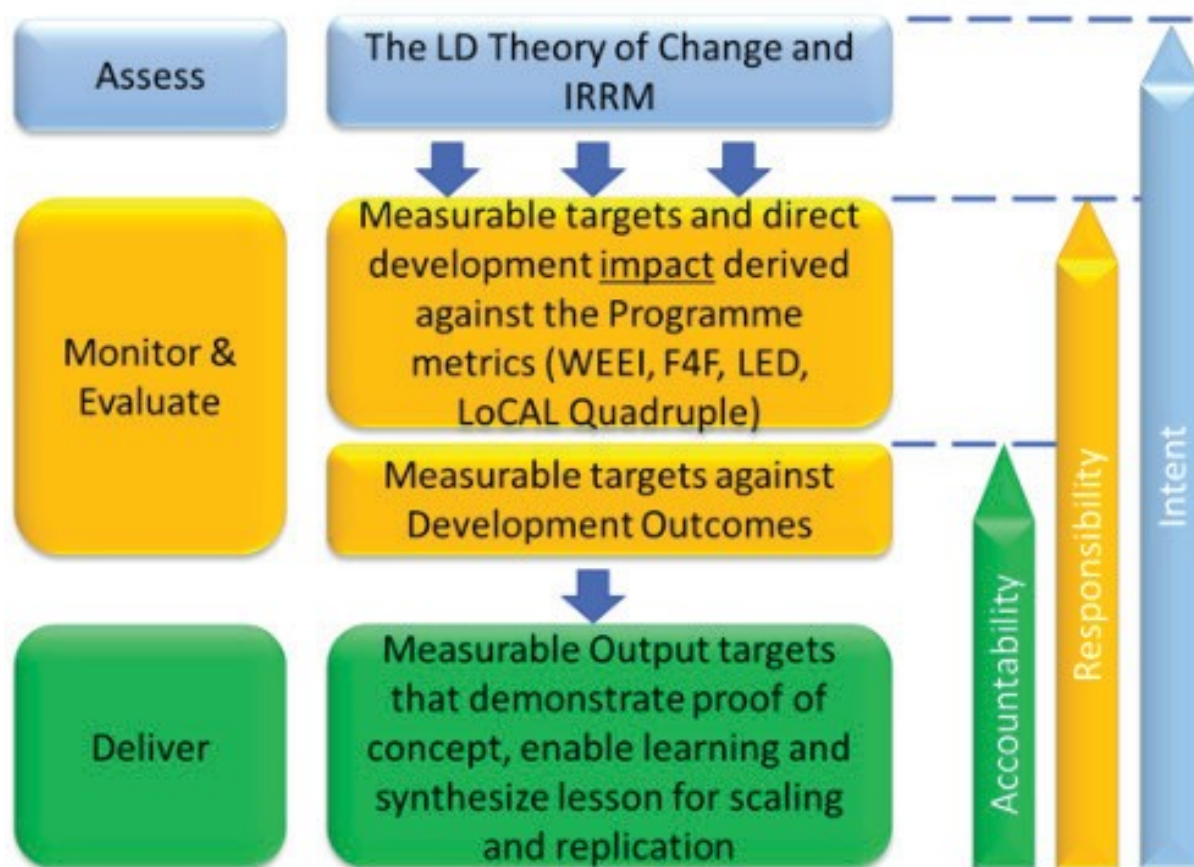
STAGE 7: PERFORMANCE ASSESSMENT & EVALUATION

- ✓ Compliance with Project Design and Objectives
- ✓ Compliance with Technical and Financial Metrics
- ✓ Compliance with Social and Environmental Standards –
Environmental Certificate issuance when applicable
- ✓ Data collection and business reports
- ✓ Analysis of performance: Financial, production, technical,
policy etc.
- ✓ Corrections, Feedback, revisiting risks
- ✓ UNCDF loans – payment of interest and principle



STAGE 8: IMPACT MEASUREMENT & REPORTING

- ✓ Data Collection
- ✓ Data Analysis
- ✓ Gaps
- ✓ Evaluation
- ✓ Improvement
- ✓ Policy Influence
- ✓ Systematic Change



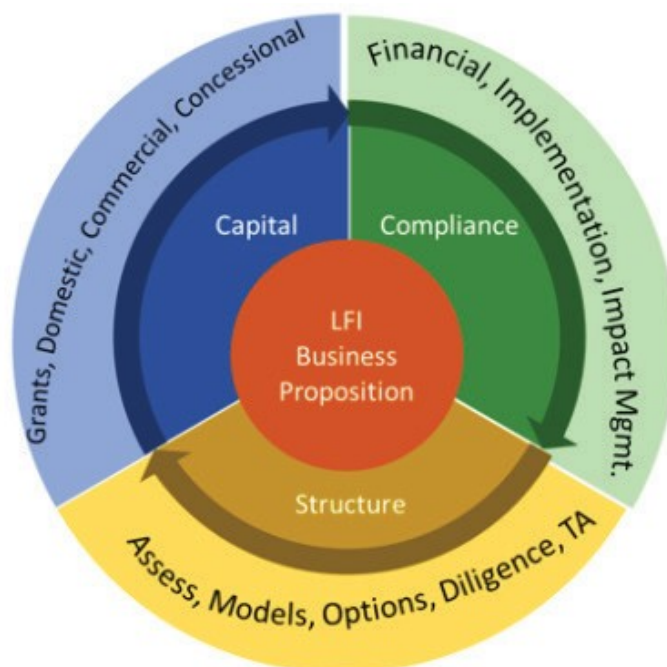
UNCDF Transaction Team Composition

The LD Center of Excellence employs qualified investment officers and technical transaction teams who are responsible for the entire pipeline development process. **This Three-Tier system** is made available to UN agencies as well.

First Tier Transaction team: Are responsible for structuring the investment, pre-assessment of financial and technical feasibility, produce complete financial and technical models, due-diligence, identification of risks and mitigations, provide a menu of options for the investment.

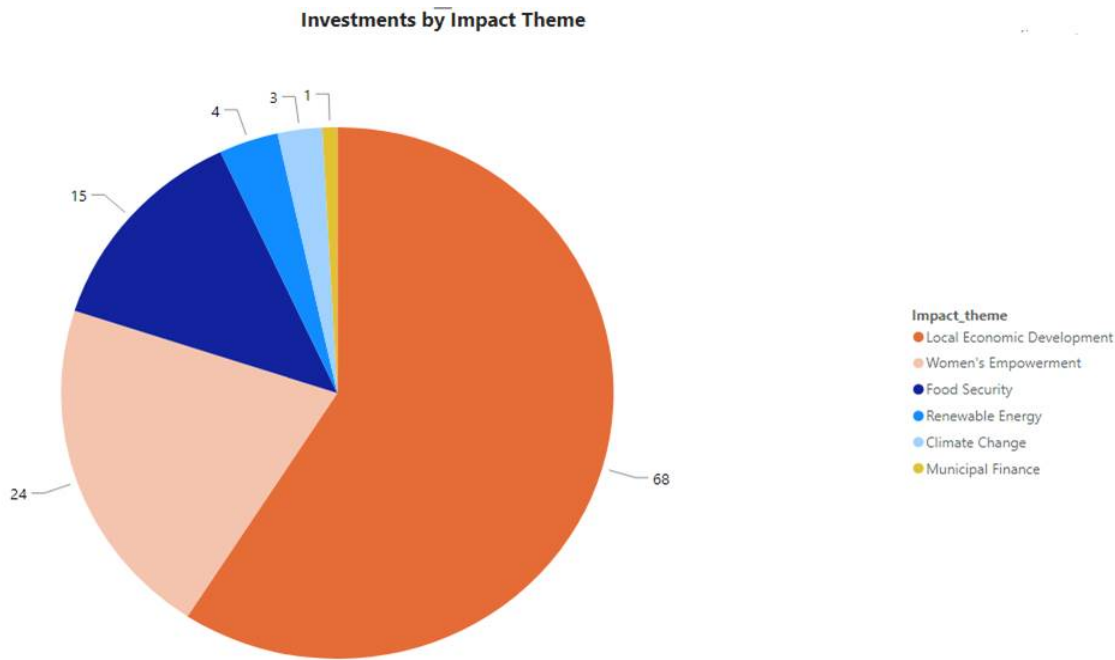
Second Tier Investment Officers: Provide supervisory and quality assurance role on each transaction. They provide definitive capital solutions for the investment and lead negotiations.

Third Tier Financial and Technical Managers: Fully accountable on the compliance of each investment to the development impacts, financial criteria and sustainability, implementation, monitoring and reporting.

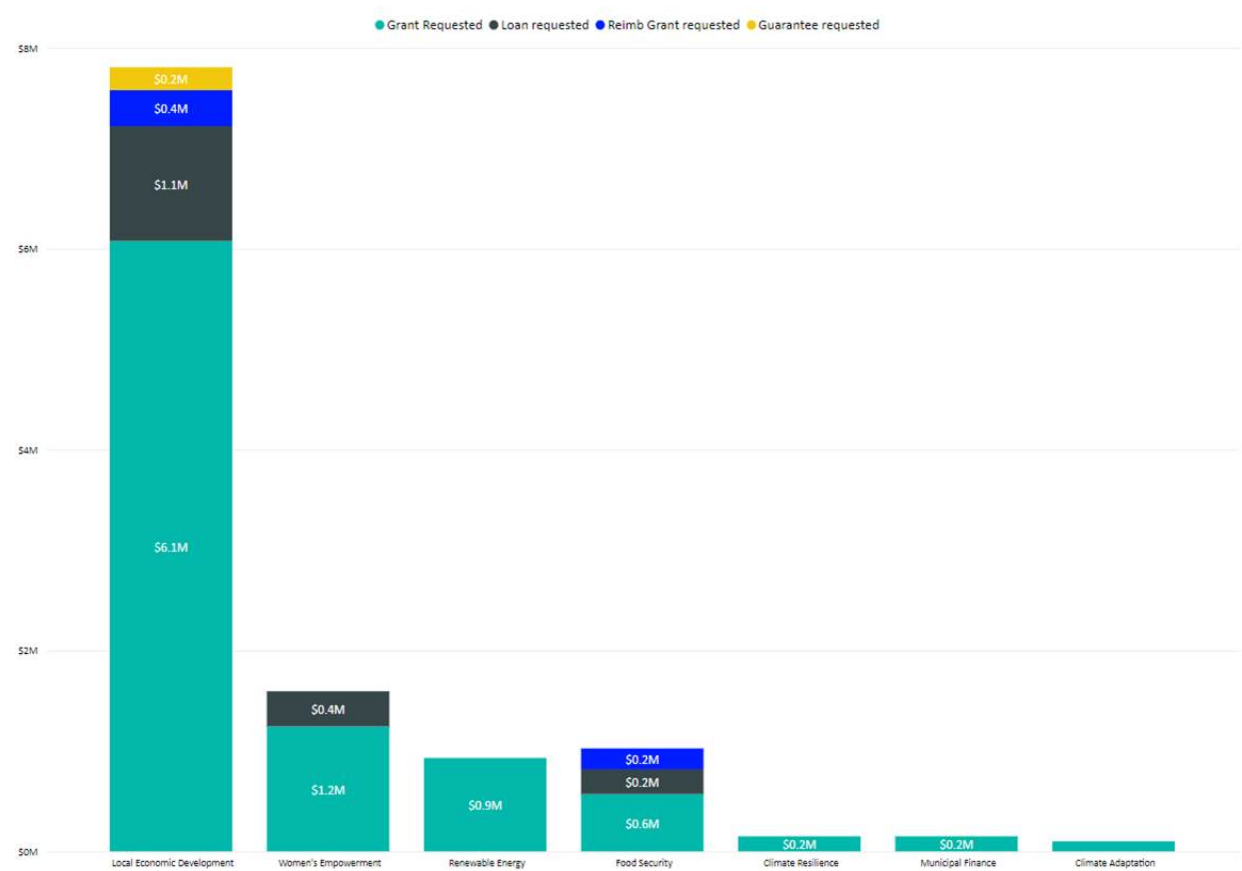


A Sample of our Portfolio

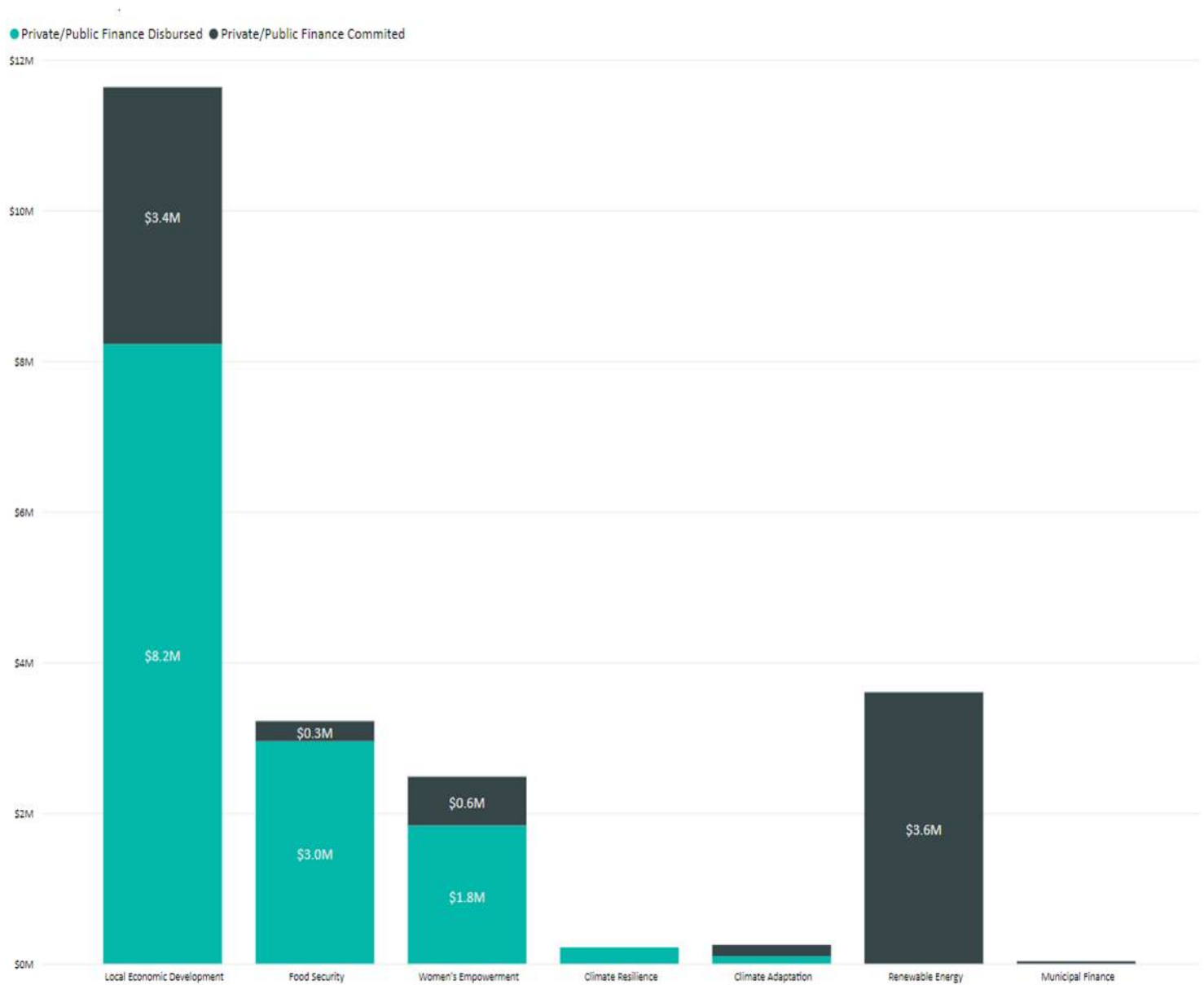
Investments by ImpactTheme



UNCDF Funds allocated by impact theme and Financing Instrument



Private & Public Finance Unlocked by Impact Theme



Tropingo Foods - The Gambia



Access to credit by private sector in the Gambia is very limited as traditional financial institutions prefer to invest in treasury instruments rather than lending. More than 50% of Gambian firms have cited access to finance as the biggest obstacle they face in the World Bank Enterprise Survey 2018 with current prevailing market-lending rates of 20% to 23%. Credit to the private sector has steadily decreased over the years because of the crowding out factor of excessive government borrowing.

Moreover, the regulatory architecture has not been historically supportive of long-term lending. Lending has been restricted due to prudential regulations which restrict balance sheet mismatches, i.e. banks cannot provide long-term capital and are limited to provide short tenured loans because their asset profiles are predominantly short-term deposits. This is to say that interest rates for commercial loans in Gambia are simply too prohibitive.

Considering the circumstances, UNCDF interventions through its flagship program in The Gambia, the Jobs, Skills and Finance (JSF) Program, issues seed capital grants to SMEs and targeted technical assistance which is necessary to develop the market, help SMEs create an asset base and get prepared ahead of the financial market.

Tropingo Foods is an agroprocessing and export company, established in 2014. The company operates, fruit drying and fresh produce export pack-house in Gambia, including a supplier network of over 300 farmers. With UNCDF support, Tropingo Foods seeks to position itself as a leading producer exporter of organic and ethically sourced mango products in the region. Further to investing in the mango value chain, it is a key strategic objective of Tropingo Foods to promote productivity by developing climate smart and sustainable value chain models designed to create market access opportunities for members of vulnerable communities, mainly women and youth

Location: Banjulinding, West Coast Region, The Gambia

Project Cost: \$651,499

Development Impact: Climate Resilience and Local Economic Development

UNCDF Support:

- Technical Assistance – Structured project financing, undertook full due-diligence, assessed the development impact and the financial impact additionality and sustainability (Dual Key), negotiated with a domestic commercial bank for a significant debt component, supported the investments in the implementation phase, advised on performance and impact measurement and reporting
- Seed Capital Grant - UNCDF provided seed capital grant of \$100,000 that unlocked \$50,000 in domestic commercial financing.

Investment Impact:

With the technical assistance and seed capital grant support from UNCDF, Tropingo Foods has accomplished the following:

- Construction of a packhouse including cold rooms sorting rooms and testing lab.
- Procurement and installation mango processing machinery.
- Diversification of products and expansion of out-grower scheme from mainly mangos to include groundnuts and other horticultural produce.
- Creation of 73 direct jobs under their mango and horticultural business unit of which 74% are local women.
- Secured a contract to export 3000MT of groundnuts to China, the contract value is \$2,400,000, with an estimated Gross Profit margin of 10%-15%.
- 290 small holder farmers have been trained and have received organic certification.



Pristine Foods Limited (PFL) – Kireka, Wakiso district, Uganda

Pristine Foods Limited (PFL) is a start-up business located in Kireka, Wakiso district, Uganda, incorporated in July 2015. The business has initiated the process to venture into production of extended shelf life egg products with the core line of business being the manufacturing and sale of liquid, frozen and powdered egg products. PFL will be a pioneer in the region as the first company in East and Central Africa to provide regionally produced pasteurized and homogenized liquid egg products, that is, whole, egg whites and yolks in chilled or frozen form and powdered egg.

Location: Kireka, Wakiso district, Uganda

Project Cost: \$850,353

Development Impact: Local Economic Development, Food Security

UNCDF Support:

- Technical Assistance - undertook full due-diligence, structured the investments, assessed the development impact and the financial impact additionality and sustainability (Dual Key), supported the investments in the implementation phases, advised on performance and impact measurement and reporting
- Partial Credit Guarantee- UNCDF provided a critical partial credit guarantee \$226,900 that unlocked additional financial flows to the investment \$650,000 debt capital from the Yield Fund.

Financial Leverage unlocked by UNCDF: \$650,000 in debt Capital unlocked, and a second debt financing expansion component is being facilitated by UNCDF.

Investment Impact:

Pristine Foods Ltd has been selling liquid egg products to serve commercial customers such as bakeries, hotels, restaurants, and catering companies. This intervention has significantly impacted smallholder farmers socially and economically by limiting the intermediaries and consequently, resulting into improved household incomes, entrepreneurship, improved livelihoods, job creation, rural development and is having a multiplier economic effect on the local economy. Pristine is a pioneer in the East and Central Africa region as the first company to provide regionally produced high quality pasteurized and homogenized liquid egg products, that is, whole, egg whites and yolks in chilled or frozen form and powdered egg.



Figure: Pristine Foods Ltd is in full production. A critical support provided by UNCDF was to fine-tune the project's investment documents, and the partial guarantee enabled the developer to meet the collateral requirement by the lender and the last mile transaction costs required to clear lender conditions. 20

Eco-Social Development Foundation- Bangladesh

Eco-Social Development Foundation (ESDF) was a foundation in Bangladesh relying entirely on its parent NGO's funds for survival. In the backdrop of rationing ODA from donors to NGOs to deliver their often-non-profit generating social development works, ESDF was in immediate need of new sources and sustainable flows of capital for growth. UNCDF assisted ESDF in developing a business plan, restructuring legal and management architecture and piloting a blended financing model, in turn unlocking public and private resources, to establish the first district level branding, packaging and distribution center for locally crafted mozzarella cheese by marginalized women artisans of Thakurgaon district of Bangladesh.

Location: Thakurgaon district, Rangpur, Bangladesh

Project Cost: \$166,466

Development Impact: Women's Economic Empowerment and Local Economic Development

UNCDF Support:

- Tailored Technical Assistance – restructured legal entity (foundation to enterprise) to mobilize debt capital, co-designed commercially viable yet sustainably social business model, tested inclusive ownership structure, undertook full due-diligence, structured project financing, assessed the development impact and the financial impact additionality and sustainability (Dual Key), supported the investments in the implementation phase, advised on performance and impact measurement and reporting.
- Seed Capital Grant - UNCDF provided seed capital grant of \$60,000 that unlocked additional financial flows (private sector equity investment of \$65,000, commercial bank loan of \$35,000 from MTB Bank, and Local Government grant of \$10,000 and in-kind contributions (i.e. vaccination, fodder subsidies, training and court-yard community learning sessions for small-holder women daily farmers).

Financial Leverage unlocked by UNCDF: The intervention has demonstrated proof of concept of blending public and private resources at the local level; especially by unlocking commercial loan facilities at concessional terms for women operated projects. Overall, \$110,000 in local development finance has been unlocked.

Investment Impact:

With the technical assistance and seed capital grant support from UNCDF, ESDF has accomplished the following:

- Construction of distribution center (600 sq.ft facility consisting of a cooling room, sorting section, testing lab, packaging and branding section and loading doc) with capacity of handling 20,000 kgs of cheese.
- Procurement and installation of chiller units and vans, digital packaging equipment and branding materials.
- Quality assurance certification from Hajee Mohammad Danesh Science Technology University, Bangladesh and Thakurgaon polytechnic Institute, Bangladesh; certificate from BSTI under processing.
- Secure distribution, sales and marketing contracts with 68 domestic channels and vendors.
- Training and selection of 35 local women cheese producers- Secure supply contracts with first 5 local women cheese producers (MOUs detailing fair trade terms and conditions).
- Restructure legal identity from foundation to social enterprise.
- Transform into a commercially viable and sustainably social business model.

- Test innovative ownership structure whereby the shares of the enterprise would over time are being offered to its network of local women led cheese enterprises serving as the suppliers to the project.
- Overall creating a rippling effect on small scale entrepreneurship and employment generation across the District.



HONEY PRIDE ARUA (U) LIMITED

Honey Pride Arua (U) Ltd.'s (HPA) business model is an “inclusive business model” where rural communities are included at various stages in the value chain. Most importantly, Honey Pride has included the rural farmers / beekeepers as their major suppliers of honeycomb for processing into honey products – i.e., honey, bees wax and propolis. The company is deliberately targeting the youth and women to join this enterprise for sustainable livelihood. HPA has used the funds from the START Facility to improve its honey processing capacity by purchasing modern equipment and purchasing more honeycomb for processing.

Location: Ayivu division, Arua city, Uganda

Project Cost: \$117,376

Development Impact: Local Economic Development

UNCDF Support:

- Tailored Technical Assistance – Undertook full due-diligence, Pre-investment business development services, project development and finance structuring, co-designed commercially viable yet sustainably social business model, assessed the development impact, financial impact additionality and sustainability (Dual Key), supported the investments in the implementation phase, post-investment business development services including advise on performance & impact measurement and reporting.
- Seed Capital Grant - UNCDF provided seed capital of \$47,510 in form of concessional loan

Financial Leverage unlocked by UNCDF: The intervention has demonstrated proof of concept of blending public and private resources at the local level; owner equity contribution of \$69,866.

Investment Impact:

With the technical assistance and seed capital support from UNCDF, Honey Pride has accomplished the following:

- Purchase of modern equipment including electronic honey press for separating liquid honey from the honeycomb, eight honey settling tanks with capacity of 1,000kgs each and honey filtering equipment.
- Increased its working capital majorly for purchase of honeycombs from the bee farmers.
- Increase in output from 3.5 tonnes before the investment to 5 tonnes after the investment per month. This is an approximate increase in monthly income by \$8,384.



Social Impact:

- Women & youth economic empowerment- In partnership with Uganda Micro Finance Support Centre has provided beehives and equipment to 1,762 bee farmers (16% female and 34% youth) up from 938 farmers. This has translated into income of \$470 per annum per additional farmer.
- Improvement in farmer livelihoods- Improvement in the house holds income by approximately \$118 per annum (from \$352 to \$470) of the rural farmers within the West Nile sub region subsequently growing their savings, rural economic investment, access to other social services like education, health etc.
- Employment – Recruited 8 permanent staff (3 women & 5 youth) and 18 temporary staff.



Contribution to the SDGs

For UNCDF, local development is about improving quality of life at the grassroots level. Inclusive growth requires that capital investments reach all geographic areas, and that the investment requirements of secondary cities, growing peri-urban areas and rural regions are fully financed. This accelerates transformative growth and retains value within local economies, avoiding patterns of high growth and low poverty reduction.

UNCDF's last mile financing Dual Key model provide seed capital to de-risk the local economic space and support the development of a pipeline of bankable Private Sector projects. This demonstrates to private and public sector investors how financing local infrastructure and essential services can generate both financial and social returns. It then crowds-in additional resources that already exist in the economy – such as pension funds and bank liquidity - to invest in local productive sectors.

Investment in small but transformational projects at the local level can help meet the SDGs. They create substantial development dividends for food security, women's economic empowerment, renewable clean energy, climate resilience, and local economic development. This helps to increase local fiscal space, capital formation and, most significantly, output per capita, through the investments themselves and their multiplier effect.



The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments through fiscal decentralization, innovative municipal finance and structured project finance can drive public and private funding that underpins local economic expansion and sustainable development.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

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