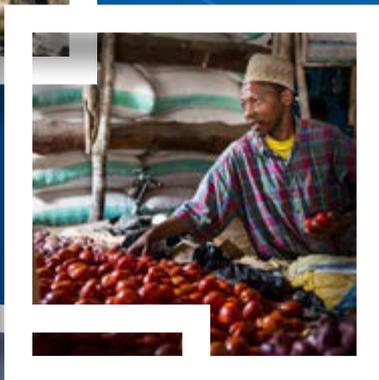
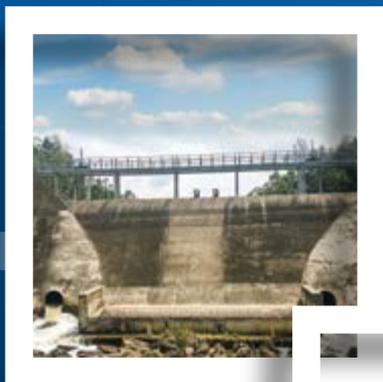


# LOCAL FINANCE INITIATIVE



**END TERM REPORT: July 2012 - June 2015**  
Documented Results, Lessons Learned and  
Recommendations for Scale up and Sustainability



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# Acronyms

|                 |   |
|-----------------|---|
| <b>AGM</b>      | Annual General Meeting  |
| <b>ALAT</b>     | Association of Local Authorities of Tanzania                    |
| <b>DANIDA</b>   | Danish International Development Agency                         |
| <b>EA POWER</b> | East African Power Limited                                      |
| <b>EU</b>       | European Union  |
| <b>LED</b>      | Local Economic Development                                      |
| <b>LFI</b>      | Local Finance Initiative  |
| <b>LGA(s)</b>   | Local Government Authority(ies)                                 |
| <b>MDGs</b>     | Millennium Development Goals                                    |
| <b>NSSF</b>     | National Social Security Fund                                   |
| <b>ODA</b>      | Official Development Assistance                                 |
| <b>PO-RALG</b>  | President's Office Regional-Administration and Local Government |
| <b>PPP</b>      | Public Private Partnership                                      |
| <b>REA</b>      | Rural Energy Agency   |
| <b>SDC</b>      | Swiss Agency Development and Cooperation                        |
| <b>SDGs</b>     | Sustainable Development Goals                                   |
| <b>SIDA</b>     | Swedish International Development Agency                        |
| <b>SME</b>      | Small and Medium Enterprise                                     |
| <b>SPV</b>      | Special Purpose Vehicle   |
| <b>TANECU</b>   | Tandahimba Newala Cooperative Union                             |
| <b>TANESCO</b>  | Tanzania Electricity Supply Company Limited                     |
| <b>TAREA</b>    | Tanzania Renewable Energy Association                           |
| <b>TCCIA</b>    | Tanzania Chamber of Commerce Industry and Agriculture           |
| <b>TIB</b>      | Tanzania Investment Bank  |
| <b>TOR</b>      | Terms of Reference  |
| <b>TSP</b>      | Technical Service Provider                                      |
| <b>UNIDO</b>    | United Nations Industrial Development Organisation              |
| <b>UNV</b>      | United Nations Volunteers                                       |

## Foreword

The Local Finance Initiative started with the observation that there was a mismatch between local infrastructure priorities and where investment dollars were going. After years of UNCDF experience creating working fiscal decentralization systems in least developed countries, funding shortfalls between local development plans and available public resources remain significant.

Despite significant inflows of domestic and international, public and private investment capital for infrastructure, very little is reaching the critical local infrastructure that forms the backbone of dynamic local economies, builds resilience to wider economic shock and transforms economic structures, adding value and employment. Localities often lack the fiscal space, capacities, access to finance and pipeline of bankable projects that would enable them to bring priority projects to fruition. And investors perceive high levels of risk, low promise of return, limited ability to perform due diligence on local projects, and difficulty in identifying reliable management arrangements to assure long term project sustainability.

The Local Finance Initiative (LFI) was designed to address these challenges. It set out to show that local infrastructure projects that are prioritized by local governments and communities can attract funding if existing market failures are addressed. It was also designed to further promote economic transformation by unlocking primarily domestic capital to fund this infrastructure, thus deepening capital market development and furthering economic integration and resilience. By directing strategically placed ODA to de-risk and structure priority local infrastructure projects, LFI demonstrates that domestic (and international) finance can be leveraged at a rate of at least 1:10 in support of economically transformational investments. In so doing, the programme contributes to a change in investor behaviour and creates a “crowding in” effect to attract interest in funding smaller-scale projects.

The examples highlighted in this End Term Report showcase how this ambition has been met in practice. The Local Finance Initiative has used targeted seed capital investments and technical support to attract private resources, such as from domestic banks, to fund essential infrastructure and basic services at the local level. It has helped a growing number of communities to prepare and structure bankable projects, and demonstrated how investments in local infrastructure – hydro-power, agro-processing, transportation hubs, market development, and telecommunications – can have a transformational impact on local economies, supporting local food security, women’s empowerment, job creation and access to clean energy.

Both the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development recognize that there is a need for multiple sources of finance to meet the Sustainable Development Goals, and that public and private finance must blend together effectively if achievement of the goals is to be inclusive and reach the last mile. The first phase of the Local Finance Initiative shows how the approach can work for investment in local economies, and how this can set the foundation for scaling up to the national level.

The End Term Report provides a candid assessment of what works in getting public and private partnerships to collaborate in support of local development. I hope the success stories, lessons learned, challenges and recommendations identified can stimulate greater momentum among development partners and policymakers to support innovative financing solutions that drive local economic development and inclusive growth.

A handwritten signature in blue ink that reads "Judith Karl". The signature is written in a cursive style with a large, stylized initial 'J'.

Judith Karl  
UNCDF Executive Secretary

# Note from the President's Office - Regional Administration and Local Government

This End-term Report marks the conclusion of the first four-years of the Local Finance Initiative (LFI) Programme, which has been implemented jointly by the PO-RALG and United Nations Capital Development Fund (UNCDF). This programme was designed and conceived for the purpose of achieving a demonstration effect and paving the way for further resources. Broadly, the outcome of the LFI programme enables the Government of Tanzania and UNCDF to realise their mandates and draw on their comparative advantages in applying seed capital and technical assistance to create an enabling environment for further capital flows.

Local development, from our perspective, means reducing poverty in its various forms by increasing the prosperity and well-being of localities. This requires:

- i. Leveraging and using local resources
- ii. Providing benefits, employment and services to local people
- iii. Strengthening and working with local institutions.

LFI was launched at the time when the Government of Tanzania had undergone a number of economic reforms, including changes in laws, policies and regulations aimed at supporting local economic development. During the last four years the programme has been instrumental in translating local economic development challenges into business opportunities for both the public and private sectors. Through very close collaboration between the PO-RALG and the LFI Secretariat, the capacity of local government officials is being enhanced and their focus re-oriented towards developing, owning and operating income-generating infrastructure projects. The result will be job creation and increased local revenue (through taxes and fees) for local institutions that can be reinvested in the local economy.

Adoption of the LFI approach by local governments will, in the long run, serve as a solution for district authorities, town councils, municipalities and cities to own and operate commercial infrastructure projects in partnership with the private sector. The establishment of appropriate governance structures and separate commercial entities that develop and operate these projects, owned by LGAs, provides the best alternative to public institutions, cooperatives and community organisations to own and operate commercial entities. We welcome the extension of the LFI-Tanzania programme for four more years and reiterate our commitment to support its implementation.

Thank You All



Kagyabukama E. Kiliba  
Deputy Permanent Secretary, PO-RALG

## Note from the LFI Technical Team

The critical role played by the private sector in fostering economic growth, poverty reduction and the attainment of both the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs) is widely recognised. At a time when public budgets are tight and local economies must deal with a globalising world, public funding alone is not the solution. If local development is to be successful and sustainable over the longer term, the private sector needs to be fully mobilised. However, during the design stage of the LFI programme, it was confirmed that private sector capital is not being used to support investment in economic infrastructure “productive systems” at the rural and sub-national level. Also, private capital is not available for local economic development actors, whether local governments or private businesses. In Tanzania LFI has demonstrated that local development projects can access private sector capital, and domestic capital can be used to finance sustainable development and create opportunities for trade, entrepreneurship, jobs, empowerment of women and youth and improving people’s lives through poverty reduction. Additional development impact includes increased revenues for suppliers of project inputs, spill-over effects on the local value chain, an improved environment for job creation and increased tax revenues for local governments.

The use of limited development funding and implementation of risk-mitigation strategies have resulted in leveraging private sector capital by at least a 1:10 ratio. As we continue to implement and scale up LFI, its sustainability is ensured by: 1) Government commitment to institutionalize and support the adoption of UNCDF Local Development Finance approach and risk-reduction strategies by all local government authorities; 2) implementation of national capacity development programmes (“learn by doing”), including training of local technical service providers, national and local government officials, bank officers and project sponsors; and 3) the scale-up and replication by both public (including local governments) and private sector investment project developers.

We are fortunate and proud to work with partners such as the Swedish International Development Agency (SIDA), Swiss Agency Development Cooperation (SDC) and the Government of Tanzania, through the President’s Office - Regional Administration and Local Government (PO-RALG), and others who made it possible to pilot and scale up the LFI programme.



Peter Malika  
Chief Technical Advisor, LFI Tanzania





# 1. Introduction

The United Republic of Tanzania is among the least developed countries (LDCs) in the world and has been developing and implementing many programmes in efforts to steer its economy in the right direction. The country is determined to become a middle-income developing country by 2025 as articulated by its formal national development agenda, Vision 2025, which targets, among other things: high and shared growth, high quality livelihood, good governance and international competitiveness.

UNCDF's mandate is to support investments in public and private institutions by providing seed capital and technical expertise. UNCDF promotes the investment of domestic capital in local economic development projects that build national productive capacities and promote sustainable local development. UNCDF's experience in Tanzania indicates that strategically placed official development assistance (ODA) for local economic development, through inclusive and local finance, can leverage domestic resource mobilisation at ratios of 1:10 or more.

While public finance and ODA remain vital, it is clear that much of the resources needed to finance the post-2015 agenda will have to come from the private sector and will require increased local-level investment. In recognition of the need for a blend of public and private investment to meet local development needs, UNCDF developed and launched the Local Finance Initiative to explore strategies for unlocking private finance for potentially transformative local infrastructure projects.

## Development challenge addressed by the Local Finance Initiative

Least-developed countries, including Tanzania, are amongst the world's fastest-growing economies, but this fact masks significant disparities and risks. Over two billion people continue to live on less than one dollar a day, and whilst absolute levels of poverty are falling, inequalities are rising. Additionally, natural disasters, changing weather patterns and globalized economic relationships threaten communities' resilience to external shocks. Combining overall growth with a mapping of poverty within LDCs reveals a more uncertain and differentiated world in which many localities are not receiving a share of the benefits of growth. How can resources be reinvested locally to build resilience and reduce inequalities?

The LFI programme aims to ensure that people in all regions and locations benefit from growth. This means dealing with the specific local development challenges presented, for example, by peri-urban areas and remote rural locations. It means re-investing domestic resources back into local economies and services through, for example, fiscal decentralisation. It also calls for innovative forms of private capital mobilisation, in tandem with improving the effectiveness of public and private investments in fostering local economic development. Both approaches lead to increased local revenue (through taxes and fees) for local institutions, which can be reinvested in local economies.

This end-term report provides information about programme implementation progress, key results, challenges and lessons learned during the pilot effort in Tanzania (July 2012 to June 2015) and presents a summary of progress towards expected outcomes and annual targets, as well as observations in relation to expanding and sustaining LFI.



## 2. LFI Programme

## LFI Programme Approach

The Local Finance Initiative programme for Tanzania (LFI-T) is a local development finance approach that provides seed capital and targeted technical interventions to unlock the flow of domestic capital investment in small- and medium-sized projects required to accelerate local development.

LFI-T is designed to advance local development at both the national and district levels. It seeks to activate the private sector and critical government functions to support the identification, development, and finance of small- and medium-size projects representing 'productive systems', such as agro-processing, public service delivery infrastructure, clean energy and climate and other industrial investments. The LFI programme is expected to strengthen Tanzania's global and regional competitiveness; enhance the national and local business environment; and improve living standards, reducing poverty at the local level.

LFI delivers the UNCDF approach, methodologies and tools in project finance, SME finance, and public/private partnerships (PPPs) through support to a select group of projects during the planning and financing stages. Projects that would otherwise be un-bankable are de-risked and taken to an investment-ready stage where they are capable of accessing commercial capital. Selection of projects is based on a) impact on local communities; b) potential for commercial viability; c) priority infrastructure areas such as energy, agro-processing, public facilities infrastructure, and other traditional and industrial small- and medium-size infrastructure.

The risks present at all stages of project development (pre-feasibility, investment, construction, implementation and operation) require significant capacity and experience on the part of developers to ensure management and risk mitigation to satisfy investors, lenders, contractors and other third parties. LFI's technical team provides this capacity through specific support activities (for example, project structuring, financial evaluation and structuring, investment memorandum preparation and introduction of risk mitigation strategies) that help projects to reach financial closure. Additional support is provided in the form of grants for technical studies, seed capital, subordinated debt, loan guarantees, credit enhancements and options that reduce 'last mile' transaction costs.

LFI-T is a leading innovative programme that is stimulating local economies and the domestic investment space, and is highly relevant to achievement of the global Sustainable Development Goals. It employs practical mechanisms to scale-up development finance in Tanzania, combining the use of targeted capital with "learn by doing" capacity building interventions. These interventions are targeted at increasing the capacity of both the government and the private sector to develop and finance infrastructure projects.

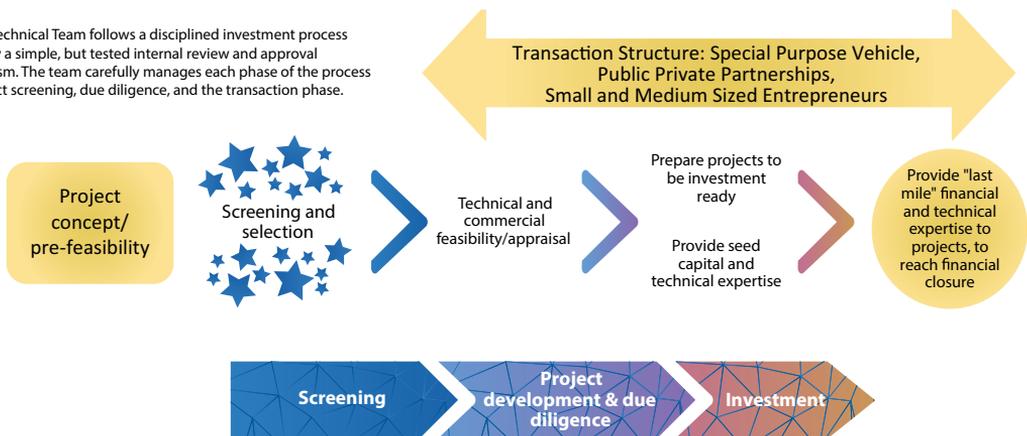
The end result is increased aid effectiveness, leveraging limited official sector resources (government, ODA, etc.) by mobilizing the private sector to finance projects critical to local economic development.

LFI employs a holistic approach, seeking to engage all actors along the project development and finance continuum: project sponsors, technical service providers, investors and development partners, local governments, central government and relevant agencies.

The LFI Programme seeks to provide a demonstration effect that ‘unblocks’ the domestic and private financial sectors, enabling greater finance for essential local economic infrastructure projects. These, in turn, can serve as a catalyst for local economic development, public and private sector development, job creation, poverty reduction and improved living standards — outcomes that are well aligned with the Sustainable Development Goals.

## LFI approach & process flow

The LFI Technical Team follows a disciplined investment process driven by a simple, but tested internal review and approval mechanism. The team carefully manages each phase of the process i.e. project screening, due diligence, and the transaction phase.



## Investment profiles and selection criteria

LFI targets commercially viable investment projects that:

- Build sustainable production systems for small- and medium-size infrastructure and meet local consumption needs
- Increase agricultural productivity and market access for small- and medium-size agribusinesses and farmers
- Support women’s economic empowerment and gender equality
- Build resilience to climate change and access to clean and sustainable modern energy sources

The selection process focuses on the identification, selection and development of projects that are: a) commercially viable, b) have transformative development impact and c) fall within the prescribed total project cost/size, ranging from USD 100,000 to 20,000,000.

## Programme delivery

Programme support is provided in the form of seed capital, credit enhancements (such as loan guarantees) and technical expertise to unleash and trigger broader and deeper local economic development impact in local communities. In other words, local economic infrastructure projects that would otherwise appear too risky for a traditional lending institution are “de-risked” and taken to an investment-ready stage in which they are capable of attracting equity investors and accessing commercial capital.

## LFI’s financing instruments

The programme uses a variety of investment modalities, including: structured project finance, SME finance and public/private partnerships.

## Unlocking private sector capital

Limited public funding, including donor support, is leveraged by seeking private sector capital, using financial structures and instruments that mitigate risks, and therefore: increase the effectiveness of public sector funding, deepen private sector engagement, increase the capacities of local stakeholders and enhance domestic capital markets.

## Strategic partnerships

In addition to its role as implementing partner, PO-RALG has supported the identification and development of local government-sponsored commercially viable infrastructure projects. SIDA and other development partners contributed resources that allowed the LFI Programme to take off. The UN system in Tanzania contributed resources to UNCDF Tanzania through the One UN Fund. Partnership with the Tanzania Investment Bank (TIB) allowed advancement of local government projects for commercial lending. The UNCDF/LFI programme partnered with UNIDO to develop and finance small hydro-power generation projects in Southern Tanzania. UNCDF/Rural Energy Agency collaboration resulted in support to a number of rural electrification projects.



## 3. Results

## Key results

Since its inception three years ago, the LFI Programme has achieved remarkable results and helped to unlock more than USD 52 million of domestic capital to invest in commercially viable projects proposed by local governments and private entities. Below are the key results at a glance.



### USD 52 million

domestic capital unlocked from the private sector to invest in local development projects in Tanzania



### Technical Expertise

provided to 30 productive infrastructure projects collectively worth USD 303 million



### USD 1.2 million

in seed capital disbursements to local development projects



### 5 Sectors/thematic

food security, clean energy & climate resilience, women economic empowerment, local economic development including public service delivery infrastructure



### 15 regions

geographical distribution of the projects supported in Tanzania



### 21 Private Sector

projects under development (private sector engagement)



### **9 Local Government Authorities**

supported to develop income-generating infrastructure projects worth an aggregate total of USD 78 million. By end- 2015, 23 new LGA projects will be added to the LFI portfolio



### **400 project developers and financiers trained**

in project finance techniques and project development approaches for small and medium sized infrastructure projects required to accelerate local development



### **System wide changes**

Government agreement to institutionalize the LFI approach in all LGA's in Tanzania for scale-up sustainability. Capacity of select LGA's enhanced to develop productive projects, incorporated in annual budget and investment plans. LGAs adopt new governance structure to establish separate investment companies owned by Local Government Authorities to undertake project development activities



### **USD 4.2 million**

further mobilized from development partner organizations to support project preparation costs and application of risk-mitigation strategies to local development projects

## Portfolio of LFI projects and impact

In support of public and private project developers, LFI reviewed and supported over 42 projects in Tanzania. At present, LFI supports more than 30 active economic infrastructure projects, launched by both public and private developers, with an aggregate estimated cost of USD 303 million. These projects are at different development stages and spread across several sectors – food security; climate resilience and clean energy; women's economic empowerment; and local economic development, including public service delivery infrastructure – in 15 regions in Tanzania. Nine of the projects were sponsored by public institutions and the other 21 by private developers and/or through public/private partnerships. The five most advanced projects have reached the final stages of financial closure (that is, financing has already been approved by a lender) and will have the potential to access about USD 52 million of domestic capital in the form of lending and about USD 3.6 million in grants.

## LFI projects by sector and location



During its three-year pilot, LFI leveraged public resources to access private sector capital at a ratio of more than 1:10, contributing to several innovations. LFI’s work created a positive change in government practice, represented by its commitment to adopt and scale-up the LFI approach to all local governments nationwide. It also changed mind-sets in relation to governance structures, allowing the establishment of separate investment companies owned by LGAs and communities. Finally, it supported capacity development among key national stakeholders from the public and private sectors.

Through close collaboration between PO-RALG and the LFI technical team, the capacity of local government officials was enhanced and their focus re-oriented towards developing, owning and operating income-generating infrastructure projects. This will contribute to increased job creation and local revenue for local institutions that can be reinvested in the local economy. The adoption of the LFI approach by local governments will, in the long-term, serve as a solution for district authorities, town councils, municipalities and cities to own and operate commercial infrastructure projects in partnership with the private sector.

## Unlocking public and private finance

By developing projects critical for the acceleration of local development LFI was able to leverage public resources to access private sector capital at a ratio of 1:10. As of end-June 2015, 30 (active) investment projects sponsored by public and private developers were receiving support from LFI. The diverse sectors and sub-sectors receiving support included: agro-processing, clean energy, public service delivery infrastructure and other value-addition projects in 15 regions of Tanzania. Nine projects are being implemented by public institutions; the remaining 21 are being implemented by private developers and or public/private partnerships.

## Influencing positive change of practice

Positive change of practice by government, and its commitment to adopt and scale-up the LFI approach to all local governments nationwide. Change of mind-set in relation to governance structures to allow the establishment of separate investment companies owned by LGAs and communities. LFI has taken steps to address a Government request to assist in utilising the UNCDF local development finance approach in all local governments in Tanzania. Specifically:

- The Government, through PO-RALG, will institutionalise within local governments the UNCDF/LFI local development finance approach, promoting investment in commercially viable local infrastructure projects that result in significant transformative impact for local communities. In other words PO-RALG, in partnership with UNCDF, will promote local economic development and the provision of public infrastructure and services by local institutions, using the LFI financing mechanism.
- In February 2015 PO-RALG instructed all local government authorities to include commercially viable projects in their Annual Investment Plans and budgets (infrastructure and productive systems). These projects are to be developed under PPP or similar joint venture arrangements in an attempt to access new sources of capital, including from the private sector.

## Capacity development: training of key public and private stakeholders

LFI conducted a number of workshops and community outreach events, of which the most significant were: a project finance technical workshop, a local development finance workshop for LGA directors and a presentation by LFI at the annual general meeting of the Association of Local Governments in Tanzania (ALAT).

## Advanced projects

There are eight advanced projects in the pipeline, which means they have either reached financial closure or are in the final stages; in total they successfully unlocked USD 52 million in domestic capital in lending from local banks. Given LFI's high level of technical expertise, seed capital and other forms of grants and credit enhancements, its support has been critical to enabling these projects to attract private sector capital.

# Kibaha Modern Market

## Overview:

-  **Sector:** Public service delivery
- Type:** Public
-  **Project:** Modern market
-  **Location:** Kibaha District, Pwani Region
-  **Cost:** USD 10.1 million; bank loan USD 7.6 million
-  **UNCDF contribution:** Seed capital USD 252,160 & technical support



Kibaha Town Council (KTC) is developing a modern market for Kibaha District in Tanzania's Pwani Region. The market is a community service delivery infrastructure that will serve up to 834,956 people (c. 196,422 households) in Pwani Region and about 258,812 people (c. 62,189 households) from neighbouring wards in Kinondoni District, Dar es Salaam.



Existing market at Maili Moja, Kibaha



Kibaha proposed modern market structure

## Impact:

The project will contribute toward the sustainable and inclusive local economic development of Kibaha District. It will also provide new revenue streams for KTC through the collection of sales, levies and real estate taxes, reducing dependence on central government transfers. The project will be critical to strengthening the local value chain, and will facilitate the linkage of small-holder farmers and traders (predominantly women) to a centralised market. The project also provides an added incentive for aspiring entrepreneurs to establish small businesses at the market, as tenants or casual traders, resulting in reduced unemployment and poverty.

## LFI support:

The total project cost of the Kibaha modern market is approximately USD 10.1 million. LFI support takes the form of technical expertise and seed capital (USD 252,160), contributing to the equity stake of the project developer. This contribution, combined with that of others, will unlock domestic capital, including a USD 7.6 million dollar loan, representing three-fourths of the total investment cost, from TIB.



Rob Beechey

# Lupali Small Hydro-Electric Power Project

## Overview:

 **Sector:** Clean energy (rural electrification)

**Type:** Private

 **Project:** Small hydro-electric power plant

 **Location:** Njombe District, Njombe Region

 **Cost:** USD 2.2 million; bank loan USD 659,800

 **UNCDF contribution:** seed capital USD 250,000 & technical support



Jacqueline Namfua

## Rural electrification and women economic empowerment

The Benedictine Sisters of St. Gertrude Convent Imiliwaha (BSoSGCI) are developing the Lupali Small Hydro-Electric Power Project (SHEPP), a 317 KW hydro-power project based in Njombe District. The project will expand rural electrification to an estimated population of 5,625 people (1,372 households) in Boimanda village. In addition, it will improve the delivery of education and health services in the area by increasing access to electricity for one hospital, four dispensaries, three secondary schools, seven primary schools and six nursery schools.



Jacqueline Namfua

## Impact:

By providing clean energy, the hydro-electric project will support sustainable local economic development in Njombe District, making it possible to replace toxic fossil fuel systems (associated with high carbon emissions and negative respiratory health impacts) with clean energy. The project will also be catalytic in improving food security and the local business environment by increasing refrigeration capacity in the project area, thus extending the shelf life of food products and reducing food insecurity. The project also addresses one of UNCDF's thematic interventions, women's empowerment, as it is owned and managed by 500 women and addresses barriers to women's economic participation. Access to reliable electricity for consumption and production will enable women to reduce time spent on unpaid tasks, such as collecting firewood, and increase time spent on income-generating activities, education and political participation. The provision of relatively cheaper and more reliable energy will also improve operational efficiencies of local businesses, enabling expansion, especially into value-added processing activities.

## Impact on local health and business

*"We will be able to get heaters for our wards which will help to reduce the many cases of pneumonia, and be better able to handle night deliveries and to make use of our machines in the laboratory," Sister Maria Veremunda, Health Centre manager.*

Snack bar owner Wolfram Raphael finds that power outages affecting the one light bulb in the shop are undermining his business. "If we had stable power I would be able to get more clients." Electricity will cost less than the kerosene he now relies on.



## LFI support:

The total project cost is approximately USD 2.2 million. LFI support consists of technical expertise and seed capital, contributing to the equity stake of the project developer. Thus far, LFI has disbursed USD 50,000 for project preparation costs and detailed technical design costs, and is looking to provide additional seed capital of USD 200,000. This contribution, combined with others, has resulted in the unlocking of domestic capital, including a USD 659,800 commercial loan from TIB; and a UNIDO contribution of electromechanical equipment worth USD 420,000.

# TANECU Cashew Nut Processing Project

## Overview:

-  **Sector:** Agro-processing
- Type:** Private / cooperation
-  **Project:** Cashew processing factory
-  **Location:** Newala District, Mtwara Region
-  **Cost:** USD 20.8 million
-  **UNCDF contribution:** Technical support



Tandahimba Newala Cooperative Union (TANECU) is a cashew nut cooperative union based in the cashew-growing region of Mtwara, Tanzania. TANECU plans to build a cashew processing factory in Mtwara, with the aim of creating wealth for its members through cashew value-addition. It is expected that cashew nut processing in Tanzania could add USD 110 million annually to the rural economy and create about 45,000 new jobs. The project demonstrates how subsistence farming can be organised at the community level to assist small-scale farmers to increase productivity by providing a stable market for their produce, along with much-needed revitalisation of the agro-processing sub-sector.

## Impact:

The project will provide cashew farmers, predominately women, with a guaranteed market for their produce. This, in turn, will increase productivity and income earned from farming activities, leading to reduced poverty in the local community. This will be complemented by benefits derived from a system in which local societies own shares in the project, increasing local ownership, participation and accountability. The project will stimulate economic activities beyond farming (e.g., logistics, financial services) and contribute to government revenues via taxes. Additionally, it will contribute to Tanzania's foreign exchange earnings by exporting processed cashew nuts.

## LFI support:

Total project cost is USD 20.8 million. LFI support takes the form of technical expertise for preparing the project to be investment-ready. The provision of seed capital to TANECU is pending a final agreement among key stakeholders involved in the financing deal, including the National Social Security Fund, an equity investor; TIB Development Bank, as the lender; and TANECU.

# Ileje Community Radio

## Overview:

-  **Sector:** Telecommunication
- Type:** Public/private partnership
-  **Project:** Community radio
-  **Location:** Ileje District, Mbeya Region
-  **Cost:** USD 229,547
-  **UNCDF contribution:** Seed capital USD 105,678 & technical support



Ileje District Council and the Ileje East Environmental Conservation Group are in the process of establishing the 'Ileje Community Radio' in southern Tanzania. The project aims to utilise information and communication technology to improve access to information for district residents, who until now have been unable to access local radio because of their distant location, out of reach of mainstream stations.

## Impact:

Ileje Community Radio will play a key role in improving the livelihoods of local residents, who rely primarily on agricultural activities for sustenance. This will be achieved by broadcasting information on farming techniques, weather conditions, market prices and opportunities, in addition to providing a platform for local farmers to market their agricultural products. The radio station will also promote awareness about issues that impact the daily lives of residents such as environmental conservation, gender equality, reproductive health issues, family planning and HIV and AIDS. In addition, it will empower women by enabling them to actively participate in community discussions, becoming citizens whose voices are heard.

## LFI support:

The total cost of developing the radio station is USD 229,547. LFI is providing technical expertise and seed capital amounting to USD 105,678. This contribution, along with others, is expected to unlock domestic capital, including funds from other development organisations, of approximately USD 123,869.

# Kibaha Bus Terminal

## Overview:

-  **Sector:** Public service delivery
- Type:** Public
-  **Project:** Modern commercial bus terminal
-  **Location:** Kibaha District, Pwani Region
-  **Cost:** USD 7 million; bank loan USD 5.6 million
-  **UNCDF contribution:** Seed capital USD 248,765 & technical support



Kibaha Town Council is developing a modern commercial bus terminal in Kibaha District, Pwani Region to replace the existing facility, which is located on land reserved for road expansion. The new terminal is envisaged to have the capacity to serve 600 large buses and around 1,500 minibuses per day, providing critical transportation infrastructure for more than 60,000 passengers daily.

## Impact:

The project will improve the efficiency of transport service delivery and contribute toward sustainable, inclusive local economic development in Kibaha District. The project will provide new revenue streams for KTC through sales and the collection of levies and real estate tax revenues, reducing its dependence on central government transfers. For example, it is calculated that KTC will receive USD 18,000 to USD 31,000 per year from levies. Development of the bus terminal also addresses barriers to women's economic participation, particularly by allowing them to re-allocate the disproportionately large amount of time now spent on transportation (mainly walking) to income-generating activities. The bus terminal will also increase foot traffic to the adjacent market being developed by KTC, which will bolster the incomes and livelihood of traders.

## LFI support:

The project cost of the Kibaha bus terminal is approximately USD 7 million. LFI support involves technical expertise and seed capital (USD 248,765), augmenting the equity stake of the project developer. This contribution and that of others will unlock domestic capital, including USD 5.6 million in loans from TIB.

# Moshi Bus Terminal

## Overview:

-  **Sector:** Public service delivery
- Type:** Public
-  **Project:** Modern commercial bus terminal
-  **Location:** Moshi Municipality, Kilimanjaro Region
-  **Cost:** USD 15.8 million; bank loan USD 11.1 million
-  **UNCDF contribution:** Seed capital USD 238,000 & technical support



Moshi Municipal Council (MMC) is developing a modern bus terminal, the MMC International Bus Terminal at Ngangamfumuni in Moshi. The terminal is expected to serve 184,292 local residents, in addition to transit passengers, and will have a number of positive impacts on the Kilimanjaro region and beyond.

## Impact:

The project will play an essential role in increasing sustainable, inclusive local economic development in the Kilimanjaro Region. It will afford the MMC new revenue streams through sales and the collection of levies and real estate taxes, reducing dependence on central government transfers.

## LFI support:

The total project cost of the MMC International Bus Terminal is estimated at USD 15.8 million. LFI is performing due diligence, and has approved disbursement of USD 238,000 as seed capital to complement the developers' equity, in order to leverage about USD 11,150,000 from the TIB Development Bank.

# Kiwira River - Small Hydro-Electric Power Project

## Overview:

 **Sector:** Clean energy (rural electrification)

**Type:** Private

 **Project:** Small hydro-power plant

 **Location:** Rungwe District, Mbeya Region

 **Cost:** USD 18.4 million

 **UNCDF contribution:** Seed capital USD 100,000 & technical support



EA-Power Limited is developing a 10 MW hydro-power plant in Kiwira, Mbeya Region, in southern Tanzania. The project aims to address growing energy shortfalls by providing electricity to the national grid, as well as increasing rural electrification in the region.

## Impact:

Kiwira's small hydro-electric power project is expected to have a significant demonstration impact on other local private sector investors, encouraging them to pursue similar projects, which in turn will stimulate private sector investment in energy within Tanzania and the East Africa region as a whole. Through the provision of clean energy, the project will support sustainable economic development nationally and in Mbeya Region. The project will enable clean energy to displace toxic fossil fuel systems associated negative environmental and health impacts.

## LFI support:

The total project cost for developing the hydro-power plant is USD 18.4 million. LFI support to EA Power is USD 100,000 in the form of seed capital to help the project meet transaction costs associated with the final phase of financial closure. Limited technical expertise was provided by LFI for this project; further support will depend on terms and conditions of the prospective lender.

# Maguta Small Hydro-Electric Power Project

## Overview:

 **Sector:** Clean energy (rural electrification)

**Type:** Private

 **Project:** Small hydro-power plant

 **Location:** Kilolo District, Iringa Region

 **Cost:** USD 9.8 million; bank loan USD 1.6 million

 **UNCDF contribution:** Seed capital of USD 300,000 & technical support



Lungali Natural Resources Company, Ltd. is developing the Maguta Small Hydroelectric Power Project, a 2.4 MW hydro-power project located in Kilolo District, Iringa Region. The new power plant will supply electricity to more than 3,000 households in 16 villages – as well as private businesses, small enterprises and public and community institutions – as part of the off-grid component. About 500 new households and 150 small-to-medium size industries, enterprises, schools and health centres will be connected during the first two years; excess power will be sold to the national grid.



## Impact:

The project will trigger sustainable local economic development in Kilolo District by increasing rural electrification in the area. The project will enable the replacement of toxic fossil fuel systems with clean energy. It will also play a catalytic role in improving food security (by powering electric water pumps for irrigation) and will increase refrigeration capacity in the project area, extending the shelf life of food products. Access to reliable electricity for consumption and production will enable women to shift unpaid time dedicated to collecting firewood toward income-earning activities, education and political participation.

*“There is not a single fridge in our entire community because no one has electricity. So we must cook every day. It is costly to buy charcoal but we have no choice because we don’t have fridges to store our food and vegetables. It is hard work for our women because they spend all the day at the farm and then they must cook for the family,” Ashraf Chussi, Idete Ward Executive Officer.*

The provision of relatively cheaper and reliable energy will also improve operational efficiencies of local businesses, enabling their expansion, especially into value-added processing activities. An associated benefit will be on education in the District.

The Head Teacher at Madege secondary school for girls, points out that having a regular supply of electricity will improve education outcomes by providing students with more hours to study. “They are supposed to study from 7-10 pm, but with no light, they must stop by 8 pm. The school also has safety concerns due to lack of outdoor lighting, and it is difficult to provide students with mock exams because electricity is needed to power a copier and travel to the closest town with a copier is expensive and time-consuming.”



## LFI support:

The total cost of Maguta SHEPP is estimated at USD 9.8 million. LFI is providing support in the form of technical expertise and seed capital. Thus far LFI has disbursed USD 100,000 for project preparation costs and is looking to provide further seed capital funding of USD 200,000. This contribution, along with others, has resulted in the unlocking of domestic capital, including USD 1.6 million in loans from TIB and REA performance grants of USD 1,500,000.

## LFI Portfolio of Projects in Progress

The portfolio of LFI projects are at different stages of development, in accordance with internal processes flow and methodologies. Projects are divided into five separate groupings based on priority areas as follows: Portfolio #1 - Agro-processing; Portfolio #2 - Public service delivery infrastructure; Portfolio #3 - Gender equality/women's economic empowerment; Portfolio #4 - clean energy/climate and Portfolio #5 - Resilient economy.

### Due diligence and project site visits:

More than 40 project sites were visited by the LFI technical team to perform due diligence, and on the ground discussions with owners/developers to confirm the existence and progress of projects and verify the findings of project documents and reports. Potential social and economic activities, multiplier effects and impact of the projects on their local communities were identified and documented. The list below is representative of some of the projects visited by the LFI Technical Team:

**Lokolova International Cereal Market:** This USD 17 million project is being developed by Kilimanjaro Uchumi Company (KUC) Ltd, a private company owned by the Kilimanjaro Regional Administration Office. KUC has acquired 140 acres of land for the project at Lokolova (1.5 kilometres from the Tanzania-Kenya border) as a portion of its equity contribution. The project aims to address the issue of increasing need for cereals, specifically maize, from both domestic and foreign markets. Currently, maize is sold through informal (black) markets which denies revenue to local governments. The market will enhance cross border businesses between Tanzania and Kenya and beyond. LFI has established discussions and potential due diligence approaches with TIB, which has expressed interest in investing in this project.

**Agro-processing projects:** The two project sites visited were FJS African Starch Company Ltd, a USD 11 million starch processing project in Bungu-Rufiji and Agro-Focus (T) Ltd a USD 15 million cashew processing project located in Mtwara Region. Agro Focus (T) Ltd located in Newala District is looking for new financing to rehabilitate its existing cashew processing plant (10,000 tons/year).

**Kigoma Ujiji development:** Kigoma Special Economic Zone (KSEZ) is a project implemented by Kigoma Ujiji under the Regional Administrative Secretary's Office. The project will feature industries, offices and residential-use apartments to make use of Kigoma's strategic location for serving the domestic market and neighbouring countries Burundi and Democratic Republic Congo. The estimated total project cost is USD 16.7 million. The developer will need to contribute 40 per cent of the development costs, to include 1,720 acres of land.

**The Kalemawe Agricultural Dam:** LFI is supporting the rehabilitation of the Kalemawe Agricultural Dam in Same District, to be owned and operated through a PPP framework. This approach offers an alternative method for localities to seek new sources of financing for local development, rather than relying on public funds or government transfers.

The rehabilitation and operation of the Kalemawe Agricultural Dam will have a transformational development impact (supporting livelihoods for about 10,000 households, including farmers, livestock keepers and fishermen) by leveraging both public and private capital. LFI support will focus on issues of ownership, institutional and legal framework, governance, technical issues related to rehabilitation, commercial fishing, water use farming, livestock, climate change and environment, women's economic empowerment and financing modalities.



**Other projects visited include:** Chamwino Grape Processing (Dodoma) and Kibirizi in Kigoma Municipal. Evaluation and assessment of these projects is ongoing.



## 4. Key Events

## Municipal Finance Workshop and Academy in Arusha, August 6 – 8 2014



The workshop was organised by the World Bank under its Public-Private Infrastructure Advisory Facility, and attracted over 90 representatives from different municipal and district councils. LFI presented its innovative approach of supporting local governments to seek new sources of financing, including domestic capital, for economic infrastructure projects.

## Official Launch of the Global LFI Programme in Tanzania by the UNCDF Executive Secretary in Dar es Salaam, September 13 -16 2014

The UNCDF Executive Secretary, Ms. Judith Karl, visited Tanzania from September 13-16, 2014 to officially launch the Global LFI Programme and interact with key stakeholders. During her stay, she visited an LFI project, the Kalemawe Agricultural Dam. She also met with the United Nations Resident Coordinator, Mr. Alvaro Rodriguez. In addition, Ms. Karl met with senior Tanzanian Government officials and the media, and officially launched the Tanzania-based Global LFI Secretariat on September 16, 2014. PO-RALG was represented at this event by the Deputy Permanent Secretary, Dr. Deo Mtasiwa and other officials.



## Project Finance Workshop in Dar es Salaam, October 21-23 2014

Some 120 project developers and officials from five financial institutions participated in this three-day technical workshop on project finance. The workshop was part of a series hosted by LFI to educate both private and public infrastructure project developers and lenders about innovative tools in the field of project finance, and the ways in which LFI can support them. During this workshop, the LFI technical team outlined tools, risk-mitigation strategies, the contracting



sequence and the basic terms and conditions that can be expected from each contract. LFI's process for preparing projects for investment readiness, the participants and their distinctive roles were discussed to ensure that a greater number of project developers understand and learn the terminology used by investors and lenders. LFI provided skills and capacity development to local project developers using a classroom and 'learning by doing' approach to ensure that their approach to bankers and investors is timed correctly and yields results.

## Kalemawe Agricultural Dam's Stakeholder's Participatory Planning Meeting in Dar es Salaam, March 5 2015



The workshop focused on issues of ownership, institutional and legal framework, governance, rehabilitation, commercial fishing, water use farming, livestock, climate change and environment, women's economic empowerment and financing modalities and other sustainable programmes.

Participants in this stakeholders meeting included PMO-RALG's Assistant Director of Governance and Service Delivery; the Same District Commissioner; ward councillors; district council heads of departments; NGOs; and representatives of farmers' and livestock associations, as well as environmental and women's economic empowerment groups. These major stakeholders of the Kalemawe dam project are playing an instrumental role in defining the way forward for project development.

## ALAT 'Tripartite Event' and Local Government Week in Dar es Salaam, April 8-10 2015

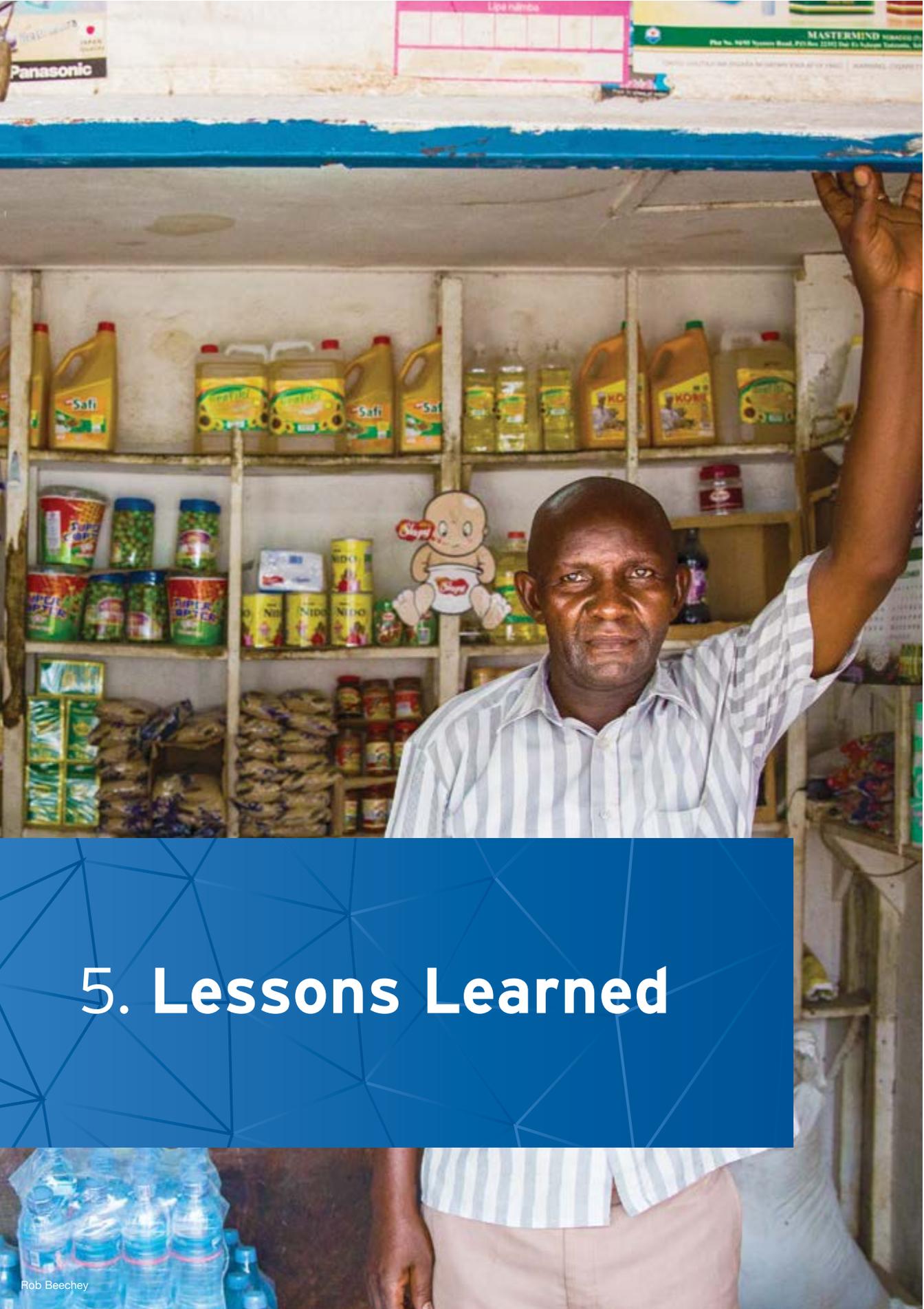
Between April 8-10, 2015 the LFI Technical Team participated in ALAT's Annual General Meeting, and Mayors' Award Ceremony. During both events the Team had an opportunity to share about the LFI Programme and present to 600 LGA officials on the importance of local financing initiatives for local economic development. Such events have served as forums to create awareness about LFI among senior local government officials responsible for project development and planning at the LGA level. Some 600 brochures and leaflets on LFI were distributed directly to LGA officials and other participants during the two events. As a result, a growing number of LGAs have approached the LFI Team for technical support regarding project financing and development. Forty-two local government officials attended a separate LFI technical session focused on knowledge-sharing, innovative approaches and new sources of finance for public infrastructure facilities.

## Local Development Finance Workshop in Arusha, June 15-16 2015

Over 100 local government officials participated in this two-day workshop designed for directors of local government authorities in Tanzania. Representatives from the government and select LGAs in Uganda, Senegal, and Benin also participated. Successful models used in Tanzania and Uganda were showcased and lessons learned shared to set the stage for replication by other LGAs nationwide.



Successful models of viable financing for economic infrastructure projects by local governments were presented. The workshop was a continuation of the capacity development and knowledge-sharing events conducted by UNCDF to inform public and private developers of economic infrastructure about new options for accelerating local development. During the first day local government-sponsored projects from the Busia Municipal Council in Uganda (featuring a cross-border multi-purpose lorry park and customs and trade facilities) and the Kibaha Town Council's public service delivery infrastructure projects (modern market and bus terminal) were showcased. On day two, the UNCDF technical team trained participants on the project development and financing phases, with a specific focus on risk-mitigation strategies.



## 5. Lessons Learned

This section of the report presents and analyses lessons learned from the pilot implementation of the LFI programme in Tanzania, particularly with regard to use of domestic capital, up-scaling and replication in local governments. It demonstrates that the LFI local development finance approach can have positive, transformational and sustainable impact at local and national levels alike.

**Lesson 1: ‘Bankable’ projects are the starting point for unblocking domestic and private finance:** The most critical bottleneck to accessing finance is the lack of projects that are ready to be assessed by a formal financial institution. Finance is not available because requests for finance tend to be just “concepts” or “wish lists,” lacking business plans, feasibility studies, market assessments, engineering and legal inputs, etc. When feasibility studies exist they lack finance fundamentals that would enable sponsors to reach the last mile. The skills and capital required to develop bankable projects and businesses are lacking in developing countries. Often the equity investment requirements imposed by commercial lenders and the high cost of accessing legal and financial advice to structure projects and business deals make it almost impossible for small investors to successfully develop projects. Targeted development partner intervention can serve as the fulcrum for jump-starting the development of projects and mitigating the risks that impede their bankability.

**Lesson 2: Active participation and support of the government** was key in opening doors, providing references and communication with local government project developers to tap into the LFI financing approach, leading to a growing pipeline of LGA projects. This is also true for government agencies such as REA, which partnered with LFI to develop a pipeline of rural electrification projects. Local governments lead the process of local economic development planning, providing complementary infrastructure and measuring impact.

**Lesson 3: Mind-set change** has been possible due to the sustained decrease in public funding to LGAs, which has resulted in a paradigm shift. Consequently, LGAs are now more open to entrepreneurial approaches such as LFI, in addition to central government transfers, to fund local development.

**Lesson 4: Local economic development is a complex undertaking** requiring time and national and international partnerships. Delivering economic development to a locality or region is complex, since it is subject to influences beyond the control of local, regional or national governments. Similarly, the time-frame for seeing results is closer to a business cycle (12 to 15 years) than to the electoral cycle (five years). As a result, local economic development is more likely to succeed if it is treated as a long-term partnership between public, private and other institutions at both the national and international levels. This is especially true since the private sector is the natural choice from which to launch local economic development, given its greater resources and continuity, ensuring broad-scale development impact and sustainability. Key indicators and analytical tools are needed to aid selection of projects with the greatest local economic development impact.

**Lesson 5: Strategic partnerships with private sector actors** such as commercial banks and project developers has been a key factor in unlocking private finance for development. Banks are willing to review and consider projects that have been prepared to meet their standards and have addressed risks and mitigation.

**Lesson 6: Project finance for local development** as opposed to traditional corporate (balance sheet) financing, requires enhanced capacity development for key stakeholders, including commercial banks. The LFI technical team needs to continue to train public and private stakeholders and increase government capacity to facilitate finance, project development and business-enabling environments.

**Lesson 7: Project finance** is a specialised knowledge. By its nature and use, project finance is not commonly practiced in LDCs or used by their financial institutions because it involves long- term investment financing. At the initial stages of programme delivery, the application of project finance concepts was difficult due to the fact that even most bank officials lacked exposure to and experience with the approach.

**Lesson 8: LFI technical support** is a critical service that is required for local development projects to reach and cross the last mile to full financing. Providing grants to fund feasibility studies is necessary but not sufficient, because we have learned that if not properly coordinated through the project life-cycle, projects may fail due to lack of appropriate finance structuring skills. The LFI team is continuing to build the required experience for structuring and financing projects, given their complexity and the time required to finalise all necessary funding.

**Lesson 9: Dedicated UNCDF technical staff:** The hiring of technical staff, rather than consultants, has sustained the UNCDF programme in terms of retention of knowledge and enhancement of LFI methodologies.

**Lesson 10: Reliable technical assistance funding source:** Feasibility studies and credit enhancement mechanisms remain a prime lever for greater visibility and subsequent project financing. Having reliable access to funding for feasibility studies and credit enhancement is critical to projects' success, as well as to maintaining the interest and assuring the cooperation of private sector entities such as lenders and project sponsors. Feasibility studies are costly and typically must be prepared by a credible, independent third party to confirm the technical or economic feasibility of a specific project. Such studies are critical to this process because they often require specific approaches to risk mitigation, and they become part of the supporting documentation package when accessing funds from local commercial lenders or investors.

**Lesson 11: Local development projects can access private sector capital to finance sustainable development,** provided that specific interventions help the projects to prove viability and attractiveness for investment. Such projects create opportunities for trade, entrepreneurship, jobs, resilience to climate change, empowerment of women and youth. They improve peoples' lives by reducing poverty at the local level.



Rob Beechey



## 6. Challenges

## Challenges in implementing LFI

In implementing LFI in Tanzania, the technical team has experienced several challenges, including:

**Challenge 1: The quality of project proposals is very low.** As a result more work, seed capital and technical support is necessary to meet the minimum standards of lenders. With the help of the LFI technical team, such projects receive support to improve their quality for submission to lenders.

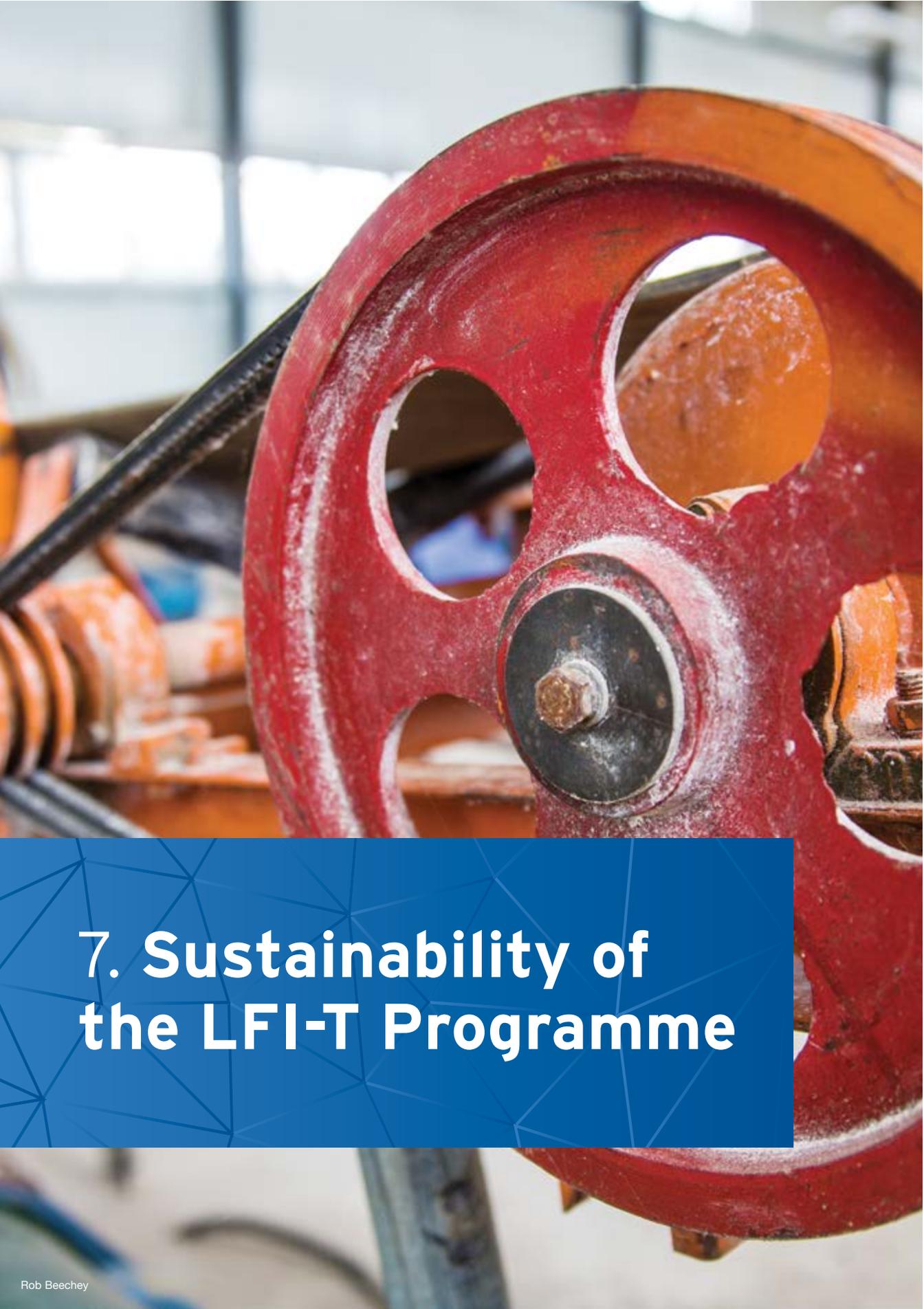
**Challenge 2: Lack of initial capital inhibits** the development of local development projects. In response, UNCDF provides seed capital in the form of grants to qualified project developers to enhance their equity contribution to the capital structure, which in turn helps to reduce the debt amount to the developer and risk to the lender.

**Challenge 3: Knowledge and technical capacity** are insufficient. Local non traditional project developers generally lack the experience to anticipate the many challenges, high transaction costs and extended delays involved in project development. As a result, they tend to underestimate the time and high costs at different stages of project development life cycle.

**Challenge 4: Lack of robust regulatory support and difficult investment environments.** When such challenges exists at the same time, they increase costs and risks to private sector actors working of local development projects.

**Challenge 5: Long approval process to financial closure.** Developing viable projects through the LFI approach takes time, as do approval processes from lenders and developers (especially if it is an LGA project rather than a private known project developer). To address this challenge, UNCDF has established strategic partnerships with the Tanzania Investment Bank and has linked their bank requirements with approving authorities, in this case PO-RALG.

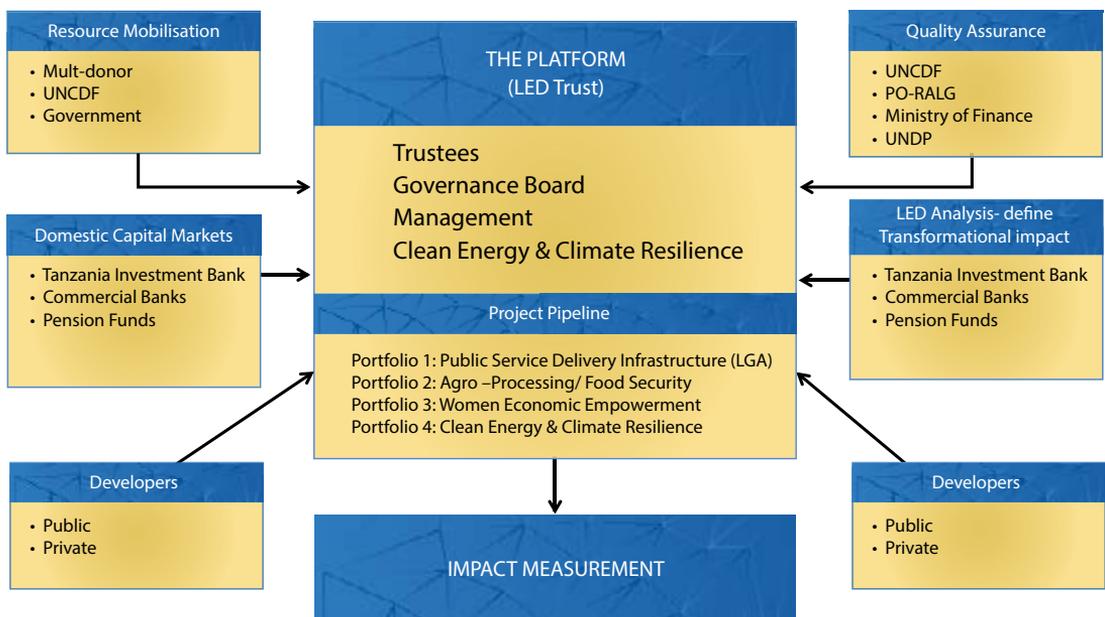
**Challenge 6: The perception of risk is another critical bottleneck** preventing local development projects from accessing private capital from banks and institutional investors. This is due to limited experience and expertise in evaluating the technical and financial structures using the project financing approached. The result is a distorted perception of risk, causing lenders to deny financing to potentially viable projects. Local banks need to be introduced to the development and financing of local development projects, through targeted credit enhancements supplemented with overall training, so they can assume their role as leaders of the country's local economic development financing.



## **7. Sustainability of the LFI-T Programme**

The sustainability of the LFI approach lies in its potential for scale-up and replication. In Tanzania, LFI has demonstrated that local development projects can access private sector capital and domestic capital can be used to finance sustainable local development and create opportunities for trade, entrepreneurship, jobs, build climate resilience, empower of women and youth and improve people’s lives through poverty reduction. If local development is to be successful and sustainable over the longer term, the private sector, including financial institutions, needs to be fully mobilised. As UNCDF continues to implement and scale up LFI in Tanzania, its sustainability is ensured by: Government commitment to institutionalise and support the adoption of the UNCDF Local Development Finance approach and strategies for risk reduction by all local government authorities; implementation of national capacity development programmes (“learning by doing”), including training of local technical service providers, national and local government officials, bank officers and project sponsors; and the scale-up and replication by both public (including local governments) and private sector investment project developers.

## Institutional framework of the scale up



The diagram above highlights some of the key elements of the proposed scale-up framework. UNCDF, in close collaboration with PO-RALG, is working on establishing a national platform to further replicate the LFI approach with local governments and the private sector. The proposed scale-up strategy will require additional discussions and input from key stakeholders before being finalised in coming years.





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