Local Development Fund
experiences in

Local Food & Nutrition Security

UNCDF | F4F FINANCE FOR FOOD

CONTENT

FINANCE FOR FOOD

01 INTRODUCTION

This document constitutes a stock-take of UNCDF's past and ongoing Local Development Fund experiences in local Food and Nutrition Security. It has been conducted in order to support the creation of knowledge products around UNCDF's food security programmes, with a particular emphasis on finance.

The pool of evidence adopted at the outset of this stock-take is from 15 past and ongoing UNCDF country-level interventions in sub-Saharan Africa, as per the following Table. This represents a mix of 8 final evaluations and 7 Programme Documents, in addition to a cross-portfolio analysis based on six Country Level Evaluations.

Pays	Programmes
Benin	PA3D & ADECOI
Mali	FBSA
Niger	PADEL
Mauritania	PACA
Guinea	PDLG
Guinea-Bissau	PADRL
Senegal	PADEL
Burkina Faso	ACRIC
Liberia	LDLD
Rwanda	PADC
Uganda	DDPII
Tanzania	SLEM
Ethiopia	DRS
Somalia	LGIDSD

The method adopted has been to extract financially-relevant experiences from within the portfolio of UNCDF's evidence pool. This exercise led to the extraction of around 250-300 individual experiences relating to particular aspects of finance. That sample of experiences were mapped onto a preliminary financial framework, with a view to identifying areas of significant repetition, common issues and clusters within UNCDF's portfolio. That exercise revealed that while evidence was founded on UNCDF's approach through Local Development Funds, the detail of finance evidence was not limited to in respect of individual finance instruments.

STATE OF THE ART

Very much has been written in respect of financing food security and agriculture in Africa, yet recent 'overall body of evidence' reviews by some of the principal development partners within this arena point towards four relevant findings, namely that

- agricultural finance is a "policy orphan" and the lack of focus on the challenges has led to uncertainty in this critically important area
- there is no single 'best' assignment of public finance among government institutions
- private finance can be pro-poor under certain conditions
- a complementary mix of public and private finance is clearly needed, but that the nature of that mix will vary between countries and regions.

These findings are of high relevance to the scoping of this review, because they signal that UNCDF's challenge is not one of fine-tuning its application of already well-established practices and procedures. Rather they indicate that UNCDF's experiences are at the cutting edge of the learning process, and that UNCDF's wider high-level lessons - on the challenges, variations, conditions and mixes - are of internationally high importance and of high current relevance within the international efforts.

Financing FSN & Agricultural Development

OPPORTUNITIES FOR

widening knowledge base

"A need is seen for gathering and dissemination of information that would provide a Knowledge base for strenghtening strategic investments for food security.'

It should be considered that the pool of evidence of 15 country-level programmes has contributed very substantively to the general framing of the key issues associated with finance around UNCDF's Local Development Fund, as per the objective. Notwithstanding some possible changes, it is unlikely that the general frame will change substantially by analysing further UNCDF studies.

However, while the overall framework is likely to be robust - because it is largely common across UNCDF's approach - the evidence base of detail 'spreads thinly' across the framework, meaning that evidence on specific issues is often limited to just two or three country experiences. Consequently, it is on specific issues that further evidence can most usefully be consolidated, benefitting from the wider financing framework that this stocktake provides.

Accordingly, it is recommended that the following approaches could, incrementally, be most effective in yielding further information:

1. the base of evidence is founded on 15 studies of which 8 are final evaluations of closed programmes, while evidence for 7 is based on the original PRODOCS (and some annual or mid-term reporting). Drawing lessons with UNCDF country teams on progress made among the 7 'ongoing' programmes will yield lessons, benefitting from the fact that their initial framing has been built into this Framework.

2. in the eight countries where final evaluations have been completed, UNCDF country teams may be able to advise of where follow-up programmes, or planning, have instituted particular responses to the strategic and operational recommendations made by the final evaluations.

3. UNCDF may advise of particular interventions where F4F is advancing - for example in countries such as Mozambique, Burundi or Sierra Leone - where rapid reviews of evaluations or ongoing reviews may yield insights additional to the framework.

"The activity that is facilitated, executed, or encourage through UNCDF's generates not only direct development outputs, but also a rich base of collective knowledge to allow accelerated lesson sharing."

4. Given the overall paucity of substantive evidence on specific mechanisms associated with Local Development Funds - for example, performance measures - UNCDF may advise to seek focused evidence on such issues from its wider global portfolio, seeking key evidence from its interventions outside Africa.

5. Specific attention would best be directed towards Uganda and Tanzania for experiences of UNCDF's LFI approach, in the context of local Food and Nutrition Security.

6. Given the overall paucity of evidence on value-chain interventions among UNCDF's sub-Saharan Africa portfolio, there is merit in exploring further the experience of IFAD's portfolio - but not as value-chain investments in their own right, but particularly seeking evidence of how value-chain investments have impacted upon local food security.

Furthermore, additional to consolidating further, substantial experiences on particular financial instruments, the principal conclusion of this stock-take would indicate that further internal work be invested within F4F at a strategic level in order to unlock the fulcrum of public and private finance, of social and economic impacts, and of Local Economic Development and Local Food Security, as the most valuable underpinning of UNCDF's identification and screening method.

02 ADVENTURE JOURNEY

UNCDF's IMPACTS

UPON FARMERS LIVEHOODS ACROSS DIFFERENT FOOD SECURITY PATHWAYS

TRUE STORIES

programme PA3D Bénin

In overall terms, where particular projects have been completed and evaluated, evidence indicates that UNCDF efforts to impact upon food security through its interventions in LDCs in Sub-Saharan Africa have met with varying degrees of success.

Benin PA3D- La contribution à la sécurité alimentaire locale est variable. Les investissements socio-économiques ont bénéficié à environ 3.200 personnes, dont plus de la moitié sont des femmes. La couverture en termes de bénéficiaires directs des investissements est significative, même si elle ne représente pas la proportion planifiée au niveau des ménages définis comme vulnérable.

Benin ADECOI- The results in terms of decreasing non-monetary poverty and food insecurity are mixed. Efforts to lessen food insecurity also proved difficult to sort out. Actions in this area have not been conclusive so far.

Guinea PDLG-Conclusions are far less positive when it comes to the objectives of poverty alleviation, one of the central concerns of the UNCDF approach. Despite a financial contribution in excess of 2,6 million US$ over the last five years, the impact on poverty levels remains low.

Senegal PADEL - "n'a encore que faiblement contribué au processus de réduction de la pauvreté".

Rwanda PADC- "L'inconvénient, c'est que la dispersion des activités a nui à la clarté du but initial du projet et qu'à l'issue de celui-ci, il est bien difficile de mesurer l'impact réel des investissements réalisés".

Burkina Faso ACRIC- "Compte tenu de difficultés diverses rencontrées par les communes, la mise en œuvre des investissements physiques n'a pas connu un niveau de réalisation satisfaisant".

Mauritania PACA- "La mise en œuvre du fonds d'investissement a globalement été chaotique et peu transparente. ... Faibles impacts des microprojets"

Increasingly, for example in **Mali** and in **Benin**, UNCDF has demonstrated alignment of its efforts with the four dimensions of food security, namely availability, use, access and stability. The evidence of the impact of UNCDF's interventions is more revealing when broken down into the principal pathways that are at the root of tackling the four dimensions food insecurity.

UNCDF has had some success in strengthening value chains for agricultural production (Axe 2), for example in commodities such as

- Cotton, cassava, cashews and rice are of special relevance in the Borgou area of **Mali**
- Rice, pineapple, vegetables, cassava/ gari, fish with associated agro-processing in **Liberia**
- Market gardening in **Benin**
- Small livestock in **Rwanda**
- Interventions in **Tanzania** that were founded on four value-chain analyses with support being through interventions in infrastructure, natural resource development (access to water) processing (such as rice threshing, hulling and milling) marketing facilities and services (such as livestock vaccination).

UNCDF's overall performance is not solely due to financial dimensions, as impact critically hinges on a wider range of institutional, administrative and political dimensions. Some key financial factors associated with UNCDF's performance in value chains contributing to food security have been

- As experienced in **Liberia** and **Benin**, for example, that an expanded scale of production is at risk of flooding local markets and depressing local sale prices, given the often limited local demand.

- Concerns over the profitability and financial viability of value chains, for example, small livestock in **Benin**
- In the absence of local, neighbourhood markets, the increased costs of additional transportation to more distant markets, especially for livestock in **Ethiopia**
- A paradox of possible over-riding significance of rural areas having a reliance upon wider markets (including in neighbouring countries), at the same time as UNCDF pursues a national, and local, territorial approach
- Agro-processing that requires the use of mechanical technology and facilities - incurring operating and either rental or capital purchase costs - that can pose serious questions concerning the commercial viability of particular processing operations, especially when throughputs are low (for example tractors, rice threshing and hulling in **Liberia**)
- Interventions such as 'warrantage' (warehousing receipts) that have proved attractive because of its strengthening of the economic viability of agriculture for farmers.

Impact upon food security through interventions

A second pathway, Improving Access to Food (Axe 3) has two principal strands, the first being the improvement of monetary revenues where UNCDF has achieved its most notable successes at scale across the domain of food security impact. Notably in Benin, where market-gardening on small irrigation schemes was, among all the investments made, the intervention that did most to boost the independent revenues of women, including vulnerable women among a beneficiary group numbering more than 3,000. In Rwanda, support through public channels to livestock and terrace construction markedly increased household revenues, enabling expenditure on poverty reducing actions, including health benefits and purchase of clothes, and enabling consumption of a more balanced diet more regularly, with likewise other interventions boosting employment in Burkina Faso. A second strand under Improving Access to Food is social protection, with UNCDF in Benin encountering efforts under Communal Development Programmes to establish food crop banks for risk-prone areas, including sales of food grains at social prices.

Within a pathway aimed primarily at Improving Food Production (Axe 1) (aimed at increasing the availability of food, and associated with Axe 4 on Improving Nutrition and Hygiene) - a pathway that lies outside of UNCDF's core business - its few experiences indicate weak signals of success

- In Rwanda, direct support based on the co-financing of inputs to production inputs (especially seeds) were deemed a success, although such impact will necessarily be short-term.

- In Benin, microcredit activities within UNCDF's ADECOI project generated beneficial effects including an improvement in self-consumption and in children's' diets.

- Investment into production equipment for rental by farmers, for example power tillers for swamp rice cultivation, met with low demand (due to high labour implications on de-stumped fields), but will anyway will face challenges among the dominant strategy of boosting low value staple foods among self-consuming households.

- But, where UNCDF has contributed most to this pathway has been by investment into the public services that builds the social fabric of communities (including schools, health and roads) which, as in the case of Guinea, have alleviated the onerous work of women, enabling indirectly their dominant and vital role in farming activity. Such impact has also been evident in Rwanda where UNCDF's interventions in certain cases freed up around two hours of women's time each day and eased the physical burdens on women and children. Such indirect impacts on women's role in farming production and productivity will be associated with UNCDF's interventions in support of public goods and services across its LDC partner countries. Nonetheless, in some circumstances (for example in Mali), UNCDF has faced challenges in securing an equitable allocation of resources to satisfy the needs of both men and women.

Impact upon food security through interventions

More generally, across the different pathways, UNCDF's experiences indicate that

- as in the case of Liberia, it is civil-works infrastructure that constitute the bulk of public expenditure requirements (particularly within local contexts of recovery and reconstruction)
- the relationships between the costs of an investment and the impact of that investment on local economies vary considerably
- margins and returns on investments are key to the incentives for community engagement. Information on how such incentives can be mobilised for impact on local food insecurity need to be the subject of strategic reflection by communities
- prospects for agricultural development need to be defined in respect to the technical and financial capacity of beneficiaries and their institutions (generally communes in the West African context)

"*Tackling undernutrition require solutions to be developed with the integration of the food security, livelihoods, health, care practices and nutrition sectors. The linkages between the different sectors are complex and experience has shown that each sector tended to operate in separate spheres.*."

03 FOR A VIRTUOUS
FINANCING CYCLE

GENERALLY LOW LEVELS OF PUBLIC REVENUES MEAN A LACK OF A VIRTUOUS FINANCING CYCLE

UNCDF's approach has been founded on stimulating local finances in a way that grows the local capacity for investment and services, creating a dynamic local economy from which a virtuous financing cycle can emerge in which there are revenue returns that allow re-investment of those returns for other beneficiaries. Such a cycle is essential if UNCDF's engagement is to be more than short- or medium-term subsidy of public goods and services by an international financer. A fuller diagnostic of UNCDF's approach to local economic development is explored in Section 4, but this Section focuses on the main evidence of low levels of public revenues, meaning that an essential link in the intended virtuous financing cycle has largely been absent among UNCDF's interventions in Sub-Saharan Africa.

Levels and rates of revenue returns UNCDF programming in Somalia indicated a norm in Least Developed Countries for levies and fees to total between $20 and $50 per capita. Historically the Joint Needs Assessment in Somalia had shown collected levies and fees to rarely have exceeded $2.00 per inhabitant per year in rural areas, and $4.50 per inhabitant per year in urban areas. Yet, tax on water revenues is a key source of income for local government in Somalia, where local authorities have effectively taken over water and sanitation service delivery after the collapse of national government.

The limited evidence across UNCDF interventions in LDCs suggests that low rates of revenue returns are prevalent. UNCDF engagement in Liberia was based on the approach that incomes by groups who were supported to improve revenues through agricultural development would return annual payments to District Development Management Committees, such that those funds would then be reinvested by the District to replicate impact among other groups. The basis of revenue returns was 20% of net income. Yet calculations have shown that across all the UNCDF-supported projects in the two target Districts of River Cess County in Liberia - interventions that have supported pineapple, cassava and rice - the total returns would have been well under US$5,000 annually.

Such quantified analyses are rare, but are reflective of the more generalised evidence from UNCDF programmes in Uganda and Ethiopia that local revenues contribute less than 5% and 15% of local government budgets respectively.

THE IMPORTANCE OF A
REVENUE RETURNS
TO A VIRTUOUS CYCLE

Despite the importance of sustainable local revenue to decentralisation, for example as highlighted within UNCDF's approach in Uganda, it is clear across several of UNCDF's programmes that weaknesses in revenue collection have not stimulated the virtuous financing cycle that is intended to be at the root of future financing. For example,

- in **Guinea,** the first phase of PDLD "failed to produce any significant results in mobilizing RDC income ... or developing local economic potential"
- in **Liberia**, it was intended to ensure that the assets generated revenues to ensure the income flow needed, but "these were not always rigorously done"
- in **Tanzania**, "one of the identified weaknesses of the SLEM is that it has not addressed the collection of districts own revenues to improve the financing of SLEM activities in the future"

ROOT CAUSES

In analysing the root causes for low revenue collection, evidence suggests that the following aspects have been identified among UNCDF-backed interventions:

- Among circumstances in Ethiopia of low revenue generation despite high revenue potential, significant enabling efforts were identified to increase the regional tax base through linking revenue generation to the strategic planning process and increasing capacity of the local revenue authority.

- Certain sources of revenue generation were identified as remaining unexploited within Ethiopia, namely irrigation, livestock markets and tourism (and VAT, although is it is certainly questionable whether VAT can be considered as a local, rather than a national, revenue)

- In Uganda, following abolition of a local graduated tax, revenue enhancement was perceived as having targeted low income traders as tax payers (market vendors, bicycle transporters, petty village traders) rather than promoting production or targeting middle income property owners.

- Proliferation of a number of providers of similar services, expected to be a principal source of revenue, in the absence of a local economic boom, for example markets in Guinea

- Even where initial revenues may be high, there is a risk as encountered in Guinea, that contributions may level off with time

- Also, the risk encountered in Uganda that even where all the necessary various 'best practice' measures to boost local revenue generation have been deployed, they "remain insufficient to boost local revenue generation".

"Countries have to finance their development agendas, and weak revenue mobilization is the root cause of fiscal imbalances. Raising revenue is a way to create fiscal space, increase priority spending, and reduce dependence on budget support."

Low revenue collection

ACTION TO MOBILISE RETURNS

Raising revenue, poses challenges for most countries.

Within such circumstances, UNCDF has taken intentional steps within its programming to aim to boost local revenues, for example in Mali, and has demonstrated some success, including in Guinea where UNCDF efforts evidenced success, including boosting average tax collection in Kouroussa prefecture from 67% to 85%. Key examples of successful measures within UNCDF interventions have included:

O&M sustainability

Alongside revenue returns to Local Administrations, a key dimension - and one whose frequent inattention has led to a cycle of build-neglect-rehabilitate among rural infrastructure - is the arrangements for Operation and Maintenance. These arrangements are partly financial, and address operating costs and reinvestment into maintenance of infrastructure after initial capital investment. Recent UNCDF's programmes have indicated positive signs on O&M of rural infrastructure in Rwanda, Guinea and Benin.

- In **Mali**, application of the 'System of Financial and Institutional Analysis of Local Collectives' (SAFIC) that directly associated the potential to collect local revenues that would boost internal receipts of local administrations with the mobilisation and disbursement of financial support

- in Burkina Faso, under ACRIC 'open-door' round-table dialogues at Commune level were successful in encouraging the recovery of taxes and fees

- in **Uganda**, efforts were taken to outsource revenue collection to the private sector, meeting with mixed results, but working well in certain circumstances. It is noted, however, that certain revenue collection schemes in Uganda - understood to relate to preferential access to forestry products - were deemed to be against environmental norms.

- in **Guinea**, positive outcomes were evidenced in terms of the tax compliance associated with new commercial infrastructure (markets, bus stations, stock yards), demonstrating the benefits of a more civic-minded culture of paying tax, and a new tax-gathering capability among the District Councils - founded on a 'positive perception of the relationship between paying tax and the provision of facilities that benefit the community'

- in **Guinea**, an approach founded on 'Growth Centres' stimulating cost-sharing between several Local Administrations, but highlighting the potential pitfalls in income sharing between them.

04 PUBLIC FINANCE TO DECENTRALISE

LOCAL DEVELOPMENT

Local authorities are challenged to use their often limited resources for delivering better local services

Images 1,

Images 2,

Images 3,

UNCDF has been supporting LDCs amId a continuing context of public finance in which, with low levels of local revenue being returned (as evidenced as widespread under Section 2), there is a continuing dependence upon fiscal transfers from central Government.

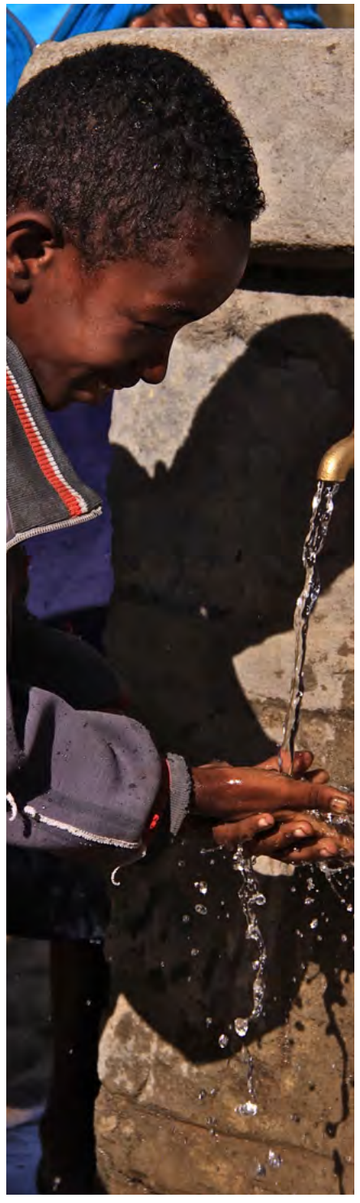
Those transfers are backed by development partners that have been increasingly pursuing basket-financing under Direct Budget Support - seeking predictability and accountability through Government systems without direct finance to particular territories.

That shift has, among other drivers, led to UNCDF supporting partner Governments in fiscal reform, notably in Mali. These contexts have placed greater demands on UNCDF's niche in supporting decentralised financing, where this channel is appropriate amid other means of local development financing, such as deconcentrated develop-

Low revenue collection

PUBLIC FINANCE

AN ENTRENCHED DEPENDENCE BY LOCAL DEVELOPEMENT UPON FISCAL TRANSFERT



UNCDF is not mandated with responsibilities across the full domain of Public Finance. Yet, UNCDF operates within that domain, and so its strategies and operations happen within, and are influenced by, the contexts of Public Finance of its Partner countries. Certain countries of UNCDF's recent operations illustrate well the wider truisms of public finance in LDCs, namely the contexts that:

- The capability to mobilise local finance for local development are insufficient. So, local development is dependent upon State transfers, often backed by development partners.
- Yet, despite that dependence, financial resources transferred are not commensurate with the development responsibilities vested in local Government.
- Consequently, there is a lack of public investment into social services.
- Central Governments have the principal tax raising powers and, with that, are obliged to ensure equitable access to basic services through redistribution. But, with low levels of central resources, Governments face the risk of spreading resources too thinly.
- Accordingly, concerns arise over efficiency and effectiveness of public finance
- Amid efforts to boost finance and fill gaps through resource mobilization, local access to finance can be informed by studies of Public Expenditure channels and information on finance available to local administrations
- UNCDF has detected a particular deficit of local financing mechanisms for Food Security

Dependence to fiscal transfert

Implications of the shift by development partners to financing through

DIRECT BUDGET SUPPORT

With UNCDF's interventions primarily based on seed capital, and in the context of their leverage of additional finance by central Government being backed by development partners, so UNCDF's country-level programming has been influenced by the shift by development partners to Direct Budget Support.

Although financial flows into rural development have fallen well-short of needs - leading to Africa's substantial infrastructure gap - nonetheless levels of financing have been significant. For example, in Senegal during the decade 1995-2005, interventions by development partners mobilised some 300m US$ towards decentralised development, of which nearly two-thirds was towards rural development. Driven by the aid-effectiveness agenda, basket-financing and Joint Programming can, in particular circumstances, mobilise significant levels of finance. For example, to support Local Economic Development in Senegal under the PADEL Programme, government, UNDP, UNCDF and the Government of Luxembourg jointly raised close to 10 million US$. As a consequence, particular financing instruments that UNCDF works through or alongside, such as the Community Development Fund in Rwanda, have become highly dependent upon external finance from development partners.

The shift to Direct Budget Support by development Partners has, as UNCDF noted in the case of Burkina Faso, brought the benefit of a more predictable liquidity into Public Treasury finance, but on the flipside has created difficulties for Treasury procedures, as encountered by UNCDF in Senegal. Yet, paradoxically, UNCDF has experienced (for example in Burkina) that while many development partners have increased their use of Direct Budget Support, they have at the same time sought to retain national interests in particular financing instruments and in attributing impact to their own bilateral contributions.

Also, as UNCDF noted in Rwanda, the shift to a greater contribution to Direct Budgetary Support has implications for a shift away from the preferential targeting of individual territories. While emphasising equity and redistribution in development financing, the financial allocation system needs to work under DBS if territories are to access finance. This has led UNCDF to place emphasis on reform to Governments Budgeting processes, and to the financing of decentralised development, while deconcentrated development also remains as an open track.

BUDGETARY REFORM

UNCDF's experiences on support to Government budgeting have been progressed - probably most substantially within Mali, where UNCDF has 'accompanied the government in the implementation of fiscal reform'. There, the principal reform has been towards granting a much greater autonomy into the management of the financing envelops for decentralised services. In doing so, this reform highlighted the importance of alignment between the procedures of Treasury and those of Mali's development partners, brought together through the 'National Mechanism for Financing of Investments' (ANICT). It is an experience of high significance to UNCDF's F4F Initiative that in Mali UNCDF found it necessary for a distinctive support to adapt that National Mechanism for Financing of Investments for the particular needs of Food Security.

Adapt national mecanisms

DECENTRALISATION

UNCDF has faced a variety of conditions and circumstances that have set different contexts for their support to decentralised finance. In some countries, such conditions have not been atuned to being supportive of financing through fiscal decentralisation. At the same time such circumstances have offered UNCDF the opportunity to strengthen such enabling conditions.

- In Uganda, UNCDF encountered a situation whereby, despite a central government commitment to a deeper financial devolution under the Fiscal Decentralisation Strategy, most central government transfers were remaining largely inaccessible to lower local governments.

- In Tanzania, UNCDF detected a strong demand for a better articulation of the bottom-up, decentralised processes for budgeting and planning of local economic development.

- UNCDF found significant potential for decentralisation In Guinea through partnership opportunities, but encountered weak complementarities at national level between programs - particularly

in terms of Local Economic Development - with no framework for harmonisation or mechanism for sharing information about best practices.

- Furthermore, in Guinea, UNCDF encountered circumstances in which there was desire by government and by financial partners to progress towards decentralization, with provisions made in the Local Authorities Act, but that a principal barrier existed in the effective transfer of a portion of State resources to local authorities, with further reform needed. In such circumstances, UNCDF brought support to the operational mechanisms for decentralised finance.

In other circumstances, UNCDF has been highly influential in instigating a new institutional approach, for example,

- In Liberia, where public expenditure management for basic service delivery had long been centralized and under the control of the sector ministries, government had moved to create two funding mechanisms for basic public infrastructure, the County, and later the Social, Development Funds (CDF and SDF). The Liberia Decentralisation & Local Development (LDLD) Programme supported the move to decentralise and establish local government, with support from UNDP, UNCDF and, later EC. This represented a significant departure from the prevailing community-driven approaches adopted hitherto by most partners. The aim of LDLD was both to support reform in Fund transfer procedures, and to influence the procedures of emerging financing and policy for future local government.

- In Benin, UNCDF introduced a new institutional approach, advocating that decentralization founded on development policies at the communal level was an appropriate framework for poverty reduction strategies and the reduction of household vulnerabilities to food insecurity, with communal councils as key institutions, and significantly with investments channelled through a communal Implementing Agency.

- In Ethiopia (for example in contrast to the lack of coordination encountered in Guinea), the UNCDF's DRS Programme would be 'the only vehicle by which federally-funded support would be coordinated', with it being the Government's intention that the coordination mechanisms set up around this programme would serve as a coordination framework for any international development partner assisting the four regional Governments. DRS was a key UNCDF Program where the four targeted regional states had not been allocating adequate budget for capital expenditure in agriculture and rural development, despite the reverse case at Federal level. In such circumstances (the reverse of circumstances in which central state transfers may not have been effected, as in Uganda, for example), the Federal government was making efforts to supplement the region's own allocations through other complementary mechanisms, such as increasing State funding above their entitlements under the block grant system, channelling support through centrally-managed sector programmes, by routing international agencies through humanitarian channels, by mobilising bespoke stand-alone bilateral and multilateral programs, by activating the Commune Strategy to relocate isolated communities and by efforts to lease land to attract commercial agricultural investments.

Strenghten the fiscal decentralization

Deconcentration of BASIC SERVICES

Deconcentration of basic services continues as an approach to local development

Prior to its engagement in strengthening decentralised development in Benin, UNCDF had encountered weaknesses in the deconcentrated Government services to communes, such that the service providers had not sufficiently redefined their operations, roles and responsibilities to support local development through the communes.

Such conditions of deconcentrated services persist in LDCs, such that UNCDF has been advised that in certain countries the UNCDF approach has potential to achieve breakthroughs, yet there are other country circumstances in which UNCDF may encounter conditions that are not amenable to decentralised approaches. Those conditions may persist, for example, where basic services remain within the roles and responsibilities of deconcentrated or devolved institutions. Exerting influence on a shift from deconcentrated to decentralised approaches means that UNCDF also needs to work at the higher levels of political and administrative systems, in addition to the local level at which it operates its local development funds and programmes. Such findings have been drawn from a six-country evaluation with an outlook across a diverse set of countries that enables identification of variations in UNCDF's opportunities, challenges and achievements under different types of political systems.

05 CHARACTERISTICS OF UNCDF's SUPPORT TO FISCAL DECENTRALISATION THROUGH LDFP

Intervening through LDFP, UNCDF's Local Development Finance Programme

Where it has been assessed that it can be effective in supporting fiscal decentralisation in LDCs - notably where Local Administrations have been enabled and empowered - then UNCDF has engaged through its Local Development Finance Programme (LDFP). LDFP has aimed at introducing innovative ways of providing increased access to basic services and local infrastructure. At the core of the LDFP is that local level institutions play a key role in improving and accelerating access to public goods (health and education, water and energy utilities and to necessities such as food), with UNCDF intervening to support central government policies for increased access to basic services at the local level, and the promotion of decentralisation and citizen empowerment. Under LDFP, UNCDF works with local governments and promotes financial and fiscal accountability of the local state to the local citizen. In terms of financial instruments, under LDFP UNCDF has supported Local Development Funds, performance-based grant systems, revenues, local procurement and associated accountable planning, budgeting and decision making. UNCDF's LDFP is based on deploying its internationally-sourced seed capital for strengthened local governance and national policy changes.

Catalysing Local Economic Development (LED)

UNCDF's engagement in local development finance has undergone an evolution over the past ten years. From 2005 UNCDF evolved its Local Development Programmes and Funds in new directions, including some micro-economic aspects such as performance budgeting, minimum conditions for flows of local development funding from central to local governments, top-up and thematic grants with pull-funding mechanisms (eg climate adaptation through LoCAL), and cross-border financial mechanisms for local authorities. But a principal evolution has concerned how LDPs and LDF can stimulate LED by addressing weaknesses in local economies that prevented them from participating fully in economic growth: eg strategic investments that had backwards and forwards linkages with local impact along the value chain and/or leveraging investment in the public sector with private sector support. This has involved UNCDF in building an enabling environment for LED at the regulatory level and supported strategic individual investments, including under PPPs.

Many of the past engagements by UNCDF that provide the evidence base of experiences in relation to food security took place during this evolution. Yet, even moreso now - but not always embedded into past programmatic approaches. Having observed overlap between development of the PPP and private financial sector, access to basic services and economic development, UNCDF now sees its Local Finance Initiative (LFI) as a global programme for in harmony with ongoing LDPs, to test ways of unlocking (preferably domestic) private finance for infrastructure as part of LED, but to-date has only been launched in Uganda and Tanzania. So, at the time of past interventions, Local Economic Development (LED) was primarily underpinned by UNCDF's LDFP approach.

As well captured by the LDLD Programme intervention in Liberia, the foundation of LED has been to not solely focus on basic public socio-economic infrastructure and services, but also to promote productive activity in the rural areas, to catalyze local economic development, to raise household incomes and welfare and also to develop the local tax base to finance public goods and services.

Giving the LDP a new direction

Yet, despite UNCDF's major historic efforts in support of public goods and services, Liberia raised an unexpected paradox that "for some odd reason" the enabling of public goods and services (such as rural roads and tracks, simple markets, water and agricultural extension) - which all evidence shows are critical for agriculture and local economic development - have somehow risked being framed as outside of Local Economic Development, and somehow 'as something distinct'.

Some **key directions** for UNCDF to achieve a shift towards Local Economic Development, some of which have been actively pursued under UNCDF interventions (albeit not always successfully) have been viewed as:

- improvements by which enterprises contribute to local wealth, in Burkina Faso
- resource redeployment to enable Districts to improve Local Economic Development by economic infrastructure that yields direct support to households (in Rwanda)
- actions that convert community-based income generating activities into SMEs that can strengthen the local economy (in Guinea), with activities that will deliver a regular and sustainable income, with an attractive and dynamic business environment with marketing and supply channels, backed by technical and technological support
- notwithstanding concerns identified in Liberia that the direct public funding of private enterprise or private firms requires 'great care' and right technical partners
- promoting the revenue-generating sectors and achieving the potential of niche markets, in a way that targets village-based groups, building contractors, artisans, and semi-skilled and unskilled workers
- unlocking local value chain opportunities, but without local market saturation
- 'the most obvious and cost-effective' avenue (identified in Liberia) of focusing on improved delivery of basic public enabling goods (roads, water, markets, extension), being services that largely fall under the remit of future local government

Key **operational factors** in attaining that shift towards LED have been summarised in the assessment of Guinea's PDLG, with an extensive list of factors that fall into around clusters, that can be categorised generally as planning alignments, technical information and support services that build capacity and networks, economic partnerships, and financing.

Planning alignments, such as strategic links within national decentralisation frameworks between RDCs and rural towns for effective local development, to the benefit of demand for products and technical service mobilization.

Key **strategic factors** in attaining that shift towards LED have been viewed as:

- the role of public investment expenditure to catalyse local economic enterprise
- the catalytic nature of impact, whereby support to direct beneficiaries triggers benefits to others as indirect beneficiaries
- supporting local private enterprises while at the same time supporting income generating activities that take a communal approach
- risks of inequity if small numbers of private sector actors are seen to preferentially benefit, especially in the absence of transparency
- identifying within any particular locality the markets that are potentially lucrative, and can underpin entrepreneurial activity
- upstream decisions whether targeted territories are selected because they are economically effective (alongside UNCDF's historical tendency to target isolated and vulnerable communities)
- core issues of access that determine whether beneficiaries are pre-disposed or pre-indisposed, including access to land (or to water, for example)
- the need for UNCDF to create stronger institutional ties with Ministries responsible for the productive sectors and for small business development

Technical support & Information
that build capacity, including

- economic and commercial data that inform decision taking and underpin assessments for enhancing the value of local resources
- facilitating access to lucrative commercial outlets

- provision of commercial facilities and opportunities that enable artisans, small-scale and local operators, local business groups and micro- and small enterprises to provide services (backed by subcontracting), within the marketing and supply channels of an attractive local business environment, where necessary by public/private partnerships for small service providers

- Capacity and Networking, including where needed, taking steps to enable a local labour force of young and unskilled people

- building the economic skills of local stakeholders with training in entrepreneurship, particularly enabling women's group to transfer from subsistence level activities into dynamic micro-enterprises, including by tackling illiteracy among women

Stronger **Economic Partnerships**, particularly where strengthened relations (for example amid environments damaged by resource exploitation) for more integrated environmental, social and economic investments.

Securing **financing autonomy** at the local level, notably by strengthening RDC contributions, by mobilising state funds, by increasing contributions by local risks, by harmonizing financing procedures among different partners, mitigating risks within the local political economy, raising loans for ventures of a commercial orientation, and by criteria-based grants for local economic development. Ensuring that financial products are suited to the needs of clients and SMEs, which may entail establishing economic commissions alongside the technical commissions within local administrations.

ESTABLISHMENT OF

LOCAL DEVELOPMENT FUNDS

Through many of its country-level programme interventions, UNCDF has instigated grant support through a Local Development Fund, or some variation thereof:

- In Senegal, UNCDF contributed 2 million US$ in accordance with its own financial rules (direct execution and possibility of a dedicated cooperating agency, such as UNOPS).

- In Senegal, support through the Fund was based on a hypothetical allocation of 3US$ per head per year across a population estimated at approximately 800,000 over a period of 4 years, creating a financial envelop for the project cost of around 10 million US$.

- UNCDF's engagement with the Local Development Fund in Guinea-Bissau was scaled at approx 1.5 - 2 US$ per inhabitant per year

- Variations included working through the Community Development Fund in Rwanda, a Permanent Fund for the Development of Territorial Collectives in Burkina Faso and a Food Security Fund in Mali exclusively for tackling food security.

- Although UNCDF support to Government may be grant, Local Government may provide access to those funds through repayable loans to beneficiaries, being loans to 339 different groups in the case of SLEM in Tanzania.

INTERNAL STRUCTURING

OF LOCAL DEVELOPEMENT FUNDS

In instituting the LDFP mechanisms, an overall approach around Local Development Funds has been common, but has necessarily found different forms of internal structuring within different country circumstances.

In Mali, the 'Fonds d'Appui à la Sécurité Alimentaire – FSA) was structured around three windows, namely Type I (basic communal infrastructure services and access to drinking water), Type II being projects to boost agricultural production (which could be communal or inter-communal) and to exploit water resources and Type III being investments of an inter-communal nature. Being institutionalised within the communes, with the allocation between the three windows to be determined by the communal structures, enabling a better division of resources to meet varying needs:

In Ethiopia, support for the social and livelihood programmes would be structured with 70% of resources to higher potential corridors or underdeveloped river basins, and with 30% of resources to more vulnerable areas that are clearly not of high potential

In Liberia, the otherwise high availability of finance for basic socio-economic infrastructure (through the Communal and Social Development Funds), leading to a decision by Government that the UNCDF support to the Local Development Fund should occupy a more distinct niche of financing agricultural productive investments, through 'group-managed' channels

In Guinea, a Local Development Fund (jointly funded by UNDP and UNCDF to a level of 4.5m US$) was structured into three windows, namely a Local Investment Fund (for RDC's internal investments, which absorbed 70% of finance), an inter-RDC Investment Fund (that took up 18% of LDF resources) and the Village Investment Fund for income generating activities that took 7% of funds. The Inter-RDC Investment Fund (IRIF) significantly increases the take-up capacity of the LDF, particularly providing a multiplier effect through the Growth Centre Initiative, and by contracts being picked up by local contractors within the prefecture.

In Senegal, at least 50% of the Local Development Fund was to support a particular Fund for Local Economic Development, as budget support to Local Collectives

In Guinea-Bissau, the Local Development Fund was established with distinct 'Local' and 'Regional' windows. Under the 'Local' window, 75% of finance was to be allocated to the construction, renovation and repair of socio-collective infrastructure, and 25% to the promotion of the local economy . Under the 'Regional' window, 75% of finance was to be allocated to socio-collective infrastructure of a regional nature, and 25% to actions to protect the environment.

ACCESS & PERFORMANCE

CONDITIONS

The principal factor determining Fund access reported by evaluations has been the level of contributions in Guinea. Access to the Village Investment Fund was shifted to become a 30% contribution by the Income Generating Groups. Access to the Local Investment Fund was initially based on co-financing by LDCs at a rate of 25%, reduced to 15% at mid-term, with further pressures seeking reduction to 10%. The rate of 25% had reportedly over-estimated the ability of RDCs to contribute, and reflected a disparity with access conditions by other financing partners, such as the World Bank, while the lower rate triggered greater drawdown for more expensive commercial infrastructures, especially when linked to the new 'Growth Centre' approach.

In Tanzania, a co-funding level by Districts of 20% proved a successful level and an important instrument to secure ownership and active involvement

In Mali, drawing rights on the Food Security Fund by the Territorial Collectives was based on minimum conditions

In Mauritania, a separate performance-based allocation was set up - intended to be disbursed as a bonus to performing Local Collectives - alongside the main Local Development Fund, but representing some 25% of overall financial support. However, this performance-based fund was not used in this way, and a proposal by Government to reallocate the performance-based funds to an alternate disbursement route for local sustainability did not secure the necessary support from UNDP or UNCDF.

In Guinea, it was proposed that allocations to RDCs would be indexed against criteria including performance in terms of generating income, economic initiatives and project leadership. On the basis of evidence assembled thus far, overall, these more recent evidence appear to supplement, rather than to have demonstrably shifted, UNCDF's experiences on performance incentives since a previous cross-portfolio assessment published by UNDP in 2005.

Co-funding initiatives

TRUE STORIES

DEVELOPPING FISCAL INCENTIVES TO IMPROVE THE PERFORMANCE OF LOCAL GOVERNMENTS

While central governments generally expect local governments to contribute to achieving certain national policy objectives, the system of local government finance is not always aligned with these policy objectives. In fact, poorly designed financing systems can provide local governments with incentives to behave inefficiently. The development of systems for performance-based allocations of intergovernmental fiscal transfers has proven to be a key instrument for encouraging sound financial behaviour by local governments and for improving the service delivery outcomes of devolved functions, including making these increasingly pro-poor.
In a number of countries, UNDP/UNCDF have assisted central and local partners in developing performance-based approaches to fiscal transfers. This approach usually combines two instruments:

a) minimum conditions, which typically link local governments' compliance with basic requirements (as defined by laws and official regulations) to their access to grants; and

b) performance measures, which are applied to provide additional 'top up' grant allocations to the extent that local governments have met broader policy goals (such as poverty reduction).

The capital development grants and technical support provided by UNCDF programmes have, in many cases, provided an entry point for developing such performance-based approaches to fiscal transfers, and country examples include:

• In Mali, minimum conditions were tested for access to annual block grants from the Local Development Fund, and performance assessments take place within two broad categories, with the possibility of obtaining an additional block grant allocation (French only).

• The Anseba Local Development Fund in Eritrea contained a set of minimum conditions introduced and applied progressively in years 1 and 2 of the pilot programme. Performance criteria are applied to reward good technical performance and pro-poor outcomes (see the programme document and operations manual).

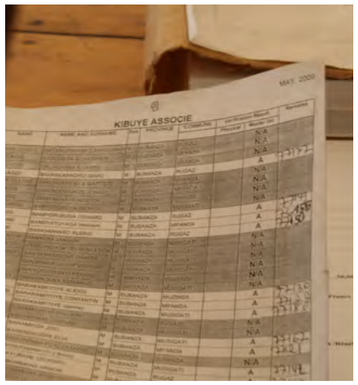
• Local government access to the District Development Fund in Uganda was conditional upon compliance with a set of minimum conditions and the country now has one of the most sophisticated systems for performance-based allocations, allowing annual grants to vary +/- 20 percent.

• In Ethiopia, the access of the woredas to capital funding is based on satisfactory compliance with a number of minimum conditions.

• In Nepal, and based on experience in Uganda and elsewhere, the Government and UNDP/UNCDF are currently piloting a model of minimum conditions and performance criteria through the Decentralised Financing and Development Programme.

• In Bangladesh, the Government and UNDP/UNCDF have been piloting a mechanism whereby union parishads receive block grants for the first time, subject to their meeting basic standards of management and governance. This approach is now being replicated by on a wider scale by the Government.

Source: Fiscal Decentralisation and Poverty Reduction: UNDP 2005



CHALLENGES ENCOUNTERED INSTITUTING LDFP APPROACHES

Key characteristics at the root of the LDFP approach have been:

• UNCDF's value-added contribution is founded on the principle that it can bring innovative financing solutions to local level food security challenges

At the root of UNCDF's LDFPs approach has been access to credit, especially by community organisations with access to finance enabled and routed through local administrations, with accompanying efforts to removes the constraints that block the collection of tax revenues

UNCDF's seed capital into the Local Development Funds has seen good ownership assured by contributions for approximately 20%

But across many of its country-level support programmes, UNCDF has encountered challenges of a financial character in instituting its LDFP and Local Development Fund approaches, including

• UNCDF was assessed as not having sufficiently pursued the LDFP model in Rwanda - meaning that financial innovation was not fully developed, and that a deeper reflection would be needed on integrating LED, natural resource management and food security within its LDFP approach.

In Mauritania, implementation of the investment funds was chaotic and lacked full transparency and clear procedures failing to forge any significant contribution to impact.

In Benin, the ADECOI project faced major delays in the Local Development Fund investment cycle.

Introducing the LDFP approach in Uganda, UNCDF encountered planning fatigue among village communities stemming from projects of a pilot nature that were too small, too frequent and too repetitive. Furthermore, the Fiscal Decentralisation Strategy had been held back by the lack of any serious devolution of sector budgets to lower level governments - in simple terms, the modalities exist but the money did not flow.

In Tanzania, the expectation that other donors would provide funds to the UNCDF-backed SLEM proved unrealistic as other donors had committed their funds to a Local Government Reform Programme of which UNCDF's SLEM was not a part. As a result, actual disbursement was a low proportion of UNCDF scheduled expenditures.

Low rates of disbursement also characterised UNCDF's engagement in Guinea, most particularly in terms of initial late take-up until access conditions were amended, as discussed above. This led to a call for a diagnostic of the flows of public finance to determine the points of blockage and where actions could be taken to reduce delays.

In Liberia, UNCDF encountered a lack of realism in projecting additional non-core finance that could be attracted, and an absence of clear strategy on deployment of core budget

UNCDF faced the risk in Mali that the setting in place of the FBSA fund might lead the State to its contribution to local finance

In Liberia, UNCDF also encountered a particularly complex and unsuited financial allocation mechanism, that was only resolved by the mid-term appraisal.

Also, it was evaluated in Liberia that an unnecessarily limited menu of just 4-5 allowable agricultural investments constrained the opportunity for more local discretionary use, and testing an appropriate expenditure menu.

In Ethiopia, UNCDF faced a general disconnect between interventions and high impact, particularly of the kind that citizens would be able to pay for themselves with their own resources, calling for fuller community participation at woreda and kebele levels.

FINANCIAL ASPECT
of different institutional channels - public and private

As UNCDF recognised in Somalia, future institutional arrangements that improve service delivery will be a mix of government, private and non-state actors, and increasingly that will require Local Administrations to either provide services directly or through public-private partnerships. In the case of Somalia, that division of labour is understood to mean sector agencies and private sector that deliver goods and services and local government and communities that manage and main assets. Different institutional arrangements each carry different financing implications and, as identified in Liberia, this will require UNCDF to conduct 'proper upfront analysis of the institutions with which it is proposed to work' and of the funding mechanisms that may require reform.

At the root of UNCDF's approach is enhanced participation, underpinned by the notion that "the causes and effects of poverty are influenced by participation in decision making and control and equitable distribution of resources", creating UNCDF's distinctive institutional niche among other actors within the UN system. Participation is key to several dimensions of UNCDF's approach, including:

- ownership of the outcomes and implementation of UNCDFs support, as illustrated in Rwanda

- the opportunity to better connect UNCDF's support with local and sectoral planning, including with annual investment plans by locally representative institutions

Different institutionnal arrangements

- promotion of equity in disbursement and impact, and the mitigation of risk of inequity, for example in Liberia or Mali
- while UNCDF recognises that the capacitation of participation has had to be a key feature of its support.

Engaging through public institutions, UNCDF has encountered particular financing aspects associated with Local Administrations and with Territorial Collectives. On Local Administrations,

- as highlighted earlier by the absence of a virtuous local financing cycle, Local Administrations are heavily dependent upon Government transfers, with such transfers typically covering only the administrations' own operating costs, creating dependence for any capital investment upon external finance
- not all Local Administrations are viable (particularly under conditions of post-conflict recovery), sometimes lacking the capacities to plan, manage and operate infrastructure, and often with only nascent efforts to establish legal and regulatory frameworks that enable financing and cost-recovery of local services. Under some circumstances, this can raise concerns over 'an inappropriate local governance system that is overly bureaucratic and expensive to operate' - especially when impacts are low.
- Clearly, there are incentives operating within Local Administrations - including aspects of selection and remuneration.

Across West and Central Africa UNCDF has consistently sought to channel significant levels of finance through Local Collectives - for example, close to 250,000 US$ within the region of Louga in Senegal. In doing so, UNCDF has encountered the financial weakness of such Collectives, their difficulties in mobilising new sources of revenue and an absence of political will to transfer financial resources to such Collectives, for example in Mali. Indeed, the problem of transferring resources to Local Collectives had been identified as the principal obstacle to making decentralisation work in Senegal. As a consequence, with an absence of any significant resources of their own and with a low operational financial turnover, the autonomy of such Collectives remains fragile.

Such circumstances mean that it is necessary for UNCDF to engage in a strategic-level reflection on the role of communes in the Local Economic Development as part of considering opportunities for communal investments. Particular, as in the case of Burkina Faso, where certain Local Collectives shift towards becoming more commercial enterprises.

Clearly, as identified in Mali, where UNCDF is working through such Local Collectives then steps need to be taken to develop institutional mechanisms that strengthen the Collectives as channels for delivering local projects, and that reinforce their financial autonomy. One such route in Burkina Faso has been towards stronger association by Communes with micro-finance institutions.

Engagement with producer groups, enterprises and the private sector

UNCDF's engagement with producer groups, enterprises and the private sector have similarly yielded a set of particular experiences of a financial character, for example in respect of group access

- financial access under (producer) group models has posed particular difficulties, for example in Tanzania, Liberia and Guinea. So, while cooperatives had been considered to hold better prospects, difficulties encountered on group lending were to the extent that had limited the strategic relevance of UNCDF's loans as catalytic factors for Local Economic Development and Value Chain development.

- The underpinning rationale set out in Liberia was that it would prove problematic - in policy and philosophical terms - to provide subsidized investments directly to private individual farmers - but doing so via a group would make such investment more acceptable.

- The strategy for group investments in Liberia was part of a wider strategy in Liberia that would promote community collaboration and restore trust following years of conflict. But in doing so, the Liberian experience encountered what were considered to be long-standing issues associated with group-farming, namely that it has proven to be 'inherently very problematic' across a number of African countries. Reasons appear to be associated with lack of incentives and a creation of dependence upon public sector support, even for investments of doubtful commercial viability.

- In Guinea, the group experience related to around 100 groups - each of around 30 people, dominantly women - formed for income generating activities relating to market gardening, cashew, cereal crops, warehousing, and reforestation. Some key characteristics of these groups were that they were not formal, did not possess bank accounts, were hampered by illiteracy among women, had few technical tools and lacked fund raising capacity. The UNCDF PDLG programme instigated support to these groups through the RDCs in terms of access to grant finances and administrative support, although the pre-requisite nature of this support introduced substantive delay into draw-down of the Village Investment Fund, and limited the attainment of impact within the PDLG lifetime.

Execution of investments

But where Local Economic Development has not progressed, and where UNCDF is seeking to exert impact, it has encountered the weak financial capacity of enterprises at the root of poor level of execution of investments.

This was deemed by UNCDF in Burkina Faso to be to the extent that the problem of weak performance of enterprises in the achievement of communal investments was so recurrent that an appropriate solution needs to be found.

In Burkina Faso, local small private operators faced numerous difficulties in accessing financial resources for their micro-projects.

In Ethiopia, UNCDF encountered an absence of private sector firms that could support programme delivery, notably weaknesses among agro-processing and manufacturing that could support value-chain development, recognising that potential firms that could perform such roles - linking producers to markets - needed to be actively engaged, and opportunities opened up for private sector businesses and investors.

One means by which UNCDF has tackled this challenge has been pursued in Guinea, where efforts were specifically made to engage local contractors in construction work, enabled by support to preparing tender documents, such that the large majority of contract value was awarded to companies registered within the prefecture.

Yet while small-scale private operators have generally struggled within the decentralised model of LED, at the same time large-scale private operators can often move into operations in the same regions, as among irrigators in Ethiopia for example, often enabled by channels that bypass local decision-making.

Given weaknesses that are prominent and prevalent on both the public and private sides, UNCDF has engaged with PPP arrangements based on public funds, principally in Tanzania and in Somalia.

In Tanzania, where grant finance to the private sector runs counter to Government policy, UNCDF's SLEM programme encountered a newly introduced public-private mechanism that was well-owned and institutionalised at the local level, although its role in respect of Local Economic Development was somewhat limited, mostly to policy dialogue within the District Forum for Local Economy, to Business Development Service Shops, and to introducing some new technologies (such as power tillers, fruit and flower processors) had been introduced among farmers on public assets.

Public-private partnerships have become well-advanced in Somalia - including in the water supply and solid waste management sub-sectors, particularly where municipal councils have structured the water supply service into PPPs by procuring NGOs to provide this service on term contracts, with cost-sharing and fee-for-service arrangements and taxation (a key source of local revenues, as discussed elsewhere) supporting equity in access to these key services.

Execution of investments

integrating different finance approaches

Discussions

Under its F4F global programme, UNCDF is aiming to enable increased public and public-private investments in local Food Security. Accordingly, F4F aims at both unblocking the treasury transfer mechanism of the Public Expenditure System and at stimulating the domestic financial system under Structured Project Finance. These aims are also backed by so-called Government to Person payment (G2P) mechanisms to finance small-scale investments for the most vulnerable, poorest communities. A key foundation of F4F is also the bringing together of the different, relevant actors in Local Food Systems. So, F4F is very much about enabling both public and public-private finance, about institutions moving forward together, and about integrating different approaches.

Under F4F, UNCDF will use seed capital to stimulate local financing - through different financing instruments, including grants, loans, guarantees, equity, and/or quasi equity. This menu of finance instruments will enable UNCDF to customise its interventions to specific situations and conditions, so as to maximise its impact. Accordingly, UNCDF has been concerned to look back retrospectively over its experiences, as has been conducted under this stock-take.

At this stage of analysis of UNCDF's experiences of having invested seed capital into the financing food security, what has emerged is a narrative dominated by UNCDF's Local Development Fund instrument - an instrument previously grounded and atuned to testing the delivery of goods and services of Local Government - that has been increasingly deployed more recently towards Local Economic Development. But, in terms of overall impact, that deployment has met with varying degrees of success - and broadly speaking (with one or two exceptions) with low success within the domain of Local Food Security and agricultural development. The preceding stock-take has tapped a rich vein of detail concerning some financing approaches, norms and processes across 15 countries. But the varying country circumstances mean that many of the differences are due to variations in political, administrative and institutional factors. Accordingly, there are few, if any, experiences at this stage that enable lessons to be drawn on the relative merits of one particular performance-based grant scheme relative to a another variation of a similar scheme.

In the absence of an obvious framework for analysis, identification of UNCDF's experiences under this stock-take has adopted a wider frame on financing - on revenue returns, on public expenditure, on UNCDF's promotion of decentralised pathways relative to other deconcentrated and off-budget channels, and particular on Local Development Funds. This is because, as set out in Section 2, UNCDF's impact has generally been low upon food security. The lens of that wider framework has revealed that it has not been minor variations within the financing instruments that have been at the root of UNCDF's experiences on impact upon food security - such that if a particular performance criterion had been set one way or another then 2,000 rather than 200 beneficiaries may have been impacted.

Instead, this stocktake of UNCDF's experiences around food security show that UNCDF has encountered challenges of a strategic nature across the wider financing challenge, and it is these that are closer to the roots of UNCDF's generally low impact across its Food Security portfolio.

So, rather than lessons emerging on the specifics of particular financing instruments, a different narrative has emerged on the challenges that UNCDF has encountered in pursuing public and public-private investment in local food security in tandem - an intended integration that is at the core of F4F's future. This is because UNCDF has, in almost all country cases, ended up structuring its disbursement of the Local Development Fund into separate 'social' and economic' windows. So, experiences strongly suggest that it will be at this fulcrum - of 'social' and 'economic' impact, and of public and public-private investment - that F4F will face its greater challenge in laying the foundation for impacting upon food security at scale.

Upstream Challenges at entry

In pursuit of its efforts to exert impact, it is clear that UNCDF encountered fundamental challenges at entry at entry, for example in respect of a series of different framings and positioning:

Different Outlooks on the challenge represented by Food Security for example, UNCDF encountered the absence of a shared understanding of food security in Benin at entry for the ADECOI project. "For a majority of elected officials and stakeholders", food security was only perceived in terms of famine or food shortage, and that insufficient access to food (among households who produce their own food) is not caused by a shortage of food supplies but by the way food is managed in the household.

Low revenue collection

Accordingly, appropriate institutional and financing mechanisms had not been progressed - for example under Benin's Strategic Plan to boost Agricultural Production - meaning that the design of UNCDF's ADECOI intervention had "deficiencies, especially in terms of fighting food insecurity", such that "Food Security should have been written down as a specific expected result in the logical framework". UNCDF encountered similar challenges of framing Food Security elsewhere, for example, where despite a mature recognition of types of malnutrition, at entry Mali stakeholders foresaw cereal-based food-banks as the key intervention. In Rwanda, UNCDF's intervention through PADC, financed by the Belgian Survival Fund was held back by divergence of appreciation of the means to tackle food insecurity, with roots in lack of consensus over terms and disagreements on strategies. So, entering into the Ethiopia DRS programme, UNCDF and its partners were seeking solutions to the underlying causes of hunger and malnutrition through its programme, rather than being in a situation of being able to apply proven solutions tailored for particular local FSN deficiencies. This was a particular feature of UNCDF's Benin PA3D intervention where the targeting of beneficiaries and certain types of investment were not founded on a good understanding of the root causes of food insecurity, local dynamics nor the potential and constraints of Local Economic Development, an experience also encountered in Mali. It is perhaps a characteristic of several UNCDF interventions tackling Local Economic Development that FSN has been one target, but not the principal target, with FSN being a 'cross-cutting' theme for example in the case of Senegal's PADEL.

Weaknesses within the upstream enabling environment, including weak inter-program complementarities for Local Economic Development in Guinea, with "no harmonization framework or information shared regarding best practice" and few initial links to Ministries responsible for the productive sectors, absence of any systematic effort for up-stream policy development and replication in Tanzania, and the weak internalisation of local development strategies within Senegal. Accordingly, increased cooperation is a key recommendation stemming from UNCDF's engagements in Ethiopia's DRS, Uganda's DDPII and Senegal's PADEL.

UNCDF's dilemma of targeting vulnerable groups and economic territories whereby its mandate that may lead it to programmes in localities of vulnerable and isolated communities, with many potential beneficiaries - for example targeting more than 40,000 in Niger under PADEL, amid the 'most marginalised' may not always be compatible with UNCDF's territorial targeting under Local Economic Development, where there are orientations towards localities that are pre-disposed to economic opportunity, as encountered in Burkina Faso, Mali and Guinea, notwithstanding the risks of inequity and elite capture through poor targeting as have been discussed elsewhere.

Scale issues with origins beyond localities: With its primary focus on 'local development' UNCDF has also encountered challenges to impact within local food systems associated with issues whose scales lie beyond the project areas, such as drivers from the national-level governance of food security, of market scales (which may be regulated by international demand and where wider regional markets may be essential for trade, as encountered in Burkina Faso), the benefits from concentration across Local Administrations within Growth Centres and the economies of scale from inter-communal actions (such as involving several RDCs in Mali) with benefits from other forms of inter-connectivity between localities, such as roads, transhumance corridors and pastoral water points.

UNCDF's comparative advantage, which while UNCDF has been assessed as the agency 'best placed to support local development, with strong comparative advantage across a range of fronts' and adding value through its approach (as set out in Mali), its experience in Liberia led the evaluation of the LDLD programme to question UNCDF's comparative advantage in providing 'equitable and inclusive economic development through support to agricultural production.

MISSING SYNERGIES
in public & private and social & economic integration

Missing synergies in public and private, social and economic integration to tackle FSN While the consequences of engaging under such initial conditions will undoubtedly have hindered UNCDF's operations from the start, it is through UNCDF's efforts to address impact through its interventions that arguably the holds the biggest lesson. Namely that there has been a tendency for the opportunities for synergy between public and private channels to have been viewed in somewhat narrow terms, for example, of targeting local contractors, of PPP opportunities, and of outsourcing some public sector functions to the private sector (eg on revenue collection) while at the same time UNCDF's primary approach under its main instrument, the Local Development Fund, has been to separate social and economic outcomes into different windows.

As a consequence, the over-riding message from numerous of the evaluations are not about the critical success factors for PPPs, or of performance criteria for the private sector. Rather, the over-riding message concerns the void of strategic-level relationships between social and economic investments, between public and private finance, and between Local Economic Development and FSN. So, there is a risk for UNCDF moving forward under F4F if UNCDF considers that a fine-tuning of its financial instruments is key to achieving impact. With integration, partnerships, bringing together, and moving forward together being at the forefront of F4F, the main challenge faced by UNCDF moving forward is that it has not yet attained such integration in the past in ways that attain impact. So, the route to do so successfully in the future is not yet clear.

UNCDF has a strong base of experience on public expenditure on social infrastructure, and this has been reflected in its Liberia LDLD intervention, namely that:

> *"(there is) ample evidence that the most cost-effective role for public expenditure is to focus on genuine public enabling goods which for agriculture are primarily the rural road and track network, rural markets, the rural water supply (and, where appropriate, irrigation & drainage), crop protection, adaptive research and extension. Some of these, such as rural roads, markets, water supplies, irrigation, etc., happen indeed to be classic "local public goods" of the sort that sub-national Governments can and do deliver."*

Similarly, in Mali, UNCDF's FBSA intervention identified two clusters of community investment that would improve food security and nutrition, namely infrastructure services such as education, health, sanitation, food banks, infrastructure and equipment that relieved domestic burdens and processed local products, and especially infrastructure that improved access by populations to potable water.

In Benin, rather than list categories of infrastructure, the ADECOI project began to set out the contribution, for example, that by enhancing access to drinking water and health services and by assuring improved road access to the communes, such investments would play a positive role in improving food security. Socio-economic infrastructure (markets, warehouses, roads, slaughterhouses, dairy-plants) would play a key role in generating new opportunities. But generally, the societal contribution, or more specifically the food security contribution has not been fully developed for different types of infrastructure, goods and services.

What is clear, however, is that such public goods should not be exclusive and should benefit significant number of beneficiaries, notably the excluded (eg women). Increasingly, it has become a feature of such Local Development interventions that, with local institutions short on revenues, public expenditure should be into areas that yield revenue returns to local Government (as has been explored in Section 2). Similarly, UNCDF also has a base of evidence on local economic development. In addition to the strategic thrusts for LED, UNCDF's Mali FBSA project has usefully set out a different type of project to those socio-economic Type I projects, namely setting out Type II investments.

Enhencing access to services

Type II investments are those that enable an increase in local agricultural (and livestock) production to improve local food availability. Such infrastructure relates to livestock management, inputs, livestock feed, shops, agro-processing for local products, milk, horticultural products.Other such investments include the exploitation (and protection) of water and those that will increase production in such a way that income from sales will generate household incomes to acquire other food products. What begins to present challenges in this domain for UNCDF when trying to generalise approaches is that certain interventions - such as dairy, for example - may be considered as a public/social intervention one country (such as Benin) while being considered as a revenue-generating activity in others (such as Mali). Similarly, other infrastructure interventions, such as irrigation, can be considered as an intervention for both social and economic outcomes even within the same territory. UNCDF's experiences in Benin is particular emphasises that economic interventions need to founded upon markets and value chains, upon assessments of costs, feasibility and profitability, and upon impact, including job creation and employment. However, to a very large degree, the viability of such economic interventions will be determined very heavily by the publically-funded enabling environment of goods and services, such that:

- if certain goods and services are not provided by local administrations, then such services would need to be purchased from commercial operators,
- rates of repayment on loans, and dividends on equity
- The granting of, and rates of charging for, access rights to land and water
- Extent of available - and often cross-subsidised - reticulated energy services, or dependence on self-generation
- State of public roads that enable access to markets, or create a dependence on middle-men 'buyers'
- Rates of charging taxes and levies
- Obligations on developers for cost-sharing within O&M, which may be on a full cost recovery basis
- Prices, and any price control mechanisms
- Potential competition from state-subsidised development corridors that can supply into the same market
- Retention of profit within (and along) the value chain, or whether (under UNCDF's approach) there is some necessity to create conditions that enable the lives of others indirectly
- Competition from large-scale economic and commercial operators in or around the locality, such as large-scale irrigators who may be exploiting water under national FDI arrangements, with added tax relief
- Enterprises that can generate sufficient throughput but not too much so as to saturate local market
- Under its decentralised arrangements UNCDF may identify viable economic activities, but find that commercial viability is at risk of being undermined by the same activity by others, financed under different arrangements, such as deconcentrated Line Ministry interventions, or straight-forward off-budget donor-financed and NGO implemented actions.

So, with F4F pursuing both approaches, it is vital that UNCDF do not fall into a simplistic trap of associating public finance with social outcomes and private finance with economic outcomes.For these reasons, F4F can not be about financial sources, mechanisms and instruments in isolation - but how they work together, and not against each other. For UNCDF to tackle food insecurity, given that food insecurity it is about both social and economic outcomes, F4F has to be about public and private finance working in combination.

STRATEGIC GAP

THAT AS EMERGED

Market driven approaches towards local economic development and rural wealth creation have become mainstreamed to catalyse vibrant rural economies.

LED clearly is being viewed and adopted as a perceived new growth and development catalyst.

UNCDF has a low base of evidence on the financing synergies between them for tackling FSN - as stated because social and economic outcomes have been pursued under separate windows of Local Development Funds, with assessment against intermediate outputs without their cumulative contributions to FSN impact being evaluated. That is why several of UNCDF's evaluations - notably recent evaluations in Benin and Liberia, have concluded that there is a real strategic void.

In Benin, that gap has been identified as constituting

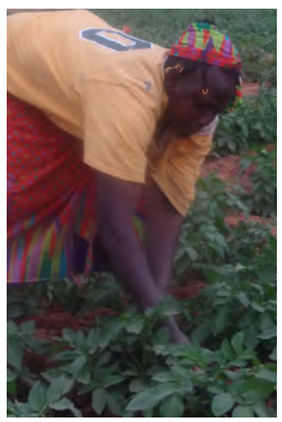
- a lack of strategic clarity in the relationships between communal investments, catalysing local economic development and food security - leading to an approach to targeting beneficiaries that is seemingly incompatible with engagement with economic actors.

Low revenue collection

- Economic and social approaches to food security that need better clarification
- Institutional approaches between microcredit and local economic development that require clarification
- A planning and evaluation framework that has suffered a lack of strategic clarity that has driven a confusion in the definition of targets, investment windows within Local Development Funds, and in the organisation of monitoring.
- Economic activities have to be prioritised on the basis of their contribution to food security. The way that communes support such Local Economic Development have to be built into the planning processes.

In Liberia, the key strategic issues have been framed as follows,

- questions over the role of public expenditure generally in promoting agricultural development, and of expenditure by sub-national governments in particular
- that it is unequivocal that boosting agricultural productivity is absolutely critical for equitable and inclusive economic development, but clarity is lacking on how public funding should be provided to best support agriculture and related productive activities
- disconnections between funding of agriculture sector investments and the District-level public expenditure cycle
- the nature of the support role of different UN agencies, including UNCDF.



With Benin and Liberia exemplifying this strategic gap, and with other country experiences reflecting similar issues, key areas for UNCDF's strategic reflection are around

- Different pathways to tackling FSN- some economic, some social, all mutual
- The social and economic dimensions of LED, and the tendency to have excluded the vital role of public goods, particularly where public finance is both towards social outcomes and stimulating local economic development
- Impacts that are catalytic and equitable
- Use of state and private assets in agriculture
- Deploying finance most effectively through public and private channels (between financers and beneficiaries), while making the most of opportunities for mutuality such as leveraging and de-risking
- The roles of state and non-state actors within UNCDF's decentralisation approach.

With such gaps at the strategic level of integrating finance, local economic development and security, and with financing for different windows being separated between social and economic tracks, it is a consequence that the implementation arrangements that would better enable UNCDF's operational application in other country-settings have not emerged.

It remains to be yet determined whether subsequent UNCDF interventions since Benin and Liberia have closed have responded either strategically or operational. But, for example, the strategic void encountered in Liberia has had the consequences of leaving UNCDF with operational difficulties for integrating public and private, social and economic investments, meaning

- weaknesses in fund-flow mechanisms
- weaknesses in procedures for identification of investment proposals
- needed procedures for initial screening and costing (also identified as needed in Benin)
- needed procedures for appraisal, ranking and selection
- weaknesses in O&M arrangements
- need for simplified procurement procedures
- inadequate technical support and supervision arrangements
- inadequate procedures for payment certification
- weak role for local community and user groups in M&E, and
- weak accountability arrangements.

Local Development Fund
experiences in
Local Food & Nutrition Security

UNCDF | F4F FINANCE FOR FOOD