



Local Finance Initiative (LFI)

An **innovative finance approach** to advance
achievement of the MDGs

Ministry of Local Government

Government of Uganda

Background

The 2002 Monterrey Consensus and subsequent Doha Conference in 2008 reaffirmed the **critical importance of reducing poverty, improving job creation and sustaining investment through the mobilization of the private sector**. The achievement of these objectives requires extensive multi-stakeholder engagement, coordination and innovation – in essence the discovery of new ways for the public and private sectors to work together for widespread development impact.

The principles for success were recognized in the Monterrey Consensus: All UN member states recognized the imperative of leveraging limited official sources of finance by mobilizing underutilized sources of domestic private sector capital. Specific approaches were detailed in the text of the Monterrey Consensus, such as scaling up the effectiveness of development finance institutions by using risk mitigation, improving the business-enabling environment and access to information resources, and developing new innovative sources of finance.

The Monterrey Consensus also articulated the importance of multi-stakeholder consultations to create new ways that developing country governments, finance institutions, and partners can work together to deliver on development finance. This includes the critical element of **building national ownership of development strategies as well as capacity building for public-private consultation and coordination**. This will help strengthen the domestic finance sector in tandem with national modalities for advancing governance, accountability, gender equality and human development.

Local Finance Initiative (LFI)

LFI is a global thematic initiative of the UN Capital Development Fund (UNCDF) in partnership with the Global Clearinghouse for Development Finance (GlobalDF), targeted on unblocking access to domestic finance for strategic investments that advance **local economic development and private sector growth in developing countries**. The programme is being supported by the Swiss Agency for Cooperation and Development (SDC) and the Swedish International Development Cooperation Agency (SIDA). The programme is now being developed in **Uganda**, in collaboration with the **Ministry of Local Government**. The MoLG will be championing a coherent LFI approach, involving other government agencies critical for sustainability and success. These agencies include the Uganda Investment Authority, the Ministry of Finance, the Ministry of Agriculture, the Prime Minister's Office, and others as required.

LFI targets interventions aimed at blockage points that impede domestic finance and private sector mobilization. Best practice in the use of partial guarantees for larger infrastructure projects (e.g., at the World Bank) has proven to leverage limited ODA resources by multiple factors.

LFI is dedicated to applying these best practices – and other risk mitigation tools – to smaller scale strategic infrastructure investments at the **local level**, and **building the required capacity at the local level in both public and private sectors**. LFI is developing analytical and scalable approaches in four areas: **Project Development, Project Finance, Capacity Building, and Performance Metrics**.

LFI activities have already begun in Uganda, with support from the existing DDPIII structure. These activities include:

- Assessing the optimal finance options for mobilizing private sector finance for Uganda local infrastructure projects;
- Exploring alternative and viable means of financing economic infrastructure at the local level;
- Elaborating models and defining prospects, risks and possible implementation frameworks to indicate possible policy changes, capacity requirements and roles of institutions (public and private) in implementing alternative financing mechanisms for local economic infrastructure;
- Establishing indicators, performance benchmarks, and alternative-financing models for Uganda among the proposed models for implementation; and
- Strengthening capacity building through a project development training program that includes workshops, training for technical service providers, and the adaptation of FfD Tools for LED Forums.

The **Financing for Development (FfD) Tools** were developed with the objective of increasing the capacity of the public and private sectors to be more effective in implementing the UN Monterrey Consensus objective of mobilizing the private sector for development. The programme enables national scaling up through a “learning by doing” approach, using domestic technical service providers and on-line consultation and information knowledge tools developed through the FfD process since 2002. The Tools have been designed for inclusion in the LFI Programme to empower governments and the private sector to help to achieve key results of the LFI Programme.

Ministry of Local Government (MoLG)

The MoLG is responsible for the coordination, support, and advocacy for Local Governments in Uganda to ensure efficient and effective service delivery within a decentralized system of governance. It aims to establish a democratic, participatory, decentralized local government system that can sustain development for the people. The MoLG is responsible for the management of the existing District Development III Programme (DDPIII), with support from UNCDF. Under the DDPIII Programme, emphasis has been placed on local economic development (LED). The newly developed LFI programme will also be managed by MoLG given its similar objectives to promote local economic development and advance LED focused programmes at large. It is responsible for coordinating with all relevant government agencies in the effective implementation of this LFI Programme, including the Uganda Investment Authority, the Ministry of Finance, the Ministry of Agriculture, the Prime Minister's Office, and others as required.

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