



Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
8 April 2020

Original: English

Second regular session 2020

31 August to 4 September 2020, New York

Item 11 of the provisional agenda

United Nations Capital Development Fund

Midterm review of the United Nations Capital Development Fund Strategic Framework, 2018-2021, including the annual report on results achieved in 2019

Summary

This report presents the results achieved by the UNCDF in 2019 and assesses overall performance over two years of implementation against the Strategic Framework, 2018-2021. The report validates the UNCDF strategy and the effectiveness of the use of its capital mandate to: (a) enhance inclusive financial markets and local development finance systems; and (b) unlock public and private finance for the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change, primarily in the least developed countries (LDCs).

Elements of a decision

The Executive Board may wish to take note of the report; commend the progress made by UNCDF in implementing its Strategic Framework, 2018-2021; welcome its commitment to innovative financing solutions and approaches to make finance work for the poor; note that the work of UNCDF is critical to supporting LDCs through the COVID-19 pandemic; and recommit to supporting UNCDF, including through fully funding its resource requirements of \$25 million per year in regular resources, \$75 million per year in other resources; and capitalizing its Investment Fund with \$50 million.

* Reissued owing to the impact of COVID-19 on meetings.



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Annex. Integrated results and resources matrix (available on the Executive Board website)

I. The least developed countries and the changing development context

1. In 2020, the Secretary-General launched the Decade of Action to deliver the Sustainable Development Goals. Financing for sustainable development remains a top priority. With United Nations reform, the United Nations development system is becoming configured to provide countries with integrated and coordinated support to achieve the Goals. The preparatory process for the Fifth United Nations Conference on the Least Developed Countries (LDCs), scheduled to take place in 2021, provides a unique opportunity to renew the global partnership for LDCs and highlight the need for new approaches to finance sustainable development in the LDCs.
2. Over the last two years, the development context has evolved in ways that will significantly influence the development progress of LDCs in the coming years. The world has seen critical shifts – in digital technologies and their implications, in the localization of the development agenda, in the need for catalytic investment finance – to which the international development system has responded in ways that do not sufficiently support or include LDCs. This raises the great risk that whole groups and countries could be left behind over the next 10 years.
3. The evolving COVID-19 crisis presents huge and unexpected health and socioeconomic risks for LDCs over the medium to long term.
4. Average growth of gross domestic product in LDCs has remained higher than global growth, but below the 7 per cent annual rate called for by the 2030 Agenda for Sustainable Development. Falling below the target means that up to 35 per cent of LDC populations risk remaining in extreme poverty by 2030. As LDCs continue to have low levels of domestic resource mobilization and high dependence on external financing, development progress has been uneven.
5. A key factor for the slow progress is the lack of structural transformation of LDC economies; investment in developing productive capacities – including entrepreneurship, infrastructure, energy, science and technology and digitalization – is insufficient, hindering attempts at transformation. A main bottleneck is the continued challenges facing LDCs in mobilizing commercial capital for investments to spur their economic growth. The UNCDF 2019 report, “Blended Finance in the LDCs,”¹ shows that between 2012 and 2018, only 6 per cent of private capital mobilized for all developing countries through blended finance approaches reached LDCs.
6. Countries that are approaching graduation from LDC status risk meeting the threshold for middle-income-country status while not transforming their economies and societies to put them on a path to inclusive and sustainable growth. All 47 LDCs, whether approaching graduation or not, are at the sharp end of the global trends that are holding back attainment of the 2030 Agenda.
7. These challenges include climate change and its associated impacts, migration and loss of skilled workers, urbanization and the lack of capital investment to create liveable cities. The overarching phenomenon of growing inequality is a unifying feature of these challenges.
8. A key feature of inequality is territorial, characterized by differences between capital cities, secondary cities and rural areas and between different sectors of the economy. Local development policy not only reduces these inequalities; local economic development, fiscal decentralization and subnational finance are key accelerators of LDC development and graduation. For example, LDCs continue to be extremely vulnerable to climate change, as their economic growth is dependent on climate-sensitive sectors. As climate change accelerates, there is growing recognition that local governments are critical in adapting and building local resilience. However, local governments and municipalities in LDCs are rarely able to tap into capital markets or global pools of climate finance. Current volumes of investment are insufficient for many African cities to raise their productivity to become engines of inclusive growth and poverty reduction.

¹ OECD/UNCDF (2019), *Blended Finance in the Least Developed Countries 2019*, OECD Publishing, Paris, <https://www.uncdf.org/article/4661/blended-finance-in-the-ldc-2019>

9. The digital finance revolution is profoundly impacting the global economy and transforming LDC societies. The number of registered mobile money accounts globally surpassed 1 billion in 2019, with 469 million such accounts in sub-Saharan Africa; there were a total of 23.8 billion transactions for a total value of \$456.3 billion in 2019, a 35 per cent increase from 2018. Although challenges of account dormancy and gender gaps exist, this digital revolution is changing how poor people save, receive social payments and remittances, and how unbanked micro-, small and medium-sized enterprises (MSMEs) can access finance. The application of digital innovation in the areas of agriculture, energy, health, education and entrepreneurship is also transforming the way people access basic services and improve livelihoods. Digital economies are emerging that can drive achievement of the Sustainable Development Goals.

10. Investment capital is critical for LDCs, both for public sector projects and the small and medium-sized enterprises (SMEs) that create the vast majority of jobs. Yet many barriers hinder investment capital from domestic and international sources, both commercial and concessional, from reaching LDCs: high political, currency, operational and policy risk; lack of local knowledge and context; small deal sizes; and a lack of investment-ready projects. These point to a gap in the international financial system that prevents investment capital, even concessional capital designed to help poor countries, from reaching the SMEs and local governments that need it most.

11. With their weak health systems and fragile economies, LDCs face severe and unprecedented impacts from the COVID-19 crisis. The pandemic will likely pose grave risks to the large populations of low-income, informal workers and other vulnerable groups, as well as to thousands of MSMEs. International support will be urgently needed to help LDCs prepare for, respond to and recover from the impacts of the crisis in the coming years.

12. UNCDF is working to help LDCs navigate these global changes. Its focus is on developing markets for new technologies that reach the poor, building ecosystems to support social entrepreneurs, and creating transformative change for Governments and the private sector to build stable, dynamic and resilient economies.

13. This approach is not about transactions, but transformation of how market systems work and how finance is allocated in poor countries. The UNCDF focus on piloting new solutions and creating demonstration effects aims to change entire financial and economic systems. With its tools and experience, the agency can offer a systemic value proposition in local economies that drives finance in more dynamic ways for poor people and excluded populations. No other actors in the international system are doing this.

II. Midterm observations

14. The Strategic Framework, 2018-2021 set a plan for UNCDF to help LDCs unlock public and private finance for their development by expanding financial inclusion, delivering innovative local development finance, and expanding deployment of capital instruments. UNCDF contributes primarily to Sustainable Development Goals 1 and 17, with an impact on Goals 5, 7, 8, 9, 10, 11 and 13. Women's economic empowerment remains a concrete ambition across all UNCDF work. Reviewing the results achieved by UNCDF against these objectives over the past two years shows that solid progress has been made, and highlights a number of observations about how UNCDF can further adjust its offer to help LDCs navigate the changing development context in the coming years.

15. The UNCDF capital mandate and expertise are unique in the United Nations system and address a gap in the international development finance architecture, particularly for LDCs. United Nations reform is providing new avenues for collaboration across the United Nations system, and across the spectrum of the Sustainable Development Goals, to apply UNCDF expertise in building resilience in local economies, bringing digital solutions into the mainstream of LDC financing, and proving viability of investment in last-mile, smaller-ticket-size MSMEs.

16. The digital revolution is radically transforming traditional approaches to financial inclusion. UNCDF has launched its "Leaving No One behind in the Digital Era" strategy and is supporting policymakers, central and local governments and the private sector to develop strong and resilient ecosystems that can bring digital economy solutions to scale.

17. UNCDF applies its expertise in local development finance to support LDCs to integrate “last-mile” areas into their economies, accelerate their adaptation to climate change, finance their urbanization challenges and understand how local governments are key partners and agents for their development goals. This has included working with partners such as United Cities and Local Governments, and the development of global mechanisms for local government finance such as the Local Climate Adaptive Living Facility (LoCAL) and the International Municipal Investment Fund and its technical assistance facility. During the second half of the Strategic Framework period, UNCDF will deepen its engagement with local governments in these areas.

18. In 2017, UNCDF established its LDC Investment Platform to scale up efforts to mobilize investments in local economies through the use of catalytic loans and guarantees that mitigate risks for public and private investors. UNCDF has increased provision of capital to the “missing middle” segment of SMEs, i.e., early and growth stage enterprises that are too big for microfinance and too small for banks and development finance institutions. In doing so, UNCDF adopts a blended finance approach, using concessional finance to catalyse commercial investments. UNCDF is one of few development institutions that provides financing for this important segment of LDC-based enterprises. A main focus in the next two years will be on capitalizing the UNCDF LDC Investment Fund with \$50 million, as outlined in the Strategic Framework. To enable this, strategic partnerships with donor Governments, private providers of concessional capital, development finance institutions and the United Nations system will be expanded.

19. UNCDF has played a key role in raising global awareness about blended finance in LDCs. Together with the Organisation for Economic Co-operation and Development (OECD) and others, it issued catalytic reports on this topic in 2018 and 2019 that focused international attention on the role and challenges of making blended finance work for LDCs. UNCDF continues to build important knowledge resources in the digital payments and finance space, and will focus in the coming two years on building more structured public-private knowledge and advocacy alliances to help inform global and national policy processes and to catalyse action to make finance work better for LDCs.

UNCDF and the COVID-19 pandemic

20. UNCDF works in areas that can be critical to helping LDCs respond to and recover from the ongoing COVID-19 pandemic. UNCDF will work with the United Nations Development Programme (UNDP) and United Nations partners to deploy its technical expertise and investment instruments to help limit the health, economic and social impacts resulting from the pandemic. This may include providing support for: (a) channelling finance to subnational authorities for local response and recovery; (b) deployment of digital innovations in areas such as payments, e-commerce, education, contact tracing and data harmonization; and (c) innovative finance solutions to overcome working capital constraints for SMEs (requiring the capitalization of the \$50 million Investment Fund as per the Strategic Framework).

21. The crisis will likely result in some delivery disruptions in the UNCDF programme for 2020. Efforts are under way to estimate this impact, to understand where repurposing of resources can help the response, and to ensure that UNCDF is ready to surge forward as soon as regular delivery channels become available again.

III. UNCDF performance and highlights

A. What UNCDF achieved: results

22. Of the 24 development effectiveness indicators reported in 2019, 23 are on track or exceeded their 2019 milestones. One indicator (1.3), relating to the number of clients served by UNCDF-supported financial products, did not meet its 2019 target. Despite strong increases in clients reached by digital services, there was a decrease in clients reached by other financial services due to the closure of two programmes that had contributed significantly to client outreach. On the other hand, four indicators (1.1, 1.2, 1.2.1, and 1.2.4) exceeded their targets by over 150 per cent. Therefore, UNCDF proposes revision for the 2020 and 2021 targets of these indicators (see appendix 2 of the annex). High-level 2019 results include:

- (a) UNCDF work to promote financial inclusion reached 3 million unbanked and underbanked clients to use financial services, supporting the mobilization of an estimated \$237 million in savings and deployment of \$3.3 billion in digital payment transactions;
- (b) UNCDF engaged with 443 local governments in 22 LDCs and supported 363 local investment projects. Based on its strong expertise in fiscal decentralization, UNCDF introduced or strengthened intergovernmental fiscal transfer systems to local governments in 19 countries;
- (c) Between 2018 and 2019, UNCDF committed \$72 million through its investment portfolio to derisk SMEs, incentivize innovations for inclusion and demonstrate the financial and development impact of investing in the last mile. Through its investments and technical assistance, UNCDF unlocked \$73.4 million in financial leverage from public and private funders to its investment projects and decentralized financing mechanisms.

23. Further highlights of the UNCDF performance against the Strategic Framework are presented below.

Results against outcome 1: Enhanced inclusive financial markets and local development finance systems that benefit poor and vulnerable populations

Table 1. Progress against selected integrated results and resources matrix outcome indicators

Indicators	Delivery rate*	
1.1. New or improved financial products piloted and scaled up by UNCDF-supported financial service providers	282%	
1.3. Total clients served by financial products developed with UNCDF support	68%	
1.5 Percentage of targeted countries shifting market development stage in digital financial service market systems	83%	
1.6 Percentage of targeted local governments enhancing local development finance systems	111%	

* Delivery rate calculates performance against targets and is set to have risk tolerance: ●, achieved (>75%); ○, partially achieved (50-75%); ●, not satisfactory (<50%).

Inclusive financial markets

24. **Advancing digital finance and inclusive digital economies.** Digital financial services such as mobile money and agent banking have reached scale in many LDCs. The UNCDF market development and ecosystem-building approach has helped to connect 18 million people to the financial ecosystem over recent years. Digital finance has become the primary route for UNCDF to support financial inclusion. At the same time, the fintech revolution has led to the development of a broader range of services offered on digital platforms, related to key socioeconomic areas such as health, education, agriculture, energy and MSME promotion. Digital financial inclusion has therefore been contributing directly to the emergence of digital economies, and vice versa.

25. Beyond offering tremendous potential to enable access to a wide range of services for previously excluded populations, especially women, youth and migrants, digital technologies have also opened new venues to mobilize sustainable development financing through innovative ways to mobilize domestic savings, reorient investments from capital markets and influence individuals' behaviours.

26. In 2019, UNCDF launched its new strategy, "Leaving No One Behind in the Digital Era", building on its deep experience in promoting inclusive financial sectors. The deployment of digital financial services was the primary UNCDF channel for providing financial inclusion solutions for 2.3 million of the 3 million people directly served by UNCDF-supported financial products and services.

27. UNCDF supports financial service providers, mobile network operators and fintech firms to develop and scale digital financing solutions that help address the everyday challenges faced by poor and vulnerable client segments. In Benin, UNCDF helped to develop the country's first mobile health application, enabling patients to locate health-care providers and pay medical fees through a mobile

wallet; 289 doctors were registered on the mobile application in 2019, representing already 10 per cent of physicians in Benin, and 250 appointments per day were made through the platform.

28. International remittance flows are another area where digital financing has wide-reaching implications for low-income migrants and their families. In 2016, some \$40 billion worth of remittances were sent to LDCs, which were mainly received at the household level for consumption and to enhance financial health. In 2019, UNCDF supported an innovation using blockchain technology to link remittances sent by Nepali migrants with digital savings and credit products to help migrants and their families generate more income. Drawing on this experience, UNCDF is scaling up in 2020 with a new programme to provide low-cost digital remittance services and remittance-linked financial products, with the goal of reaching at least 900,000 migrants and their families by 2023.

29. **Inclusive finance for clean energy.** UNCDF promotes financial innovation to scale access to clean energy for low-income households in LDCs. UNCDF partnered with 35 financial and energy service providers to bring the benefits of clean energy products to over 3 million people. The sales of these providers in 2019 increased more than sixfold, to over 342,000 clean energy products. The dramatic scale-up has been possible through financing innovations and maturation of clean energy financing business models. In Ethiopia, UNCDF partnered with UNDP, the Development Bank of Ethiopia and the Government to operationalize a guarantee scheme for renewable energy businesses. In 2019, the scheme guaranteed \$1.1 million in loans to 12 renewable energy SMEs in partnership with five local banks. This derisking model will be used as proof of concept to be replicated to other markets. In the Democratic Republic of the Congo, UNCDF launched an initiative to reduce reliance on wood and other biomass fuel and promote clean cooking solutions for low-income households, in partnership with UNDP and the national fund for reducing emissions from deforestation and forest degradation (REDD+). As of March 2020, this sector is particularly hit by COVID-19 and UNCDF is exploring financial bridging structures to help actors maintain energy delivery as households come under stress due to the crisis.

30. **Women and youth.** The digital divide remains a key challenge in ensuring that no one is left behind. UNCDF works to enhance capacities of unbanked and underbanked populations and promotes development of tailored services that meet the needs of women, youth and rural populations. In Papua New Guinea, UNCDF supported Women's Microbank Limited (WML) to use biometric identification to open digital savings accounts, which allowed customers who were illiterate and lacked formal documentation to use their services. The savings service enrolled 33,000 new customers in 2019, of whom 97 per cent were women. UNCDF also provided a loan to WML to provide on-lending services to female entrepreneurs in the informal sector who previously lacked opportunities to access finance and grow their micro-businesses. UNCDF supported youth financial inclusion combined with employment opportunities in five countries in West Africa (The Gambia, Ghana, Guinea, Niger and Senegal). Since its start in 2018, UNCDF has contributed to a net increase of almost 124,000 clients served by the partners, of whom 45 per cent are women and 40 per cent are youth.

31. In Myanmar, UNCDF empowered women through finance in the post-conflict regions and provided capacity-building and digital literacy training in local communities. It supported a mobile financial service company with over 7 million customers nationwide to launch a gamified financial literacy training application designed to enhance financial and digital literacy of low-income women, offering the potential to scale up this financial literacy programme nationwide. UNCDF also partnered with a fintech firm to support the launch of a blockchain solution that enables unbanked farmers to use livestock as collateral for loans.

32. **Enabling environments for inclusive finance.** At the policy level, UNCDF supported Governments and regulators to tackle the complex challenges of managing the digital transition with the goal of creating an inclusive, sustainable digital economy. UNCDF launched its Africa Policy Accelerator initiative in 2019 to improve the capacities of African financial regulators to promote financial innovations, enable regional payment system harmonization and remove barriers to digital financial services reaching unbanked and underbanked populations. UNCDF also conducted participatory diagnostic processes in 14 countries to support Governments to design holistic financial

inclusion road maps and implement policy solutions to leverage financial services to contribute to the Sustainable Development Goals.

33. Strategic initiatives and United Nations partnerships. UNCDF has served as secretariat for the Secretary-General's Task Force on Digital Financing for the Sustainable Development Goals, co-chaired by the UNDP Administrator and the former Chief Executive Officer of ABSA Bank. UNCDF established partnerships with task force members to pilot innovative solutions leveraging digital financing. In Bangladesh, UNCDF and UNDP are piloting an initiative to harness domestic savings through digital wallets, to be reinvested in long-term infrastructure investments. In Zimbabwe, UNCDF is supporting EcoCash and Finsec to develop the first SME stock exchange. UNDP and UNCDF are collaborating on a joint platform to take forward the relevant recommendations of the task force from mid-2020 onward.

34. The Better Than Cash Alliance, hosted by UNCDF, is a global partnership focused on accelerating the transition from cash to digital payments. In 2019, the Alliance continued to expand its membership to 30 national Governments, 34 international organizations and eight businesses, and continued to support its members to meet their digitalization commitments. In Bangladesh, the Alliance partnered with garment manufacturers to digitize 90 per cent of their payments to workers by 2021. It also worked with the Government of Senegal to launch a digital payment platform to help expand national health insurance coverage to 75 per cent of the population.

35. UNCDF has supported South-South cooperation in digital finance by launching a financial innovation lab in Malaysia to link Asian fintech companies with partners in the Pacific to enhance financial inclusion. The Better Than Cash Alliance has also worked with the Governments of India and Kenya to share their best practices in digitizing payments for basic public services with other countries from the Global South.

36. The flagship UNCDF and UNDP collaboration under the Pacific Financial Inclusion Programme has reached a total of 1.18 million Pacific Islanders with financial services, with 40 per cent of new clients being women. UNCDF also supports the digitization of services and financing of other United Nations entities. In Madagascar, UNCDF supports a joint United Nations peacebuilding initiative by promoting the use of digital finance in local communities. In the United Republic of Tanzania, UNCDF is part of the One United Nations initiative in the Kigoma region, where it supports the digitization of local savings groups. In Niger, UNCDF partners with the World Food Programme to train its staff on digital finance and pilot the digitization of cash-based transfers. UNCDF has developed a global partnership with the Office of the United Nations High Commissioner for Refugees under which it brings its technical expertise to promote financial inclusion solutions for refugees and forcibly displaced populations, with ongoing interventions in Uganda and Zambia so far.

Local development finance systems

37. UNCDF serves as a centre of excellence for local development finance in LDCs, promoting the transformative role of subnational governments and decentralized fiscal systems to finance the Sustainable Development Goals at the local level. In 2019, UNCDF carried out 363 localized investments in 22 LDCs and low-income countries to demonstrate the effectiveness of decentralized financing for climate adaptation, women's empowerment, food security, health and local economic development.

38. Financing climate change resilience at the local level. Adapting to and building resilience against climate change is necessary to ensure sustainable livelihoods for local communities in the LDCs. UNCDF combines its expertise in fiscal decentralization and climate finance to deploy the LoCAL mechanism. As of 2019, UNCDF introduced and strengthened the mechanism in 14 countries, engaging with 280 local governments representing over 10 million people. This mechanism was recognized by the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) in 2019 as a technical guidance tool in localizing national adaptation plans in LDCs. The performance-based climate resilience financing instrument designed by UNCDF is being scaled up by participating Governments. In Bhutan, the Government is expanding the LoCAL mechanism to 100 local governments with support from the European Union. In Cambodia, the mechanism has brought localized climate adaptation investments to over 50 districts with support

from the Government of Sweden and the International Fund for Agricultural Development. UNCDF is preparing to expand the mechanism to five new countries in 2020: Burkina Faso, Côte d'Ivoire, Liberia, Uganda and São Tomé and Príncipe. It is on track to meet its target of embedding LoCAL in 18 countries by 2021.

39. Building on this experience, UNCDF has been instrumental in supporting partner entities to prepare for direct access to international climate funds. In 2019, two UNCDF partners – the National Committee for Subnational Democratic Development Secretariat in Cambodia and the National Fund for Environment and Climate in Benin – were approved as direct access-accredited entities of the Green Climate Fund (GCF). UNCDF is also providing support to national entities in Bhutan, Mali and the United Republic of Tanzania to achieve accreditation for the GCF and unlock financing for local climate responses.

40. **Women's participation in local development.** Structural barriers persist to realizing women's equal participation in the labour force and in economic decision-making at the local level. To address such barriers, UNCDF implemented a joint programme with UNDP and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) that addresses local challenges faced by women and unlocks domestic capital for gender-positive investments. Since 2018, the programme has financed 22 gender-responsive local investments with grants and loans of \$2.9 million in four LDCs, while unlocking an additional \$4 million from local public and private partners. The investments were selected for their transformative impact on women's economic empowerment, directly supporting women-owned businesses and building gender-responsive infrastructure. As of 2019, the programme had directly benefited over 27,000 women.

41. The joint programme also provided support to partner Governments to devise and implement policies and mechanisms that prioritize gender-responsive planning and budgeting at the local level. In Bangladesh, UNCDF supported the Central Bank to develop a gender-responsive policy along with a credit guarantee scheme that creates financing opportunities for small enterprises owned by women. UNCDF also provided technical support to national and local officials in Bangladesh to develop and apply strict guidelines on gender-responsive local development planning and budgeting. In Senegal, UNCDF launched a gender-specific blended finance facility that provides equity investments or loans for women-owned SMEs and public-private partnerships that promote women's empowerment.

42. **Supporting local governments to raise revenue.** Effective local financing mechanisms do not only enable local development, but also strengthen trust between the State and local communities. In Somalia, UNCDF— as part of a joint United Nations initiative— supported local governments to raise revenues, deliver public services and create investment-friendly environments for sustainable development. As a result of the programme, targeted districts in Somaliland and Puntland recorded a 27 per cent increase in local revenue collection since 2017. The programme is currently scaling to eight new districts and is also exploring innovations including data-driven budget management and mobile tax payments.

43. In Uganda, UNCDF supported the stabilization of the northern region by enhancing capacities of local institutions and providing investments for inclusive and sustainable development. UNCDF carried out asset-profiling surveys for 18 districts, devised asset management plans and provided training to local officials. UNCDF also introduced innovations such as a digitalized tax collection mechanism that is being piloted in two districts. In 2019, UNCDF launched a localized investment facility that provides medium-term financing to investment-ready agricultural businesses. The investments are assessed for their impact on enhancing regional food security and empowering women.

44. In Guinea, UNCDF, in partnership with UNDP, promoted fair, transparent and responsible practices in the management of mining royalties for inclusive sustainable development in local communities. The programme supported capacity-building of local officials and the establishment of a decentralized financing system that has allocated over \$10 million from the mining industry to areas including education, women's empowerment and food security. UNCDF has also introduced a blended financing mechanism to identify bankable local investments that can unlock additional funds from the private sector. The programme is designed to create demonstration effects that the newly-created Ministry of Public-Private Partnership can use to scale up similar models at the national level.

45. **Strategic initiatives and United Nations partnerships.** UNCDF partnered with UNDP to implement its country investment facilities, aimed at catalysing innovative solutions for alternative financing, in three countries. In Cambodia, the joint project promotes public-private partnerships and expands the use of blended finance models in local development projects. In Senegal, the facility experiments with innovative mechanisms for mobilizing savings from the diaspora and middle class to invest in bankable investments for sustainable development. In Guinea, the facility partners with the ongoing UNCDF-UNDP joint programme to mobilize additional finance from the mining industry to invest in local SMEs.

46. UNCDF works closely with other United Nations agencies and international partners to promote local financing for the Sustainable Development Goals. In the Lao People's Democratic Republic, building on its long support to decentralized public financing, UNCDF, together with the International Labour Organization and the United Nations Children's Fund, was selected to implement a Joint SDG Fund project in 2019. The project aims to reinforce public finance management to support the national social protection strategy. UNCDF also partnered with the Swedish International Centre for Local Democracy to carry out an 18-month training programme to build capacities, design localized solutions and enhance South-South cooperation among local officials from five sub-Saharan African countries.

47. UNCDF contributed to the launch of the 2019 World Observatory on Subnational Government Finance and Investment report, which compiles the world's largest database on subnational government finance, in partnership with the OECD and the United Cities and Local Governments. UNCDF supported the Observatory by providing data collection and analysis for LDCs together with partner Governments, and used the report's findings in its work.

Results against outcome 2: Unlocked public and private finance for the poor

Table 2. Progress against selective integrated results and resources matrix outcome indicators

Indicators	Delivery rate	
2.2 Percentage of UNCDF-supported local governments increasing percentage of own resource mobilization	100%	
2.3. United States dollar volume of non-UNCDF funds channelled through local, decentralized public and private financing systems supported by UNCDF	113%	
2.4 United States dollar value of non-UNCDF investments mobilized using UNCDF finance mechanisms	100%	

48. **Using strategic grants to unlock finance and innovation in the last mile.** UNCDF unlocks and blends public and private finance to demonstrate the market potential and catalytic impact of financing the Sustainable Development Goals in LDCs. Building on its market systems development approach, UNCDF has identified a pipeline of investable projects with strong financial and development impact. The unique UNCDF mechanism of assessing and managing financial risks and returns along with development impact in its localized investments was recognized by the International Finance Corporation as a product innovation of the year at the Global SME Finance Forum in 2019.

49. UNCDF deployed a total of \$26 million in strategic grants to demonstrate the effectiveness of localized investments, derisk bankable SMEs and incentivize financing innovations in the last mile. These investments were able to unlock an additional \$21.6 million in funds from private and public sector funders.

50. In local development finance, UNCDF used its performance-based grants to demonstrate the effectiveness of intergovernmental fiscal transfers to deliver services and build local infrastructure. In Somalia, UNCDF grants of \$1.3 million were matched by \$423,000 in contributions from local governments in Puntland and South West states, drawing on increases in their locally-generated revenues. The growth in local government contributions indicates the viability of mainstreaming decentralized financing mechanisms, even in post-conflict environments. UNCDF investments have also been matched by in-kind support from local governments and communities. In the United Republic of Tanzania, UNCDF provided a \$150,000 grant along with \$40,000 in co-investments

from the International Trade Centre to construct an agricultural aggregation centre for farmers in Mvugwe village in the north-western Kigoma region. In turn, the village council provided 20 acres of land to house the centre, the district council paved roads to the site and local villagers volunteered their labour for the construction process.

51. In financial inclusion, UNCDF performance-based grants are used to incentivize innovations in financial services to meet the needs of the unbanked population and demonstrate the financial and developmental viability of these business models to private sector partners. In 2019, UNCDF grants of \$9.8 million were matched by \$8.3 million in own-equity contributions from the partners, which together leveraged \$11.6 million in external resources. UNCDF, in partnership with the United Nations Pulse Lab Jakarta, provided a grant of \$42,000 to AwanTunai, a fintech start-up that provides short-term working capital to micromerchants who lack sufficient credit history. With UNCDF grants and technical support, the company subsequently raised an additional \$4.3 million in venture capital and over \$10 million in debt capital from regional investment funds. With the additional capital, AwanTunai is fine-tuning its business model for scale-up to reach more micromerchants with finance and training.

52. **Blended finance for SME development and municipal infrastructures.** Beyond grants, as of December 2019, UNCDF managed a portfolio of 15 transactions representing \$2.7 million in disbursed concessional loans and guarantees. These loans and guarantees produce a social good but their more important purpose is to create demonstration effects for other more risk-averse players in the market. With a tolerance for risk and appetite for innovation, UNCDF takes an ecosystems approach that supports demonstration value and taking successes to scale. The ultimate goal is to show that smaller ticket size and higher-risk opportunities are both viable and critical investments if the global community aims to build stable and resilient local economies. In order to do so, a “hybrid” organizational model that provides both concessional capital and technical assistance through grant financing with “boots on the ground” will be necessary, a combination that is currently not viable in these last-mile economies for the large development finance institutions.

53. An average of \$220,000 in investments were made to SMEs that showed potential for strong development impact in food security, green economy and financial inclusion in Myanmar, Papua New Guinea, Uganda and the United Republic of Tanzania. By design, UNCDF guarantees are structured to secure senior loan financing from local banks. For instance, UNCDF provided a partial loan guarantee of \$226,000 to an agricultural poultry processing firm in Uganda, which unlocked a \$650,000 loan from an impact investment fund. When a UNCDF loan is multiplied and brought together with more commercial capital, it can become a powerful demonstration of how a small UNCDF investment is contributing to a change in perception and to moving the market.

54. Six UNCDF transactions have been structured as subordinated loans to directly unlock additional investments from local banks. UNCDF gave a \$250,000 loan to Aptech Africa, which provides a pay-as-you-go service for solar-powered water pumps in Uganda. Due to lack of collateral and credit history, Aptech had been unable to raise growth finance from traditional lenders. However, following a year of timely repayment to UNCDF, Aptech was successfully offered a \$800,000 facility by a local commercial bank that included invoice discounting, bid guarantees and import loans. Cases like these show the catalytic leverage generated by UNCDF strategic deployment of concessional loans and guarantees. UNCDF uses grant financing to narrow the gap between real and perceived risks and show that social enterprises are able to produce a desired financial return, while at the same time supporting poor and vulnerable populations.

55. Investing in the last mile involves responsible management of financial risks and business contingencies. UNCDF approved a concessional loan in 2017 to a Tanzanian agribusiness company working with smallholder farmers; in 2019, the company had difficulty making repayments due to construction cost overruns and unanticipated land transactions. Based on a detailed assessment of the situation, UNCDF worked with the company to restructure the loan repayment schedule in line with its revised financial projections. This case underlines the importance of hands-on, frequent monitoring and rigorous risk management of these transactions.

56. UNCDF loans have generated \$520,000 in interest and principal repayments that are available for redeployment. Promoting the investment space in LDCs for “missing middle” SMEs and essential local economic infrastructure, demonstrating its viability to domestic and international investors,

leading ultimately to the more sustainable mobilization of additional public and private finance, can be game-changing.

57. UNCDF plans to expand its loans and guarantee portfolio to new geographies in 2020, and is preparing to deploy four new investment officers in Benin, Ethiopia, Rwanda and Senegal, who will reach across the United Nations system agencies to identify, structure and manage the investment pipeline for the UNCDF balance sheet. Fully operationalizing this ambition across the United Nations system and the Sustainable Development Goals will require the \$50 million capitalization of the UNCDF balance sheet as foreseen in the Strategic Framework.

58. Beyond its direct investments, UNCDF continues to explore new financing models to attract additional resources, especially through blending of public and private funds. There are currently only a handful of impact funds primarily focused on investing in LDCs, and even fewer that are tailored to address the capital needs of “missing middle” SMEs and municipalities and secondary cities. UNCDF is designing innovative blended finance solutions to fill these gaps.

59. In 2019, UNCDF prepared the launch of a third-party managed blended investment vehicle, the BUILD Fund, tailored to bring capital to missing middle SMEs, especially in the LDCs. The initiative is a partnership with Bamboo Capital Partners, an impact investment firm based in Geneva. In preparation for the launch, UNCDF pre-screened 42 SMEs in LDCs that have potential for strong development impact, need growth capital and have trouble accessing commercial finance. UNCDF made progress in raising donor awareness of the blended financing mechanism, designed with a substantial first-loss tranche to incentivize commercial investors. UNCDF is also launching a technical assistance facility to provide pre- and post-investment support to the pipeline of investable enterprises.

60. In addition, UNCDF made progress in launching the International Municipal Investment Fund, a blended finance fund targeting urban and municipal infrastructure projects in the Global South. In 2019, UNCDF signed an agreement with Meridiam, a global investor specialized in long-term public infrastructure projects. UNCDF has also partnered with United Cities and Local Governments and the Global Fund for Cities Development to support municipalities in identifying investable projects with strong development impact and provide policy and regulatory services to allow subnational governments to access private capital.

61. Furthermore, UNCDF launched a new project to introduce innovations in financing transboundary and multisectoral water infrastructures to leverage water’s potential for enhancing cooperation and peace in the Global South. The approach was accepted by the Gambia River Basin countries in 2019, where the innovative financing mechanism will be piloted in partnership with the Gambia River Basin Development Organization over the next two years.

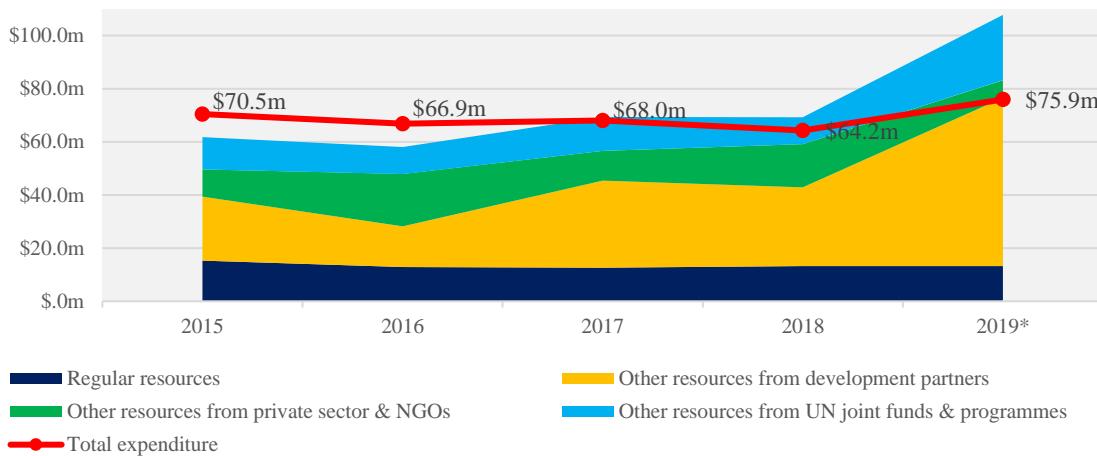
62. **UNDP and United Nations partnerships.** Drawing on its investment instruments and expertise, UNCDF continued to expand its partnership with UNDP and the wider United Nations development system in devising joint innovative financing solutions for the Sustainable Development Goals. In 2019, UNDP partnered with UNCDF for investment know-how and the UNCDF guarantee instrument to finance a 10.5-megawatt solar power plant project in the Gambia. The bulk of the financing, provided by the Nationally Appropriate Mitigation Actions Facility—an international fund supporting transformative national plans under the UNFCCC—was conditional upon co-investment from commercial funders. UNDP joined with UNCDF to provide a \$10 million guarantee that derisks and attracts commercial investments to the project. UNCDF and UNDP engaged in 26 joint initiatives in the 2018-2019 period.

63. In 2019, UNCDF supported the establishment of UNITLIFE, an innovative financing instrument aimed at funding interventions tackling global chronic childhood malnutrition; it operates from Station F, the world’s largest start-up campus, in Paris. In close collaboration with government and foundation partners, along with UN-Women and the Multi-Partner Trust Fund Office, UNCDF acts as the secretariat for UNITLIFE, bringing its technical expertise on leveraging innovation in private and technology-driven financing options and partnerships to help capitalize the initiative.

B. How UNCDF achieved it: analysis of institutional effectiveness

64. Among the 27 institutional effectiveness indicators, 24 are on track or exceeding the targets set for 2019. While exceeding the interim target on resource mobilization from development partners, UNCDF still fell short of the ideal resource scenario in the Strategic Framework that would allow UNCDF to operate meaningfully in 40 LDCs. UNCDF also fell short of the targets for regular resource mobilization and other resources from private and non-governmental sources. The latter shortfall is partly due to completion of a major grant that accounted for over 70 per cent of UNCDF revenue from private sector partners. UNCDF continues to strive to achieve gender parity at the more senior professional levels. It also added a new gender marker (IE3.9) with the implementation of its revised gender strategy under the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women 2.0 (see annex 1, appendix 2).

Figure I. UNCDF revenue and expenditures, 2015-2019
(In millions of United States dollars)



65. UNCDF maintained its level of regular resources² of \$13.3 million in 2019; this remains well below the \$25 million per annum target. Mobilization of other resources increased to reach a total of \$94.5 million in 2019 (a portion of which is multi-year, including some \$20 million in contributions to the UNCDF Last Mile Finance Trust Fund and select programmes received in late 2019 for use in future years), up 69 per cent from \$56 million in 2018. Revenues from development partners – bilateral and multilateral – grew by 114 per cent, from \$29.6 million in 2018 to \$63.3 million in 2019; revenues from United Nations joint funds and programmes also increased 143 per cent, from \$11.2 million in 2018 to \$24.6 million in 2019. At the same time, UNCDF saw a decrease in funds from private sector and non-governmental organization partners, from \$16.2 million in 2018 to \$6.6 million in 2019. The top five donors in 2019 were the European Union, the Government of Sweden, the United Nations inter-agency pooled funds, the Government of Switzerland and the Government of the Netherlands; these five combined accounted for 68 per cent of total UNCDF total revenue in 2019.

66. UNCDF expenditures increased 18 per cent, from \$64.2 million in 2018 to \$75.9 million in 2019. This reflects increases in programme delivery for enhancing local development financing, which increased from \$18.4 million in 2018 to \$30 million in 2019. The recorded increase in total revenue and delivery indicate resonance of the UNCDF capital mandate and its contribution to accelerating financing for the 2030 Agenda. However, it is still behind its Strategic Framework ambition, which remains valid for the second half of the period and calls for \$25 million in regular resources per year, \$75 million in other resources per year and a \$50 million one-time capitalization of the LDC Investment Fund. The full mobilization will permit UNCDF to act as a more catalytic and strategic partner in the Decade of Action for the Sustainable Development Goals and the Fifth United Nations Conference on the LDCs, and to respond more robustly to demand from Governments, UNDP and the wider United Nations development system.

67. It will also allow for robust UNCDF deployment in up to 40 LDCs compared to its current presence in 31 LDCs. There is continued demand from national Governments, United Nations and donor partners to expand UNCDF support to other LDCs, particularly now in view of the impact of COVID-19 which will require additional financing. In addition to LDCs, UNCDF continues to work

² Regular resources include a UNDP contribution. All 2019 revenue and expenditure figures are as of 1 March 2020 and are subject to adjustments until publication of the audited financial statements. Revenue estimates for 2019 have been calculated using the same methodology used in 2018 to ensure comparison with previous years and with the milestones set in the Strategic Framework, 2018-2021. Therefore, there may be differences with figures in the financial statement, which applies a refined methodology based on International Public Sector Accounting Standards requirements.

in a small number of non-LDCs based on potential for demonstration value, South-South exchange and learning for LDCs.

68. In 2019, UNCDF emphasized strategic communications, particularly its online presence, resulting in a 43 per cent increase in the number of annual visitors to the corporate and programme websites. UNCDF conducted targeted social media campaigns across its online platforms, resulting in a 21 per cent increase in social media engagements – public shares, likes and comments – and a 46 per cent increase in its total followers.

69. In 2019, UNCDF updated its gender implementation plan to operationalize the goals in its gender strategy, 2018–2021. UNCDF increased its performance against the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women 2.0 to 88 per cent in 2019, inter alia by implementing the gender marker. Improvements have been made in strategic planning and reporting, financial resource tracking and gender-responsive performance management. Continued efforts are required to meet the standards in areas including financial resource allocation, equal representation of women (especially at senior levels) and capacity assessment.

70. UNCDF has made strong progress in implementing audit recommendations. UNCDF has no long-outstanding audit recommendations of the United Nations Board of Auditors pending implementation. UNCDF received an unqualified audit opinion on its financial statements for 2019, marking seven consecutive years of unqualified audit opinions.

C. A strong commitment to evaluation and learning

71. UNCDF continued to prioritize independent evaluation in the first two years of the Strategic Framework, commissioning six midterm and final evaluations of its strategic programmes. UNCDF expenditures on evaluation in 2019 accounted for 1.3 per cent of its programme spending, which exceeds the 1 per cent target set in the evaluation policy. These included evaluations of the UNCDF financial inclusion diagnostic tool and policy work, and of four programmes targeting the development of inclusive financial market systems. UNDCF also evaluated the LoCAL mechanism, which supports the integration of climate change adaptation actions into local government planning and budgeting systems in LDCs. The evaluated programmes represented a total of \$88 million of expenditure at the time of the evaluations.³

72. Evaluation results confirmed the relevance of much of UNCDF programmatic work to its partner Governments' priorities, and found that UNCDF programmes typically reach the last mile and improve the lives of poor people and communities.

73. UNCDF financial inclusion programmes were found to play a strong convening role in building the capacities of regulators, financial service providers and fintech stakeholders in multiple countries. UNCDF was assessed as playing a unique role in developing digital finance markets for the poor at the micro, meso and macro levels, combining strong technical and digital finance experience with policy knowledge. UNCDF was found to be well positioned to incentivize financial market actors to develop new products and services through mechanisms such as challenge funds, although in some cases the uptake of new financial services by low-income populations in rural areas was less successful than envisioned.

74. The UNCDF approach to local climate adaptation (LoCAL) was found to be relevant to the climate finance agenda both nationally and internationally, demonstrating that UNCDF is filling a specific gap in showing how international climate finance could be channelled to the local government level.

75. Evaluators generally praised the design of interventions, though they recommended a more targeted focus on how to scale up and replicate approaches. They also recommended a stronger focus on collaboration with government partners to ensure ownership, implementation and scaling-up of strategies, policy reforms and solutions developed with UNCDF support.

³ All UNCDF evaluations are published in the UNDP Evaluation Resource Centre: <https://erc.undp.org/evaluation/units/255>

76. UNCDF was generally found to be implementing its work efficiently, although there was room for improvement in areas including ensuring sufficient levels of staffing in new programmes; and generating, reporting and managing results data, particularly at the outcome level.

IV. UNCDF: Looking ahead

77. The performance of UNCDF against its Strategic Framework, 2018-2021 shows an agency evolving to meet new challenges. There is growing demand for its support from Governments, the United Nations system and other partners, and 2019 saw the highest-ever level of resources mobilized and services delivered. With its unique capital mandate and focus on last-mile finance, UNCDF is well positioned to fill this critical gap in the international financial architecture and scale up its support to LDCs and the United Nations system to drive financing to sustainable development outcomes during the Decade of Action.

78. The COVID-19 pandemic risks hitting LDCs with particular ferocity and UNCDF is already seeing an increase in demand for support. UNCDF is poised to respond with appropriate funding flexibility, while also committed to ensuring that it maintains robust resourcing so that programmes can return at surge strength when the immediate crisis abates. The UNCDF offer and response capacity will remain dynamic throughout this period, and be updated in real time as the impacts and needs become clearer.

79. In the year ahead, UNCDF will engage closely to support the preparatory process for the Fifth United Nations Conference on the LDCs to respond to the needs of LDCs and ensure it includes an effective framework for last-mile Sustainable Development Goal financing. It will continue to support LDCs under the new agenda, including for the smooth transition of graduating countries.

80. Finally, UNCDF will continue to expand its partnerships. In the context of United Nations reform, this means deepening collaboration with UNDP and other United Nations agencies to leverage the unique capital mandate of UNCDF to accelerate progress towards the Sustainable Development Goals. UNCDF will pursue strategic partnerships with both traditional and new development partners to create solutions that can deliver last-mile financing to LDCs in support of their progress towards the Goals and in the context of the Fifth United Nations Conference on the LDCs. UNCDF will continue to work with impact investors and financial institutions, including through initiatives such as the Secretary-General's Global Investors for Sustainable Development, to create innovative ways to attract public and private finance to LDC markets.