



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

Distr.: General  
9 April 2021

Original: English

**Annual session 2021**

7-11 June 2021, New York

Item 10 of the provisional agenda

**United Nations Capital Development Fund**

**Report on results achieved by the United Nations  
Capital Development Fund in 2020**

*Summary*

This report presents the annual review of results achieved by UNCDF in 2020. It examines progress made in achieving the two outcome areas of the Strategic Framework, 2018-2021: (a) enhancing inclusive financial markets and local development finance systems; and (b) unlocking public and private finance for the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change, primarily in least developed countries.

*Elements of a decision*

The Executive Board may wish to: (a) take note of the report; (b) commend the progress made by UNCDF in implementing its Strategic Framework, 2018-2021; (c) welcome its commitment to and role in delivering innovative and blended financing approaches to leave no one behind; (d) note the catalytic role of UNCDF in supporting least developed countries to respond to and build forward better from the coronavirus disease (COVID-19) pandemic; and (e) recommit to supporting UNCDF, including through fully funding its resource requirements as enumerated in the Strategic Framework 2018-2021, including capitalizing its investment fund with \$50 million.



## Contents

| <i>Chapter</i>  | <i>Page</i> |
|---|-------------|
| I. Contextual analysis: The least developed countries and COVID-19. . . . .               | 3           |
| II. UNCDF performance and highlights . . . . .  | 4           |
| A. What UNCDF achieved: highlights of results. . . . .                                    | 4           |
| B. How UNCDF achieved it: analysis of institutional effectiveness . . . . .               | 12          |
| C. A strong commitment to evaluation and learning . . . . .                               | 14          |
| III. UNCDF: Looking ahead . . . . .   | 15          |
| Annex. Integrated results and resources matrix (available on the Executive Board website) |             |

## I. Contextual analysis: The least developed countries and COVID-19

1. The Decade of Action launched by the United Nations Secretary-General in 2020 commenced with an unprecedented health and socio-economic crisis that threatened to reverse hard-won progress towards achieving the Sustainable Development Goals: the COVID-19 pandemic. Despite its relatively limited health impact on most least developed countries so far, the crisis has had significant negative socio-economic effects and has hampered efforts towards eradicating poverty through economic growth and structural transformation.
2. The projected economic growth rate for least developed countries for the year to October 2020 was -0.4 per cent, down from 4.8 per cent in 2019 and far below the 7 per cent growth target identified in Sustainable Development Goal 8.1 as being required to achieve significant poverty reduction. The economic crisis is expected to lead to a jump in extreme poverty from 32.2 per cent to 35.2 per cent of the total population of least developed countries, an increase of more than 32 million people.<sup>1</sup>
3. The crisis has exacerbated already wide inequalities – especially for women, girls, youth, and people with disabilities – and has highlighted the vulnerability of the small and medium enterprise sector. Severe lockdown measures alongside global supply chain disruptions negatively affecting least developed country exports have drastically reduced businesses activity and caused high unemployment rates and loss of income, especially for informal workers, women, and youth.
4. With their low share of tax revenues of gross domestic product at 14.2 per cent (compared with 19.2 per cent for lower-middle income countries), least developed countries rely heavily on external finance to support their development. The crisis has caused severe reductions in both domestic resource mobilization and external flows, including an estimated 20 per cent drop in remittances and plummeting foreign direct investment inflows. Official development assistance (ODA) will be critical to help mitigate the impacts of the crisis and to leverage additional finance. The effect of the global recession on ODA flows to least developed countries is still uncertain.
5. With increasingly narrow fiscal space and in the absence of other external finance, least developed countries may have to increase their borrowing to mitigate impacts and rebuild their economies. This may lead to unsustainable debt burdens for the most indebted countries and put them at high risk of debt distress. Further debt relief measures may be needed to avoid widespread defaults, facilitate investments in resilient recovery, and prevent further increases in poverty rates.
6. Local governments and municipalities have been at the forefront of responding to the crisis, highlighting that fiscal decentralization and access to subnational finance are key enablers to becoming more responsive to shocks and to building long-term resilience through inclusive and diversified local development. However, local governments in least developed countries continue to face many impediments to mobilizing public and private capital for resilient, green and inclusive local development.
7. Digitalization and digital solutions have been critical in responding to the health and socio-economic effects of the crisis. At the same time, the growing reliance on digital solutions risks widening the already significant digital divide faced by large segments of least developed country populations. Considerable investment in digital infrastructure, market development and policy reforms will be required to ensure universal access to digital methods.
8. The impact of the crisis on small and medium enterprises has further accentuated the lack of access to credit and investment capital for entrepreneurs. As a result of the crisis, small and medium enterprises in least developed countries have experienced falling liquidity levels, leading to inability to service debt and cover fixed costs – particularly labour costs – forcing firms to lay off workers and face increasing risk of closure and bankruptcy. A UNCDF survey found that 88 per cent of businesses in least developed countries have substantially reduced their operations

<sup>1</sup> United Nations Conference on Trade and Development, *The Least Developed Countries Report 2020*  
[https://unctad.org/system/files/official-document/ldcr2020\\_en.pdf](https://unctad.org/system/files/official-document/ldcr2020_en.pdf)

as a result of the COVID-19 pandemic, and 24 per cent indicated they could not sustain their businesses for more than three months. Those disruptions affected female-led businesses disproportionately.

9. The present report illustrates how UNCDF helped least developed countries tackle the effects of COVID-19 and broader sustainable development challenges in 2020 through direct development results, piloting solutions and creating demonstration effects that changed financial systems and unlocked additional development capital.

## II. UNCDF performance and highlights

### A. What UNCDF achieved: highlights of results

10. Of the 18 development effectiveness indicators reported in 2020, 16 are on track or exceeded their 2020 milestones. High-level 2020 results include:

- (a) UNCDF worked to promote financial inclusion, especially through digital technologies, partnering with over 420 financial and digital service providers, small and medium enterprises and public organizations providing inclusive financial and digital solutions to over 2 million people in 44 countries;
- (b) UNCDF supported 536 local governments in 42 countries to enhance their subnational financial systems and completed 674 localized strategic investments to demonstrate the effectiveness of decentralized financing and use local development finance as a means to contribute to COVID-19 emergency response and recovery efforts at the local level;
- (c) UNCDF expanded its investment portfolio to 21 loans and guarantees in seven countries and disbursed \$30 million in strategic grants, which together unlocked \$85 million in direct and catalytic financing along with an additional \$48 million channelled through decentralized financing mechanisms developed with UNCDF support;
- (d) To assist countries in responding to COVID-19, UNCDF provided localized emergency grants benefiting over two million people, 60 per cent of whom were women. It supported the development of digital solutions that provided benefits and services to around 2.6 million people affected by the pandemic.

11. One outcome indicator (1.3) reporting the number of clients directly served by UNCDF-supported financial products partially met its 2020 target. This was due primarily to the closure of a large global programme focused on expanding financial access in the least developed countries caused by the unexpected discontinuation of funding on the part of the donor. There was greater emphasis on promoting digital innovations in 2020, reflected in the more-than-doubling of new piloted products and services (indicator 1.1). These innovations could result in a larger number of clients being served in future years, resulting in sufficient funding to support the maturation of these products and services. As for the gender divide in clients, UNCDF worked closely with financial institutions and technology firms to enhance their awareness of and capacities for collecting sex-disaggregated data and addressing the gender divide in financial and digital services.

12. An output indicator (1.3.1) on the development and adoption of financial inclusion road maps and strategies also partially met its target. This was due in part to shifts in demand from national stakeholders, moving away from national-level financial inclusion strategies and road maps towards more nimble, thematic, and action-oriented policies, regulations and directives on financial and digital inclusion, innovation, and consumer protection. UNCDF launched a new policy acceleration initiative to respond to these policy demands, part of its broader suite of support to the inclusive digital economies highlighted below.

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

### ***Inclusive financial markets***

13. With the adoption of its global strategy “Leaving No One Behind in the Digital Era”, in 2019, digital finance became the main channel for UNCDF to support financial inclusion. In 2020 UNCDF promoted the use and expansion of digital financial services as a key means of dealing with the socio-economic challenges inflicted by the COVID-19 pandemic. More broadly, UNCDF supported connecting digital financial and other services to sectors such as agriculture, education, entrepreneurship and health as a way to improve access, affordability and efficiency, thereby accelerating progress towards the Sustainable Development Goals. UNCDF understands that digital and financial access does not automatically translate into inclusion and resilience; therefore, it incentivizes partners and facilitates the development of policies that promote financial resilience and inclusion. Based on its global inclusion strategy, UNCDF adopts an inclusive market development approach to advance digital economies, focusing on inclusive digital financial innovations; empowered customers; enabling policies and regulations; and open digital payments ecosystems. In 2020 UNCDF partnered with 94 financial service providers, 87 mobile network operators and financial technology (‘fintech’) firms, 178 small and medium enterprises, and 61 public organizations providing financial access and usage to over 2 million people in 44 countries, aiming to leave no one behind in the digital era and accelerate the movement towards the global goals through digital innovations, investments, and inclusive policy changes.

### ***Inclusive financial innovations in the digital economy***

14. UNCDF promotes digital inclusion by partnering with fintech and other private-sector actors to incentivize innovations in last-mile markets. In 2020, UNCDF supported the piloting of over 180 financial products and services, an increase of 260 per cent compared to 2019. Among the piloted products and services, 80 per cent were digital solutions. In Sierra Leone, UNCDF launched a fintech challenge to promote domestic resource mobilization and financial inclusion. The selected companies received access to a regulatory ‘sandbox’ – a safe space for unregulated financial innovations – set by the central bank to pilot and test their innovations. In Vanuatu, the national bank adopted an automated credit underwriting system for assessing the eligibility of small and medium enterprises for loans, developed as part of a UNCDF-supported innovation challenge.

15. UNCDF focuses on expanding the use of inclusive digital finance innovations linked to the real economy. In Benin, with the support of the Government, UNCDF supported the development and piloting of a digital payment service for farmers in a rice value chain in five localities. The service, together with training for local rice producers, resulted in a 32 per cent increase in mobile money accounts among farmers in the region. In Uganda, UNCDF supported the piloting of a digital solution that provided traceability of food and animals in the agriculture value chain. UNCDF also supported the creation of other digital solutions that provide extension and advisory services for local farmers in northern Uganda. Those digital solutions have been used so far by over 37,000 farmers, 41 per cent of whom were women, in the northern regions. In Fiji, UNCDF supported a mobile network operator to temporarily remove fees for remittances on mobile money accounts. With such incentives and combined with the impact of the COVID-19 lockdown, the platform experienced a 104 per cent increase in digital remittance transactions in 2020.

16. ***Clean energy financing in last-mile markets.*** UNCDF leverages digital and financial innovations to scale inclusive access to clean energy products in the least developed countries. In 2020, UNCDF partnered with over 70 financial and energy service providers to bring the benefits of clean energy products to over 2 million people. With UNCDF support, the service providers were able to sell over 451,000 clean energy products in six countries in 2020. The clean energy products sold from the launch of the programme are projected to offset 1 million metric tonnes in carbon emissions. In Ethiopia, with UNDP and the Development Bank of Ethiopia, UNCDF set up a guarantee facility that provided credit to six energy small businesses, and business advisory services to 15 small and medium enterprises in 2020. In the Democratic Republic of the Congo, UNCDF launched an incubation project that provided capacity-building for 44 companies and selected five for a first round of financing. Two companies also received loans through the

UNCDF LDC Investment Platform. Despite such progress, many solar and cookstove businesses have been hit hard by COVID-19. UNCDF moved quickly to support the businesses by renegotiating the terms of its investments and providing technical assistance to mitigate the effects of the shutdown.

***Addressing the gender gap and other vulnerabilities.***

17. UNCDF recognizes that women remain disproportionately excluded from the formal financial system and digital economies and provides investments and services to bridge the gender gap and other forms of inequality. With the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), UNCDF launched the women's micro, small and medium enterprises fintech innovation fund to develop digital solutions for women-led micro, small and medium enterprises in the region. The challenge funded 10 solutions, which are expected to provide financial and business advisory services to some 5,000 women-led micro, small and medium enterprises. The digital solutions include an e-commerce platform for such enterprises in Nepal; a digital business tracking platform combined with credit assessments for loans in the creative and personal care industries in Bangladesh; and financial and digital literacy solutions for women-led micro, small and medium enterprises in Cambodia. In Myanmar, UNCDF partnered with fintech companies, microfinance institutions and banks to develop gender-smart products and services for remote and ethnic communities. The programme provided training in digital and financial literacy for over 120,000 rural women, who opened more than 35,000 new financial accounts. UNCDF also supported the development of the first-ever digital lending platform in Myanmar, using smart-phone data to make credit decisions.

18. In five West African countries, UNCDF promotes financial inclusion and capacity-building to support the school-to-work transition of youth, especially women. In the Gambia, Guinea and Niger, UNCDF provided youth who have participated in a cash-for-work scheme with financial accounts, entrepreneurship training and tailored financial services including mobile money loans and crowdfunding platforms. In Madagascar, UNCDF participated in a joint United Nations programme, financed by the Peacebuilding Fund, aimed at promoting community dialogue and improving the economic conditions of vulnerable populations in conflict-prone communities. UNCDF supported the recruitment and training of mobile money agents and established merchant points for savings groups, resulting in the opening of new mobile money accounts in the localities.

***Reducing policy barriers to financial and digital inclusion***

19. UNCDF developed the Inclusive Digital Economy Scorecard (known as 'IDES'), a policy tool for governments to measure the development of and help set priorities for the digital transformation of their countries. In 2020, UNCDF piloted the scorecard in four countries – Burkina Faso, Nepal, Solomon Islands, and Uganda – in partnership with national authorities, and subsequently introduced it in nine additional countries. In addition, Cambodia, Myanmar, the Lao People's Democratic Republic and Viet Nam formally approved national strategies on financial inclusion developed in 2020 with UNCDF support.

20. UNCDF supports the development of context-specific policy directives and tailored regulations with national authorities to expand financial and digital inclusion. In 2020, UNCDF supported the National Bank of Ethiopia in developing and adopting directives allowing non-bank actors to provide an array of digital financial services including mobile money and the use of agent networks. Similar agent banking guidelines were developed in Sierra Leone with UNCDF support. UNCDF also supported the revision of the Bank of Sierra Leone's financial consumer protection guidelines to increase consumer confidence in the financial sector and improve the communication between financial institutions and their consumers.

21. UNCDF served as secretariat of the Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals, which culminated in the launch of the task force report *People's Money* in 2020. With UNDP, UNCDF developed a joint offer to implement the recommendations of the task force. These included a joint initiative to support governments in identifying and linking enabling digital finance policy with the financing of development plans. The initiative was piloted jointly by UNCDF and UNDP in Uganda through the integrated national financing framework process. Another example is a joint effort promoting a dialogue on global

digital finance governance, which examines the role of big fintech firms in accelerating the global goals.

22. UNCDF leverages the potential of remittances to contribute to sustainable development. With UNDP, the International Organization for Migration, and the World Bank, UNCDF supports a Member-State led global initiative calling on policymakers, regulators, and remittance service providers to enhance physical and digital access to cross-border financial services and bring together public and private actors to innovate solutions that would improve remittance flows and reduce transfer costs during the ongoing pandemic.

23. The Better Than Cash Alliance, whose secretariat is hosted by UNCDF, continued to expand its membership to 75 public and private sector entities that have pledged to accelerate the adoption of digital payments to help achieve the global goals. In 2020, the Alliance supported the Government of Colombia to roll out an emergency relief digital payment scheme targeting 3 million households affected by the pandemic. The Alliance also released a new report on advancing women's digital financial inclusion, published with the World Bank and Women's World Banking; the report was endorsed by Group of 20 finance ministers, marking their commitment to drive women's digital financial inclusion as part of their COVID-19 recovery efforts.

### ***Inclusive digital innovations for COVID-19 response***

24. In response to the COVID-19 pandemic, UNCDF partnered with digital financial services and public sector organizations to pilot and tailor digital solutions that provided benefits and services to around 2.6 million people affected by the pandemic. In Uganda, for instance, UNCDF partnered with the main ride-hailing company in Kampala to provide an e-commerce platform connecting local market vendors with customers. Since its launch, the platform has been used by over 57,000 clients to request food and goods delivery from some 520 market vendors. UNCDF leveraged its experience in launching challenges and innovation funds to identify, pilot and scale digital solutions for COVID-19. In Burkina Faso, together with the Government, UNCDF launched a digital innovation challenge to find solutions responding to the pandemic. The challenge resulted in four innovations, including a mobile application that enables users to evaluate their symptoms and request rapid health care services. UNCDF supported similar innovation challenges in Benin, Ghana, and Senegal to support micro-, small and medium enterprises faced with marketing, payment and logistics issues due to the lockdown.

25. UNCDF leveraged its digital expertise to support governments in developing and implementing national COVID-19 response plans. In Myanmar, UNCDF engaged with financial institutions as part of the national response effort to advise the institutions on avoiding liquidity constraints and continuing loan collection during the pandemic. It piloted a digital solution allowing digital cash transfers to microfinance institutions for loan disbursements and repayments; the service allowed clients across the country to safely receive critical sources of capital during the pandemic. UNCDF supported and advised financial service providers in restructuring their loan repayment terms, offering bridge loans to businesses, and supporting the distribution of personal protective equipment.

### ***Local development finance systems***

26. UNCDF serves as a centre of excellence of local government finance and local economic development finance in least developed countries, providing localized investment tools and tailored technical assistance to public and private partners, and serving as a thought leader in subnational financing and local economic development. It has developed expertise and a track record in structuring sustainable infrastructures in ways that develop the domestic capital markets to enable longer-term sustainable transformation and green investments. UNCDF designs and supports the establishment of local public and private financial systems for local sustainable development and municipal growth. As part of this work in 2020, UNCDF supported 536 local governments, 131 micro, small and medium enterprises, and 88 public organizations in 42 countries and completed 674 localized strategic investments to demonstrate the effectiveness of decentralized financing for climate adaptation, women's empowerment, food security, health, and local economic development.

### *Financing local climate resilience*

27. UNCDF combines its expertise in fiscal decentralization, local governance capacity-building, and financing climate-resilient infrastructure to deploy the Local Climate Adaptive Living Facility ('LoCAL') mechanism. In 2020, LoCAL was operational in 14 countries, with scoping and design under way towards expanding the approach to 13 additional countries. Since the launch of LoCAL in 2014, UNCDF has supported over 300 local governments in climate-adaptive planning and financing and has made over 1,680 localized investments through its performance-based climate-resilient grant system, which has contributed to strengthening local climate resilience for some 11 million people.

28. In Ghana, UNCDF used its localized climate grant mechanism to create short-term jobs through cash-for-work programmes and to improve the employability and entrepreneurship capacities of youth, women, and returnees in the green economy. Through the LoCAL mechanism, UNCDF supported local communities in the regions where conflicts had been aggravated by the effects of climate change. In Mali, with the United Nations Industrial Development Organization and supported by the Peacebuilding Fund, UNCDF contributed to mitigating the risks of inter-communal conflicts over natural resources and implemented community-based planning for localized investments to tackle climate change and other environmental risks. In Niger, UNCDF channelled resources to subnational authorities in conflict-sensitive and migration-prone areas to invest in the green economy; the project has also supported the country in fast-tracking the implementation of its nationally determined contributions. In Lesotho, in collaboration with UNDP, UNCDF catalysed investments in renewable energy-based mini-grids and energy centres to reduce carbon emissions and enhance economic development, with funding from the Global Environmental Facility (GEF). By providing a \$600,000 GEF grant that reduced the financing required from the developers, the investment unlocked four times more funding from private investors to start construction of eight solar mini-grid projects worth \$3.5 million.

29. ***Women's economic empowerment at the local level.*** Recognizing how structural inequality can be exacerbated by crises such as the COVID-19 pandemic, UNCDF repositioned its tools and investments to mitigate the impact of the health crisis on women and girls. Together with UNDP, UNCDF offered a package of solutions including gender responsive assessments, capacity-building, and targeted investments. In Bangladesh, UNCDF replenished the credit guarantee fund established with the Bangladesh Bank to support the economic recovery of affected women-led small and medium enterprises. In Uganda, UNCDF – partnering with UNDP and United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) – completed gender-sensitive local economic assessments in 24 districts and provided support to women's micro-, small and medium enterprise recovery. In the United Republic of Tanzania, UNDP joined UNCDF in supporting the establishment of a guarantee fund to leverage private-sector financing for women's groups in three local government associations. In Senegal, UNCDF continued to support the Strategic Sovereign Investment Fund through a dedicated women's economic empowerment fund launched in 2019 to support local women-led businesses. In 2020, the first women-led small enterprise was selected for financing by the fund. In Bangladesh, with UNDP and UN-Women, UNCDF launched a full-fledged country programme to expand local capacities, reduce the structural barriers to women's participation in local economies, and unlock domestic financing for women-led businesses. Since 2018, UNCDF has initiated 25 localized investments in women's empowerment, unlocking an additional \$3.5 million from local partners and directly benefiting over 32,000 women in the countries targeted. In partnership with UNDP and the national small and medium enterprise promotion agency in Togo, UNCDF created a platform for local development tailored towards women and youth, and continued to support similar financing initiatives with the Mali Development Bank.

30. ***Municipal investments and small and medium enterprise financing for sustainable local development.*** UNCDF provides infrastructure investments and local economic development support for secondary cities in least developed countries. In 2020, UNCDF introduced innovative financing to promote transboundary and multi-sectoral water cooperation in the global South and support local economies, while also promoting peace and stability in the localities. In Freetown, Sierra Leone, UNCDF began financing the construction of reliable water, sanitation, and hygiene



facilities to deliver safe, affordable water to 75 per cent of the city's residences and safely collect and dispose 60 per cent of the city's solid and liquid waste. The investment is expected to demonstrate a successful model for financing sustainable urban water production and consumption in least developed countries. UNCDF is working with the Gambia River Basin Development Organization to design and pilot infrastructure investments in the agriculture, energy and water sectors in the basin region that borders the Gambia, Guinea, Guinea Bissau, and Senegal. Building on its work on food security, UNCDF has devised due diligence tools and investment mechanisms to mainstream food security and nutrition in its municipal and cross-border investments.

31. In Guinea, UNCDF supported the Government in creating a funding mechanism for local development where the Government reserves a percentage of mining royalties for intergovernmental fiscal transfers, resulting in a \$5 million transfer to this local mechanism. UNCDF also supported local governments in effectively investing in infrastructure in the localities. Together with the Chamber of Mines, UNCDF created a guarantee scheme to boost local economies and de-risk small and medium enterprises working as suppliers to the mining companies. Bankable enterprises were selected together with the mining industry, providing opportunities to contribute to sustainable local economic development.

32. In Uganda, UNCDF continued to support the consolidation of stability and socio-economic development in the northernmost districts of the country. In 2020, UNCDF conducted capacity-building in 18 core districts, improving their performances in the mobilization, budgeting, and allocation of their subnational finance. UNCDF provided frameworks for integrating gender-responsiveness and equity in the local budgets, which have been adopted by 15 of the 18 districts. The project provided five districts having low levels of performance with local government excellence funds to incentivize their performance in decentralized financing. UNCDF supported design and contracting for the rehabilitation of 405 kilometres of roads, starting in 2020. The roads will connect local communities in the northern districts with markets and urban centres, providing over 270 construction jobs. Through a dedicated blended finance facility, UNCDF provided affordable financing and business development services to 11 agricultural small and medium enterprises in 2020, creating over 500 new jobs and a market for over 75,000 local farmers.

#### ***Decentralized financing for COVID-19 response***

33. In rapid response to COVID-19, UNCDF repurposed its programmes and launched an e-platform to deliver emergency grants to local levels of government, building on its intergovernmental fiscal transfer system. Through such efforts, UNCDF supported over 2 million people, 60 per cent of whom were women, through its localized emergency grants. The funds were used by local governments to procure protective equipment, sanitize materials, construct isolation wards and support struggling micro-, small and medium enterprises in countries including Bangladesh, the Lao People's Democratic Republic, Mali, Mozambique, Senegal and Somalia. The intergovernmental fiscal transfer mechanism supported by UNCDF is considered highly efficient and effective in delivering support to local governments in response to the COVID-19 emergency. In Somalia, the COVID-19 grants expanded the local financing mechanism to eight new districts and supported local governments in participatory financial planning, public procurement, and fiscal monitoring.

34. UNCDF leveraged its policy acumen and experience in subnational financing to provide tailored policy tools and analysis in response to the COVID-19 pandemic. With the advent of the pandemic, UNCDF responded quickly by publishing guidance notes on the role of local governments in providing COVID-19 emergency support, as well as on the use of operational expenditure block grants at local levels. With partners such as UNDP, Habitat, and United Cities and Local Governments, UNCDF organized dedicated webinars for local governments, especially in the global South, to share best practices and instruments for dealing with and recovering from the pandemic. It also launched a study with the Overseas Development Institute to determine how the pandemic would affect fiscal space at subnational levels and to provide recommendations on rebuilding local fiscal space.

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

### *Strategic investments to unlock finance and innovation in the last mile*

35. UNCDF identifies, structures, and invests in a pipeline of investable projects with strong sustainable development impact in the least developed countries. The projects are selected both for their direct contribution to the global goals and for their demonstrative and catalytic impact on developing new market potentials and unlocking additional financing. In 2020, UNCDF deployed a total of \$30.9 million in strategic grants to demonstrate the effectiveness of localized investments and to de-risk bankable small and medium enterprises and digital solutions. Those investments unlocked an additional \$85 million in financial and catalytic leverage from private- and public-sector funders.

36. In inclusive digital economies, UNCDF performance-based grants incentivize partners to tailor their products and services for inclusion, targeting unbanked and underbanked populations while demonstrating the financial viability and developmental additionality of such business models. In 2020, UNCDF grants of \$10.4 million were matched by \$14.5 million in own-equity contributions from the private-sector partners, which together leveraged \$64.6 million in external resources. For example, with ESCAP and other bilateral and multilateral partners, UNCDF supported an impact investor in launching a regional women's livelihood bond. The bond aims to support over 50,000 underserved women and female entrepreneurs in the Asia-Pacific region, including in the least developed countries, while supporting the recovery and resilience-building of women-led small and medium enterprises in the aftermath of the COVID-19 pandemic. UNCDF grants provided support to the bond preparation; funded due diligence of the participants; and enhanced results monitoring and measurement against the global goals. The third window of the bond was closed in December 2020 and was afterwards listed on the Singapore Exchange. That tranche of the bond raised \$27.7 million, to be provided as loans to microfinance institutions and impact enterprises that provide financial and development additionalities to support women's economic empowerment in the region.

37. In local development finance, UNCDF deployed its strategic grants to demonstrate the effectiveness of subnational financing for service delivery and the development of local sustainable development infrastructure. In 2020, localized UNCDF investments of \$20.5 million unlocked some \$6 million in international and donor funds, which was matched by \$47.9 million in domestic resources channelled through decentralized financial mechanisms from public- and private-sector partners. In Uganda, in partnership with the Private Sector Foundation Uganda and the Uganda Development Bank, UNCDF manages a dedicated blended finance facility providing a mix of business and finance structuring services along with grants and other concessional investments for small and medium enterprises working in the agricultural value chain in the northern districts. In 2020, the facility provided \$0.9 million in concessional funding for 11 agricultural small and medium enterprises, leveraging \$3.9 million in own-equity contributions as well as additional resources from financial institutions. The small and medium enterprises are expected to create 500 new jobs and provide a market for 75,000 smallholder farmers. Another example of UNCDF leverage in decentralized financing is the LoCAL mechanism. Localized UNCDF green investments of \$2.6 million helped the performance-based climate resilience grants system to unlock \$6.3 million in parallel funding in 2020. In Bhutan and Bangladesh, for example, the system was scaled nationwide by the respective governments, with bilateral and multilateral donor funding to channel subnational adaptation funds to local levels.

38. Beyond grants, UNCDF expanded its loan and guarantee portfolio in 2020, with five new loans and one new guarantee supporting businesses contributing to the global goals in least developed countries. Since the launch of its new loan and guarantee policy in 2017, UNCDF has disbursed a total of 18 loans and three guarantees – in the areas of financial inclusion, food security, and green energy – in seven countries. The portfolio increased by 45 per cent compared to 2019, totalling \$4.1 million in disbursements and guarantee coverages. One borrower successfully repaid its loans in full by 2020. However, many borrowers and guarantee parties were adversely affected by the COVID-19 pandemic. UNCDF responded by restructuring 11 loans to enable borrowers to recover from its effects; borrowers remain committed to honouring their financial obligations.

### ***Blended finance instruments for sustainable development***

39. Beyond its direct strategic investments, UNCDF deployed blended financing instruments to attract additional public and private financing for the Sustainable Development Goals. According to *Blended Finance in the Least Developed Countries 2020*, only 6 per cent of private finance mobilized by development finance interventions was channelled to least developed countries, despite their critical needs.

40. UNCDF partnered with an impact investment firm based in Geneva, Bamboo Capital Partners, and established a blended investment vehicle called the BUILD Fund to bring capital to ‘missing middle’ small and medium enterprises, especially in least developed countries. Bamboo serves as fund manager and raises commercial capital, while UNCDF is responsible for providing the pipeline of investments from its programmes and the wider United Nations development system, as well as managing the associated technical assistance facility. In 2020, the fund was formally incorporated and registered with the Luxembourg Companies Register as a reserved alternative investment fund. The fund finalized its initial impact framework and guidelines along with the role and scope of investment pipeline-building and technical assistance services. Bilateral donors have committed additional financing through UNCDF and an innovative capital mechanism to the first-loss investment layer of the fund, which will be vital to unlocking capital in the upper investment layers. In addition, with support from the Joint Sustainable Development Goals Fund, UNCDF partnered with UNDP and the Food and Agriculture Organization in Malawi to establish a specialized structured blended-finance vehicle as a sub-fund to the global BUILD Fund. The Malawi vehicle, the first of its kind in the country, will seek to mobilize \$35 million to invest as patient and flexible capital to enable businesses in Malawi to grow and drive the achievement of the global goals.

41. UNCDF made progress in launching the International Municipal Investment Fund, a blended finance fund targeting urban and municipal infrastructure projects in the global South. The third-party fund is managed by Meridiam, a private asset manager. In partnership with United Cities and Local Governments, UNCDF has set up a technical assistance facility to help cities finalize the preparation of their projects and provide necessary support to ensure that cities meet the requirements for accessing resources. UNCDF inaugurated the first investment committee for the technical assistance facility to assess the pipelines for both their development impact and financial sustainability. The committee approved the first batch of municipal projects in seven countries; they will receive technical assistance to prepare them to become bankable. Due to COVID-19 travel restrictions, UNCDF started the preparatory work virtually, while the core technical assistance work is expected to take place in 2021.

### ***Strategic United Nations partnerships for financing the global goals***

42. Since 2019, UNCDF and UNDP have worked together to support the building of a 10.5 megawatt solar power plant in the Gambia with financing provided by the Nationally Appropriate Mitigation Actions (‘NAMA’) facility. In 2020, UNCDF, UNDP and the national stakeholders laid the groundwork by establishing governance and operational structures. The project is expected to launch the tender process for independent power producers for the regional grids. Based on the tender, UNCDF will deploy a suitable guarantee mechanism of approximately \$10 million to de-risk private sector investment and attract commercial capital to the project. Building on this experience, UNCDF, together with UNDP, has designed similar joint proposals for NAMA facility donors to invest in climate change mitigation projects with additional financial leverage from the private sector in several other countries.

43. In 2020, UNCDF extended its investment architecture and expertise to the United Nations development system by deploying investment specialists to support the resident coordinators and United Nations country teams in Benin, Ethiopia, Rwanda, and Senegal in financing the global goals. The country-based investment specialists, who will each also cover up to three adjacent countries, will work with country teams to unlock private finance for sustainable development investments, foster government reforms to attract additional investments, and deepen financial markets that work for poor and vulnerable populations.

44. UNCDF partnered with other United Nations entities in 10 countries to promote inclusive and integrated financing approaches for the global goals with funding from the Joint Sustainable Development Goals Fund. Many of the joint programmes support the design and implementation of integrated national financing frameworks, which support governments in mobilizing, planning and allocating financing to accelerate the global goals at the national level. Building on its strategic investments and financial market development, UNCDF worked to unlock new funding opportunities through public and private partnerships and through own-resource mobilization approaches in support of the financing frameworks.

45. UNCDF served as secretariat to the UNITLIFE fund, an innovative global financing instrument to fund interventions tackling chronic childhood malnutrition. In 2020, together with other United Nations partners, UNCDF supported the establishment of governance and operational structures for UNITLIFE. The fund identified and disbursed grants for two pilot projects in Niger to build the capacities of local small and medium enterprises working with smallholder farmers. The project plans to provide farmers with nutrient-rich biofortified seeds, establish a goat bank system, and provide female farmers access to climate-smart agricultural techniques. UNITLIFE expanded its partnerships with financial institutions and fintech firms to unlock additional resources using methods such as micro-donations, crowdfunding and innovative charity events in its fight to end chronic malnutrition.

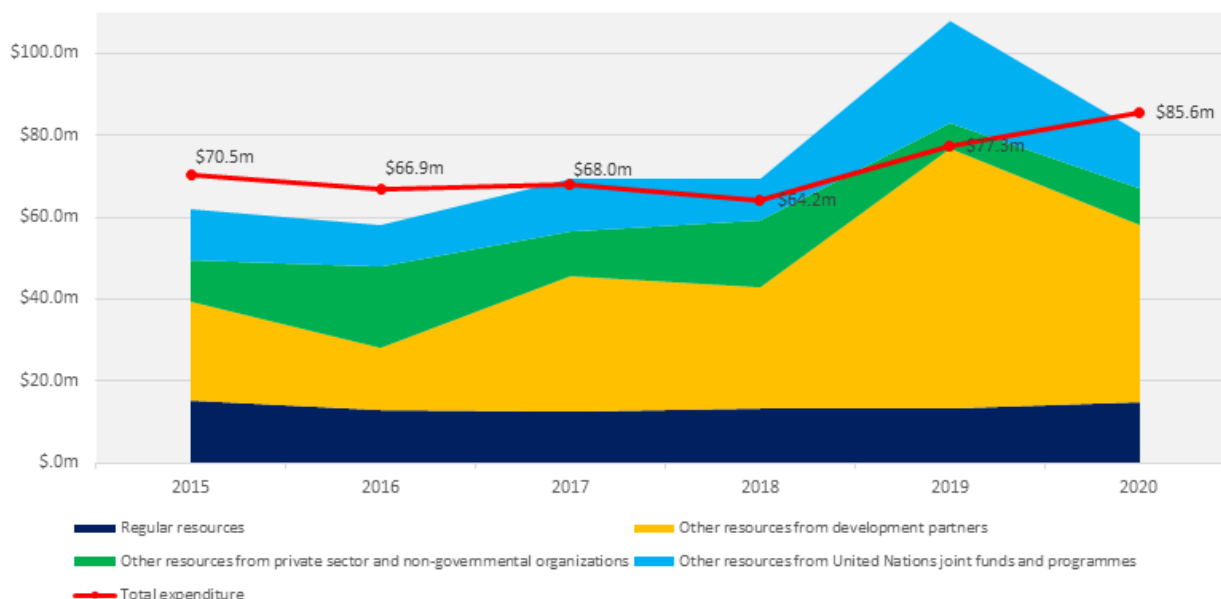
## **B. How UNCDF achieved it: analysis of institutional effectiveness**

46. Among the 27 institutional effectiveness indicators, 24 are on track or exceeding the targets set for 2020. While meeting the mobilization target range for its non-regular resources, UNCDF fell short of reaching the full resource envelope in the Strategic Framework that would allow it to operate meaningfully in 40 least developed countries. UNCDF regular resources<sup>2</sup> increased from \$13.3 million in 2019 to \$14.8 million in 2020. However, regular resources remained well below the \$25 million per annum target set in the Strategic Framework. Revenues from other resources dropped from \$94.5 million in 2019 to \$66.9 million in 2020, but met the range of the 2020 milestone. The decrease was due mainly to large multi-year commitments signed in 2019, along with the initial impact of COVID-19 on the fiscal position of key donors. UNCDF raised \$1.5 million for its least developed countries investment vehicle, the BRIDGE Facility, towards the one-time \$50 million capitalization target stated in the Strategic Framework.

---

<sup>2</sup> Regular resources include UNDP contribution. All 2020 revenue and expenditure figures are as of 5 March 2021 and are subject to adjustments until publication of the audited financial statements. Revenue estimates for 2020 have been calculated using the same methodology used since the 2018 report to ensure comparison with previous years, and including the milestones set in the Strategic Framework, 2018-2021.

**Figure 1. UNCDF revenue and expenditures, 2015-2020**  
(in \$ millions)



47. In terms of delivery, UNCDF expenditures increased 10 per cent, from \$75.9 million in 2019 to \$83.3 million in 2020. The increase was due to the strengthening of programme delivery in local development financing systems – which increased from \$30 million in 2019 to \$34.8 million in 2020 – especially the expansion of the local climate adaptation and municipal financing approaches.

48. With the increase in non-regular revenue and delivery since 2019, UNCDF has been able to deliver its investments and services to 39 least developed countries, up notably from 31 in 2019. The increase came mainly from the expansion of UNCDF local climate financing and municipal financing mechanisms, as well as digital inclusion policy acceleration activities, to a total of eight new least developed countries. There was also a gradual increase in non-least developed countries supported by UNCDF activities. UNCDF support to non-least developed countries has contributed to leaving no one behind in the areas of digital inclusion and municipal financing, as well as promoting South-South and triangular cooperation. For instance, UNCDF has actively promoted South-South learning in digital innovation among the Pacific island countries, and has encouraged learning and collaboration in building capacities of public financing among sub-Saharan African countries. While the expansion of its country footprint is a positive sign of growing demand for UNCDF investments and services, UNCDF maintains a fragile ‘thin presence’ in seven least developed countries, with some programmatic activities but no regular staff presence. Full mobilization of the UNCDF resource envelope of \$25 million in regular resources, \$75 million in other resources and a \$50 million one-time capitalization of the BRIDGE Facility is required to reinforce its presence in least developed countries and respond more robustly to the needs of governments and other partners.

49. UNCDF quickly pivoted to use its tools and services to support least developed countries in responding to COVID-19 while continuing to provide essential contributions to the global goals. This included efforts to swiftly streamline and digitalize UNCDF internal processes to respond to new demands in procurement, hiring, and investment sourcing and delivery. In particular, the UNCDF plug-and-play e-investment platform ensured the rapid sourcing and deployment of its grants for COVID-19 emergency response in the least developed countries. UNCDF launched a business pulse survey to assess the impact of COVID-19 on small and medium enterprises in least developed countries, which helped to provide important insights for tailoring investments and policy support for the small and medium enterprises most in need.

50. UNCDF revised its policies and guidelines to ensure accountability, transparency, and holistic risk management throughout its programmes and activities. It revised its operations manual to enhance accountability and segregation of duties for its capital investments and to strengthen its policies on the management of different types of investment committees. UNCDF updated its enterprise risk management policy to include both top-down and bottom-up risk identification from corporate to country activities. It also upgraded its online risk register to support the identification, timely reporting, mitigation, and analysis of risk items at all levels.

51. UNCDF increased its performance against the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women from 88 per cent in 2019 to 94 per cent in 2020. Improvements were made in staff capacity-building and assessments, together with strong performance in leadership, evaluations, and communications for gender equality and women's empowerment. Despite making notable progress compared to 2019, continued effort is required to achieve equal representation of women, especially at the senior level.

52. UNCDF advocated the importance of gender equality and women's empowerment by supporting the Generation Equality Forum, a civil-society-centred global gathering convened by UN-Women, by co-leading its Action Coalition on Economic Justice and Rights. In 2020, UNCDF appointed a female philanthropist and leader in the alternative investment industry as the first-ever UNCDF goodwill ambassador for gender equality in access to finance.

53. UNCDF policy advocacy, communication and outreach have positioned it strategically in the sustainable development financing space, including as a recognized partner in the Global Investors for Sustainable Development Alliance and through publication, with OECD, of the third edition of the *Blended Finance in the LDCs 2020* report. UNCDF has achieved strong growth in its digital communications, mainly by leveraging its online properties. There was a 34 per cent increase in the number of annual visitors to UNCDF websites and a 38 per cent increase in its social media engagements.

54. In 2020, UNCDF underwent an audit by the UNDP Office of Audit and Investigation covering activities from 1 January to 31 December 2019, which was rated 'partially satisfactory/some improvement needed.' There were six audit recommendations, related mainly to the loan and guarantee policy and the grant-making process. As of March 2021, UNCDF had implemented all six recommendations issued by the Office of Audit and Investigation.

55. UNCDF has made notable 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 eight consecutive years of unqualified audit opinions.

### **C. A strong commitment to evaluation and learning**

56. UNCDF continued to prioritize independent evaluation and learning in line with the priorities of its Strategic Framework, completing two evaluations and launching four others, including a corporate evaluation of the Strategic Framework, 2018-2021, and its gender policy and strategy. UNCDF spent \$588,000 on evaluation (0.75 per cent of the programmatic expenditure), close to the UNDP Evaluation Policy target of 1 per cent.

57. UNCDF completed a midterm evaluation of a joint UNCDF, UNDP, UN-Women global programme supporting increased women's economic empowerment through funding and technical support to small and medium enterprises, local governments, and women micro-entrepreneurs. Despite limited funding to fully implement the approach in all the countries targeted, the evaluators found the approach to be relevant and innovative, with potential for replication and scale, including a strong contribution to the United Nations 'delivering as one' objectives at the country level. Recommendations included the need for better results monitoring at the outcome level and of the programme's catalytic leverage, as well as a review of the investment support process to make it more efficient when working with smaller enterprises. The evaluators also concluded that more attention was needed to ensure joint decision-making, recognizing the various management structures and approaches adopted by the three organizations.

58. The evaluation of the UNCDF financial inclusion programme in Myanmar emphasized its success in supporting implementation of the national financial inclusion strategy, with an appropriate emphasis on addressing the needs of women and minorities through its market development facility. The evaluators recommended closer programme engagement with government partners and the broader financial inclusion sector in the light of the new UNCDF strategy on digital inclusion, as well as the need to reinforce the programme team in the areas of monitoring, communications and knowledge management.

59. UNCDF adjusted its operational approach to evaluations in 2020 in response to the COVID-19 pandemic, working with evaluation firms that could rely on locally based evaluators and making use of remote data collection techniques. UNCDF continues to prioritize strengthening the quality and extending the type of evaluations it commissions, as well as building an evaluation culture within the organization. It increased its participation in the work of the United Nations Evaluation Group as co-lead of the new Working Group on Evaluation Methods as well as convener of the UNEG Working Group on peer reviews, which looks at the adherence of evaluation functions to United Nations norms for evaluation. This helps evaluation practice in UNCDF remain up to date with the evolving approaches of its peers.

### **III. UNCDF: Looking ahead**

60. In 2020, UNCDF adapted rapidly to the challenges posed by the COVID-19 crisis, helping least developed countries respond and move towards a more sustainable and resilient recovery. With the COVID-19 pandemic reversing progress on poverty eradication and socio-economic development, in the coming year and beyond UNCDF will seek to intensify the deployment of its last-mile finance solutions at the household, small enterprise and local infrastructure levels for the benefit of vulnerable groups, including women, youth and migrants, and their families.

61. To achieve this, UNCDF will deepen and expand its support for inclusive digital economies to additional countries, leveraging digital finance solutions for real economy sectors that can accelerate sustainable development. Second, UNCDF will continue to support improved access to local development and climate finance and municipal investment capital, strengthening the role of local authorities to drive sustainable development and rebuild from COVID-19. Last, UNCDF will seek to further scale up its capacity to provide direct catalytic investment finance to higher-risk small and medium enterprises and small infrastructure projects by capitalizing its investment fund with \$50 million. It will continue its support for the full launch of the two third-party managed funds it has initiated, the BUILD Fund and the International Municipal Investment Fund.

62. In the year ahead, UNCDF will consult closely with the least developed countries, Member States, and the wider United Nations Development system to update and refine its unique value proposition as it designs its new Strategic Framework, 2022-2025. The new framework will be aligned with and supportive of relevant sections of the quadrennial comprehensive policy review, 2021-2024.

63. In its capacity as an international support mechanism for the least developed countries, UNCDF will proactively support the preparatory process for the Fifth United Nations Conference on the Least Developed Countries, advocating for an inclusive framework for last-mile financing to achieve the global goals and in support of the next Programme of Action for the Least Developed Countries.

64. Finally, UNCDF will strengthen its engagement with impact investors, financial institutions, and capital markets in order to attract more sustainable private-sector financing to least developed country markets, while increasing efforts to expand and diversify its donor base. As part of its commitment to United Nations reform and ‘delivering as one’, UNCDF will continue to pursue strengthened collaborations with United Nations entities by building on its unique capital mandate and financing expertise.