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Report on results achieved by the United Nations Capital Development Fund in 2013

Summary

At the end of a programming cycle in 2013, UNCDF has concentrated its effort to refine its approaches and instruments to increase the impact of its interventions within the overall context of the Istanbul Programme of Action for the Least Developed Countries (LDCs) for the Decade 2011-2020 and the post-2015 development framework.

Building on its core areas of expertise, UNCDF has increased its partnerships with the United Nations and other agencies, as well as with the private sector, to develop synergies and maximize impact on key development objectives. It has also capitalized on the synergies between its two programme areas – local development finance and inclusive finance – to pilot and scale up innovative finance mechanisms to increase investments and leverage the unused potential in developing countries.

UNCDF has also increased its interaction with members of the Executive Board through regular Stakeholder Consultations that have helped to shape its Strategic Framework for 2014-2017.

The financial situation, while marked by a robust increase in overall resources, still remained characterized by a low level of core resources that jeopardizes the ability of UNCDF to deploy its technical and investment mandates in 40 LDCs.

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I. Introduction

1. During 2013, which marked the end of a programming cycle, UNCDF was affected by the challenges facing the entire development community: (a) the post-2015 development framework and ongoing discussions on financing for development; and (b) the Istanbul Programme of Action for the Least Developed Countries (LDCs) for the Decade 2011-2020, which sets the ambitious target of enabling half of the LDCs to meet the criteria for graduation by 2020.

2. Building on its core areas of expertise, UNCDF has increased its partnerships with the United Nations and other agencies, as well as with the private sector, in order to develop synergies and maximize impact on key development objectives such as climate change adaptation, food security, gender equality, youth empowerment, cross-border cooperation and local economic development. In 2013, UNCDF stepped up its strategic interaction with the Executive Board and other key stakeholders, such as major foundations. A series of Stakeholder Consultations with members of the Executive Board and foundations during the course of the year helped to shape the direction of UNCDF for 2014-2017, particularly the articulation of its Strategic Framework, which is fully aligned with the UNDP Strategic Plan covering the same period.

3. Eradicating poverty, reducing inequalities and promoting inclusive and sustainable growth remain at the heart of the UNCDF mandate. Capital flows provided by UNCDF have focused on small and medium investments at the local level in LDCs to address unmet needs and unblock strategic opportunities.

4. UNCDF continues to prove concepts around innovative approaches and create the basis for scalable models related to specific development challenges, leading to national reforms. Present in 32 LDCs, UNCDF has a flexible capital investment mandate unique in the United Nations system, with the ability to use an array of financial instruments such as loans, grants, financial blending tools and credit enhancement instruments directly to the benefit of the private sector and sub-sovereign beneficiaries.

5. In 2013, UNCDF capitalized on the synergies between its two practice areas – local development finance and inclusive finance – to pilot and scale up innovative finance mechanisms to increase investments and leverage the unused potential in developing countries.

6. In its local development finance programme area, UNCDF launched a new strategy with a stronger focus on generating catalytic financing models from both public and private sources that aim to trigger scaling-up with the financial help of Governments, domestic and international financial institutions and other investors. In the inclusive finance programme area, UNCDF has encouraged the use of innovative distribution channels and technology (branchless banking and electronic payment systems) to digitalize social payment benefits to individuals, as well as the use of increased financial inclusion for the poor to help them access basic services (i.e., sustainable energy sources).

7. External oversight of UNCDF results continued apace in 2013 with the completion of three independent evaluations, two in the local development finance programme area and one in the inclusive finance programme area. This brought to 21 the number of external evaluations completed since 2010 and the launch of the Corporate Management Plan 2010-2013. Evaluation results were mixed. UNCDF programmes generally were found to be relevant and innovative in their approaches to promoting financial inclusion and increased local development financing at the local level; but for two of the projects, evaluators highlighted challenges in implementation and in generating and communicating results. These recommendations have been taken up through the UNCDF management response system, which sets out a series of key actions for programme improvement and is monitored regularly through the UNDP Evaluation Resource Centre.

8. In 2013, total UNCDF revenue reached $65.4 million, up from $55.5 million in 2012. The revenue increase was due mainly to the growth in non-core resources, which increased by 24 per cent over 2012 levels. Core resources registered a slight increase, to $16.3 million. Diversification of UNCDF donors also continued to improve.

II. Programme results, 2013

A. Local development finance

9. In preparation for the post-2015 agenda, the local development finance programme area launched a new strategy and approach which focuses on catalytic financing models for both the public and private sectors that trigger scaling-up by Governments, international financial institutions and other investors. The strategy, accompanied by a business plan, builds on analytical work undertaken during the previous two years and complements the UNCDF Strategic Framework for 2014-2017, which was presented to the Executive Board at the first regular session of 2014.

10. The revised approach to local development finance foresees new challenges for LDCs in enhancing local basic services, promoting local economic development and increasing local resilience to shocks in an increasingly uncertain world. Reductions in official development assistance are leading to an increasing focus on other sources of development finance. The approach recognizes that data from LDC economies indicate a level of domestic capital formation (public and private) that is significantly greater than a decade ago, although growth rates have slowed recently. A challenge now is to find ways of channeling these resources for local development in addition to attracting additional external resources. Therefore, the new approach is about:

(a) mobilizing additional capital for local development including from the domestic public and private sectors;

(b) designing appropriate allocation mechanisms for this capital (intergovernmental fiscal transfers, public-private partnerships, structured project finance);

(c) developing and testing effective investments (procurement systems, low-emission development strategy analysis; business plans; economic, social and environmental impact);

(d) securing these within an accountable local institutional environment (legal, political, social).

11. UNCDF has a 20-year track record of working in LDCs with local institutions through local development funds, and has added three more financing modalities that were designed and piloted during 2012 and 2013. Firstly, the Local Finance Initiative will support private and public-private infrastructure investments. Secondly, a portfolio of municipal finance projects will support LDCs in developing the capacity and the market to absorb municipal debt instruments (where appropriate). Finally, LDC Governments will be supported in the design and testing of government-to-person fiscal grants as instruments for local development finance, involving local institutions. The value proposition of UNCDF remains the same, to apply its seed capital and technical assistance to leverage further resources (public and private) that have a transformative effect on local economies, societies and institutions, making them more inclusive, accountable and prosperous. The approach not only strengthens local institutions but also recycles local capital, therefore increasing the integration and resilience of local economies and fostering sustainable processes of domestic productive capital formation for public social goods (schools, health centres, water supply and

sanitation), public economic goods (roads, markets, irrigation systems) and private goods (transportation facilities).

12. The year 2013 saw important milestones in the testing and development of these instruments. In Nepal, the piloting of government-to-person fiscal grants for a girls' scholarship scheme was scaled up by the Government and the World Bank. This innovative scheme involved payments to mothers for enrolling their daughters in local education facilities constructed with the local fiscal transfers already introduced following an earlier local development fund programme. The scheme includes a role for local governments in the targeting and monitoring of beneficiaries. Collaboration with the financial inclusion programme area on the selection of the payment service provider and the specification of the payment account opens up the scope for other financial services to be available to the beneficiaries. In December 2013, the initiative was showcased at an event during the European Development Days in Brussels, contributing to the debate about social protection and the post-2015 agenda.

13. In Bangladesh, agreement was reached with the Government for policy work on the legal, regulatory and institutional environment for municipal debt, to be accompanied by capacity-building of the selected municipal authorities, eventually leading to capital investment through municipal debt by 2015. The initial offering will enable specific climate-resilient investments in growing urban centres.

14. In the United Republic of Tanzania, the Local Finance Initiative continued to develop the incipient portfolio of local infrastructure investment from the private sector, including a micro hydro plant and transport hub financed through a public-private partnership with local government. Work also continued on a dairy project with farmers' cooperatives in Uganda. These projects, which target investments in areas hitherto ignored by domestic and international funders, aim to prove models for infrastructure finance in LDCs that will change the perceived risk of investing in the local economy and stimulate new relationships between domestic financial institutions and the local public and private sectors, providing a productive outlet for domestic capital and leveraging follow-on investment.

15. Building resilience to climate change is a key issue for the LDCs which requires effective local action. The Local Climate Adaptive Living Facility (LoCAL) is the UNCDF facility through which LDCs access climate financing for local level public and private investments. A "local climate adaptation summit" held in Cotonou, Benin in March 2013, resulted in nine African countries signing on to the LoCAL roadmap for joining the facility (Benin, Burkina Faso, Burundi, Ghana, Guinea, Mali, Mozambique, Niger and Uganda). Scoping and design studies – an important milestone along this road – were concluded in Bangladesh, Benin, Ghana, Mali, Nepal and Solomon Islands. By end-2013, Bangladesh and Benin had signed the Memorandum of Understanding and joined Bhutan and Cambodia as full partners in the facility. LoCAL was represented at the nineteenth session of the Conference of Parties to the United Nations Framework Convention on Climate Change in Warsaw, Poland; at the Global Forum on Using Country Systems to Manage Climate Finance in Incheon, Republic of Korea; and at the meeting on Climate Finance and the Private Sector: Investing in New Opportunities, also in Incheon[1]. The latter two events coincided with the launch of the Green Climate Fund secretariat and publication of joint research by UNCDF, UNDP and the United National Environment Programme on climate finance. Further funding of $7 million for the LoCAL programme was secured from the European Union, Government of Liechtenstein and the Swedish International Development Cooperation Agency during the year. Over 50 climate resilience projects were financed through performance-based grants to participating countries' local governments, with the objective of defining and demonstrating effective resilience and mobilizing further resources and actions.

[1] http://wri2013.org/eng/sub_0102.asp

16. A second thematic area is the growing food security portfolio, which supports LDCs in implementing their nutrition policies through establishing effective local food systems. Working largely through the local development fund instrument, UNCDF has developed a wide expertise in this domain (14 projects over the last decade). In 2013, three projects with a total value of $25 million were ongoing in Benin, Mali and Niger, and two new projects were approved for Burundi and Mozambique. UNCDF is also in partnership with the International Fund for Agricultural Development in Democratic Republic of Congo and Senegal and is developing a knowledge platform on local finance for food security. In Niger, a review of the PADEL programme (Support for local economic development (*Project appui au développement economique local*)) confirmed the role of local governments in ensuring food security.

17. UNCDF supports the peacebuilding and the regional integration process by promoting cross-border integration and local government representation at regional level through the Local Cross-Border Initiative (LOBI). UNCDF is developing and testing financial and governance mechanisms to cross-border local development funds in two specific areas: the "SKBo" triangle (Sikasso, Korhogo and Bobo Dioulasso), an area encompassing borderlands of Mali, Burkina Faso and Côte d'Ivoire; and the Sahel regional integration initiative (*Initiative pour l'Intégration Régionale au Sahel*, known as IIRSAHEL), which encompasses areas of Burkina Faso, Mali and Niger. UNCDF has taken an active role in the General Assembly of the local authorities council of the West African Economic and Monetary Union (*Conseil des Collectivités Territoriales*, Cotonou, July 2014) and in several meetings in Brussels to promote regional integration through local finance. In partnership with the Global Local Forum (an international think tank), UNCDF developed tools to analyze cross-border policies at national and local levels and define investment processes at the regional level. In 2014, UNCDF will continue to support regional integration and regional initiatives in West Africa and expand the approach to other regions including the Southern African Development Community and Association of Southeast Asian Nations.

18. LOBI, LoCAL and other relevant initiatives (including new projects on gender and food security to be launched in 2014) will apply the local development finance and local finance initiative instruments to develop a rolling pipeline of 20 investable projects for local development that have transformative impact and can unlock domestic sources of finance, building on the piloting in United Republic of Tanzania.

19. The local development finance theory of change includes scaling up the support to fiscal decentralization in national systems. For 2013, seven cases can be highlighted:

(a) In Lao People's Democratic Republic, the Government has formally begun an analysis of the potential to scale up the local development finance programme;

(b) In Somalia, where the local development finance programme is the largest component of the joint United Nations programme, the World Bank recommended $29 million in follow-up financing in 2014 and 2015;

(c) In Burkina Faso, the local development finance programme has supported the creation of the National Fund for Local Authorities and the mechanism is now supported by the Japan International Cooperation Agency;

(d) In Timor-Leste, UNCDF supported the Government in testing district strategic plans, which for the first time provide a district-level link between long-term national development priorities and local annual investment plans. These incorporated infrastructure investments that increase communities' resilience to climate change;

(e) In Bangladesh, 404 Union Parishads (local government councils) received $1.72 million in performance-based grants for 1,556 small but critical investments to improve basic services. These are embedded within a wider government and World Bank programme that reaches all 4,500 rural local governments. UNCDF provides capacity support to the wider programme, which systematically incorporates the lessons learned from the innovations in the UNCDF-supported component;

(f) In Bhutan and Solomon Islands, the local development finance performance grant formula operating in all local governments in both countries will be continued under national programmes.

20. In Cambodia and Solomon Islands, work has begun on testing local development finance investment at the local level through specific government ministries. The project with the Government of Cambodia is supported by the Government of Australia and in Solomon Islands, similar discussions have been initiated with the Ministries of Health and Education.

21. In Lesotho, the 2013 local government assessment is the basis of the support to local governments in 2014. In Benin, Mali and Niger, the Local Authorities Financial and Institutional Assessment has strengthened local authorities' resilience to financial political and environmental shocks.

22. Information and communication technology (ICT) solutions have helped to facilitate and accelerate results in Benin, where the GCBO financial accounting system (gestion budgetaire et comptable des communes) has been developed and extended countrywide, and adaptations are under discussion for Mali and Niger. In Nepal, the existing project was concluded and a large new programme was approved which continues to support local development with a strategic role for UNCDF in testing new initiatives. One example from the concluding project was the piloting of financial accounting software that reduces by 70 per cent the administrative burden on staff for financial reporting. Similar ICT solutions were continued in Solomon Islands with the help of satellite facilities.

23. Many local development finance programmes emphasize revenue generation. In Ethiopia, the first round of investments of the local economic development component of a joint United Nations programme provided seed capital to 22 local governments. In Guinea and Senegal, independent technical reviews demonstrated the role of local governments in local economic development. In Senegal, this will be pursued through the local finance initiative instrument and in Guinea, negotiations are ongoing with a mining company to finance a local development finance programme that will focus on economic development.

24. During 2013, there were a number of evaluations of local development finance programmes. In response to an evaluation of the programme in Liberia, the local finance initiative instrument will help to ensure that private sector promotion is within a sustainable context. An evaluation of the Gender Equitable Local Development (GELD) programme highlighted the positive benefits of a gender lens to local development finance that will be taken forward in the Inclusive and Equitable Local Development (IELD) programme approved in early 2014. Through GELD and now IELD, UNCDF has developed tools that will be applied to support other groups such as youth to promote their role in local economic development and governance. In 2013, UNCDF continued to implement its partnership with the International Centre of Local Democracy, with 29 participants from five countries taking part in the second round of the programme.

25. Table 1 indicates that the number of supported local governments increased in 2013, due to the ongoing up-scaling process of local development financing (Bangladesh, Lao People's Democratic Republic, Somalia) and to support to national mechanism for climate resilience through LoCAL in Bhutan and Cambodia. It appears that the supported local governments' planning and budgeting of investments improved, together with their transparency and accountability.

Table 1.

Outcome indicators	Plan	Actual	Performance*
1. Number of local governments supported that are consulting local communities in finalizing investment plans and budgets	1,232	984	+
2. Number of local governments supported where budgets are disbursed in line with the priorities of the plans	1,172	938	+
3. Number of local governments supported that use national public procurement standards and regular external audits while managing resources (accountability)	5,639	5,550	+
4. Number of local governments supported that publicize their expenditure against their budget (transparency)	1,097	755	+/-
5. Number of local governments supported that apply a gender perspective to planning and budgeting	1,204	1,111	+
6. Number of local governments supported where 'genderized' budgets and investments are implemented	818	786	+

*Performance assessment scores: Achieved (+) = 75-100%; Partially achieved (+/-) = 50-75%; Not satisfactory (-) = < 50%

26. Outcome indicator 3 in Table 1 illustrates the effect of the performance-based grant systems in countries where the role of UNCDF is to provide technical assistance to national systems – but not necessarily a direct engagement with each local government, as in Bangladesh and Nepal. It also indicates the growth of the performance-based climate resilience grants under the LoCAL project.

27. During 2013, work began on a new set of indicators that will be used from 2014 to report on the business plan for the local development financing programme which accompanies the Strategic Framework presented to the Executive Board at the first regular session of 2014. These indicators will register progress against the new approach to local development finance that takes effect with the Strategic Framework.

28. Table 2 shows that replication at national level has been a key element of UNCDF support and remains a large part of the value proposition of UNCDF to the LDCs. In addition to this national-level policy impact, UNCDF actively advocated at global level for a more prominent role of local governments and for better funded local development responses to global challenges. During 2013, UNCDF implemented its partnership with United Cities and Local Governments of Africa and participated in forums such as the Fourth Congress of the United Cities and Local Governments, the Second World Forum on Local Economic Development and the Development Partners Working Group on Decentralisation and Local Governance. There was also continued engagement with Local Governments for Sustainability on environmentally sustainable local government and with The Hague Academy of International Law, which UNCDF has a Memorandum of Understanding for curricula development on local development finance and fiscal decentralization, in particular in post-conflict environments.

Table 2.

Outcome indicators	Plan	Actual	Performance
7. Number of countries where changes in policy, regulations and legislation can be attributed directly to UNCDF work	**13**	**10**	+
8. Number of countries in which UNCDF approaches, models or tools are adopted by national Governments and development partners	**19**	**15**	+

B. Financial services for the poor

29. Key developments in UNCDF support to financial inclusion in 2013 included the successful launch of the new country-level inclusive finance diagnostic and programming tool called “Making Access To Finance Possible” – or MAP – with multi-donor support in a number of countries. MAP encompasses a comprehensive analysis of existing obstacles to financial inclusion at the country level, followed by a road map towards financial inclusion for all stakeholders and development partners to own and join. The demand for the application of MAP methodology has been strong. MAP processes are currently underway in Côte d'Ivoire, Democratic Republic of the Congo, Lesotho, Lesotho, Malawi, Mozambique and Swaziland. These countries are at various stages of active implementation and the initial pilots have contributed towards formalizing the toolkits. Secondly, the UNCDF global thematic initiatives (MicroLead, YouthStart, Mobile Money for the Poor, CleanStart and the Better Than Cash Alliance) are all gaining significant traction and increasing synergy with country sector programmes. In response to evaluation recommendations and to better capture the synergy between these global thematic programmes and country programming, UNCDF is developing country frameworks that articulate how the various programming initiatives complement each other at country level. Finally, in response to the portfolio review, SmartAid recommendations and evaluations, UNCDF continued to make improvements to its operational systems. Ninety-four percent of the recommendations from the portfolio review are now complete.

30. UNCDF participated for the fourth time in the Consultative Group to Assist the Poor SmartAid[2] assessment, receiving a score of 84 out of 100, meaning that overall it has “very good” systems in place to support microfinance. This represents an increase over its 2011 score, demonstrating the commitment of UNCDF to continued high achievement. In 2013, UNCDF received a score of 4.0 or higher (on a scale from 0 to 5) on all nine indicators. Its score on project identification system, performance indicators, performance-based agreements and portfolio reviews (indicators 4, 5, 6, and 7) were the highest amongst all SmartAid participants to date, placing UNCDF in the top two of all agencies scored by SmartAid since its inception.

31. Increased levels of financial inclusion – through improved access by poor people to savings, credit, insurance and payment services – contribute to sustainable economic growth. A positive correlation has also been found between increased financial inclusion and reduced inequality, demonstrating that financial inclusion promotes "pro-poor" growth.3

32. At the household level, access to financial services helps poor families and small businesses to better manage irregular income, overcome shocks and take advantage of

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[2] See http://www.cgap.org/site-search/smart%20aid

[3] See *Finance for All? Policies and Pitfalls in Expanding Access*, World Bank, 2007, http://www.worldbank.org/financeforall and *Finance, Inequality and Poverty: Cross-Country Evidence*, June 2004, http://www.microfinancegateway.org/gm/document-1.9.26326/22082_Finance_Inequality.pdf

economic opportunities. It also offers an alternative to costly and often more risky informal financial schemes. When provided responsibly, microfinance can be a powerful catalyst for entrepreneurship and for women's economic and social empowerment. Although access to credit is important, access to secure and flexible saving services can also transform the economic lives of poor people by helping them to build assets over time.

33. UNCDF defines financial inclusion as universal access of individuals and enterprises to a wide range of financial services provided responsibly and at a reasonable cost by diverse and sustainable institutions in a well-regulated environment.

34. UNCDF delivers support through country sector development programmes, global programmes and advocacy. Country programmes are tailored to the needs of individual countries based on a country diagnostic and include support at the macro level (policy, legal and regulatory framework), the financial infrastructure level (e.g., associations of retail providers, training institutes) and at the retail level by financial service providers (FSPs)[4]. UNCDF support incorporates the new drivers of financial inclusion, especially government payments (e.g., government-to-person), innovative distribution channels (agent banking) and technology (mobile money). Global programmes are designed to complement country programmes by promoting innovations that expand the frontiers of financial inclusion by linking microfinance to specific development results and needs, for example by enabling access to clean energy at household and micro-enterprise levels; promoting youth savings and financial literacy; and exploring mobile money solutions to help LDCs leap-frog innovations to support financial inclusion. UNCDF is also helping to scale up access to financial services through South-South cooperation in regions and countries where financial inclusion remains a particularly difficult challenge.

35. In 2013, UNCDF supported inclusive finance programming in 26 LDCs (18 in sub-Saharan Africa and 8 in Asia). UNCDF supported nine of the 26 countries through global or regional initiatives. Eight countries currently being supported are in post-conflict situations. The number of countries supported via country sector programmes decreased by one, as the lack of core resources constrained the ability to expand country programmes.

Table 3. Improved access to financial services (number of active clients)

Year	2004	2005	2006	2007	2008
Number of clients	379,018	438,272	616,035	1,171,306	1,768,931

Year	2009	2010	2011	2012	2013
Number of clients	2,550,565	3,511,723	4,062,161	8,439,905	8,927,869

36. In 2013, UNCDF surpassed its goal of serving 6 million active clients by 2013 through the FSPs in which it invests. As households comprise five persons on average, this represents an impact on the lives of some 44 million people. The number of 8,927,869 active clients is based on the number of active savers; the number of borrowers is much lower at 1,301.827. Since 2009, UNCDF has focused on supporting savings-led FSPs, given the dual benefit of FSPs using local sources to fund growth and positive findings from client impact studies on the benefits of savings. Fifty-two per cent of borrowers are women (slightly above the UNCDF threshold of 50 per cent).

[4] Microfinance institutions, commercial banks, financial cooperatives, non-governmental organizations, money transfer companies.

Table 4.

Outcome indicators	Plan	Actual	Performance
1. Extent to which FSPs are improving their client outreach	6,030,081	8,927,869	+
2. Net change in value of loan portfolio of the FSP versus total UNCDF core contributions	20 to 1	36 to 1	+
3. Net change in value of savings portfolio of the FSP versus total UNCDF core contributions	20 to 1	32 to 1	+

37. The continued growth in outreach in 2013 (indicator 1) came primarily from Southern and Eastern Africa and West Africa, with significant contributions within these regions coming from investments by global thematic initiatives (e.g., YouthStart, and MicroLead).

38. UNCDF provided support to 112 FSPs in 2013, allowing FSPs to increase the value of their loan and savings portfolios significantly more than anticipated (indicators 2 and 3). This strong leverage is consistent with the findings from the portfolio review. As this is the final report responding to the targets UNCDF set out to achieve in the corporate management plan 2010-2013, it is important to note that there is solid evidence that UNCDF succeeded in achieving the targets to strengthen the capacities of FSPs in 25 LDCs to provide pro-poor products and services that will leverage at least 10 times the UNCDF original core investments by 2013. The portfolio review found that even by 2011, UNCDF had significantly exceeded this target, stating that overall, the outreach leverage at June 2011 was 17.2 to 1 for the loan portfolio for UNCDF core funds. The outreach leverage of deposits mobilized was 19 to 1, for UNCDF core funds[5].

39. The portfolio review also concluded that in expanding its support to rural areas, UNCDF had met its objectives of leveraging funding and mobilizing domestic savings, finding that more funded FSPs had increased their ability to more sustainably finance operations by accessing domestic savings. The number of funded FSPs that were mobilizing savings had increased from 74 at baseline to 82 (88 per cent of portfolio) by June 2011. These portfolio FSPs had also grown their deposits dramatically over time.

40. The overall sustainability of the FSPs in which UNCDF invests is captured in indicators focusing on profitability, portfolio quality and transparency (indicators 4 through 6).

Table 5. Sustainability of FSPs

Outcome indicators	Plan	Actual	Performance
4. Extent to which FSPs are improving their sustainability (profitability)	80%	70%	±
5. Extent to which FSPs are improving their portfolio quality	80%	56%	±
6. FSPs have audited financial statements (transparency)	>95%	82%	+

41. In 2013, 70 per cent of the FSPs supported by UNCDF improved profitability and 56 per cent met portfolio quality targets. This will be key to the ability of FSPs to continue to scale up their services when UNCDF support ends.

[5] See UNCDF FIPA Portfolio Review Synthesis Report, February 2013, page vii and 55. http://www.uncdf.org/sites/default/files/Documents/FIPA%20Portfolio%20Review_0213_ENG.pdf

42. Portfolio quality is measured against the standard (less than 5 per cent of portfolio at risk). Performance against this indicator decreased from 65 per cent of FSPs in 2012 meeting targets to 56 per cent in 2013. Stronger performance in 2012 had been driven by the Nepalese FSPs (95 per cent meeting targets), and as funding agreements were completed by mid-2013, performance against this indicator was not reported. Poor portfolio quality was concentrated in Africa (50 per cent of target in East Africa, only 33 per cent of target in West Africa). External factors included recently introduced regulations in the West African Economic and Monetary Union that now allow FSPs to keep non-performing loans in their portfolio for a maximum of two years, as opposed to one year in the past, before the required write-off.

43. Eighty-two per cent of UNCDF-supported FSPs had external audits in 2013, with funding suspended for those failing to comply. UNCDF will continue to suspend non-performing FSPs, and to terminate funding for FSPs not redressing performance.

Table 6. Policy and institutional environment

Outcome indicators	Plan	Actual	Performance*
7. Extent to which national policy environment is improved for client protection	90%	25%	-
8. Ability of networks and associations to provide advocacy on client protection to FSPs	80%	46%	-
9. Extent to which FSPs are engaged in client protection	80%	84%	+
10. Extent to which donors support UNCDF financial systems approach	65%	56%	+-

*Performance assessment scores: Achieved (+)=75-100%; Partially achieved (+/-)=50-75%; Not satisfactory (-)=< 50%

44. For UNCDF, inclusive finance must be responsible finance. To this end, UNCDF engages at policy, industry and provider levels. In 2013, UNCDF expanded its contribution to disseminating the client protection principles (CPP) of the Smart Campaign. In 2010, UNCDF began to implement the CPPs in an effort to achieve endorsement of the CPPs by 80 per cent of FSPs by 2013. In three years, UNCDF has made significant progress in a short time frame. The percentage of FSPs endorsing the principles increased from 47 per cent in 2012 to 84 per cent in 2013, thus exceeding the target.

45. The strategy of engaging with policymakers and FSP networks in 2011 and 2012 has translated into strong FSP endorsements in 2013. The policy and network activities were complemented by UNCDF revising (late 2010) its standard performance-based agreement to strongly encourage all FSPs to endorse the CPPs. Although activities at the policy level (indicator 7) and network level (indicator 8) both declined in 2013 (from 82 per cent and 95 per cent in 2012, respectively) earlier positive investments in activities at the policy and network level clearly carried over to achieve the key result – FSP endorsement – that was still achieved.

46. UNCDF will review the experience from combining country-level activities and direct engagement with FSPs as it develops the strategy for the next phase of the

CPPs, moving from endorsement to implementation and certification. One clear lesson is that policy- or network-level activities are not necessary every year, although early investments can carry over into subsequent years. UNCDF is also playing an active role in developing principles for responsible digital finance to ensure that clients accessing financial services provided via new digital channels are also protected.

47. UNCDF works with development partners to align its support and programming with national priorities. Country-level investment committees review new initiatives, coordinate and, in some instances, pool country-level funding. These initiatives provided $181 million in funding for UNCDF-designed programmes to complement and leverage (6.6 times) the UNCDF core resources, and thus contributed significantly to the results highlighted in this report. In 2013, 56 per cent of donors active in inclusive finance at the country level participated in UNCDF-organized investment committees (indicator 10), a slight increase compared to 47 per cent in 2012.

III. Management results, 2013

48. Following the appointment of a new Executive Secretary in November 2012, several managerial positions were filled at headquarters and at the regional level. During the year, specific attention was given to increasing the interaction with the Executive Board and other key stakeholders through regular Stakeholder Consultations geared towards focusing attention on the UNCDF comparative advantage, performance and positioning within the multilateral development cooperation architecture; and the fact that the annual core budget has remained below the minimum level UNCDF requires to deploy its technical presence in 40 LDCs. At the same time, UNCDF management focused on the expansion of the organization's capital mandate to help leverage new sources of capital investment for the LDCs.

Table 7.

Perspective	Strategic objective	Indicator	2012 Result	2013 Results
Client satisfaction	Relevant programming on LDCs, including post-conflict	LDCs with UNCDF programmes	37 LDCs	32 LDCs
Internal efficiency	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	9.1%	15.3%*
	Staff perception	Percentage of staff that feels inspired to work at their best	62%	66%
	Implementation of the audit recommendations of the Office of Audit and Investigation		24/25	25/25
	Implementation of the audit recommendations of the UNBOA		Implemented	2/4
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$15.8 million	$ 16.3million
	Ensure delivery against plan	Other resources mobilized	$39.6 million	$ 49.1 million
		Delivery against approved annual spending limits	81%	85%

*As mentioned in the 2012 annual report on results, the 9.1 per cent ratio was understated due to a drop in the biennial support budget allocated by UNDP. Since then, UNCDF has worked on a revised cost classification for a better attribution of its costs. The 2013 ratio is an accurate reflection of UNCDF efficiency ratio.

49. As mentioned in the 2012 annual report on results (DP/2013/33), the efficiency ratio of 9.1 per cent was understated, due to a drop in the biennial support budget allocated by UNDP. In 2013, UNCDF has worked on a revised cost classification for a better attribution of its costs and the efficiency ratio of 15.3 per cent reflects this.

50. In accordance with the adoption of the new International Public Sector Accounting Standards (IPSAS), for the first time UNCDF published its audited financial statements separately from those of UNDP.

51. The last outstanding recommendation of the 2009 comprehensive audit by the Office of Audit and Investigations (OAI) was implemented, bringing UNCDF in full compliance with the OAI recommendations.

IV. Partnerships and advocacy

52. The ambition of UNCDF to step up its advocacy work resulted in a number of major events and initiatives during the year. At the 2013 European Development Days, UNCDF was selected to arrange two events, a high-level panel on social protection and links to electronic payments, and a technical workshop on mobile money. This is a result of a more active collaboration between UNCDF and the European Commission on issues of joint interest.

53. In conjunction with the Conference of Parties in Warsaw (see paragraph 15 above), UNCDF and the Government of Poland, which held the Conference presidency, organized a side event on localizing climate finance during which UNCDF presented the LoCAL facility. UNCDF also presented LoCAL at the Global Forum on Using Country Systems to Manage Climate Finance, coinciding with the opening of the Green Climate Fund secretariat headquarters in Incheon, Republic of Korea in December 2013.

54. Other advocacy efforts during the year included an event organized in conjunction with the opening of the General Assembly, entitled "Partnerships for Digital Financial Inclusion: A Driver of Inclusive Growth" co-organized by the Better than Cash Alliance, UNCDF and UNDP. High-level participants included of Queen Máxima of the Netherlands in her capacity as the Secretary-General's Special Advocate for Inclusive Finance for Development, UNDP Administrator Helen Clark, and Mr. Bill Gates, co-chair of the Bill & Melinda Gates Foundation. The Better than Cash Alliance is emerging as a key platform for supporting a critical driver of financial inclusion, the transition from cash to electronic payments. UNCDF staff also participated in events such as the second annual Child and Youth Finance Summit and Awards Ceremony, held 7-9 May in Istanbul, and the Alliance for Financial Inclusion Global Policy Forum, held 10-12 September in Kuala Lumpur.

55. Strategic communications can be a vital tool for international development. Effective communications can help UNCDF to achieve both its development and its business objectives, globally, regionally and at the country level. In 2013, UNCDF pursued two main strategic objectives in terms of communications. Firstly, through the introduction of new networks and tools, it aimed to strengthen internal communications in support of corporate initiatives, because staff understanding, buy-in and active support of initiatives come through effective top-down, bottom-up and peer-to-peer communication.

56. Secondly, UNCDF aimed to strengthen external communications through web-based tools, events, publications and social media initiatives that targeted its primary audiences and supported its strategic objectives of increasing visibility and resource mobilization efforts.

57. This included the launch of a new corporate website www.uncdf.org and its mobile version, both of which include a new section on partnerships. Reflecting the new multi-stakeholder approach on this new website gives proper visibility to the development partners UNCDF works with.

58. Social media is another component of the strategy. Stakeholders are now able to follow UNCDF on Twitter, Facebook and YouTube for the latest updates. Going forward, UNCDF will be extending its global outreach to inclusive finance and local development practitioners with the inclusion of new social media sharing tools and a better integration of multimedia products that showcase its work around the globe.

V. Quality assurance

59. In 2013, UNCDF maintained its commitment to strengthening its accountability and reporting mechanisms with the development of the new Strategic Framework 2014-2017 and its accompanying integrated results and resources framework (IRRF). The IRRF includes a series of measurable expected results that will allow UNCDF and stakeholders to monitor and evaluate achievements, learn lessons and hold the organization accountable for the funds received.

60. In addition, evaluation has continued to be a priority in UNCDF, with a separate evaluation function reporting directly to the Executive Secretary performing a dual function of: (a) overseeing programme and project evaluations; and (b) supporting programme colleagues to develop an integrated measurement system that combines external evaluation, self-evaluation techniques such as programme reviews, and results-focused programme design and monitoring.

61. UNCDF completed three evaluations in 2013: (a) a midterm evaluation of the YouthStart programme, which focuses on helping microfinance institutions to design and deliver financial services for young people; (b) a final evaluation of the GELD programme, implemented jointly with United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), which focused on increasing access by women to local government services in five countries in Africa; and (c) a final evaluation of a decentralization and local development programme intended to pilot a district development fund mechanism in Liberia.

62. The evaluation of YouthStart found the programme to be well on track to meeting its target of 200,000 young savers via support to 10 FSPs working in eight LDCs in Africa. Through its mix of grants and technical assistance, the programme has started to build a case that combining accessible and appropriate financial products, mostly in the form of saving accounts, with appropriate financial education can improve financial capability and support positive economic outcomes among young people in Africa. The evaluation also highlighted difficulties by FSPs in attracting and providing services to young women and girls and the need to make better use of the UNDP and UNCDF network in Africa to more effectively reach out to regional and national-level stakeholders.

63. The GELD programme was judged to be highly relevant to the needs of partner countries, working best in countries where there was strong collaboration with ongoing gender-responsive budgeting programmes such as Mozambique and Rwanda. The programme was judged to be less successful in instituting real change in gender-responsive budgeting at the local level in part because of the more centralized nature of budgeting in the targeted countries. The evaluators also flagged challenges in programme implementation and oversight arising from a complex management structure and weaknesses in knowledge management and poor data collection and monitoring, which undermined the programme’s efforts to generate and communicate its results to broader stakeholders.

64. Finally, the evaluation of the local development project in Liberia concluded that despite some positive results in introducing communities to participatory planning, the project represented a missed opportunity for UNCDF to help lay the foundations of a more effective system of decentralized infrastructure and service delivery at the local level in Liberia.

65. UNCDF takes seriously the results of its evaluations – both positive and negative – and through its management response system regularly monitors the commitments made to improve strategy and programme implementation. By the end of 2013, 12 projects were still in the process of implementing key actions arising from the recommendations of external evaluations.

66. An example of changes introduced since the finalization of an evaluation comes from the external portfolio review of the UNCDF inclusive finance practice area, which was approved in late 2012. The accompanying management response included 50 agreed key actions such as: (a) improvements in performance-based agreements with partner FSPs to better document the results and impact of UNCDF investments; (b) updates to the UNCDF loan policy to improve policies, procedures and monitoring systems and provide clearer guidance on the UNCDF disengagement strategy; and (c) changes to hiring practices leading to reductions in the time it takes to hire staff following programme approval. Progress in implementing these changes is ahead of schedule.

VI. Financial analysis

67. In 2013, due mainly to increasing non-core contributions, total UNCDF revenue reached $65.4 million, up from $55.5 million in 2012. The number of donors to UNCDF remained at the high level of 36, up from 29 in 2010. Contributions to UNCDF in 2013 included $12.35 million from seven major private sector foundations and corporations, representing 19 per cent of total income. The eight largest donors to UNCDF in 2013 were: One UN Funds (multi-donor); Sweden; the MasterCard Foundation; Australia; Belgium; Bill & Melinda Gates Foundation; Luxembourg; and the European Commission.

68. Non-core resources reached a record high of $49.1 million in 2013, an increase of 24 per cent from 2012. Non-core resources have increased more than 300 per cent over the past seven years and are expected to continue to grow in 2014, based on signed commitments. Core resources reached some $16.3 million in 2013, a slight increase over 2012 mainly due to a first-time contribution from Switzerland, yet still falling well short of the estimated $25 million minimum threshold level required to sustain UNCDF operations in 40 LDCs.

69. As foreseen in previous reports to the Executive Board and as discussed during the Stakeholder Consultations, the lack of significant increase in core resources has forced UNCDF in 2013 to take drastic steps to switch the cost of its technical infrastructure to non-core funding and reduce the amounts available to deploy its investment mandate in the LDCs. During the Stakeholder Consultations, a number of key donors indicated their interest in exploring opportunities to increase or start contributing to UNCDF core resources as applicable. Although it is eager to extend its services to all LDCs, given the constraints on the core budget UNCEF remains optimistic that it will be able to continue its operations in at least 32 LDCs, while continuing to leverage substantive amounts of non-core resources from private and public sources for the benefit of the LDCs.

70. Total expenditures in 2013 were $62.9 million, 13 per cent higher than in 2012 ($55.6 million). Expenditures against regular resources decreased by 24 per cent to $18.1 million while expenditures against other resources increased by 42 per cent. UNCDF continues to monitor its long-term financial stability very carefully, investing its limited core resources strategically in initiatives that will maximize development results and attract significant non-core resources.

71. Fund balances at the end of 2013 were $69.7 million. UNCDF has made provisions for after-service health insurance as required by IPSAS and recalculated its operational core reserve to $12.6 million. The extrabudgetary reserve is at $2 million.

Table 8. Expenditure trends, 2006-2013 (in millions of United States dollars)

Expenditures	2006	2007	2008	2009	2010	2011	2012	2013
Programme expenditures	25.2	28.7	37.0	41.5	43.9	53.7	48.6	54.55
- of which regular resources*	16.8	19.0	22.6	22.2	25.0	29.4	23.6	15.11
- of which other resources	8.4	9.7	14.4	19.3	18.2	24.4	25.0	39.45
UNCDF support**	4.6	5.4	6.8	7.6	5.5	6.2	5.0	8.36
Total	29.8	34.1	43.8	49.1	49.3	59.9	53.6	62.92

* Figures include UNCDF expenditures against UNDP programme contributions ($257,000 in 2013)

**Figures include UNCDF expenditures against the UNDP biennial support budget ($3.55 million in 2013.

72. In 2013, 59 per cent per cent of country expenditures were in Africa (see table 9), followed by Asia and the Pacific at 39 per cent. Sixty-four per cent of programme expenditures are delivered through country programmes and UNCDF global thematic initiatives accounted for the remaining 36 per cent.

Table 9. Programme expenditures in 2013, by region and practice*
(in millions of United States dollars)

Regions/themes	Local development	Microfinance	Total
Africa	12.92	19.66	32.58
Asia and Pacific	9.19	12.57	21.76
Arab States	0.18		0.18
Latin America	0.03		0.03
Total	22.32	32.23	54.55

Source: Financial statements for UNCDF as of 31 December 2013 before final closing of accounts.
*The distribution of global programme expenditures between regions are estimations based on the size of country programmes.

VII. UNCDF looking forward

73. As articulated in the 2014-2017 Strategic Framework presented to the Executive Board at the first regular session of 2014, in the years to come UNCDF will realize the full potential of its financial mandate and flexible financial instruments to help eradicate poverty, reduce inequalities and promote inclusive and sustainable growth. In doing so, UNCDF will contribute to three major development objectives: (a) increase financing for basic services and sustainable, inclusive growth; (b) establish financing mechanisms to increase resilience to economic and environmental shocks; and (c) foster policy environments conducive to sustainable financing for sustainable development.

74. Innovation in support of the programme areas is to be expected on two fronts: (a) through a more deliberate use of the UNDP flexible capital mandate and adapted financial instruments; and (b) in applying ICT – the infrastructure of the twenty-first century – as an effective enabler and accelerator of development.

75. UNCDF will make efforts to generate new, additional streams of financing for development, in line with the current discussions on means of implementation and financing for development in the framework of the post-2015 development agenda.

76. In particular, UNCDF will promote the establishment of an investment fund, thus taking into account the new sources of financing for investment in development that are becoming available in the private sector, most notably in the impact investing industry. UNCDF will explore opportunities with institutional and impact investors that share with it the double concern for economically viable projects that have a reasonable financial return and well-documented social and/or environmental impacts.

77. Moving forward, UNCDF will continue to emphasize strongly the quality of its programming, transparency and accountability for results at various levels in the organization. In keeping with its financial mandate and the need to increase diversified sources of investment capital to the LDCs, UNCDF will strengthen its internal capacity in investment finance and public finance through retraining and strategic in-take of staff with new profiles. The functions in the organization will be reviewed to maximize effectiveness and efficiency, with special focus on regional and country levels where development results are achieved.

78. The use of ICT will be explored, inter alia, to contribute to effective local development by enabling real-time public financial management of scarce resources and by linking local businesses to internet-based services. New and innovative technologies will also be used in order to reduce costs and maximize sharing of information between the three levels of the organization, and to strengthen external communication to better disseminate results and maximize synergies and complementarities of action with organizations working in the same sphere of development.