United Nations DP/2015/21

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

Distr.: General
25 March 2015

Original: English

Annual session 2015
1 to 12 June 2015, New York
Item 7 of the provisional agenda
United Nations Capital Development Fund

Report on results achieved by the United Nations Capital Development Fund in 2014

Summary

During the first year of implementation of its strategic framework, 2014-2017, UNCDF has built on earlier results in local development finance and financial inclusion; made important steps to prove concept in new areas such as the Local Finance Initiative and Making Access Possible; and applied its approaches and instruments to maximize leverage and impact within the overall context of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020 and in anticipation of the post-2015 development framework.

UNCDF has expanded its partnerships within the United Nations, the philanthropic community and the private sector in an effort to develop viable financing models in pursuit of local economic development. It has also capitalized on synergies between its two programme areas – local development finance and inclusive finance – in order to pilot and scale up innovative finance mechanisms to increase investments and leverage the untapped potential in developing countries.

The Fund's financial situation, while marked by a robust increase in other (non-core) resources, remains constrained by a low level of regular (core) contributions, which is still $10 million shy of the target set in the UNCDF strategic framework that would assure the Fund's presence in 40 least developed countries.

The Executive Board may wish to take note of the report on results for 2014, and take steps in line with decision 2014/12 to achieve the $25 million core resource level foreseen in the UNCDF strategic framework, 2014-2017.

15-04776 (E) 240415

Contents

I. Introduction

1. Acting upon its unique financial and geographic mandate, UNCDF provides technical assistance, capital grants, loans, guarantees and credit enhancements to local governments, financial service providers (FSPs) and local economic actors to drive equitable growth and local development. UNCDF tests financial models to ‘de-risk’ the local investment space and prove concept, using ‘smart’ official development assistance to unlock public and private finance for inclusive growth, primarily from domestic resources.

2. UNCDF acts in two interconnected areas: it promotes inclusive finance to ensure that demand for financial products (savings, credit, insurance, etc.) is met at the local level in ways that are accessible to all segments of society, at a reasonable cost, and on a sustainable basis. The Fund also assists programme countries to structure local development finance in ways that address social, economic and climate change goals at the local level, reaching outside capital cities and catalysing local economic growth.

3. The emerging post-2015 framework emphasizes the need to address inequalities by promoting more inclusive growth. It also highlights the need for robust and innovative means of implementation – including financing mechanisms – to underpin the implementation of a truly transformative agenda. This agenda is particularly relevant to the least developed countries (LDCs), where barriers to inclusive growth outside capital cities include low levels of infrastructure endowment, high levels of dormant or unproductive capital, and high levels of unbanked and excluded populations. In this context, the UNCDF ability to act as an ‘incubator’ for local financial solutions that can later be scaled up by other partners, including the international financial institutions, is particularly catalytic.

4. At the 2014 annual session of the Executive Board, UNCDF presented its new strategic framework and integrated results and resources matrix, 2014-2017. This results oriented annual report presents UNCDF results in 2014 against the three outcomes of the strategic framework, namely Outcome 1: Financing increased for basic services and inclusive growth/local economic development; Outcome 2: Effective financing mechanisms established to increase resilience to economic and environmental shocks; and Outcome 3: Policy environments fostered that enable sustainable financing for development. This includes the first year of application of the new outcome indicators that are designed to measure how the UNCDF local development finance programmes trigger increases in both net local fiscal space and gross fixed capital at the local level; and how the UNCDF inclusive finance programmes support sustainable FSPs leveraging UNCDF funds.

II. Programme results, 2014

A. Local development finance

5. The UNCDF approach to local development finance is about working with public and private sector partners at the local level to unlock domestic capital for local economic and social development. It does this by providing seed capital and technical assistance to test out its innovative investment mechanisms, which include grants through intergovernmental fiscal transfer, municipal finance, structured project finance, support to small and medium-size enterprises (SMEs) productive investments, credit enhancement and guarantees. The operation of each mechanism follows the ‘local development finance’ core approach, which is to enable LDCs to *mobilize*, *allocate*, *invest* and *make accountable* greater resources for local investment. The indicators for local development finance presented in the integrated results and resources matrix track results according to these four areas, as presented below. A baseline assessment of the new indicators is ongoing; therefore the data for 2014 does not always indicate an established target to be achieved.

6. In 2014, UNCDF supported local development finance programming in 20 LDCs (14 in sub-Saharan Africa and six in Asia). The portfolio includes 15 country programmes, often in partnership with UNDP and other United Nations organizations, as well as UNCDF-managed regional and global thematic initiatives, implemented in multiple LDCs to address broader issues. These include the Local Climate Adaptive Living Facility (LoCAL) for infrastructure adaptation to climate change; the Local Finance Initiative (LFI) for domestic

resource mobilization in local infrastructure and productive investments; the Local Cross-Border Initiative (LoBI) for a local economic development approach to cross-border trade; and the Inclusive and Equitable Development (IELD) for women's economic empowerment.

Table 1. Overview of UNCDF local development finance programmes

Western and Central Africa	Type of programme	Eastern and Southern Africa	Type of programme	Asia and the Pacific	Type of programme
Benin	Country programmes, LoCAL, LFI	Burundi	Country programmes	Bangladesh	Country programmes, LFI, LoCAL
Burkina	Country programmes, LoBI	Ethiopia	Country programmes	Bhutan	LoCAL
Ghana*	LoCAL	Lesotho	Country programmes	Cambodia	Country programmes, LoCAL
Guinea	Country programmes	Mozambique	Country programmes, LoCAL	Lao People's Democratic Republic	Country programmes, LoCAL
Côte d'Ivoire*	LoBI	Somalia	Country programmes	Nepal	Country programmes, LoCAL
Mali	Country programmes, LoCAL, LOBI	Tanzania	LFI	Timor-Leste	Country programmes
Niger	Country programmes, LoCAL, LoBI	Uganda	LFI		
Senegal	Country programmes				
Sierra Leone	Country programmes				

7. The volume of resources directly managed by the UNCDF local development finance portfolio in 2014 was $23,767,754. Of these, $5,433,247 originated from UNCDF core funding, $7,956,975 came from bilateral donors through the UNDP managed Multi-Partner Trust Fund and from One United Nations programmes, and $10,377,532 from non-core contributions from other sources.

Outcome 1: Financing increased for basic services and inclusive growth/local economic development

Mobilize

8. UNCDF seed capital acts as a catalyst to build confidence in local government investment programmes and local private investment projects, thus unlocking greater public and private funds for local economic development. This domestic resource mobilization is delivered through: (a) central to local fiscal transfers; (b) local authorities' own revenue generation; and (c) local banks' investment in local productive infrastructure.

9. As far as the *fiscal transfers* are concerned, there was a marked increase in the total volume of financial resources available to local governments from 2013 to 2014. The biggest increases were observed in Burkina Faso, Cambodia, Guinea, Mali and Somalia, as shown in table 2. In the case of Somalia, this represents support to the governments of the territories of Somaliland and Puntland that are establishing their central and local government systems. By demonstrating the value of locally accountable investments, UNCDF work has helped to establish the legitimacy of local government systems in resolving daily problems of education, health and irrigation, thus contributing to state building and peacebuilding.

Table 2. Percentage increases in national budget allocated to local governments from 2013 to 2014 (in countries with Local Development Fund programmes)

Country	Plan[1]	Actual	Performance
West Africa			
Benin	5	18.9	+
Burkina Faso	5	20.6	+
Guinea	N/A	37.6[2]	
Mali	N/A	35.5	+
Niger	N/A	0	-
Senegal	N/A	0.9	-
Sierra Leone	N/A	-23.54[3]	-
East and South Africa			
Burundi	N/A	*no data*	
Ethiopia	5	16.3	+
Lesotho	5	11.1	+
Mozambique	5	8.3	+
Somalia	N/A	85.5[4]	
Asia and the Pacific			
Bangladesh	5	4.1	-
Cambodia	N/A	48.6[5]	+
Lao People’s Democratic Republic	N/A	14.1	+
Nepal		*no data*	
Timor-Leste		*no data*	

10. With regards to *local authorities’ own revenue generation*, a significant improvement is noted in Bangladesh where rural local governments reported an increase of 25 per cent over the previous fiscal year, despite transfers from central government growing at a slower pace of only 4 per cent over the same time period. The UNCDF-designed performance-based grant system played a role in triggering this mobilization of local domestic resources and strengthening the fiscal space of local government.

11. For *domestic banks’ investment in infrastructure*, the Local Finance Initiative (LFI) closed its first deal in 2014 by mobilizing $2,575,000 from a domestic private investor for the first phase of a customs depot, warehouse and lorry park identified in the local government economic development plan. LFI exemplifies UNCDF capacity for leveraging: UNCDF invested $300,000 of its core resources for technical assistance to this project, representing a leverage of 1:8 in terms of domestic resources mobilized. Another example is three hydropower infrastructures in Tanzania, where $250,000 in seed investment and technical assistance for last mile transaction costs will leverage $15 million of domestic resources from local banks in 2015.

[1] The amount of resources allocated to local government is a sovereign decision of each member state. The figures in the ‘plan’ column are indicative and depend on the status of decentralization legislation and practice in each country. Over time UNCDF aims to leverage a 5 per cent increase per annum in real terms. There is not always a planned figure, nevertheless performance can be judged.

[2] Increase from small baseline.

3 Resources allocated to local government in Sierra Leone have declined because of reallocation of resource to Ebola response.

[4] Increase from small baseline.

[5] New type of local government grant introduced with UNCDF support.

12. The LFI investments are part of a wider local economic development initiative that will create a platform for local banks to invest in local economic infrastructure that are part of local economic development plans. The current pipeline of LFI projects is $100,000,000. The leverage of these investments will be captured at the end of the business plan period, by measuring the increases both in gross fixed capital formation at the local level and in net local fiscal space that have been triggered by the UNCDF initiatives.

Table 3. Output indicators for financing for development: Net increase in resources mobilized for local development and leverage of UNCDF resources

Output 1.2 Improved performance of sustainable, accountable local governments, and improved performance of revenue generating projects. Measured in terms of how UNCDF supports capacity to mobilize resources for effective local development.	**Plan**	**Actual**	**Performance**
1.2.1-a. Change from baseline in value of total national budget allocated to local governments leveraged by UNCDF contribution	5	12.2	+
1.2.1-b. Change from baseline in resources mobilized by local governments leveraged by UNCDF contribution	5	0.65[6]	
1.2.2. Change from baseline in value of domestic capital mobilized to the local level (leveraged by UNCDF contribution)	10	8.5	-

Allocate

13. The ability to effectively absorb and allocate resources for investments in basic services and socioeconomic infrastructure requires clear performance based criteria, whether for intergovernmental fiscal transfers or seed capital investments in local infrastructure projects. In 2014, UNCDF used internationally recognized indicators from the Public Expenditure and Financial Accountability (PEFA) framework to measure the strength of local authorities' allocation mechanisms, by analysing aspects such as: the existence of a multi-year perspective on fiscal planning; expenditure policy and budgeting; competition; value for money; checks and balances in public procurement; and the transparency of intergovernmental fiscal transfer systems.

Table 4. Output indicators for effective and sustainable resource allocation through local development institutions

Output 1.2 Improved performance of sustainable, accountable local governments, and improved performance of revenue generating projects. Measured in terms of how UNCDF supports capacity to allocate resources for effective local development.	**Plan[7]**	**Actual**	**Performance**
1.2.4. Number of local institutions that improve performance against selected PFM Indicators			
PI[8]-8: Transparency of inter-governmental fiscal relations at the sub-national level	57	57[9]	+
PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	31	12	-

[6] This overall figure is an average across the portfolio and includes countries in which local governments do not yet mobilize significant own revenue. The figure does not reflect the notable success in Bangladesh mentioned in the text.

[7] Number of local governments measured during 2014.

[8] PI: Performance Indicator.

[9] 57 local governments performing at highest level measured by indicator.

PI-19: Competition, value for money and controls in public procurement	23	10	-
1.2.5. Number of investment projects reaching financial closure following effective investment appraisal (LFI)	0	1	+

Invest

14. UNCDF invested more than $10 million in basic services and infrastructure through local governments to test innovative financing through the Local Development Fund (LDF) mechanism, often enhanced through performance-based grants and operational expenditure block grants. The largest investments were in Somalia ($3,634,015), Bangladesh ($2,140,000) and Mali ($1,737,906). In Somalia – where UNCDF works with UNDP, the International Labour Organization, the United Nations Human Settlements Programme (UN-Habitat) and the United Nations Children's Fund (UNICEF) on the United Nations Joint Programme on Local Governance and Decentralized Service Delivery – more than half of all investments were made in transport infrastructure, thereby improving access to markets and helping local economies grow. This programme also stands out for the proportion of projects it has implemented using public-private partnerships, through which almost one fifth of all investments were made.

Table 5. Output indicators for transformative sustainable local investments

Output 1.2 Improved performance of sustainable, accountable local governments, and improved performance of revenue generating projects. Measured in terms of how UNCDF supports capacity to invest resources for effective local development	**Plan**	**Actual**	**Performance**
1.2.7 Number and type of local investments in infrastructures and services completed	1500	1880, including: 9 public private partnerships; 214 in health; 432 in education; 197 in natural resources management; 309 in water and sanitation; 396 in road/transport; 92 in commercial; 231 not classified	+
1.2.8 Number of UNCDF and /or local government investments in supported revenue-generating private and public/private infrastructure and services complying with financial projections	7	7 including 3 LFI	+

Make accountable

15. To measure performance against international accountability standards, UNCDF applies some of the indicators from the Public Expenditure and Financial Accountability performance assessment framework. These measures allow UNCDF to gauge the performance of local authorities over time and identify potential areas where support is needed.

Table 6. Output indicators for increase in accountability to local citizens

Output 1.2 Improved performance of sustainable, accountable local governments, and improved performance of revenue generating projects and productive small and medium size enterprises. Measured in terms of how UNCDF supports capacity to make accountable the resources that are invested in local development.	**Plan**[10]	**Actual**	**Performance**
1.2.9. Number of local institutions that improve performance against accountability related public financial management indicators (PEFA)			
PI-10: Access to key fiscal information at the sub-national level refers to access of the general public at the location ('local' public access) or at least the relevant interest group	30	30[11]	+
PI-11: Orderliness and participation in the annual budget process	126	13 out of 126	-
1.2.11. Number of revenue-generating projects with multi-stakeholder boards	7	7	+

Outcome 2: Effective financing mechanisms established to increase resilience to economic and environmental shocks

16. To improve the resilience of local communities to shocks, UNCDF supports LDCs to put in place dedicated local financing mechanisms to address issues such as climate change, food security, cross-border collaboration and women's economic empowerment.

Climate change

17. The Local Climate Adaptive Living Facility (LoCAL) works to establish sustainable financing for local government investments in climate resilience and adaptation. The LoCAL investments are part of a wider initiative for local climate resilience in the LDCs in which UNCDF is supporting national efforts to secure Green Climate Fund financing that will flow through national financial systems to local governments to be used for verifiable local resilience-building.

18. In any given country, phase I and phase II of the programme introduce and test a performance-based climate resilience grant mechanism for verifiable climate resilient investments. This is scaled up to all local governments during phase III – which involves the mobilization of domestic and international resources for local climate resilience. LoCAL uses the intergovernmental fiscal transfer system that has often been introduced by earlier UNCDF initiatives. Phase III has begun in Bhutan and Cambodia.

19. Since it started its work in two countries in 2011, LoCAL has been introduced or tested in an additional nine countries in Asia and Africa. Design work for phase I was carried out in Ghana, Mozambique, Niger and Solomon Islands; phase I operations have begun in Benin, Mali and Nepal; and preparations to move from phase I to phase II have started in Bangladesh and the Lao People's Democratic Republic.

20. In total, LoCAL has provided $1.2 million grants to 29 local governments, reaching out to a population of over 4 million, across seven LDCs in Asia (Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic and Nepal) and Africa (Benin and Mali). The objective of this support is to pilot a mechanism that can then be scaled up to the national level, thereby reaching over 230 million people across these countries.

[10] Number of local governments measured during 2014.

[11] 30 Local Governments performing at highest level measured by indicator.

Food security

21. Several UNCDF country programmes in sub-Saharan Africa include a thematic focus on food security, such as the programmes in Burundi, Ethiopia, Mali, Mozambique and Niger. Using intergovernmental fiscal transfers, the Local Development Fund mechanism's earmarked funds for food security are channelled from the national to the local level and invested into production enterprises and local infrastructure that help improve local resilience to food shocks. These include investments in micro-dams, production facilities, roads, storage facilities and irrigation infrastructure. In Niger, more than 200,000 people directly benefitted from UNCDF-supported interventions to increase resilience to food shocks.

Cross-border trade

22. The development of strong and diverse local economies is a crucial factor in strengthening resilience. The UNCDF regional programme Local Cross-Border Initiative (LoBI), intervenes in Burkina Faso, Côte d'Ivoire, Mali and Niger. This programme has helped reinvigorate cross-border coordination between the local authorities of the Initiative pour l'Intégration Régionale au Sahel zone (between Burkina Faso, Mali and Niger). UNCDF has worked with these local authorities to identify and develop tools to help them to implement joint initiatives that strengthen the services and infrastructure available to cattle farmers, improve cross-border trade and reduce the risk of conflicts over available resources.

Women's economic empowerment

23. In partnership with UNDP and the United Nations Entity for Gender Equality and Women's Empowerment (UN-Women), in 2014 UNCDF also began designing an innovative programme for women's economic empowerment called the Inclusive and Equitable Development (IELD) programme. IELD will be launched in 2015 and will involve a structural analysis of gender relations in local economies and obstacles preventing women's economic empowerment. It will then deploy the UNCDF local development finance instruments towards those investments that can overcome these obstacles.

Outcome 3: Policy environments fostered that enable sustainable financing for development

24. The local development finance approach to local development requires supportive policy environments that enable the scaling up of investment mechanisms. This policy dialogue is often carried out together with partners such as UNDP as part of the scaling up process of a country programme.

25. In Lesotho, Mali, Niger and the Lao People's Democratic Republic, substantive contributions were made to national decentralization policies and legislation, mainstreaming the performance-based grant system. In the Somalia territories of Puntland and Somaliland, similar contributions are effectively building the state system from the bottom up, ensuring that future governments will have adequate means to address local development challenges.

B. Financial inclusion

26. UNCDF work on inclusive finance engages with a range of country-based institutions to develop inclusive financial systems and to ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (such as microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (such as savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (such as mobile phone networks) that offer relevant potential for scale.

27. In 2014, UNCDF supported inclusive finance programming in 25 LDCs (18 in sub-Saharan Africa and seven in Asia). UNCDF supported 18 of the 25 countries through global or regional initiatives. Seven countries currently being supported are in post-conflict situations. The number of countries supported via country sector programmes or the Making Access Possible (MAP) framework decreased to 10, as the lack of core resources constrained the ability to expand country programmes.

Table 7. Overview of UNCDF Inclusive finance programmes

Western and Central Africa	Type of programme	Eastern and Southern Africa	Type of programme	Asia and the Pacific	Type of programme
Burkina Faso	Country programmes, YouthStart	Burundi	MicroLead	Bhutan	MicroLead
Cameroon*	MicroLead, MAP	Ethiopia	YouthStart, MicroLead	Lao People's Democratic Republic	Country programmes, MM4P
Democratic Republic of the Congo	Country programmes, MAP, YouthStart	Lesotho	MAP	Myanmar	MAP, MicroLead
Ghana*	MicroLead	Mozambique	Country programmes, MAP	Nepal	Country programmes, MicroLead, MM4P
Côte d'Ivoire*	MAP	Madagascar	Country programmes	Papua New Guinea*	PFIP
Liberia	MicroLead, MM4P	Malawi	MM4P, MicroLead, YouthStart, MAP	Fiji*	PFIP
Niger	Country programmes	Rwanda	MicroLead, YouthStart, country programmes	Solomon Islands	PFIP
Senegal	Country programmes, YouthStart	Uganda	MicroLead, YouthStart, MM4P	Samoa*	PFIP
Sierra Leone	MicroLead	Tanzania	MicroLead	Vanuatu	PFIP
Togo	YouthStart	South Sudan	MicroLead	Timor-Leste	PFIP
		Swaziland*	MAP		
		Zambia	MAP		

*non-LDC
Abbreviations: MM4P: Mobile Money for the Poor; MAP: Making Access Possible; PFIP: Pacific Financial Inclusion Programme

28. UNCDF support to financial inclusion has helped increase the drive for domestic resource mobilization in two ways by: (a) channelling informal savings 'under the mattress' into the formal financial system and into the real economy. As of 2014, FSPs supported by UNCDF have increased their deposits from a baseline of $823 million to $1.6 billion over the period of UNCDF support; and (b) increasing domestic commercial lending to fund the growth of FSPs serving the un-banked. UNCDF has supported FSPs to increase their refinancing from domestic banks and attract new investors to support their growth.

29. Financial inclusion has become more complex with new actors and innovations shaping the way financial services can be accessed by the un-banked. Innovation around technology and mobile banking, new distribution channels and the growing digitalization of large scale social protection and emergency payments have at the same time opened new opportunities to reach universal financial access. UNCDF is very well positioned to act as a facilitator for a broader market development approach to financial inclusion, for example, through the MAP

diagnostic framework, a powerful data-driven platform for harmonization and coordination of financial inclusion actors at the country level, led by national authorities.

30. Market development frameworks like MAP, through the in-depth diagnostic and stakeholder engagement, help open market development opportunities for impact investors and the private sector in general around financial inclusion. In addition to MAP diagnostics and roadmaps, UNCDF met its overall target for financial inclusion diagnostics. The number of roadmaps adopted was within target (8 of 10), and it is expected that governmental processes will lead to adoption of others in 2015. UNCDF is ready to scale up our MAP to 20 countries by 2020.

31. Another highlight for 2014 includes the support that the Better Than Cash Alliance (BTCA) – a public-private partnership hosted by UNCDF whose members are committed to accelerating the shift from cash to electronic payments – has provided to UNDP in the battle against Ebola, working with the United Nations Mission for Ebola Emergency Response and the governments of Guinea, Liberia and Sierra Leone to ensure the payments of thousands of treatment centre staff, lab technicians, contacts tracers and burial teams by electronic means where possible. BTCA – which in 2014 was invited to be an official implementing partner of the G20 Global Partnership for Financial Inclusion – has also seen a steep increase in the number of new partners who have made the concrete commitment to transition from cash to digital payments in their work and has reached a total of 35 members in 2014.

32. Finally, 2014 saw new agreements with development partners to significantly expand UNCDF work in digital financial services. This includes the extension of the Pacific Financial Inclusion Programme (PFIP) with a target of adding an additional 500,000 clients with financial services; as well as the extension of the global Mobile Money for the Poor (MM4P) programme, which will now be able to increase mobile-enabled delivery channels for financial services to serve 17.75 million active digital financial clients, representing a net increase of 11.58 million users across eight countries.

<u>Outcome 1: Financing increased for basic services and inclusive growth/local economic development</u>

33. Under the first outcome, UNCDF work in inclusive finance continues to build on its success in mobilizing money ‘out of the mattresses’ (or ‘sleeping capital’), providing poor people a safe place to save, while also intermediating funding for micro, small and medium enterprises-size enterprises to invest in the real economy of their countries.

Table 8. Output indicators for financing for development: leverage of UNCDF core resources

Output 1.1. Improved performance of sustainable, healthy, responsible FSPs leveraging UNCDF funds (to be measured in terms of sustainability, portfolio quality, outreach, responsible provision of financial services)	**Plan**	**Actual**	**Performance**
1.1.1 Change from baseline in value of loan portfolio of FSPs (numerator) leveraged by UNCDF core contribution (denominator).	10 to 1 leverage of UNCDF core resources	56 to 1	+
1.1.2 Change from baseline in value of savings portfolio of FSPs (numerator) leveraged by total UNCDF core contribution (denominator).	10 to 1 leverage of UNCDF core resources	36 to 1	+

34. UNCDF exceeded its targets for leveraging its core resources thanks to two key factors. First, in 2014, two of its strongest programmes in leveraging ‘money out of the mattresses’, MicroLead and YouthStart, reached scale in their operations. UNCDF expects these numbers to decrease in subsequent years, closer to targets, as performance-based agreements with many top performing FSPs close. Secondly, as UNCDF core resources (denominator) have shrunk, the leverage has increased. With the relative importance of cost-sharing, it may be appropriate to also report on these leverage ratios with a denominator that combines core and cost-sharing funds. The ratios for the leverage of FSPs loan and savings portfolios based on this combination is 6.0 and 5.8, respectively.

35. In particular, MicroLead provides an excellent example of how UNCDF leverages its funding to catalyse domestic savings: with an initial core contribution of $5 million, UNCDF mobilized $20 million from the Bill and Melinda Gates Foundation to launch MicroLead. UNCDF invested the funds in FSPs from the South that brought about $100 million of their own equity to fund their expansion in LDCs. After five years of operations, these FSPs combined to reach over one million depositors, with loan and saving balances of $450 million, with growth continuing. This is a powerful leverage from an initial $5 million core funding from UNCDF provided by its donors. The MicroLead Expansion programme, funded by the MasterCard Foundation, is now halfway through implementation, working with a variety of providers with targets to reach an additional 1.3 million clients and mobilize $190 million in deposits while moving further into rural markets with demand-driven, responsibly priced products.

36. YouthStart has reached more than double its initial target of providing financial services to 200,000 youth, with 450,000 youth having gained access to financial services. These youth clients have accumulated over $13 million in savings while young entrepreneurs accessed over $5.7 million in loans to either start up or expand their own business. YouthStart is planning to build on these results, and is currently mobilizing partners to reach an additional 800,000 youth in the next phase.

Table 9. Output indicators for sustainability: Improvements in FSP profitability/sustainability. Improvements in portfolio quality

Output 1.1. Improved performance of sustainable, healthy, responsible FSPs leveraging UNCDF funds (to be measured in terms of sustainability, portfolio quality, outreach, responsible provision of financial services)	**Plan**	**Actual**	**Performance**
1.1.3: Percentage of FSPs that have audited financial statements	90%	90%	+
1.1.4: Percentage of FSPs making progress toward profitability (return on assets)	80%	75%	+
1.1.5: Percentage of FSPs meeting portfolio quality targets (PAR 30 days)	80%	59%	-
Responsibly-provided services: 1.1.6: Percentage of FSPs that endorse SMART Campaign Client Protection Principles (country programmes) or equivalent	85%	74%	+

37. UNCDF provided support to 77 FSPs in 2014, allowing them to increase the value of their loan and savings portfolios. The sustainability of the FSPs supported by UNCDF is captured by the four indicators noted above. Ninety per cent of UNCDF-supported FSPs had external audits in 2014, with funding suspended for those failing to comply. UNCDF will continue to suspend non-performing FSPs, and to terminate funding for those not redressing performance. Seventy-five per cent of these FSPs were making progress toward profitability, as measured by return on assets.

38. Poor portfolio quality was concentrated in Africa (only 29 per cent of the 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.

<u>Outcome 2: Effective financing mechanisms established to increase resilience to economic and environmental shocks</u>

39. Effective financing mechanisms established to increase resilience to economic and environmental shocks focused on expanding the frontiers of financial inclusion via innovations in piloting new products (youth, mobile money, clean energy) and bringing these to scale.

Table 10. Output indicators

Output 2.1. Improved access to and usage of basic financial services as an effective way to reduce vulnerability and shocks	**Plan**	**Actual**	**Performance**
2.1.1: Total numbers of active clients served via products that strengthen client resilience to shocks in areas such as client savings, Mobile Money for the Poor (MM4P), Better Than Cash Alliance (BTCA), clean energy, micro-insurance	3,000,000	4,982,232	+
2.1.2: Number of product innovations in areas such as youth finance, clean energy finance, agricultural/rural finance, mobile money or cash to electronic transitions	40	48	+

40. By 2017, UNCDF aims to serve 6,400,000 new clients benefiting from resilient financial products (50 per cent women). In 2014, UNCDF surpassed its interim goal of serving three million active clients through the FSPs in which it invests.[12] Since households comprise five persons on average, this represents an impact on the lives of some 24.9 million people. The 4,982,232 active clients are based on the number of active savers; the number of borrowers is much lower at 2,658,656. UNCDF focuses on supporting savings-led FSPs, given the triple benefit to: clients, FSPs and inclusive growth. For clients, the positive findings from client impact studies highlight the benefits of savings in helping the poor to smooth consumption and build assets, building resilience against shocks. For FSPs, deposits provide a stable and sustainable source of local funds to finance their portfolios; and for LDCs, getting money 'out of the mattresses' and into the real economy supports inclusive growth as FSPs invest these resources in micro, small and medium enterprises. Sixty-two per cent of borrowers are women (above the UNCDF threshold of 50 per cent). The bulk of this outreach came from the MicroLead programme, with 2,687,283 savers served by MicroLead-supported FSPs.

41. UNCDF also exceeded its interim target for supporting FSP product innovations in 2014, with 48 product pilots, versus a target of 40. Almost all (44 of 48) of these product innovations were supported by global thematic initiatives. For example, in Nepal, CleanStart – designed to help poor households and micro-entrepreneurs access financing for low-cost clean energy – collaborates closely with the Central Renewable Energy Fund, a $120 million multi-donor wholesale fund dedicated to renewable energy, to build confidence among commercial banks about the prospects of financing the clean energy sector. In 2014, four financial institutions in Nepal extended loans for solar home systems, biogas and improved cookstoves to over 10,000 clients, testing innovations in consumer financing for clean energy.

42. In addition to these pilots, 40 previously supported pilots went to scale in 2014, as the FSPs embraced the product innovations and integrated them into their mainstream operations. Of the clients served by product innovations that have gone to scale, 504,766 were youth in Africa, served by FSPs supported by the YouthStart programme. Another key contributor was Mobile Money for the Poor (MM4P), with 497,996 clients using 'mobile wallets' to keep their savings.

<u>Outcome 3: Policy environments fostered that enable sustainable financing for development</u>

43. In support of Outcome 3, UNCDF focused on creating an enabling environment for financial inclusion, by supporting improvements to the ecosystem that enable policymakers to lead data driven action plans and all market participants to better perform.

[12] It is possible that this figure will decline in 2015, before it begins to rise again, as the financing agreements with top-performing financial service providers close in 2014 and 2015.

Table 11. Output indicators

Output 3.1 .UNCDF- funded diagnostic tools/advocacy initiatives provide a key contribution to shaping national governments' agendas on financial inclusion	**Plan**	**Actual**	**Performance**
3. a. Number of improvements to the policy environment and enabling ecosystem, including client protection, resulting from UNCDF advocacy and support	10	15	+
3.1.1 Number of diagnostics on financial inclusion completed	20	19	+
3.1.2 Number of inclusive finance road maps, action plans or national strategies adopted	10	8	+
3.1.3. Number of commitments to the Better than Cash Alliance to transition cash to electronic payments	6	35	+
3.1.4 Number of capacity building activities completed to strengthen the capacity of regulators and supervisors, especially to safeguard poor people's savings	10	52	+
3.1.5. Number and quality of approved UNCDF publications (inclusive finance)	29	62	+

44. Of the 15 LDC policy changes supported by UNCDF advocacy and capacity building activities (52 distinct events) for policymakers in 2014, the following provides an illustration of the range and significance for LDC enabling environments:

(a) The Central Bank of Liberia, with MM4P and Groupe Spéciale Mobile Association assistance, issued new mobile money regulations, allowing non-bank providers to legally offer mobile money, dual currencies and tiered know-your-client. This policy change made it easier for some Ebola workers to be paid on time, electronically, and facilitated a 300 per cent increase in person-to-person payments to support people in quarantined areas;

(b) The Government of Rwanda cited the peer-to-peer model used by YouthStart partner Umutanguha Finance Ltd. (Umutanguha) as a best practice for delivery channels in its recently launched national financial literacy strategy;

(c) In the context of the Shaping Inclusive Finance Transformations (SHIFT) programme, UNCDF was appointed as the technical partner for the Government of Myanmar, in its capacity as 2014 Association of Southeast Asian Nations (ASEAN) Chair, in the organization of the ASEAN Financial Inclusion Conference held in Yangon on 29 to 30 October, which led to an actionable outcome document offering an agenda for policymakers in the region to accelerate financial inclusion;

(d) The Pacific Financial Inclusion Programme (PFIP) worked with the Ministry of Education in Fiji to embed financial education (FinED) into the national syllabi so that financial education is now fully integrated into the core curriculum and the syllabi will undergo a full year of implementation in 2015. This initiative is supported with national teacher re-training across primary and secondary schools. Other Pacific island countries are reviewing the model for South-South replication across the region.

45. In terms of direct support to clients for the enabling ecosystem, 640,986 clients of FSPs supported by UNCDF were provided financial education to complement their access to financial services.

46. In addition to leading product innovations, UNCDF global thematic initiatives also produced 54 of the 62 knowledge products completed in 2014, highlighting the role they are playing in bringing to fruition the portfolio review's suggestion that *"the key comparative advantage of UNCDF would appear to be its inherent capacity for ensuring a two-way information sharing and communication pathway between the 'development hubs' of the*

GTIs [global thematic initiatives] and the IF [inclusive finance] stakeholders at national level in LDCs…, which often do not have easy access to information." [13]

47. UNCDF works with development partners to align support and programming with national priorities. Country-level investment committees review new initiatives and coordinate, and in some instances pool, country-level funding. As of the close of 2014, these initiatives are set to provide $188 million in funding (cost-sharing and parallel resources) over the period 2014 to 2017 for UNCDF-designed programmes in order to complement and leverage (8.7 times) UNCDF core resources, and have thus contributed significantly to the results highlighted in this report.

III. Management results, 2014

48. UNCDF initiated an organizational change process in 2014. The structural change will affect headquarters in New York, and its regional and country presence, with the aim to ensure that UNCDF staff and structure are fit for purpose to deliver on the new strategic framework, to make the best use of the resources entrusted to it, and to adjust to the shortfalls in core contributions.

49. The realignment was designed to achieve six broad objectives:

- Reinvest in country presence in the LDCs where UNCDF should be engaged, with the aim to reach 40 LDCs by the end of the strategic framework period;
- Invest in cross-practice synergies and knowledge management;
- Ensure the organization's financial sustainability;
- Improve operational efficiency and drive delivery commensurate with the growth in non-core resources;
- Maximize results on the ground, while maintaining strong oversight and evaluation for programmatic learning and accountability; and
- Clarify delegation of authority, accountability, standard procedures, and systems.

50. The process has resulted in a more streamlined architecture – one that is more in line with the size and scope of the organisation. Once one-time costs of the realignment are covered, the annual savings against core resources should amount to approximately $1.1 million. This meets the reduction target of $1.0 million annually set for the realignment process and will allow UNCDF to largely maintain its existing country presence. Only an increase in core resources will allow UNCDF to establish its presence in more LDCs or to renew its presence in LDCs where programmes are coming to a close in 2015.

51. In line with actionable audit recommendations, UNCDF is finalizing its revised loan policy, establishing a risk management policy linked to the UNDP enterprise risk management system, and clarifying roles and responsibilities, including with regard to delegated authority in a range of administrative areas, particularly those affected by the change process.

Table 12. Selected management indicators

Perspective	Strategic objective	Indicator	2013 results	2014 Target	2014 result
Client satisfaction	Relevant programming on LDCs, including post-conflict	LDCs with UNCDF programmes	32 LDCs	40 LDCs	31 LDCs
Internal efficiency	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	15.3%	15	13.4%
	Staff perception	Percentage of staff that feels inspired to work at their best	66%	70%	68%
	Implementation of the audit recommendations of the Office of Audit and		25/25	7/10	8/10

[13] UNCDF FIPA [Financial Inclusion Practice Area] Portfolio Review Synthesis Report (Final Report), 11 February 2013, page 15. file:///E:/2014%20submitted%20in%202015/evaluations/fipa_portfolio_review_0213_eng.pdf

	Investigation				
	Implementation of the audit recommendations of the United Nations Board of Auditors		2/4	5/7	5/7
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$16.3 million	$25m	$14.9 million
	Ensure delivery against plan	Other resources mobilized	$49.1 million	$61m	$63.3 million
		Delivery against approved annual spending limits	85%	85%	80%

IV. Partnerships, advocacy and intergovernmental processes

52. Through a new partnership with The MasterCard Foundation, in 2014 UNCDF expanded the MM4P programme, which is supported by UNCDF, the Swedish International Development Cooperation Agency, the Australian Department of Foreign Affairs and Trade, and the Bill and Malinda Gates Foundation. Through the expansion phase, UNCDF plans to increase mobile-enabled delivery channels for financial services to 15 per cent of the most economically disadvantaged people in Benin, Senegal and Zambia.

53. In close partnership with Swedish International Development Cooperation Agency, UNCDF launched the initiative Leveraging Domestic Finance for Inclusive Growth and Resilience in LDCs, which will focus on the identification, selection and development of a gender-sensitive pipeline of investable projects and public infrastructure. These investments will be identified and implemented through the LoCAL, LFI and CleanStart global thematic programmes.

54. The ambition of UNCDF to step up its advocacy work resulted in a number of major events and initiatives during the year. The UN-Habitat World Urban Forum in Medellin, Colombia (April 2014) was an occasion to discuss food security issues and a novel approach to addressing food security through a local food systems approach. Further, at the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 20) in Lima, Peru (December 2014), UNCDF presented local solutions to climate change adaptation using the LoCAL facility, which was recognized as a mechanism to promote concrete and sustainable solutions for local governments. UNCDF also contributed to the 15th Francophonie Summit in Dakar (December 2014) addressing the importance of women and youth in achieving development objectives through a roundtable organized jointly with UNDP and UN-Women.

55. The Better Than Cash Alliance (BTCA) was invited to become an official Group of 20 (G20) Global Partnership for Financial Inclusion Implementing Partner with a focus on the markets and payments subgroup. Together with the World Bank and the Bill and Melinda Gates Foundation, BTCA launched the report, “Opportunities of Digitizing Payments”, and was invited to showcase its experience as a cutting-edge partner of governments, development organizations and private sector at the First High-level Meeting for Effective Development Cooperation in Mexico City, Mexico.

56. In 2014, UNCDF initiated the Fifth Annual Responsible Finance Forum focused on responsible digital finance, which convened for the first time industry, government and private sector leaders to discuss how digital financial services are delivered transparently, fairly and safely and to set the stage for developing principles for responsible digital finance. UNCDF also organized a technical conference on financial and social inclusion of children and youth within the post-2015 agenda at the Child and Youth Finance Summit (New York, May 2014).

57. UNCDF contributed to the Open Working Group on Sustainable Development Goals and actively participated in all relevant intergovernmental processes and consultation mechanisms. As a member of the related United Nations Task Team and the Technical Support Team, UNCDF provided technical expertise on a number of future sustainable development goals (SDGs) and targets. UNCDF also acted as a co-lead of the Technical

Support Team subgroup on means of implementation (SDG 17). Jointly with the Office of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, UNCDF coordinated the provision of technical expertise on access to financial services, now referred to in a number of targets in six SDGs.

58. UNCDF participated in all relevant intergovernmental processes and mechanisms pertaining to the work of the Intergovernmental Committee of Experts on Financing for Sustainable Development and to the preparatory talks on financing for development.

59. As it is a member of Executive Committee on Economic and Social Affairs Plus and the Interagency Coordination Group on the LDCs, UNCDF provided an active contribution to the work of these groups. UNCDF contributed to the preparatory work for the Ministerial Conference on New Partnerships for Productive Capacity Building in LDCs (Benin, 28 to 30 July), where it also organized two side-events: Innovation, Creativity, Technology, Broadband Connectivity and Financing: Key Vectors for Sustainable Development in the LDCs in partnership with the United Nations Industrial Development Organization, the World Intellectual Property Organization, and the International Telecommunication Union; and on Building Productive Capacities for Resilience in the LDCs. UNCDF also participated in the Third International Conference on Small Island Developing States (Samoa, 1 to 4 September), where it contributed to the international debate with experiences from its Pacific Financial Inclusion Programme and Local Climate Adaptive Living Facility global programmes, as well as in the Second United Nations Conference on Landlocked Developing Countries. (Vienna, 3 to 5 November) and the Nepal Meeting on Graduation of Asia-Pacific LDCs (Kathmandu, 16 to 18 December).

V. Quality assurance

60. In 2014, UNCDF kept up its recent commitment to external evaluation, completing one final evaluation of the Support Programme to Decentralization, Deconcentration and Local Economic Development in Benin and beginning three others: (a) a final evaluation of the YouthStart programme supporting the development of youth financial services in eight African countries; (b) a mid-term evaluation of the expansion phase of the MicroLead programme supporting the introduction of savings-led models in the LDCs; and (c) a thematic evaluation of the performance of the UNCDF local development fund mechanism in the LDCs of Africa and Asia since 2005. This raised the total number of external evaluations commissioned by UNCDF since 2010 to 24.

61. The results of the Benin evaluation were broadly positive with the project praised for having supported concrete improvements in the local government planning and management systems, as well as the launch of resource mobilization strategies in targeted communes. The majority of investments funded were judged to be functioning well, with direct benefits to some 3,200 people and indirect results expected in the improved functioning of agricultural value chains. The evaluators made several recommendations pertaining to the need to improve the planning of such investments through more thorough cost-benefit analyses and feasibility studies; and the need to better link the planning process to an economic analysis of local agro-food systems. The Government and Parliament of Belgium used the evaluation in deciding how to orient their future support to food security in Africa; the results are also feeding into the design of a new UNCDF global food security programme.

62. Elsewhere, UNCDF interventions were well covered in a series of UNDP-managed evaluations. Key findings from the Independent Evaluation Office’s thematic evaluation on the UNDP contribution to Millennium Development Goal achievement included praise for the Fund’s approach to working through decentralized institutions and validation that support to local level planning constituted “a pathway to impact in its own right”. The evaluators recommended that UNDP and UNCDF should “combine their efforts in a more proactive way” going forward, recognizing that “UNCDF brings unique capacity and expertise on decentralization, while UNDP has better access at the upstream level in government”. A mid-term evaluation of joint UNDP-UNCDF projects in Bangladesh supporting improved local governance recognized improved transparency, accountability and participation in local-level decision-making compared to baseline data, with UNCDF praised particularly for piloting an

enhanced performance-based grant system, elements of which have been scaled up into national policy through the regulatory framework for local government.

63. Throughout 2014 UNCDF participated in the UNDP evaluation policy review and was encouraged by the reviewers' conclusion that UNCDF evaluations are 'credible', 'offer impartial analysis' and are of 'appropriate quality', with the four evaluations sampled scoring either 'satisfactory' or 'highly satisfactory'. UNCDF has worked with the Independent Evaluation Office and UNDP management to revise the evaluation policy along the lines suggested in the management response to the policy review, and looks forward to a closer association with the Independent Evaluation Office on quality assessment and assurance beginning in 2015.

VI. Financial analysis

64. In 2014, owing mainly to increasing non-core contributions, total UNCDF revenue reached $88.3 million, up from $65.4 million in 2013. The UNCDF development partners' base has broadened, with 44 development partners contributing to UNCDF resources in 2014, up from 36 in 2013. Contributions to UNCDF in 2014 included $21.1 million from private sector foundations and corporations, representing 23.8 per cent of total resources. In 2014, UNCDF largest donors were Sweden, the United Nations Multi-Partner Trust Fund, The MasterCard Foundation, the European Commission, Belgium, the Bill and Melinda Gates Foundation, Switzerland, Denmark, Australia and Luxembourg.

65. Non-core contributions reached a record high of $73.3 million in 2014 (26 per cent of which originated from eight major private sector foundations and corporations), an increase of 51 per cent from 2013. Core contributions reached some $14.9 million in 2014, a $1.4 million decrease from 2013, and still falling well short of the $25 million target required to sustain UNCDF operations in 40 LDCs.

66. Core contributions allow UNCDF to innovate and prove concept. They allow UNCDF to field substantive expertise to a country for a period of 12 to 18 months to develop relevant programmes, embed with UNDP and United Nations country teams, develop and maintain critical public and private partnerships, and mobilize the resources required to operationalize the programme. UNCDF has a track record of achieving on average a 1:4:10 leverage ratio of core to non-core to domestic and other investment resources. Core contributions also make it possible for UNCDF to maintain a presence in the UNDP country office for the duration of the programme, a model whose value has been demonstrated over decades of successful scaling up and joint work in wedding financing models with governance and policy change. Reductions in core have forced UNCDF to de-fund its country office presence and rely exclusively on project personnel, thereby weakening cross-programme synergies with UNDP, the United Nations system, and overall long-term sustainability of programme results. Country closures have in some cases been quite abrupt, causing premature suspension of promising initiatives.

67. At current levels of core, UNCDF remains optimistic that it will be able to continue its operations in at least 31 LDCs, while continuing to leverage substantial amounts of non-core resources from private and public sources for the benefit of the LDCs.

68. Total expenditures in 2014 were $63.4 million, $0.5 million higher than in 2013 ($62.9 million). Expenditures against regular resources decreased by $7.4 to $11 million while expenditures against other resources increased by $6.9 million to $52.4 million. Against this background, UNCDF continues to closely monitor its financial sustainability, investing its core resources strategically in initiatives that will maximize development results and attract significant non-core resources.

69. Fund balances at the end of 2014 were $109 million. UNCDF has made provisions for after-service health insurance as required by International Public Sector Accounting Standards, and recalculated its operational core reserve to $12.4 million. The extra budgetary reserve is at $2 million.

Table 13. Expenditure trends, 2006-2014 (*in millions of United States dollars*)

Expenditures	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Programme expenditures	25.2	28.7	37.0	41.5	43.9	53.7	48.6	54.5	57.5
- Of which regular resources	16.8	19.0	22.6	22.2	25.0	29.4	23.6	15.1	9.9
- Of which other resources	8.4	9.7	14.4	19.3	18.2	24.4	25.0	39.4	47.5
UNCDF support	4.6	5.4	6.8	7.6	5.5	6.2	5.0	8.3	5.9
Total	**29.8**	**34.1**	**43.8**	**49.1**	**49.3**	**59.9**	**53.6**	**62.8**	**63.4**

Table 14. Programme expenditures in 2013, by region and practice (i*n millions of United States dollars*)

Regions/themes	**Local development finance**	**Inclusive Finance**	**Total**
Africa	16,015,629	17,942,389	33,958,018
Asia and Pacific	9,080,888	14,517,520	23,598,408
Total	25,096,517	32,459,910	57,556,427

VII. UNCDF looking forward

70. In the context of its strategic framework, 2014-2017 presented to the Executive Board at its first regular session 2014, UNCDF will fully align itself with the post-2015 development agenda to maximize the benefits of its financial mandate and flexible financial instruments in order to help eradicate poverty, reduce inequalities and promote inclusive and sustainable growth in the world's LDCs. To do so, UNCDF will continue focusing on: (a) increasing financing for basic services and *infrastructure*, while ensuring that financial services *empower poor populations* to engage more dynamically with their local economies; (b) using its capital investment as critical catalyst for *domestic resource mobilization*; (c) directing *climate finance to the local level* to build on decentralized capacities of local administrations and empower them to build climate resilient infrastructure; (d) *localizing* the post-2015 development agenda inter alia through empowered, well-financed municipalities; and (e) fostering policy environments conducive to *sustainable financing for sustainable development*.

71. Innovation and proving concept in support of the two main programme areas will continue to drive learning. The ability to use official development assistance 'smartly' to drive, leverage and scale up adapted financial mechanisms and solutions will remain important indicators of the Fund's success. UNCDF will commit to using technology strategically, knowing that digital and information technologies can act as enablers of inclusion, accelerators of development, and contributors to greater financial transparency and efficiency. And UNCDF will continue to pursue partnerships in the public and private sphere, as blended finance and public/private partnership will provide the only viable means to meet the demands of the post-2015 development agenda.

72. 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. It will further fine-tune its functions to maximize effectiveness and efficiency, with a special focus on the country level where development results are achieved.