

A YEAR OF INNOVATION



Creating opportunities
for inclusive growth
in the least developed
countries



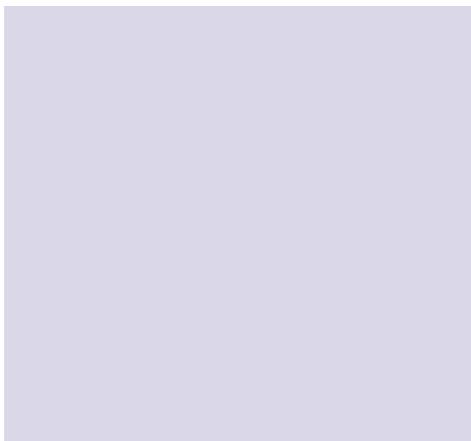
Published by the Partnerships Unit
UN Capital Development Fund
New York, United States of America

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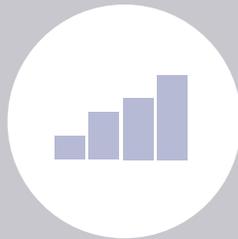
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INTERVIEW WITH UNCDF's EXECUTIVE SECRETARY

Marc Bichler became Executive Secretary of UNCDF in November 2012. He brings to UNCDF long experience in development, with a special focus and passion for the least developed countries (LDCs). Most recently, Marc served as Director for Development Cooperation and Humanitarian Affairs in the Ministry of Foreign Affairs of Luxembourg and had accreditation as Ambassador to Burkina Faso, Mali and Senegal. Under his leadership, Luxembourg's Development Cooperation implemented roughly 85 percent of the bilateral and multilateral aid programmes financed by the Luxembourg government, managing a portfolio exceeding 300 million Euros.

The title of this annual report is “A Year of Innovation”. What was innovative in UNCDF’s work in 2012?

The United Nations Capital Development Fund (UNCDF) has a precise sectorial mandate for financial inclusion and local development finance and a unique financial mandate. Our mission is clear: to reduce poverty in the world’s 49 least developed countries. This work is focused in two main areas: Local Development Finance and Inclusive Finance.

Local Development Finance programmes strengthen public financial management to improve infrastructure investment and delivery of basic services by local government authorities. They also provide access to funding mechanisms, project financing and technical assistance in support of both public and private actors at the local level.

Inclusive Finance programmes increase access by poor people and small businesses to financial services including savings, credit, insurance and remittances.

Building on its expertise in inclusive finance and local development finance, UNCDF contributes to food security, climate change resilience, access to clean energy and to the economic empowerment of women and youth.

Recognizing that innovation plays a critical role in fostering progress towards the Millennium Development Goals, in 2012 UNCDF launched several innovative global programmes to promote sustainable and inclusive growth in the world’s poorest countries.

We joined USAID, the Bill & Melinda Gates Foundation, Citi, the Ford Foundation, the Omidyar Network, and Visa Inc. in launching the *Better Than Cash Alliance* that calls on governments, the development community and the private sector to adopt the use of electronic payments for



Executive Secretary, Mr. Marc Bichler, intervening in the opening session of the OECD workshop on Inclusive Growth.

© OECD

programmes that support people living in poverty. We launched the *Local Finance Initiative (LFI)* in Tanzania and Uganda, an innovative global programme that aims to unlock domestic financial sectors in developing countries for financing small- and medium-sized infrastructure and agriculture-processing projects that are needed for local economic and private sector development. During the Rio+20 conference, UNCDF launched *CleanStart*, a new global facility for increasing access to sustainable, low-cost energy via appropriate financing schemes. In 2012, UNCDF also strengthened its engagement of fostering development in post-conflict regions, where local governments struggle to deliver services. This included the launch of a new governance programme, the *Local Cross-Border Initiative (LOBI)*, which aims to improve economic stability and human security in volatile cross-border areas of West Africa.

The global economic crisis and other non-financial crises have aggravated the conditions of many developing countries during 2012. How did UNCDF pursue its development mission to promote sustainable, inclusive growth in the least developed countries?

The level of complexity of the financial crisis and other non-financial constraints on human development – war and conflict, armed violence, low social cohesion, poor governance, corruption – is such that no single actor can solve them alone. Know-how and expertise from many different sides are necessary to address these problems effectively. Reaching out to partners who share with us the objective of poverty eradication and sustainable development allows us to benefit from each and everyone's comparative advantage.

Partnering up in a multi-stakeholder format comes pretty naturally to us because UNCDF is a highly technical and specialized UN agency. For UNCDF, the multi-stakeholder approach is the best bet to address complex challenges; it is the way to organize effectiveness. Indeed, no one can go as far alone as we can go together. UNCDF works together with programme country governments, donor governments, UNDP and the UN system, international financial institutions, private foundations and academic institutions and brings its comparative advantage to where it will have the greatest impact across all the development goals.

UNCDF's capital investment mandate, its focus on economic development and its ability to issue loans and guarantees as well as grants, make it unique in the UN

system and a natural partner for larger financing institutions of the private sector. UNCDF targets underserved areas and populations and pilots approaches for scaling up by others (e.g. World Bank, private sector). Its "catalytic capital" has helped to create some of today's most successful national microfinance institutions, and has led to more effective decentralization and community investment in more than 40 LDCs. This makes UNCDF unique in the UN system and a natural partner for larger financing institutions of the private sector. In the words of a 2008 assessment of UNCDF by the Government of Sweden: "UNCDF should be seen as a development actor that paves the way for others."

In this context, I am pleased to report that UNCDF is well-positioned as a relatively small organization that partners with others to leverage knowledge and resources and generate development results.

UNCDF's strong growth both in terms of non-core income and programme delivery demonstrates that more and more partners embrace our approach. In fact, I think there is quite a remarkable story of institutional change in recent years, and one which is best captured with a few telling statistics.

In 2006, UNCDF was active in 28 least developed countries. By 2012, that number had grown to 36. In 2006 UNCDF's total revenue was \$22.3 million from 20 donors. Total income in 2012 amounted to some \$55 million from 36 different donors, including 10 million dollars from 6 large private sector foundations and corporations, representing 17 percent of the total income; 2012 has been the best year in terms of total income for UNCDF over at least 20 years.

In 2006 UNCDF's total expenditure was \$29.8 million compared to \$50.5 million in 2012. In other words, UNCDF has seen a strong yet balanced growth, in terms of both income and expenditures, in the recent past. This sets us on the right path to make a difference in the world's least developed countries.

What is the outlook for the future?

Our work will focus on two key areas: Local Development Finance and Inclusive Finance. This keeps in view the post-2015 development framework and continues to advance the ultimate objective, which is to eliminate barriers of access by the poor to adequate and adapted financial, social and infrastructure services and to unleash productive capacities.

In order to promote inclusive growth, we work on financial inclusion at three levels. First, to better serve the individual, we will help financial service providers to design and make available adapted financial instruments and related training. Second, at the level of the financial sector, we will encourage better risk analysis and provide incentives for better risk management. Third, at the level of central governments, we will advocate for inclusive financial sectors, a combination of adapted regulation and supervision, and a proactive outreach to other sectors relevant for financial inclusion (i.e. social security and telecommunications).

Our work on public financial management will continue to make a difference at the local level. UNCDF strives towards more effective, efficient and transparent finance mechanisms that can help to mobilise much-needed resources for infrastructure and social services. In particular, we will continue to focus on infrastructure projects designed and implemented in a way that allows for revenue generating activity — in addition to their intrinsic value and their potentially positive impacts on social and economic development. This perspective may attract the interest of the private sector and the opportunity of a public-private partnership. Furthermore, we witness an increasing number of private sector actors building sustainable development into their business case. With such a heightened sense of positive social and environmental impact on top of economic viability and

reasonable financial return, there is hope for innovative win-win situations.

UNCDF will continue pursuing the idea that there is no sustainable development without sustainable financing for development and pro-actively exploring new reliable private sources of financing for development. For this reason, following a decision proposed to and endorsed by the Executive Board at its annual session in June 2012, UNCDF announced in late 2012 the beginning of a multi-stakeholders consultation process. The process seeks the views of stakeholders on what action UNCDF should take to grow while remaining a valued development partner in the least developed countries.

Feedback from stakeholders has been sought on how to ensure the growth of contributions that are not earmarked at a matching pace to enable UNCDF to respond to the continuous demand for support from the least developed countries.

Discussions, which continued throughout the spring of 2013 and culminated at the Executive Board annual session in June 2013, addressing topics such as UNCDF's added value to contribute to inclusive growth, progress towards the MDGs and the emerging post-2015 framework, UNCDF's intervention and impact, and the future of UNCDF.

The multi-stakeholders consultation process was about sustaining constructive relationships with our partners. We set it up as a series of opportunities to create understanding about UNCDF's future interventions among those partners that it will likely affect or interest, and to learn how these external parties view our future plans and its attendant risks, impacts, opportunities and mitigation measures. By listening to stakeholders' concerns and feedback, UNCDF gained a valuable source of information that can be used to improve our outcomes and, ultimately, the effectiveness of development results.

ABOUT UNCDF

The United Nations Capital Development Fund (UNCDF)

is the UN capital investment agency for the world's 49 least developed countries (LDCs). It promotes inclusive and sustainable growth by creating new opportunities for poor people, small businesses and local governments.

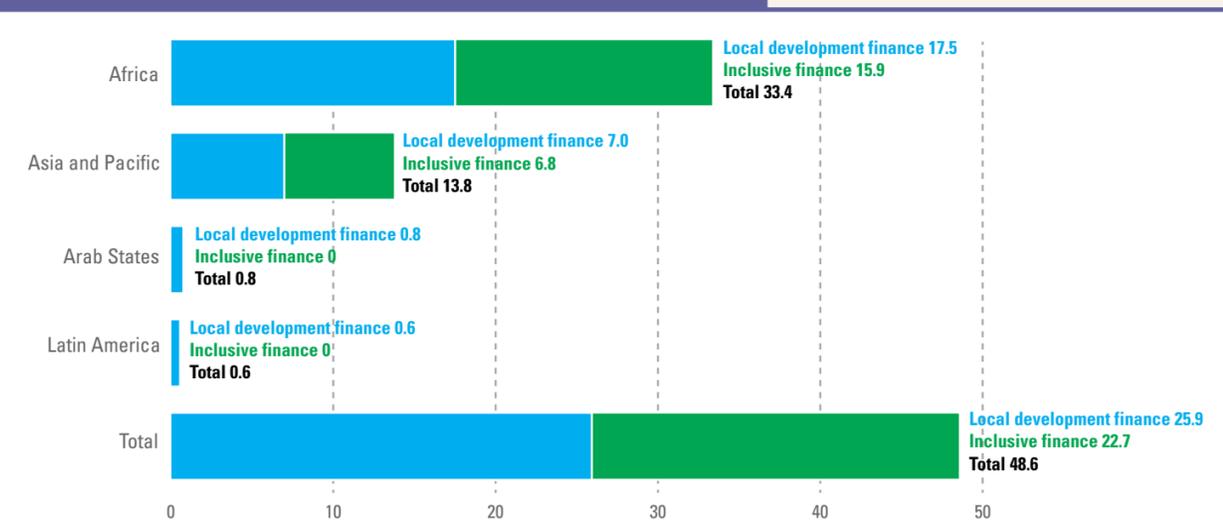
UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support through Inclusive Finance programmes to help microfinance institutions reach more poor households and small businesses; and through Local Development Finance programmes to strengthen public financial management systems and improve infrastructure investment and delivery of basic services by local governments.

UNCDF programmes are designed to catalyze larger investment flows from the private sector, development partners and national governments and thus act as an 'enabler' to accelerate progress towards the Millennium Development Goals.

Established by the General Assembly in 1966 and with headquarters in New York, UNCDF is an autonomous UN organization affiliated with UNDP.

2012 PROGRAMME EXPENDITURES, BY REGION AND PRACTICE *

(in millions of United States dollars)



Source: Financial statements for UNCDF as of 31 December 2012 before final closing of accounts.
*The distribution of global programme expenditures between regions are estimations based on the size of country programmes.

IMPACT ON LOCAL GOVERNMENT CAPACITY TO PLAN, ALLOCATE AND MANAGE RESOURCES

	Plan	Actual	Performance
Number of local governments supported that are consulting local communities in finalizing investment plans and budgets	403	389	+
Number of local governments supported where budgets are disbursed in line with the priorities of the plans	354	329	+
Number of local governments supported that use national public procurement standards and regular external audits while managing resources (accountability)	430	411	+
Number of local governments supported that publicize their expenditure against their budget (transparency)	450	407	+
Number of local governments supported that apply a gender perspective to planning and budgeting	379	385	+
Number of local governments supported where 'genderized' budgets and investments are implemented	127	120	+

* Figures have been adjusted to the 2nd tier of local governments to correspond with UNCDF presence across 33 countries (actual activities take place in the 1st, 2nd and 3rd tiers)

IMPACT ON POLICY AND INSTITUTIONAL ENVIRONMENT

	Plan	Actual	Performance
Number of countries where changes in policy, regulations and legislation can be attributed directly to UNCDF work	16	16	+
Number of countries in which UNCDF approaches, models or tools are adopted by national governments and development partners	16	18	+

UNCDF PROGRAMMES

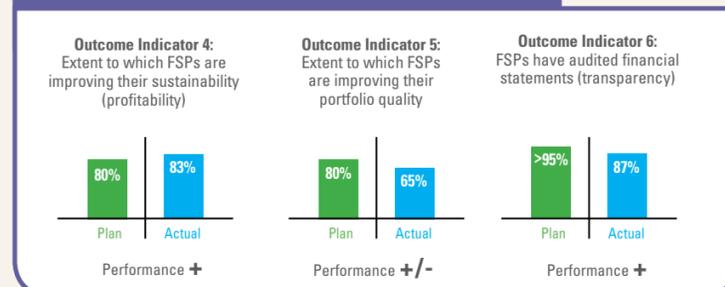
- Inclusive Finance Country Programme
- MicroLead
- YouthStart
- PFI – Pacific Financial Inclusion Programme
- MicroInsurance
- Remittances
- MAP – Making Access to Finance Possible
- CleanStart
- MM4P – Mobile Money for the Poor
- BTCA – Better Than Cash Alliance
- Local Development Finance Country Programme
- GELD – Gender Equitable Local Development
- International Training Programme
- LFI – Local Finance Initiative
- LOBI – Local Cross-Border Initiative
- LoCAL – Local Climate Adaptive Living Facility
- LOGFIDD – Local Government Financial and Institutional Diagnostic for Development

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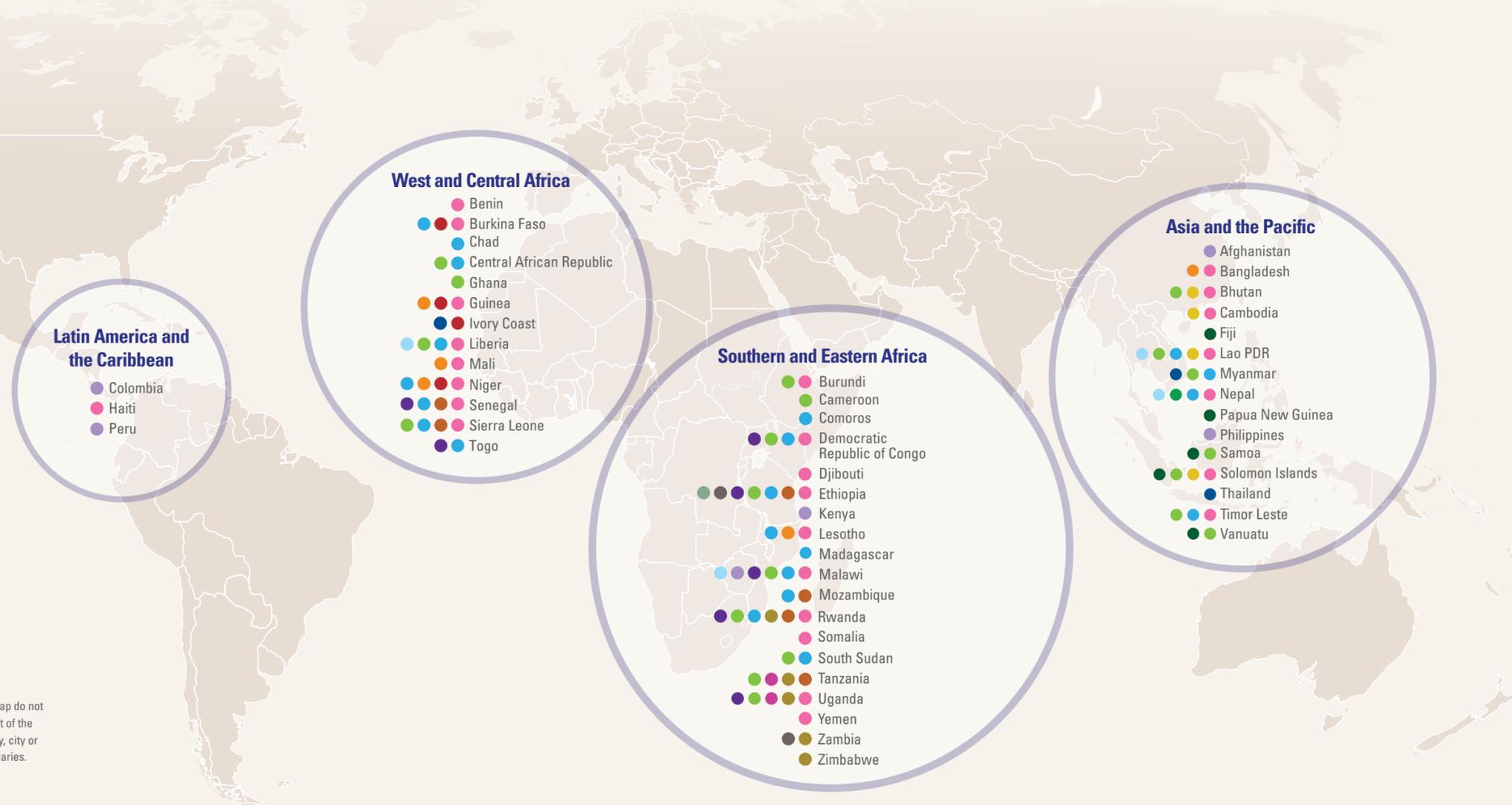
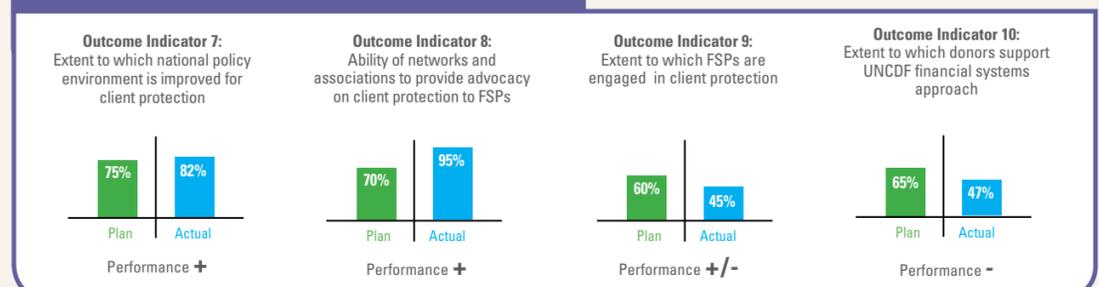
IMPROVED ACCESS TO FINANCIAL SERVICES

	Plan	Actual	Performance
Outcome Indicator 1: Extent to which FSPs are improving their client outreach	4,862,968	8,439,905	+
Outcome Indicator 2: Net change in value of loan portfolio of the financial service provider versus total UNCDF core contributions	20 to 1	22 to 1	+
Outcome Indicator 3: Net change in value of savings portfolio of the financial service provider versus total UNCDF core contributions	10 to 1	25 to 1	+

SUSTAINABILITY OF FINANCIAL SERVICES PROVIDERS



IMPACT ON POLICY AND INSTITUTIONAL ENVIRONMENT





UNCDF's MicroLead programme, an initiative supported by the Bill & Melinda Gates Foundation and The MasterCard Foundation, provides loans and grants to leading microfinance institutions on a competitive basis to facilitate their entry into world's poorest countries where access to finance is most limited. MicroLead also has a post-conflict window which supported four institutions in South Sudan. In spite of the extremely difficult macro-economic environment in South Sudan in 2012, MicroLead grantee Finance South Sudan Limited (FSSL) increased its outreach to women by 14%, including this business woman who has increased her tailoring works and income. In 2013, FSSL will offer savings products in line with MicroLead's strategy to provide a full range of demand-driven products.

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Inclusive Finance

Today 2.5 billion adults—more than a half of the world's working adults—are excluded from formal financial services. This is most acute among low-income populations in emerging and developing economies, where approximately 80% of poor people are excluded. UNCDF's ability (unique in the United Nations system) to provide grants and loans directly to the private sector helps expand financial services including microfinance into underserved markets. UNCDF pursues an "inclusive finance" approach, which is designed to ensure that a range of financial products – savings, credit, insurance, payments, remittances – are available to all segments of society, at a reasonable cost and on a sustainable basis. Within a given country, UNCDF begins with a sector assessment of opportunities and constraints at the macro-level (policy), meso-level (support infrastructure) and retail level (financial service provider). This assessment is combined with a gap analysis of areas not supported by other development partners. This leads to a tailored programme of support designed to seize opportunities, remove constraints and fill gaps to build an inclusive financial sector.

Local Development Finance

Many developing countries are amongst the worlds fastest growing economies whilst others remain mired in conflict. Whilst there is progress towards the Millennium Development Goals the overall picture hides significant disparities and risks. Over 2 billion people continue to live on less than a dollar a day and whilst absolute levels of poverty are falling, inequalities are increasing. Additionally natural disasters, changing weather patterns and globalized economic relationships threaten the resilience of communities to external shocks. The result is a more uncertain and differentiated world in which many localities are not sharing the benefits of growth. How can resources be reinvested locally to build resilience and reduce inequalities? UNCDF invests its seed capital to pilot and test innovative ways to unlock larger resource flows from the public and private sector to the local level – promoting sustainable, inclusive and equitable local development.

For UNCDF local development finance is about the improvement of the quality of life at the grassroots level. This involves local governance and the decision-making process in a given locality. It also involves sustainable, resilient, equitable and inclusive economic growth at the local level. Local development is about the spatial, institutional and economic linkages within a locality.

2.5
BILLION ADULTS

– more than a half of the world's working adults –
ARE EXCLUDED
from formal financial services.

OVER 60%

of the population of developing countries have no stake in their local economy and no say in how their affairs are run – this is still a world of subjects and not citizens.

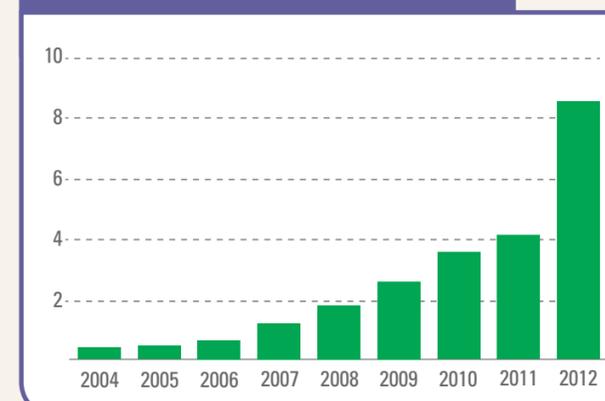
UNCDF's work aims at promoting inclusion and making sure that poor people and communities should take decisions about their own development. Its programmes help to empower women – over 65% of the clients of UNCDF-supported microfinance institutions are women – and its expertise in inclusive finance and local development finance helps shape new responses to food insecurity, climate change and other key development challenges. All UNCDF support is provided via national systems, in accordance with the Paris Principles. UNCDF works in challenging environments – remote rural areas, countries emerging from conflict – and paves the way for others to follow.

In 2012, UNCDF reached its goal by serving

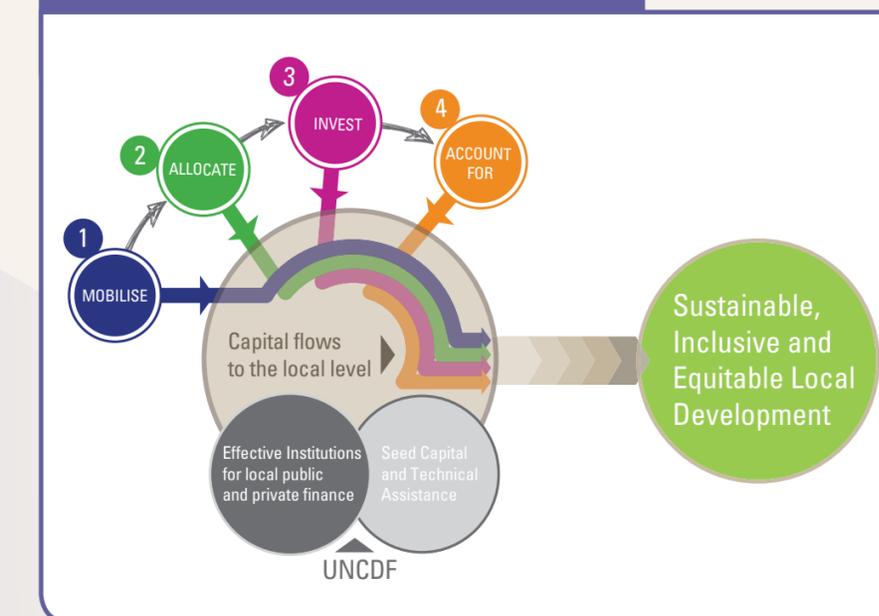
8,439,035
ACTIVE CLIENTS

through the Financial Services Providers in which it invests. Active clients include the number of savers (7,911,376) and mobile money clients (528,529); the number of borrowers is at 2,248,058.

IMPROVED ACCESS TO FINANCIAL SERVICES (Number of active clients in millions)



UNCDF APPROACH TO LOCAL DEVELOPMENT FINANCE

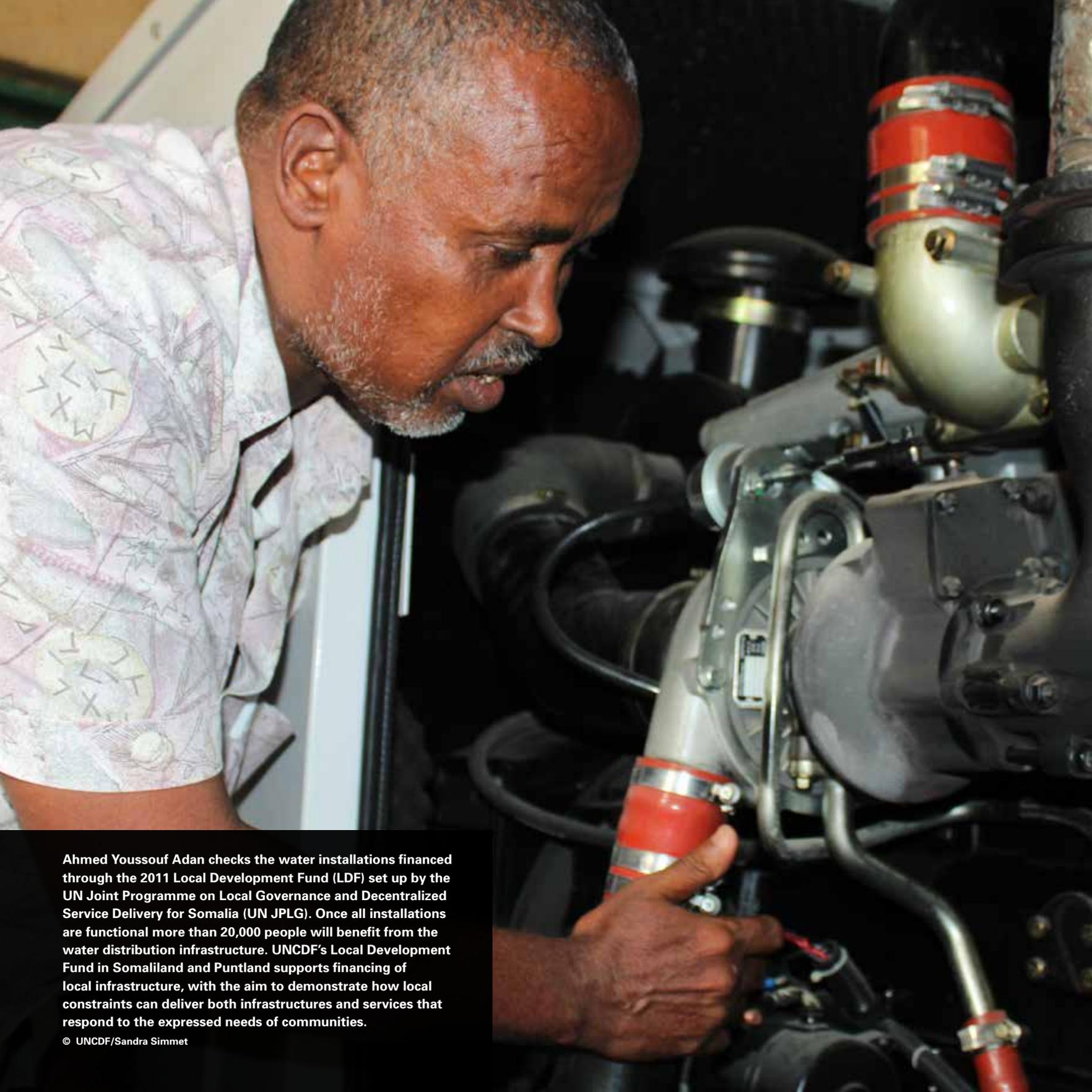


In 2012, UNCDF reached over

8,000
local governments

through curricula development, technical support and training in performance assessment, audit and other public financial management tools. UNCDF continued to engage in practical contributions to fiscal decentralization solutions that provide Governments with flexible and effective public financial systems to meet their development objectives.

Tables and Figures: UNCDF (2012) Report on results achieved by the United Nations Capital Development Fund in 2012. New York: UNCDF.



Ahmed Youssouf Adan checks the water installations financed through the 2011 Local Development Fund (LDF) set up by the UN Joint Programme on Local Governance and Decentralized Service Delivery for Somalia (UN JPLG). Once all installations are functional more than 20,000 people will benefit from the water distribution infrastructure. UNCDF's Local Development Fund in Somaliland and Puntland supports financing of local infrastructure, with the aim to demonstrate how local constraints can deliver both infrastructures and services that respond to the expressed needs of communities.

© UNCDF/Sandra Simmet

FOSTERING DIVERSE PARTNERSHIPS AND PUBLIC-PRIVATE APPROACHES TO REACH UNDERSERVED MARKETS

Addressing current and future global challenges requires a common vision as well as a collective and concerted commitment and effort, involving all actors. If innovation is key to meeting sustainable development challenges, then partnership is key to innovation. Over the past decade, public-private partnerships have become a new mechanism for addressing challenges and for leveraging the skills and resources of the private sector and civil society towards the goals of sustainable development.

Each development partner has unique skills and resources to fight today's most difficult development challenges. Bilateral aid agencies, as well as private foundations, bring subject matter expertise and funding. Local authorities and community members bring nuanced understanding of cultural strengths that can be harnessed to turn challenges into opportunities. In addition to funding, corporations bring expertise in marketing, logistics, research and development, as well as efficiency in project execution and management. The United Nations provides unparalleled access to leaders and policy-makers and, most importantly, the ability to unite and coordinate those seeking to make a difference. Non-profit organizations have on-the-ground knowledge and experience and the local human resources to ensure that the right services are delivered with integrity. By fitting these pieces together, the result is much more than the sum of the individual parts.



YouthStart partners have provided financial services to 113,525 youth, and financial education to nearly 65,000 youth, of which 41 percent were young women and girls.



The Enhancing Access to Financial Services (EAFS): Building an Inclusive Financial Sector in Nepal programme supports strategic partnerships (e.g., collaborating with insurance companies, remittance firms, leasing agencies and others), innovations in product delivery methods (such as expanded branch networks in poor areas, linked self-help groups, mobile technology, and the use of third-party agents), and products. It aims marginalized groups, and seeks to broaden access to services by forging linkages between financial service providers and savings credit groups.

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IN FOCUS

Swedish International Development Cooperation Agency (Sida) and UNCDF signed a new partnership framework agreement encompassing seven UNCDF global initiatives.

The Hague Academy, based in The Netherlands, organizes practice-oriented training courses and knowledge exchange activities for people involved in local governance.

In Sierra Leone, **Local Governance and Economic Development Joint Programme (LGED-JP)** resulted in the adoption of a National LED Agenda.

In sub-Saharan Africa **YouthStart** programmes have provided financial services to 113,525 youth, and financial education to nearly 65,000 youth, of which 41 percent were young women and girls.

FinMark Trust, the **Center for Financial Regulation and Inclusion (Cenfri)** and UNCDF established in 2012 a partnership to support financial inclusion in Myanmar.

Partnerships with **AusAID** and **Westpac Bank of Australia** resulted in programmes such as **Laos Australia Rural Livelihoods Programme (LARLP)** and **Pacific Financial Inclusion Programme (PFIP)** that focused on providing sustainable financial services to low income households.

UNCDF strongly believes in the power of partnerships and collaborative efforts to reduce poverty and advance sustainable human development. It works closely with member states, UNDP and the UN system, private foundations, multinational financial services corporations, civil society organizations, and academia to identify, design and implement alliances that leverage the efforts for promoting inclusive growth in the least developed countries (LDCs).

In 2012, UNCDF strengthened existing partnerships and signed agreements with new partners. By working together, development partners helped support UNCDF programmes and its efforts to create new opportunities, and helped advance issues vital to the world's poorest countries. UNCDF is proud that these partnerships contribute to global efforts to reduce poverty and accelerate progress towards achieving the Millennium Development Goals.

New Partnerships are Fostering Inclusive Growth, Sustainable Development and Aid Effectiveness

Seven global thematic initiatives gain support

Early in the year, the **1 Swedish International Development Cooperation Agency (Sida)** and UNCDF signed a new partnership framework agreement encompassing seven UNCDF global initiatives. Already a significant donor to UNCDF regular resources, Sweden supplemented its existing support with an additional contribution to reinforce UNCDF's work on inclusive growth and sustainable development.

Under the Partnerships Framework on Inclusive Growth and Sustainable Development (PFIS) and with a total contribution of \$16.3 million for the period 2012-2015, Sweden will support UNCDF in its efforts to accelerate progress towards the Millennium Development Goals. This will be achieved through contributions to a number of innovative UNCDF global initiatives, including CleanStart, Local Climate Adaptive Living Facility (LoCAL), Local Finance Initiative (LFI), Making Access to Financial Services Possible (MAP), and Mobile Money for the Poor (MM4P).

UNCDF developed these global programmes in response to country-level demand for support in areas such as climate change adaptation finance, local infrastructure finance and access to energy finance. Such support grows naturally out of its existing expertise in financial services and local development finance and is complementary to its country programmes.

The UNCDF CleanStart programme, for example, supported by **Austria, Norway and Sweden**, offers a sustainable financing model to make renewable energy more accessible and affordable for low-income consumers. This includes improving access to clean and efficient cook stoves, which in the developing world will produce a triple dividend of environmental protection,

improved health and socioeconomic development with significant local and global implications. A more energy efficient cook stove emits about one tonne less carbon dioxide each year than a traditional cook stove, greatly reducing greenhouse gas emissions.

UNCDF has expressed its gratitude to Sweden for the support to address emerging issues in the LDCs. With this new and innovative partnership, UNCDF's global programmes, which correspond well with Sida's Strategy for Global Thematic Development Cooperation 2011-2014, will translate into large numbers of poor families and micro and small enterprises gaining access to financial and social services that are affordable and sustainable, gaining access to sustainable energy and new economic opportunities, and improving their resilience to climate change.

This innovative multi-year framework agreement confirms a shared commitment to advance the internationally agreed aid effectiveness principles and to accelerate efforts towards achieving the Millennium Development Goals and other internationally agreed development goals.

- ⊕ More information on CleanStart available at www.uncdf.org/cleanstart
- More information on LoCAL available at www.uncdf.org/local
- More information on LFI available at www.uncdf.org/lfi
- More information on MAP available at www.uncdf.org/map
- More information on MM4P available at www.uncdf.org/mm4p

In 2012, UNCDF Local Development Finance programmes directly leveraged three to eight times the volume of original UNCDF resources: for every \$1 that UNCDF invested in a particular project, other development partners and/or national governments invested \$3-\$8.

Piloting MAP and more in Lao PDR

Inclusive development is also the objective of a new partnership between UNCDF and the **Asian Development Bank (ADB)**, a global leader in fighting poverty throughout

Making Access to Finance Possible (MAP)

MAP is a multi-country initiative to support financial inclusion, through an integrated and holistic process with multi-stakeholder dialogue, and using a rigorous diagnostic tool. The MAP framework leads to the development of national financial inclusion roadmaps that identify key drivers and recommended actions on the basis of detailed evidence-based data.

MAP goes beyond the narrow supply-led focus to a broader focus on the financial ecosystem. Through a detailed understanding of demand, it explores innovation in products and business models to better meet demand, and acknowledges the need for effective rules that govern the system and supporting functions such as credit bureaus and payment systems. Additionally, it acknowledges the variety of supporters and providers that need to be included in the process. MAP is a highly integrated stakeholder process that results in a more holistic view and a more coordinated effort by government and industry in their efforts to increase financial inclusion and ultimately make markets work better for the poor.

The MAP framework was developed by UNCDF in partnership with FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri) and is intended to become a public good that can advance the global financial inclusion agenda. The partnership leverages the experience of the respective institutions in financial inclusion development, aligning their respective strengths in implementation, primary demand-side research and diagnostic composition.

⊕ More information on MAP available at www.uncdf.org/map

Asia and the Pacific. In 2012, the partners agreed to pilot UNCDF's newest diagnostic tool, Making Access to Finance Possible (MAP), which offers a programmatic framework to support expanding access to financial services for individuals and micro and small businesses. In 2012, UNCDF launched MAP pilot projects in Côte d'Ivoire, Myanmar and Thailand.

In 2012, UNCDF also welcomed support from **6 AusAID, the Australian Government's Agency for International Development**, to develop and launch initiatives projected to enhance financial inclusion for more than 325,000 people in Lao People's Democratic Republic. AusAID joined UNCDF to focus on the **2 Laos Australia Rural Livelihoods Programme (LARLP)**, a grant facility designed to increase the economic security and resilience of poor people in rural areas. The programme provides poor rural families, in particular women, with greater and inclusive access to social protection, financial services, productive assets and opportunities to generate income.

⊕ More information on UNCDF's work in Laos available at www.uncdf.org/lao-pdr

Gathering data with MAP in Myanmar

Access to financial services in the **8 Union of Myanmar** is severely limited. Reliable information on the financial sector and the need for financial services is lacking, constituting a significant constraint to designing a well-informed and effective strategy for financial sector development and financial inclusion. Recently, the Government of Myanmar has made the enhancement of financial access for poor and lower income households and micro-enterprises a national development priority.

In May 2011, Myanmar's President set up a high-level inter-ministerial working group on microfinance development, and later that same year the Central Bank of Myanmar enacted a Microfinance Law which created an institutional setting for the enhancement of access to

financial services to poor and lower-income households and micro-enterprises. Financial inclusion, often under the name of microfinance, has broad political support from both established authorities and the National League of Democracy, and has been put at the centre of the development efforts.

UNCDF's Making Access to Financial Services Possible (MAP) programme is based on these critical development needs, to further financial inclusion and build on the specific expertise of experience gained in similar exercises elsewhere. The MAP programme is just one facet of support from UNCDF and an array of valued partners for the expansion of financial inclusion in Myanmar.

⊕ More information on UNCDF's work in Myanmar available at www.uncdf.org/myanmar

Partnerships to Build Local Governments' Capacities and Promote Pro-Poor Economic Activities

In many developing countries, growing attention is being paid to local knowledge, planning, monitoring and implementation – all in pursuit of the Millennium Development Goals (MDGs). National strategies and plans are crucial to achieving the MDGs, bottom-down policies have their limitations and those aimed at specific sectors often fail to address complexities and interdependencies which can be more easily seen from the local level.

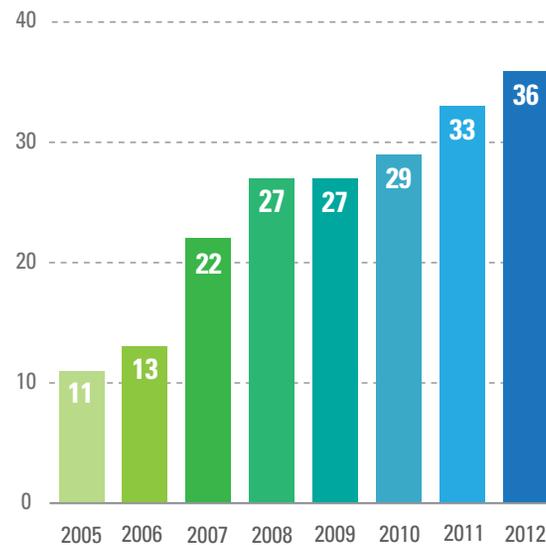
UNCDF works to strengthen public financial management and improve infrastructure investment and delivery of basic services by local government authorities. It does so by supporting decentralization, building local government capacities, strengthening public financial management and investment, and promoting innovation and own-source revenue mobilisation.

Training courses on local good governance

A new partnership was established in 2012 with

3 **The Hague Academy for Local Governance**, which has agreed to work with UNCDF to strengthen local governance with training courses for developing capacity for decentralization, good governance, access to basic social services, and public dialogue and accountability. The Hague Academy, based in the Netherlands, organizes practice-oriented training courses and knowledge exchange activities for people involved in local governance. UNCDF will jointly design courses for officials from least developed countries and provide its experienced professional staff as trainers to fit the needs of a specific region or context. Train-the-trainer courses

NUMBER OF FUNDING SOURCES



will help to maximize the training impact and empower people from LDCs to further disseminate the knowledge in their home countries.

Strengthening Local Councils in Sierra Leone

In 2012, UNCDF also partnered with **UNDP** and the **Canadian International Development Agency (CIDA)** in Sierra Leone to build the capacity of local government authorities to promote pro-poor economic activities and initiate private-public investment in key productive sectors. Under **4** the Local Governance and Economic Development Joint Programme (LGED-JP), UNCDF in partnership with UNDP and support from other partners seek to improve socio-economic well-being at the local level. Building on the Government of Sierra Leone's Decentralization Policy, Local Economic Development (LED) programming supports local wealth creation, increased employment opportunities and improved economic productivity and service delivery. Local government authorities provide an entry point for the programme that allows for effective linkages to be established with broader governance policies and embeds LED within the participatory planning and budgeting frameworks at both national and local levels.

In 2012, the programme achieved important results, including the introduction of the LED approach and methodology to the Government of Sierra Leone, leading to the launch of a national conference on LED by the Vice President of Sierra Leone at which a National LED Agenda was adopted. The programme also supported numerous activities with Local Councils, which are the only level of local governance in Sierra Leone. The development plans of the target Local Councils were reviewed, employed a bottom-up, participatory planning and budgeting methodology that resulted in the mainstreaming of LED functions and investments. Local Councils subsequently selected key priority areas and projects for LED investment. The programme also supported feasibility studies to obtain accurate information for the councils

to use when selecting LED investments based on their sustainability.

Mapping studies conducted in 2012 for local socio-economic development in the target Local Councils provided clear and comprehensive data and information on existing and potential economic development opportunities, strengths, weaknesses, threats and recommendations. Based on the studies, the councils can now make informed decisions about which areas to tap into and which stakeholders to partner with to foster greater socio-economic development.

Five LED projects that received earmarked grants were completed by the councils in 2012.

Public-private partnership agreements between Local Councils and the private sector have been established to support local income-generating activities. Nine public-private partnership contracts were signed in 2011 and 2012 in sectors including food security, education and vocational training, tourism and hospitality, community outreach and market infrastructure.

⊕ More information on UNCDF's work in Sierra Leone available at www.uncdf.org/sierra-leone

Public-Private Partnerships to Make Access to Finance More Inclusive in Remote Areas and for Youth

Banking in stores in the Solomon Islands

In the Solomon Islands, remote areas have long gone without access to appropriate financial products and services despite significant demand. In 2012, UNCDF promoted a public-private partnership with the **6 Westpac Bank of Australia** to open In-Store Banking, in partnership with the Provincial Government of the Central Islands Province.

Westpac's In-Store Banking was launched on the small island of Tulaghi in 2012 with support from two programmes: 1) the MicroLead programme, a UNCDF initiative in partnerships with the Bill & Melinda Gates Foundation; and 2) the **7** Pacific Financial Inclusion Programme (PFIP), a joint programme of UNCDF, AusAID, EU/ACP, and UNDP helping to provide sustainable financial services to low income households throughout the Pacific. It is the first such service in the Solomon Islands.

Financial services for youth

Young people are the focus of another financial inclusion effort carried out through a public-private partnership. UNCDF and **The MasterCard Foundation** launched YouthStart to assist strong financial service providers (FSPs) in developing, piloting and rolling out youth-focused financial products, especially savings, and non-financial services such as financial literacy or reproductive health education.

Public-Private partnerships brings banking to Tulaghi, Solomon Islands

Until recently, residents of Tulaghi had to leave the island if they needed to deposit a paycheck or access funds. With a population of 1,200, Tulaghi is the provincial center for the Central Islands. Political tensions have decreased tourism revenue in the province, but private investment in the islands' shipbuilding industry bears the promise of a revitalized business economy. Access to financial services has been lacking since the closure in 2011 of Tulaghi's sole ATM.

In July 2012, a public-private partnership launched In-Store Banking in Tulaghi, making it easy for bank account holders to access their funds through an EFTPOS (Electronic Funds Transfer at Point Of Sale) terminal. The initiative received support from UNCDF's MicroLead programme and the Pacific Financial Inclusion Programme and was carried out by Australia's Westpac Bank.

Account holders can conduct balance enquiries, make cash withdrawals or cash deposits, transfer funds between accounts, pay bills where customers and payees are registered for Bill Pay, pay fellow Westpac customers and also print mini-statements for recent transactions. The bank offered potential customers a training session on how to open a bank account and manage their money, trained local treasury department officials to oversee operations of the EFTPOS services, and planned a banking handbook in Pidgin, spoken locally, for use in a series of financial literacy workshops.

In 2012, more than 400 Tulaghi residents – one third of the population – opened bank accounts serviced through the In-Store Banking system and can now benefit from convenient banking. While they do their shopping, residents will be able to perform deposits, withdrawals, pay their bills, check their balance and obtain a mini statement. The service also means customers can use a card to buy their goods rather than having to carry cash. It empowers local businesses by bringing a greater number of customers to their doorstep, and as a win-win for customers and merchants, it can help the local community to prosper and grow.

⊕ More information on UNCDF's work in Solomon Islands available at www.uncdf.org/solomon-islands.

More information on MicroLead available at www.uncdf.org/microlead

More information on PFIP available at www.uncdf.org/pfip and www.pfip.org

Through YouthStart, UNCDF aims to demonstrate that when accessing the right combination of financial and non-financial services, youth are better equipped to make more informed financial decisions, build financial, social and human assets for their futures and create sustainable livelihoods. At the same time, youth financial services contribute to increasing outreach and sustainability of FSPs over time.

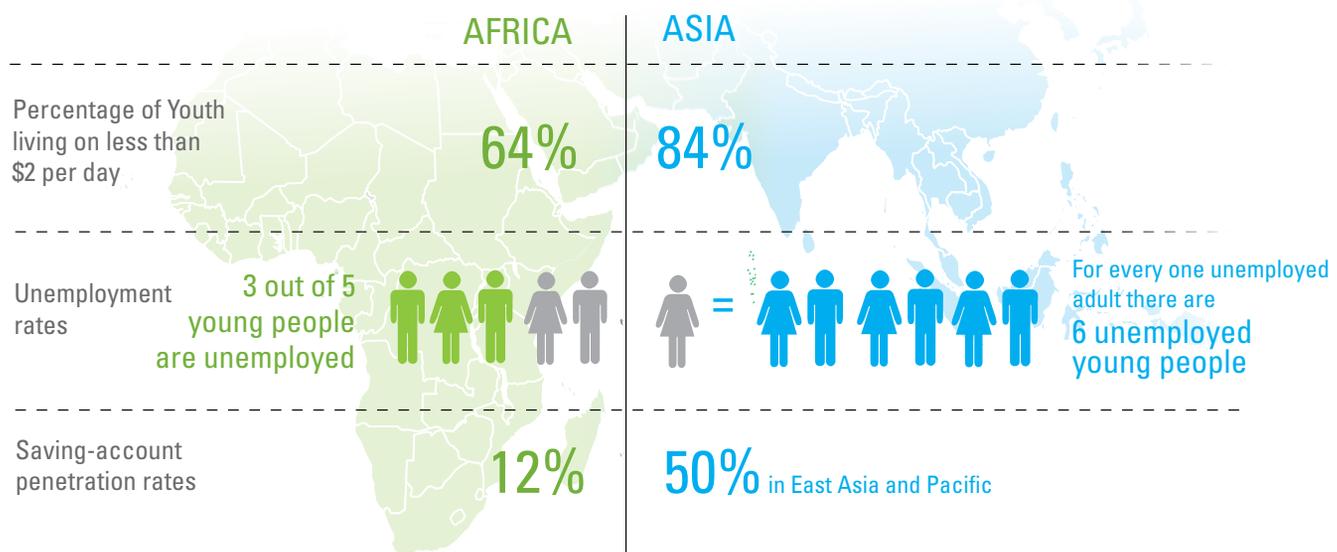
YouthStart recognizes that few financial service providers serve young people, hindered by legal restrictions, high transaction costs and negative stereotypes. Youth are regarded by many as risky due to their mobility, their apparent willingness to take more risks and their perceived desire to spend money on 'wants.' Yet, access to financial and social assets is a key contributing factor to help youth make their own economic decisions and escape poverty. Providing young people with financial services—whether a safe place to save or an appropriately structured loan for



New clients of Amhara Credit and Savings Institution's youth savings account proudly show their bankbooks. The Ethiopian Credit and Savings Institution developed the youth financial service under the framework of UNCDF's YouthStart programme aiming to reach 200,000 youth in sub-Saharan Africa with financial and non-financial services, in particular savings and financial education.

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YOUNG PEOPLE IN AFRICA & ASIA



WHY FOCUS ON YOUNG PEOPLE?

90%

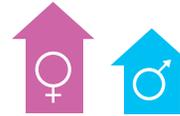
A third of the global population is under 19 and 90 percent live in developing countries.

70%

Out of the world's 130 million out of school youth, 70 percent are girls.

35%

Thirty-five percent of women aged 20 to 24 in developing countries were forced to marry as children.



Unemployment rates of young females consistently exceed those of young males.

33%

44%

Youth are 33 percent less likely to have a savings account than adults and 44 percent less likely to save in a formal institution.

investment in an enterprise or education—can promote entrepreneurship and asset building, and emphasize sustainable livelihoods. The financial component is especially effective for youth when complemented with training in entrepreneurship and financial literacy, and mentorship opportunities.

In 2012, **5** YouthStart continued to provide the 10 participating financial service providers in eight countries in sub-Saharan Africa with training and technical assistance in the areas of youth microfinance, youth development, integration of financial and non-financial services, and youth client protection. UNCDF also hosted eight multi-stakeholder meetings to spark national dialogues and remove barriers to youth access to financial services in Burkina Faso, Democratic Republic of Congo, Ethiopia, Malawi, Rwanda, Senegal, Togo and Uganda. Through pilot tests between the programme's launch in 2010 and 2012, these YouthStart partners have provided financial services to 113,525 youth, and financial education to nearly 65,000 youth, of which 41 percent were young women and girls.

⊕ More information on YouthStart available at www.uncdf.org/youthstart



Girls in the Democratic Republic of Congo will be better-equipped to make informed decisions about money, build assets and create sustainable livelihoods. This is the aim of YouthStart, which promotes youth-focused financial products, especially savings, and related training. Instruction is provided through FINCA DRC, a microfinance institution partnering with YouthStart. UNCDF launched YouthStart three years ago with the support of The Mastercard Foundation and in 2012 worked with 10 financial service providers and hosted multi-stakeholder meetings in seven countries.

© UNCDF/FINCA DRC



In Jakarta, Indonesia, Queen Máxima joined young women in a government-mandated training programme for household workers headed for jobs overseas. Through a two-week course segment, the women learn the basics of personal finance, how to budget and save, and how to use tools like ATMs and remittance services.

© Amina Tirana

A Partnership to Raise Financial Inclusion on the Global Agenda

UNCDF continued to work closely in 2012 with the **United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA), Her Majesty Queen Máxima of the Netherlands**, supporting her work by hosting the Office of the UNSGSA at the UNCDF Headquarters in New York.

The UNSGSA 2012 Annual Report to the Secretary-General highlights Queen Máxima's¹ activities as the leading global champion and spokesperson for the essential role of financial services in alleviating poverty, fostering equitable economic growth, and furthering diverse development goals including environmental sustainability, food security, clean water, good health and universal education.

As stated in the report, "today approximately one-third of the world's population, most of them poor, struggle to get by without basic financial services such as savings, insurance and credit."² The UNSGSA raises awareness of this situation and calls attention to how financial inclusion helps families and entrepreneurs to generate income, manage cash flow, build assets, invest in opportunities, and strengthen resilience to setbacks. As advocacy efforts and innovative approaches take root, companies, practitioners, and policymakers are increasingly responding to the needs of the world's unbanked and underserved.

Notably, the G20 has elevated financial inclusion as a global policy priority as part of its response to ongoing financial instability and efforts to stimulate economic development. As UNSGSA and Honorary Patron of the G20's Global Partnership for Financial Inclusion (GPMI), Queen Máxima prioritized her activities this year to help build political will and shape a lasting outcome at the G20 Leaders' Summit in Los Cabos, Mexico. There, 17 countries committed to create cross-sector coordination platforms and national strategies as part of the G20 Financial Inclusion Peer Learning Program—and bring the benefits of financial services to more than 700 million people and millions of enterprises. And, global financial standard setting bodies are increasingly considering

1 Since 30 April 2013, Princess Máxima became Queen Máxima upon her husband's investiture as King of the Netherlands

2 2.5 billion adults go without access to formal financial services. World Bank Global Financial Inclusion Database (Findex), April 2012

financial inclusion in their recommendations and guidelines.

To help convert these commitments into action, the UNSGSA urges stakeholders to develop and deliver financial services tailored to individuals and small entrepreneurs currently beyond the reach of traditional channels and products. She calls for more insight into both the needs of clients and the impact of financial inclusion in order to inform effective products and policies that also advance the desired development ends. Especially as services become more readily available, the UNSGSA advocates the importance of responsible finance and financial literacy to assist low-income clients to achieve their goals.

Momentum is growing. But, the efforts have yet to reach a tipping point. Advocacy is needed now more than ever since achieving financial inclusion requires long-term change.”

⊕ For more information and full UNSGSA's Annual Report, please see www.unsgsa.org

Putting clients at the center of financial inclusion is the only way we will get to what really matters: impact on lives, livelihoods and welfare.

Her Majesty Queen Máxima of the Netherlands
United Nations Secretary-General's Special Advocate
for Inclusive Finance for Development

MEETING GLOBAL CHALLENGES THROUGH FINANCIAL SOLUTIONS: ENERGY POVERTY, CLIMATE CHANGE, POST-CONFLICT, GENDER AND INEQUALITY

Global challenges are increasing in scope and are growing more urgent. Longstanding challenges such as food crises, disease and pollution of the environment continue to cause damage and devastation, exacerbated by conditions in today's world. Global warming and climate change affect the entire planet. The free movement of people and goods means that infectious diseases can more easily spread worldwide and also implies that greater demands are placed on global public goods.

Conflict, energy poverty, climate change – all of these complex global challenges are even more challenging in the least developed countries, where UNCDF focuses its interventions. UNCDF promotes innovative financing approaches that provide an effective component of solutions.

Recognizing environmental sustainability as an essential component for safeguarding the world's ecosystems and for building a peaceful and equitable world, UNCDF deepened its commitment in setting the agenda for innovative, environmentally-sound financing solutions to human development challenges. In 2012, during Rio+20, UNCDF launched CleanStart, a new global facility aimed at increasing access to sustainable, low cost energy via appropriate financing schemes. UNCDF also continued its Local Climate Adaptive Living Facility (LoCAL) pilot programme, an innovative vehicle to channel climate change finance to local governments who are at the frontline of dealing with the effects of climate change.



One of the crosscutting issues being – fighting inequality – is at the core of UNCDF’s mission.



Niger, where climate change threatens agriculture and food security, took steps in 2012 to promote local development in cross-border areas, joining Côte d'Ivoire, Burkina Faso and Mali in the launch of an initiative by UNCDF with key regional partners in West Africa. The aim of the Local Cross-Border Initiative (LOBI) is to promote economic stability and human security.

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IN FOCUS

4 Increased access to the financial sector through the **MicroLead** initiative in post-conflict countries such as the Democratic Republic of Congo, Liberia, Rwanda, Sierra Leone and South Sudan.

UNCDF proposed a series of possible interventions in Liberia, including a mobile banking programme called **MM4P, Mobile Money for the Poor**.

2

3

Over 300,000 people in Puntland, Somalia have already benefited from the investment projects implemented with support from the LDF and with the technical assistance of UNCDF, which included local clinics, markets and access roads.

1

The performance-based **LoCAL** grants in Bhutan aimed to enable local governments to tackle the effects of climate change—primarily increased floods as a result of glacial melt in the Himalayas.

This year UNCDF strengthened its engagement in fostering positive development in post-conflict regions, where local governments struggle to deliver services. UNCDF launched a new governance programme, the Local Cross-Border Initiative (LOBI), to improve economic stability and human security in volatile cross-border areas of West Africa. UNCDF also promoted mobile banking in Liberia, and increased access to the financial sector through the MicroLead initiative in post-conflict countries such as the Democratic Republic of Congo, Liberia, Rwanda, Sierra Leone and South Sudan.

2012 heralded the approval of UNCDF's first Gender Equality and Empowerment of Women (GEEW) strategy, UNCDF's road map for mainstreaming gender into each thematic area of our work, at the global and the country levels.

Placing Sustainability and Inclusiveness at the Center of the Development Agenda: UNCDF Participation at Rio+20

Contributing UNCDF experience and expertise

Rio+20, the UN Conference on Sustainable Development, marked the 20th anniversary of the 1992 Earth Summit. The event renewed political commitment for sustainable development at the highest levels, asking how to build a green economy to achieve sustainable development and lift people out of poverty, and how to improve international coordination for sustainable development.

UNCDF participated extensively in the event as an advocate for a development model that places sustainability

and inclusiveness at the center of the agenda and that considers as priorities local development policies that address territorial exclusion and comprehensive policies that foster financial inclusion at all levels.

UNCDF shared its knowledge and technical expertise in public financial management and local development in an event organised with the Swiss Development Cooperation and Peru to demonstrate how local governments in mountainous regions are adapting to the changing climate. UNCDF works on the systems and enabling environment that support local governments and sustainable local development (with a focus on fiscal decentralization and public financial management). In addition, UNCDF works on thematic areas that can focus on specific aspects of the sustainable development/green growth equation. This leads to developing sound fiscal decentralization and robust public financial management systems that are critical to improving the performance of the public sector and to fostering service delivery and sustainable/inclusive growth in LDCs.

UNCDF offered the Rio+20 process its recognized technical leadership in fostering expanded access to financial services. As a facilitator, UNCDF supports sector diagnostics that lead to roadmaps for financial inclusion in which various stakeholders from the public and private sector have a role. UNCDF then works with governments to design sector development programmes that work at macro, meso and micro levels. At the macro level, programmes target interventions that facilitate a more enabling environment, in terms of the policy, legal and regulatory constraints that may hamper a financial sector from being inclusive. At the meso level, programmes contribute to the capacity building of industry players, such as industry associations, rating agencies, and auditors, or facilitate the creation of credit bureaus. At the micro level, programmes support expanding the capacity and reach of retail Financial Service Providers. FSPs include commercial banks, non-banking financial institutions

(NBFIs), microfinance institutions (MFIs), credit unions, cooperatives, insurance providers, money transfer companies, mobile network operators (MNOs) and other institutions providing financial services.

⊕ More information on UNCDF's contribution to Rio+20 available at www.uncdf.org/en/Rio_20

Launching CleanStart for low-cost clean energy

Rio+20 provided UNCDF with an opportunity to launch CleanStart, a programme to help poor households and micro-entrepreneurs access financing for low-cost clean energy.

Increasing access to energy is critical to achieving sustainable development. Over a quarter of the world's population lacks access to electricity, while some 2 billion people spend disproportionate amounts of time and resources on traditional biomass for cooking and heating.



A farmer in the Chitwan District of Nepal is using an improved water mill to grind maize that he financed through a microfinance programme for modern energy. This efficient agro-processing technology reduces the time required to grind grain by as much as 50 percent. The increased production will also increase his income, and lifting people out of poverty is a key aim of CleanStart, launched by UNCDF to help poor households and micro-entrepreneurs access financing for low-cost clean energy.

© UNCDF/Hee Sung Kim

Where modern energy services are unavailable, people resort to expensive and unsustainable systems, which can exacerbate energy insecurity and leave communities more vulnerable to the effects of climate change. In many developing countries, the main obstacle is not lack of technology, but lack of financing models that make energy accessible and affordable to low-income consumers.

CleanStart offers microfinance for low-cost clean energy

CleanStart creates microfinance opportunities to develop a clean energy future for low-income people and micro-enterprises. To scale up energy financing for the poor, microfinance institutions are well-placed to provide the products and services poor households and micro-entrepreneurs need to pursue clean energy opportunities. CleanStart promotes such financing arrangements, supports quality assurance measures and offers advisory services to contribute to a mutually beneficial cycle of investment, awareness-building and the creation of a new, higher return market segment.

CleanStart aims to help lift at least 2.5 million people out of energy poverty by 2017, in ways that can be replicated and scaled up by others. This is expected to contribute to the Millennium Development Goals on poverty and hunger, education, gender, health and environmental sustainability, and to reduce carbon emissions. CleanStart is supported by the UN Capital Development Fund (UNCDF), Swedish International Development Cooperation Agency (Sida), the Austrian Development Agency (ADA) and the Norwegian Agency for Development Cooperation (Norad). CleanStart will roll out in six countries across Asia and Africa. Nepal has been selected as an investment country, and a country scoping showed promise in Uganda. In 2013, a further four investment countries will be selected.

⊕ More information on CleanStart available at www.uncdf.org/cleanstart

Participating in the European Development Days: Supporting Inclusive and Sustainable Growth for Human Development

In 2012, the **European Development Days**, an annual forum organized by the European Commission to foster a spirit of partnership in international affairs and development cooperation, put the spotlight on priority issues for the developing world. Emerging countries are getting richer, Africa is recording unprecedented economic growth and, in some countries, a boom in business activities – yet at the same time, food security remains an acute challenge and inequalities are rising. The international development community gathered in Brussels to discuss these challenges and push forward the global development agenda. The main themes for discussion were agriculture, food security and resilience, social protection and inequality and the role of the private sector. UNCDF contributed substantively to the dialogue on innovative models and new approaches to public-private collaboration.

UNCDF organized the CleanStart Project Lab, a technical panel discussion that focused on actions needed to expand the energy value chain for poor people. The lab considered the role of finance as well as the role of the European development community in advancing this important agenda.

UNCDF also co-organized a High Level Panel on Making Finance Work for Inclusive Development. The event, held jointly with the European Microfinance Platform, International Disability and Development Consortium and International Finance Corporation, was a showcase on how finance can work for inclusive development, highlighting innovative approaches to tackling the needs of specific vulnerable groups and sectors of society in developing countries.

⊕ More information on UNCDF's contribution to 2012 European Development Days available at www.uncdf.org/EDD12

Investing in Local Resilience for Climate Change

Building resilience for climate change includes investing in and maintaining water and sanitation facilities, establishing and enforcing zoning and land use planning, managing natural resources and building and maintaining basic infrastructure – activities within the mandate of local governments throughout the world. In most developing countries, local governments have very small resource envelopes that they can spend at their own discretion. Their resources often come earmarked from the central government for recurring expenditures, leaving little for capital investment.

Throughout 2012, UNCDF piloted LoCAL in Bhutan. The ① performance-based LoCAL grants in Bhutan aimed to enable local governments to tackle the effects of climate change—primarily increased floods as a result of glacial melt in the Himalayas. Since 70 percent of the Bhutanese are subsistence farmers, communities and local governments are using the grants to adapt agricultural practices to changing weather patterns, thereby contributing to increased food security. This pilot initially targeted two village groups (Gangtey and Nangkor) within two municipalities (Wangdue and Zhemgang) as well as the Phobjikha valley, a critical habitat for the endangered black-necked crane.

Although performance-based grant systems have only been in place for a few years, there is considerable evidence that the incentives they provide improve local government performance, especially in core administrative and financial areas. After documenting and distilling knowledge from the Bhutan pilot to refine the LoCAL methodology, UNCDF embarked on planning for a rollout of LoCAL to address issues of food security and disaster risk reduction in Africa, the Middle-East and Asia.

⊕ More information on LoCAL available at www.uncdf.org/local



Primary school children head home using the bridge to be climate proofed against flashfloods, thanks to funds from UNCDF's Local Climate Adaptive Facility Programme (LoCAL), at Phobjikha, Bhutan.

© UNCDF/Riccardo D'Emidio

LoCAL channels finance for climate change resilience

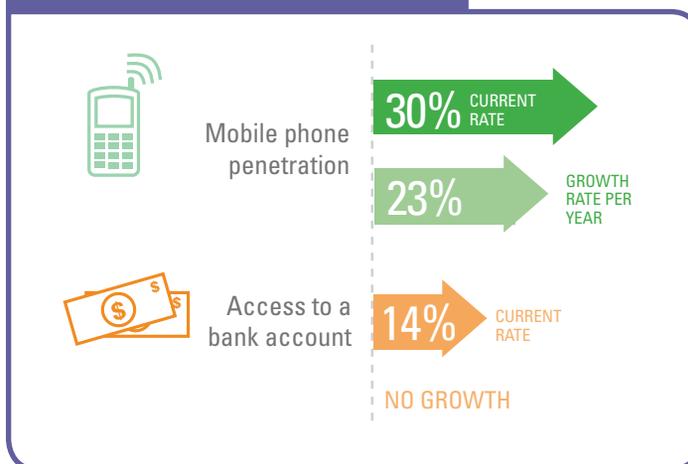
LoCAL, the Local Climate Adaptive Living Facility, is an innovative vehicle to channel climate change resilience finance to local governments, enabling them to invest in building local resilience. The LoCAL facility connects to existing national intergovernmental fiscal transfer systems and supplements capital grants to local governments with performance-based climate adaptation funding. LoCAL provides a fast and effective means to channel adaptation finance to where it is most needed, while at the same time ensuring ownership, accountability and results. The methodology is derived from UNCDF's specific experience in setting up such systems for effective capital investment and capacity building of sub-national governments.

Building Resilience in Post-Conflict Countries: Expanding Banking, Supporting Local Development, Promoting Local Economic Stability

UNCDF supported a variety of initiatives in post-conflict settings in 2012 in countries including Liberia, Sierra Leone, Somalia and the cross-border areas of West Africa.

Early in 2012, UNCDF and partners conducted a scoping mission in Liberia to explore the expansion of mobile financial services. Liberia has a single provider of such services that has struggled to gain traction in this small but complicated country still devastated by civil war. In the 2011 Human Development Report, Liberia was ranked 182 out of 187 countries.

BRANCHLESS AND MOBILE FINANCIAL SERVICES IN LDCs



Mobile Money for the Poor (MM4P)

MM4P was developed by UNCDF with support from Sida and AusAID to support branchless and mobile financial services in selected countries where UNCDF operates. The aim of the programme is to demonstrate how the correct mix of financial, technical and policy support can build a robust branchless and mobile financial services ecosystem in LDCs.

MM4P provides technical support for mobile financial service providers, supports the development of better products to meet customers' needs and demands, strengthens the network of financial service agents, and assists central banks and policy makers to create an enabling environment. While each country faces unique challenges, services such as transfers, bill payments, savings, or microinsurance have the potential to greatly improve the financial security of millions of households.

Mobile phones have transformed lives in rich and poor countries alike. Of the world's 7 billion people, there are now 6 billion phone subscriptions globally compared with about 2 billion bank accounts. A survey of 40 least developed countries found mobile phone penetration was around 30 percent while access to a bank account was 14 percent on average. More striking are the growth rates, with mobile phone penetration growing at a rate of 23 percent a year, while financial access growth is flat. Mobile money services have the potential to reach millions of users in the time it has taken traditional microfinance to reach thousands. However, challenges in LDCs include lower overall population, lower levels of economic activity and disposable incomes, less developed business and regulatory environments, and poor infrastructure – physical, technological and financial. Through solutions such as MM4P, UNCDF is working to overcome these challenges using mobile phone technology.

+ More information on MM4P available at www.uncdf.org/mm4p

UNCDF proposed a series of possible interventions to the Central Bank of Liberia. Within the year, negotiations were underway to introduce a mobile banking programme called 2 MM4P, Mobile Money for the Poor, which taps into rapidly increasing access to mobile phones to bring banking to underserved populations.

Local Development to improve services in Somalia

An estimated 3.6 million people in **Somalia**, over one-third of the population, are considered to be in need of emergency assistance. UNCDF is helping to address development challenges in Somalia through initiatives to improve public service delivery and to increase local government access to financing for infrastructure.

This work is being carried out through the 3 **UN Joint Programme on Local Governance and Decentralized Service Delivery for Somalia/Local Development Fund in Somaliland and Puntland**. Programme partners include UNCDF, UNDP, ILO, UN-HABITAT, UNICEF, Denmark, DfID, Norway and Sida.

UNCDF is piloting a Local Development Fund (LDF) in Somaliland and Puntland, two relatively peaceful regions of the country, designed to introduce and pilot practical models of local development adapted to the post-conflict realities of Somalia in cooperation with central and local authorities.

A major goal of decentralization is to improve service provision by giving local governments the capacity to plan for themselves to achieve the aspirations of the local people. The LDF initiative is enabling a dialogue between central and local governments and setting the stage for fiscal decentralization. Prior to implementation of the LDF, there were neither formal fiscal transfers to local authorities nor any support to planning for service delivery at the local government level. Investment projects were carried out sporadically on an ad hoc basis directly by the central government without any grass root consultative process.



Bhutanese farmers from the Pobjika valley in the Wangdue District, cultivate potatoes as cash crops. Because of the change in weather patterns and erratic rainfall the yields from their cash crops have been diminishing year by year. Phobji Gewog in Phobjika Valley has been identified by the Bhutanese government to pilot UNCDF's Local Climate Adaptive Facility (LoCAL) under the Joint Local Governance Support Programme. The funds will be used for practical adaptation programmes such as irrigation.

© UNCDF/Riccardo D'Emidio

LDF implementation commenced in the last quarter of 2011, and 24 locally prioritized investment projects were implemented during 2012. These projects improved social service delivery and local economic development covering, among others, roads, schools, health, water, garbage collection and markets. Over 300,000 people in Puntland have already benefited from the investment projects implemented with support from the LDF and with the technical assistance of UNCDF, which included local clinics, markets and access roads.

For example, a gravel road project in Gardo district, Puntland, benefitted a community of 7,000 village inhabitants and improved accessibility, security, town image, and economic activities of the Upper Hingood village. The road improved access to schools, health centers and water, including access to water tankers that can now be supplied to remote locations.

Catalytic funding from UNCDF for another gravel road project, in Borama district in Somaliland, mobilised double the investment from the community. Community consultation processes around the road project and cross-clan additional resource mobilisation not only contributed to create harmony but established monitoring for local fiscal accountability. Four other roads and a marketing project have dramatically increased the exchange of goods and services in Borama district and even increased the value of the land and properties.

In another Local Development Fund initiative, UNCDF continued to deliver technical support to the governments in South Central Somalia and Somaliland to further decentralization and improve local service delivery. In 2012, UNCDF completed local development projects initiated in 2011 in Somaliland, disbursing funds for 13 projects in six districts of the region (Berbera, Borama, Buroa, Hargeisa, Odweine and Sheikh). These projects increased each district's capacity to manage funds in an accountable and transparent way while delivering services to their communities. The results were improved livelihood, peace and stability as projects addressed local needs in the areas of road accessibility,

MicroLead

MicroLead is the name given to the **LDC Fund to Develop Savings-led Market Leaders for Inclusive Finance**, an initiative supported by the Bill & Melinda Gates Foundation, The MasterCard Foundation, the Myanmar Livelihoods and Food Security Trust Fund and UNCDF through its regular resources. This global thematic initiative aims to increase access to financial services, particularly savings, by supporting the expansion of microfinance savings-led market leaders in underserved countries.

⊕ More information on MicroLead available at www.uncdf.org/microlead

access to education, economic empowerment through construction of markets, and water catchment.

⊕ More information on UNCDF's work in Somalia available at www.uncdf.org/somalia

MicroLead Expands Microfinance in Post-Conflict Countries

An important component of post-conflict recovery is access to demand-driven financial services for the poor, a need UNCDF addresses through several initiatives. The largest is **4 MicroLead**, a \$58.6 million global programme that operates in the post-conflict countries of the Democratic Republic of Congo, Liberia, Rwanda, Sierra Leone, South Sudan and Timor Leste in addition to other countries.

By the end of 2012, microfinance institutions funded by MicroLead served some 546,000 depositors and 250,000 borrowers. During the year, more than \$300 million in savings were mobilised against loan portfolios of \$227 million. These results were produced in some of the most challenging environments. In 2012, the MicroLead Expansion programme approved additional projects to begin in 2013 in various countries including post-conflict nations such as Burundi, Liberia and Rwanda.

Local economic development in Sierra Leone

In **Sierra Leone** in 2012, UNCDF continued to support the decentralization process and achieved another major step with the national launch of a Local Economic Development programme. The LED is supported by UNCDF in partnership with UNDP, GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and the Japan International Cooperation Agency (JICA). The country's vice president chaired the launch in an event organized by the Ministry of Local Government and Rural

Development in Freetown. The event was attended by more than 250 participants from various government sectors, the private sector, civil society organizations, parliamentarians, local council authorities and district leadership including the Paramount Chiefs.

The overall objective of the programme is to promote economic opportunity and wealth creation within local communities. In Sierra Leone, where the majority of people are farmers, the focus will be on agriculture. At the local level, four local councils received support to engage with the private sector in income generating investments through public-private partnerships. As a result, the target local councils have expanded their own revenue base while creating employment and income generating opportunities for the population. This result has triggered the call by the Government to scale up the programme.

⊕ More information on UNCDF's work in Sierra Leone available at www.uncdf.org/sierra-leone

Development across borders in West Africa

Cross-border areas have long been a central concern to sub-regional politics and stability in **West Africa**. Demarcation of borders and strategic location of natural resources have historically posed threats to peace and stability. Yet, these areas hold a largely untapped potential for development.

To respond to this development challenge, in 2012 UNCDF launched the Local Cross-Border Initiative to promote development in the volatile cross-border areas. LOBI is carried out in cooperation with the Government of Luxembourg, the Economic Community of West African States (ECOWAS) and the African Economic and Monetary Union (UEMOA). Despite the inherent high political risks, joint actions by neighbour-states in these areas have the potential to achieve common development goals. Local authorities are partners in the cross-border areas Côte

Local Cross-Border Initiative (LOBI)

The overall objective of the Local Cross-Border Initiative is to define strategies and promote pilot cross-border local development processes to improve the economic stability and human security.

LOBI aims to develop capacity to provide basic local services, support local innovation for economic development as well as gender equity and food security, and increase investments and financing using international aid flows and national development programmes. The five-year programme is designed to be applicable in any cross-border region in the world.

⊕ More information on LOBI available at www.uncdf.org/lobi

d'Ivoire, Burkina, Mali and Niger within the process of local development and decentralization.

Creating Equal Opportunities through UNCDF's New Gender Strategy

Achieving gender equality and promoting women's empowerment is not only a human right and a worthy goal in itself, but also makes economic sense and enables long-term sustainable progress on a number of indicators.

Gender Equality and Empowerment of Women Strategy

UNCDF has made women's empowerment a priority cross-cutting theme and is determined to secure a future of equal rights, equal opportunities and progress for all. In 2012, UNCDF approved its first **Gender Equality and Empowerment of Women (GEEW)** Strategy. The strategy supports gender equality as a basic human right (the right thing) and promotes GEEW as a means to support the UNCDF mandate (the smart thing). The drivers of

the strategy are a common understanding of gender mainstreaming, a human resource structure (capacity and accountability framework), and a gender-responsive institutional set up.

Throughout the year, UNCDF offered webinars, ensured all staff completed the online course on the Gender Journey, and conducted training on integrating gender into the programming cycle. These activities helped UNCDF staff mainstream gender throughout their work and advocate for gender equality and the empowerment of women with counterparts at all levels. UNCDF also named focal points to advance GEEW within the organization and established a Gender Work Group to coordinate implementation and monitoring. UNCDF started tracking gender-sensitive results through its own management as well as through the landmark System-wide Action Plan (UN-SWAP), adopted by the United Nations in April 2012. Although it had less than five months of implementation of its strategy in 2012, UNCDF approached, met or exceeded 87 percent of the UN-SWAP standards. Plans were developed to address some of the areas of shortfall.

On the **inclusive finance** side, UNCDF analysis of available data showed that financial service providers with higher percentages of women borrowers performed the same or better than those with lower percentages of female clientele. This remained true though average savings balances and average outstanding loans were smaller for institutions with a higher percentage of women, and it is relatively more costly for institutions to manage smaller savings balances and to provide smaller loans. Serving women not only contributes to gender equity but also makes good business sense. In the coming year, UNCDF will focus on developing an initiative focused explicitly on ensuring that financial services are designed to better meet women's needs.

Already, 65 percent of clients of UNCDF financial services provider partners are women—significantly above the target of 50 percent. Recognizing the need to not only

provide women with equal access to financial services, but to ensure that they have leadership and professional opportunities, UNCDF committed to engaging with partners to encourage hiring and promotion of women, and started to track the percentage of women in the management and governance of financial services providers.

On the **local development finance** side, UNCDF promotes gender equality and women's economic empowerment through equitable and inclusive access to good-quality public services and infrastructure. Recent research confirms that there are numerous, positive and enduring spill-over effects associated with gender-equitable investments in health services, education and economic infrastructure. Local governments have an important role to play, and UNCDF's focus on planning, resource allocation, finance and expenditure management promotes the representation of women in local structures with specific emphasis on fostering women's economic empowerment. It also seeks opportunities for women to assume more active roles in senior managerial, technical and administrative posts in local governments.

Gender Equitable Local Development

On a larger scale, UNCDF took steps to create a global programme based on the success of a regional pilot programme, **Gender Equitable Local Development (GELD)**. Gender inequality remains the most pressing development challenge in the least developed countries. Limited recognition of the synergies between gender equality, economic growth and poverty reduction has led to development policies and planning, budgeting frameworks and investments that fail to take into consideration the differentiated needs and responsibilities of women and men.

GELD is a UNCDF/UN Women regional initiative supported by Belgium and piloted in Mozambique, Rwanda, Senegal, Sierra Leone and Tanzania. It seeks to mainstream gender responsive planning, budgeting and operating at the

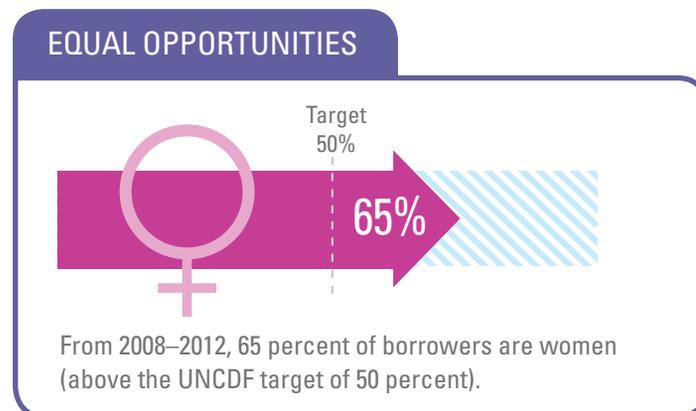
local level. This is leading to policy changes in resource allocation and design changes in local investment, for example new types of wells to save women the backbreaking daily ritual of long journeys to find water, new clinics for maternal and child health services, water and toilet infrastructure for girls in schools offering them privacy and dignity, and investment in women-owned and operated businesses. Additionally, through funding from Austria, a gender component of a local development programme is being implemented in Ethiopia.

After four years of implementation, this regional pilot is currently being transformed to a global programme, to be launched in 2013, which builds on the strategic comparative advantage of the specialized UN entities and development partners on the ground, with the aim to support local governments to design, plan, implement and sustain local investments that takes into consideration the differentiated needs and priorities of poor women and men with specific emphasis on unlocking barriers to women's economic opportunities and empowerment.

⊕ More information on UNCDF's work on Gender Equality and Women's Empowerment available at www.uncdf.org/womens-empowerment

Addressing Inequality and Inclusive Growth in the Post-2015 Development Framework

In signing the Millennium Declaration in 2000, heads of delegation from 189 countries agreed to an ambitious vision for the new millennium to advance human rights, development, and peace. The Millennium Development Goals were then launched as a pathway towards that vision. By offering measurable and time-bound goals, targets and indicators, they sought to convert the principles and ambitions of the Millennium Declaration into action and progress. The MDGs provided a unifying vision for development. Their clarity, conciseness and



measurability brought diverse actors together around a common cause.

As a result there has been significant progress on many of the indicators targeted by the MDGs – including on poverty reduction, access to improved water sources and enrolment in primary school. But there are areas where the targets are far from being reached. As 2015 approaches, the date set to achieve eight ambitious goals, world leaders are reviewing progress and discussing what might come next. UNCDF is playing an active role in the discussions, participating in 2012 in various UN working groups and task forces.

One of the crosscutting issues being debated—fighting inequality—is at the core of UNCDF's mission. From the perspective of promoting inclusive growth through inclusive finance and local development finance, UNCDF actively engaged in thematic consultations on inequalities, governance, and employment and inclusive growth. During 2012, UNCDF representatives spoke at a number of international events, noting concern about disparities and uneven progress among and within countries, which is a particular challenge in the least developed countries. UNCDF worked closely with the United Nations Department of Economic and Social Affairs (UN DESA) and UNDP in 2012 and organized an event on the topic of inequality last March.

⊕ More information on UNCDF's contributions to the post-2015 agenda available at www.uncdf.org/post-2015

INNOVATIVE SOLUTIONS FOR SUSTAINABLE DEVELOPMENT

Innovation confers important benefits across social, economic and sustainable development. Technological innovation has led to significant of social benefits throughout history, from the development of new medicines and treatments, to the explosion in economic output and incomes associated with the Industrial Revolution, to advances in agriculture and food security. Innovation has underpinned core changes in the way many people live and continues to drive most of the significant improvements in quality of life.

Recognizing that innovation plays a critical role in fostering progress towards each Millennium Development Goal, in 2012 UNCDF developed innovative programmes, tools and methods to promote sustainable and inclusive growth in the world's poorest countries.

UNCDF joined partners in launching the Better Than Cash Alliance that calls on governments, the development community and the private sector to adopt the use of electronic payments for programmes that support people living in poverty. It also played a prominent role in the 2012 Africities conference encouraging development and financial inclusion throughout Africa, presenting the management tool Local Government Financial and Institutional Diagnostic for Development (LOGFIDD) to assess how local entities function in economic, financial and organizational terms and seek realistic local solutions.

UNCDF led a number of local solutions to global issues, from mobile banking in remote areas to innovative programmes for local level investment in financial access and economic development. It launched projects in Tanzania and in Uganda to mobilise domestic finance for small and medium-sized infrastructure projects and continued its commitment to supporting country-driven efforts in Lao PDR to decentralize and develop the capacity of local administration to finance and implement service infrastructure and delivery, with a new project that in 2012 upgraded the District Development Fund.



Shifting to electronic payments can empower people and increase their access to financial services, but turning away from cash requires leadership, resources and technical expertise.



This woman in Papua New Guinea is banking with her MiCash agent at the local trade store, enjoying real-time access to her bank balances through a mobile money service offered by Nationwide Microbank and supported by UNCDF.

© MiCash

New Digital Initiative Empowers Poor People One Transaction at a Time

A shift from cash to digital payments can improve the global effort to promote financial inclusion, while reducing costs, increasing speed and security, and improving the transparency of payments – bringing benefits for those making and receiving payments. UNCDF is a founding member of the **Better Than Cash Alliance**, an initiative launched in 2012 by a global alliance of governments, private sector, and development organizations committed to transitioning from cash to electronic payments.

Shifting payments from cash to electronic transactions has the potential to improve the livelihoods of low-income

people by advancing financial inclusion and enabling people to build savings. Today 2.5 billion adults—more than a half of the world’s working adults—are excluded from formal financial services. This is most acute among low-income populations in emerging and developing economies, where approximately 80 percent of poor people are excluded.³

Shifting to electronic payments also gives governments, the development community and the private sector a more efficient, transparent and often safer means of disbursing payments. Billions of cash payments are made to people living in poverty worldwide, including disbursements of salaries, payments to vendors,

³ Demirgüç-kunt, Asli And Leora Klapper (2012). *Measuring Financial Inclusion: The Global Findex Database*. World Bank Policy Research Working Paper 6025.

The Better Than Cash Alliance

The Better Than Cash Alliance accelerates the transition from cash to electronic payments for governments, the development community and the private sector by:

- Advocating for the transition of government benefits, humanitarian aid assistance, payroll and supplier payments from cash to electronic;
- Providing policy, technical and financial assistance to identify and implement the most effective approach for local market conditions that maximize the benefits at each stage of the transition;
- Developing cutting-edge research products, good practice toolkits and case studies in order to drive the effective shift from cash to electronic payments globally.

Founding members of the Alliance include the Bill & Melinda Gates Foundation, Citi, the Ford Foundation, Omidyar Network, US Agency for International Development (USAID), the UN Capital Development Fund (UNCDF) and Visa Inc. As the lead UN agency working to promote inclusive financial systems, UNCDF was asked in 2012 to host the secretariat of this new global initiative.

Numerous governments and organizations have committed to the Better Than Cash Alliance principles, including the Department of Social Prosperity of the Government of Colombia and the Republics of Afghanistan, Kenya, Peru and the Philippines. In the development community, members include ACDI/VOCA, CARE, Chemonics International, Concern Worldwide, Grameen Foundation, Mercy Corps, UNDP, USAID and the World Food Programme.

⊕ More information on the Better Than Cash Alliance available at betterthancash.org/

IN FOCUS

5 UNCDF played a prominent role in the 2012 **Africities** conference, organizing a number of events, including special sessions on UNCDF's GELD programme, on Local Development Finance and on the launch of the programme LOBI.

In 2012, UNCDF continued to support through the **Strengthening Capacity and Service Delivery of Local Administrations (SCSD)** programme to help the Laos Ministry of Home Affairs reform public administration.

The **Pacific Financial Inclusion Programme (PFIP)** is a Pacific-wide programme helping to provide sustainable financial services to low-income households. Programs in Fiji, Timor-Leste and Papua New Guinea have provided skills required to successfully interact with the money economy and the formal financial system, especially among low-income women and men.

Governments alone can cut up to 75 percent of costs through electronic payment programmes.

SOURCE: WORLD BANK

pensions, social welfare stipends, cash-for-work programmes, and emergency relief payments.⁴ These programmes can play a pivotal role in driving a strategic shift to electronic payments. Governments alone can cut up to 75 percent of costs through electronic payment programmes, the World Bank reports.⁵

4 Bankable Frontier Associates (BFA) (2012) *The Journey Toward 'Cash Lite': Addressing Poverty, Saving Money and Increasing Transparency by Accelerating the Shift to Electronic Payments*. Somerville, Massachusetts.

5 Worldbank.org (2012) *Governments Can Save Up to 75% with Electronic Payment Programs*. [online] Available at: <http://www.worldbank.org/en/news/press-release/2012/08/02/governments-can-save-up-seventy-five-percent-with-electronic-payment-programs> [Accessed: 17 May 2013].

Promoting Local Development through Innovative Mobilisation of Domestic Finance

Development of the private sector and local economies is critical to poverty reduction and job creation in LDCs. Both government officials and private sector stakeholders need concrete roadmaps and capacity-building interventions that empower them to develop and finance critical projects as well as to improve the underlying business-enabling environments.

The UNCDF **Local Finance Initiative (LFI)** is an innovative global programme that unlocks domestic financial sectors in developing countries for financing small- and medium-sized infrastructure and agriculture-processing projects that are needed for local economic and private sector development.

The LFI Programme was launched in May 2012 in Uganda and Tanzania with support from Sida and the Tanzania One UN Fund. The inception phase of LFI programme was completed in Uganda, including preparatory work

on six infrastructure projects: the Arua IPS Hydroelectric Generation Project, Busia Lorry Park, Nwoya Delight Fresh Juice Project, Kayunga Amfri Farms Fruit Processing Project, Kitgum Olam Warehouse Project, and the Insingiro UCCCU Milk Processing Project. UNCDF also mobilised a consortium of public and private stakeholders to supply financial support for the project roll-out in 2013.

In Tanzania, the LFI programme developed detailed criteria for evaluating potential small-scale infrastructure

Local Finance Initiative Builds Bankable Infrastructure (LFI)

The UNCDF Local Finance Initiative mobilises private sector capital for the development of bankable infrastructure projects. The goal is to advance economic development at both the national and district levels, engage private sector financial institutions, and stimulate the critical government functions that are needed for identification, development, and finance of smaller scale infrastructure and agriculture-processing projects.

LFI seeks systemic change in local business practices that will facilitate domestic financing of local infrastructure projects, strengthen the country's regional and global competitiveness and enhance the national and local business environment. Local living standards will be improved by increasing incomes and reducing poverty.

LFI is unique in that it aims to implement in least developed countries the application of proven practices in the field of project finance to small and medium-sized projects. This approach has been employed successfully in accessing long-term private finance for infrastructure projects worldwide, but is not a common approach in developing countries, creating a game-changing opportunity to leverage limited official funds to unleash private capital for widespread development.

LFI is implemented through programme components that include capacity building for public and private stakeholders, advisory services to project sponsors, and the structuring of small and medium-sized infrastructure projects that will be financed by domestic private capital.

The LFI innovation is the introduction and application of a wide array of risk mitigation approaches and instruments, leveraging both project structuring techniques and the full spectrum of risk mitigation instruments and credit enhancement options. LFI places a strong emphasis on effective coordination and information mechanisms, including online tools, which link relevant actors at the local and national levels both horizontally and vertically through government-investor networks and allow timely identification and resolution of critical issues blocking financing of local economic infrastructure.

⊕ More information on LFI available at www.uncdf.org/lfi

projects for their bankability, and began the process of selecting specific projects for pilot development. The LFI programme also worked to ensure that the systems and methodologies developed would be incorporated into national policies, legal regulatory and operational frameworks for long-term sustainability.

An Innovative Programme to Promote Finance for All in the Pacific Islands

The **Pacific Financial Inclusion Programme** is a Pacific-wide programme helping to provide sustainable financial services to low-income households. It is a joint UNCDF and UNDP project which has received funding support from AusAID and the European Union. The programme operates from the UNDP Pacific Centre in Suva, Fiji. In partnership with local public and private entities, PFIP has initiated and advanced a wide spectrum of financial inclusion measures in the Pacific Islands.

Bringing banking by mobile phone to Papua New Guinea

Banking throughout the Pacific Islands is difficult due to the cost and logistical obstacles to operating branches in remote locations. In 2011, **1** Papua New Guinea commenced a mobile money pilot programme called MiCash to 'bank the country's unbanked', launching in the province of West New Britain.

MiCash is a bank account operated through a mobile phone on the Digicel network. MiCash services include direct deposit of salaries, the ability to send and receive cash similar to a wire service, and the ability to move money to pay bills or add to savings from a remote location. The pilot programme was conducted with support from PFIP and the Asian Development Bank's (ADB) Pacific Private Sector Development Initiative (PSDI), in collaboration with the Nationwide MicroBank (NMB) of Papua New Guinea.

The pilot proved successful and in May 2012 the Governor of Bank of Papua New Guinea authorized the roll-out of the Mobile Wallet-MiCash programme throughout the entire country. With the assistance of UNCDF, Nationwide was able to build a software bridge between the mobile money platform housed at the Mobile Network Operator Digicel, and Nationwide's core banking system. This has enabled real-time access to balances at the bank by holders of MiCash Mobile Wallets.

PFIP mobile money model has also partnered with a third party agent aggregator, Oceanic Communications Limited (OCL). OCL is an airtime top up distributor for Digicel and maintains relationships throughout Papua New Guinea with agents who can operate as both airtime re-sellers and as agents for MiCash. There are now more than 120 agents throughout Papua New Guinea.



Women in Fiji are benefiting from low-cost savings services through mobile banking using mobile phones. In 2012, the Pacific Financial Inclusion Programme, a joint initiative of UNCDF and UNDP, welcomed a new national action plan in Fiji for financial competence, building skills in low-income households. Other Pacific Islands highlight of the year included a roll-out of Mobile Money (MiCash) in Papua New Guinea, financial inclusion action in Vanuatu, and new microinsurance products in Timor-Leste.

© UNCDF/UNDP/ Mereseini Senikau

MiCash keeps her savings safe

Mrs. Honewa Kuwik and her husband have been Oil Palm growers for the past 20 years in the Galai Oil Palm Land Settlement Scheme area in West New Britain, Papua New Guinea. Like many rural people, they saved their money by burying and hiding it in and around her home, taking turns staying home, in fear that their savings would be stolen.

One day, Honewa saw a MiCash Agent sign at her local trade store, West Eagle Trading. Soon after, she approached the agent, Mrs. Petronila Kinga, and explained that she wanted to open a MiCash Bank account on her mobile phone and deposit some money. Then she took out an old plastic shopping bag, removed layers of rags and held out a collection of dirty crumpled notes and dusty old coins. "Where did you get the money from (*Yu kisim moni ya lo weh?*)" asked the agent, smiling as she opened the account and transacted the deposit.

"I am cleaning my house now," Honewa replied. "I have taken out all the money I have been hiding. In the past, I never felt free to leave my house, but now I can move around freely as I choose (*Me klinim haus blo me nau. Me rausim olgeta money me haitim. Pastem me no save pilim free lo raun nambaut, nau me ken raun lo laik blo me nau.*)"

MiCash is safe, flexible and easy to manage. For rural people, this means no more traveling many kilometers and paying fares to go to the bank or ATM. With MiCash the unbanked will be able to deposit and withdraw cash at local agents where they see the MiCash sign. Teachers and other government workers will be able to receive their salary and simply transfer their funds on a mobile phone.

More than 60 percent of MiCash transactions by value are deposits. Retention of savings has been excellent, indicating that Nationwide customers find MiCash as a safe and secure way to conduct their banking. The average value of a MiCash deposit transaction is much higher than the global average; \$125 compared to \$37, according to GSMA, the association of mobile operators and related companies devoted to supporting the standardizing, deployment and promotion of the GSM mobile telephone system.

Today the average balance of a MiCash Mobile Wallet is \$123. These figures are significant, considering the barriers to financial inclusion in Papua New Guinea, where the Central Bank has estimated that up to 90 percent of people remain without access to banking services.

Also in 2012, to inform the expansion of inclusive financial services in Papua New Guinea, the Bank of Papua New Guinea launched, with support from PFIP, the Financial Diaries project in Port Moresby. The project collects information from low-income households on cash inflows, outflows, remittances, in-kind barter, gifts and other events that have impact on financial transactions. This data will assist the bank in facilitating the development of responsive policies and financial products and services to the large unbanked and underbanked population.

Ground-breaking financial inclusion strategies 2

In 2012, **Fiji** became one of a handful of countries in the world, and the first in the Pacific, to formulate a national action plan to raise the level of 'financial competence' of its population, and provide the set of enacted skills required to successfully interact with the money economy and the formal financial system, especially among low-income women and men.

Findings from a household survey contributed to the development of an action framework during a

participatory workshop in Suva attended by stakeholders from the public sector, private sector, NGOs and the donor community. The event was organized by the Reserve Bank of Fiji and PFIP. The objective of the survey was to measure the financial competence of low-income households in Fiji and develop an understanding of their financial activities and behaviors. The aim of the framework is to increase the participation of Fiji's citizens in the formal financial system.

In **Vanuatu**, 81 percent of the population have no access to basic financial services such as savings accounts, credit or insurance services. Stakeholders met in Port Vila in 2012 and agreed to work together to provide responsive financial services and financial literacy to 76,000 previously underserved people in Vanuatu by the end of 2015. Attendees of the National Financial Inclusion Strategy Workshop, organized by the Reserve Bank of Vanuatu, included a wide cross-section of government, private sector, NGO and development partner representatives.

The gathering reached consensus on an action agenda that included a three-point strategy:

- Strengthening national coordination and monitoring progress through the formation of a multi-stakeholder National Financial Inclusion Taskforce;
- Conducting research on financial access and demand, with emphasis on financial competency, microinsurance and increasing outreach to women and youth;
- Enhancing financial literacy and consumer protection by introducing financial education in schools and strengthening legislation on client protection and market conduct.

The workshop's objective was to prepare the medium-term financial inclusion strategy for Vanuatu. It was the first such event for the country and the third in the Pacific, after Fiji and Solomon Islands, also supported by PFIP.

⊕ More information on PFIP available at www.uncdf.org/pfip and www.pfip.org.



Timor-Leste is investing in the capacity of its local governments to provide basic services and improve local infrastructure, like this public restroom constructed in Suco Riheu. Also in 2012, a new microinsurance partnership enabled 9,000 women across Timor-Leste to obtain life insurance to help protect their livelihoods. Two insurance companies joined UNCDF and a number of partners including ILO and UNDP to launch the scheme, which for many low-income clients in Timor-Leste was the first time they had heard about life insurance.

© UNCDF/Salvador Antonio Alves

First-ever Micro-insurance Partnership Launched in Fiji, and Timor-Leste Gains Livelihood Protection

Protecting poor families from sudden costs

The first-ever micro-insurance partnership in the Pacific was launched in 2012 in **Fiji** between a community-based organization and an insurance company in the hidden paradise of Savusavu on the island of Vanua Levu. The entire community of 40 villages in the Wailevu District will have access to this micro-insurance product from

In 2012, UNCDF exceeded by 2.4 million its goal of serving 6 million active clients through the FSPs in which it invests. As households comprise five persons on average, this represents an impact on the lives of some 42 million people.

Micro-Insurance protects her business after husband's death

Mrs. Delfina runs a small shop at the entrance of the busy Taibessi market in Dili, Timor-Leste. In June 2012, she borrowed \$3,500 from a new micro-insurance scheme intended to protect women's livelihoods from the high costs of funerals. Two months later, her husband, a primary school teacher, died unexpectedly from a heart attack. "He was in good health, we didn't see it coming," she says.

Mrs. Delfina informed her insurance company, Tuba Rai Metin, which processed her claim and paid her. Payouts are made 30 days after a death so that the money is spent on the family's livelihood rather than being used to pay for funeral ceremonies, which are usually very costly in Timor-Leste. The insurance made a positive difference: "Without this pay-out I wouldn't have been able to repay the loan and my business would have struggled big time. Insurance matters because you can never know what might happen to you and your family. And it is such a great support at a time of distress and sorrow," she said.

⊕ More information on UNCDF's work in Timor Leste available at www.uncdf.org/timor-leste

Life Insurance Corporation of India. The product focuses on funerals, which can be very expensive in Fiji, helping low-income families meet the high costs. For \$14 per year, an insured-person's family will receive \$1,000 in the case of natural death and \$2,000 in the case of accidental death.

The **Pacific Financial Inclusion Programme** facilitated this partnership and offered extensive technical assistance to both partners with financial assistance from the Australian Agency for International Development (AusAID).

Protecting women's livelihoods through life insurance

Another new micro-insurance effort was launched in 2012 in **Timor-Leste**, with the aim of protecting women's livelihoods. **3** Some 9,000 women across Timor-Leste started the year with life insurance on their small businesses. Life insurance, considered routine in other parts of the world, was a completely new concept to the clients of microfinance organizations in Timor-Leste. The country's first regulated micro-insurance products were launched by the companies Tuba Rai Metin and Moris Rasik with the backing of National Insurance Timor-Leste. The products were developed in partnership with the ILO Micro-insurance Innovation Facility, with support from the **Inclusive Finance for the Underserved Economy (INFUSE)** programme, a UNCDF initiative in partnership with UNDP, AusAID, and the Government of Timor-Leste.

A comprehensive market survey carried out in September 2011 set the stage for the successful launch of this product. In that survey, clients indicated that they wanted coverage for both the borrower and spouse. They also wanted to name a beneficiary, to ensure that any payout would be made according to the client's wishes.

The micro-insurance products are one-off payments attached to new loans, particular to women borrowers. Insurance on a one-year loan of \$800 costs about \$10.

Payouts are made when a client or a client's spouse dies. If a borrower dies, the remaining loan will be cancelled and her family will receive a pay-out on the initial borrowed amount, with a minimum of \$500. If the borrower's husband dies, the family will receive half of the amount borrowed. In 2012, Tuba Rai Metin made three insurance payouts – two to the family of a client who had died and one to a client whose spouse died.

Performance Grants Promote Good Governance and Administrative Reform in Lao PDR

4 Lao PDR has made significant progress in reducing the number of residents living below the poverty line, sustaining sound macroeconomic management in a difficult global setting, and attaining high levels of economic growth associated with Foreign Direct Investment (FDI). However, significant challenges remain. A disproportionate level of benefit from recent economic growth has flowed directly to higher income groups; the share of national consumption expenditure has only increased for the richest quintile of the population over the last 15 years leading to a substantial rise in inequality. Some 70 percent of the population lives on less than \$2 per day. The country has prioritized good governance as a condition for better service delivery and more equitable socio-economic development, with a focus on local administration.

UNCDF has been at the forefront in promoting the conditions for strengthened local administration in Lao PDR since 2006, notably through its District Development Fund (DDF), which improves institutional capacity and local service delivery simultaneously.

In 2012, UNCDF continued to support a programme to help the Laos Ministry of Home Affairs reform public administration. This work was carried out in conjunction

with UNDP through the **Strengthening Capacity and Service Delivery of Local Administrations (SCSD)** programme, with several key objectives: strengthening the institutional and legal environment of public administration and local administration; enhancing MDG-focused service delivery at district level; building capacity for human resource development and training in the civil service; and improving civil society engagement in governance.



Elevated bridges are a priority for the community of Xaisana Village, Lao PDR. Improved roads and other infrastructure help local people access services and earn income. Through the District Development Fund component of its Governance and Public Administration Reform for Strengthening Basic Service Delivery, UNCDF is working in Lao PDR to strengthen the capacity of the local government to plan and implement development projects that benefit local communities.

© Bouapha Souphatthone

Over 92 percent of UNCDF-supported local governments adopted national procurement standards and/or conducted financial audits.



Through the Union Parishad Governance Project (UPGP), UNCDF helps the Government of Bangladesh build the capacities of 400 Union Parishads – the lowest tier of local government in rural Bangladesh – to manage their resources and deliver infrastructures and basic services in a manner that responds to local needs.

© UNCDF/Suela Krifsa

As part of the joint programme, district-level Performance Based Block Grants provide incentives for improved overall performance linked to the local administration mandate. The District Development Fund is instrumental in achieving these objectives.

The SCSD programme became operational in the second half of 2012. The District Development Fund was strengthened with the performance grant methodology that provides a basis for monitoring effectiveness and rewarding good governance. Additional improvements include the Operational Expenditure Block Grants to ensure sustainable maintenance. The SCSD also updated guidelines for the Operation Expenditure Block Grants. Within six months, SCSD successfully implemented the upgraded District Development Fund in 37 districts and took steps to provide them with capital and/or operational block grants.

The District Development Fund has been supporting decentralized fiscal transfers to 37 of 144 districts in Lao PDR since 2006. Local administration capacity has been visibly strengthened, largely because District Development Fund's activities were fully managed by district administrations, and provided space for different sectors, community leadership and women representatives to participate in the process of making investment decisions as well as monitoring progress. Such support to district administrations has contributed to a culture in which people recognize a right to equitable service delivery.

Also in 2012, SCSD implemented the Millennium Acceleration Framework (MAF) sub-project by providing 52 local activities in health and education with block grants. Block grants were provided to activities designed to accelerate achievement of the Millennium Development Goals, channeled through UNCDF's Operational Expenditure Block Grant (OEBG) facility.

An independent review of the MAF-OEBG in late 2012 found progress in boosting public service delivery, stating that “One of the most significant lessons of the MAF-OEBG sub-project has been its ability to achieve results that have led to improvements in pro-poor service delivery combined with improvements in the capacity of local administration in planning, budgeting and monitoring services.” In 2013, OEBG will be rolled out to 53 districts in Lao PDR.

⊕ More information on UNCDF’s work in Lao PDR available at www.uncdf.org/lao-pdr

New Tool to Assess Effective Functioning of Local Government Presented at Africities Summit

Organised by the United Cities and Local Governments of Africa (UCLGA) every three years, **5 Africities** attracts about 5,000 participants, including Africa’s key policy makers, high-ranking politicians and local government representatives from around the world as well as trade unionists, academics, NGOs and CSOs. The 6th Africities conference took place end of 2012 in Dakar, Senegal, focusing on local development and decentralization policies.

A conference milestone was the signing of a Memorandum of Understanding between UNCDF and CGLUA during the summit’s closing ceremony, highlighting the pertinence of UNCDF’s tools and approaches as crucial contributions to local development. Among those tools is the **Local Government Financial and Institutional Diagnostic for Development (LOGFIDD)**, which UNCDF presented at the Africities Summit.

Introducing a Diagnostic Tool for Development: LOGFIDD

LOGFIDD is both a process and a tool to assess the functioning of the local authorities and assist in finding appropriate solutions regarding their management and governance. Based on diagnostic processes and analysis, LOGFIDD serves to identify both inefficiencies and the potential of the local entity in economic, financial and organizational terms and to develop realistic local solutions towards the improvement of local management and governance. It leads to a local pact aimed at improving the delivery of basic services.

While LOGFIDD is not the first or only instrument to measure the performance of communities, it adopts a holistic approach and at the same time focuses on the essential aspects of the functioning of the local authority. The tool has been designed to be quickly appropriated by rural and semi-urban small and medium-size entities. Its distinction stems from its ability to adapt to the environment of local governments in least developed countries.

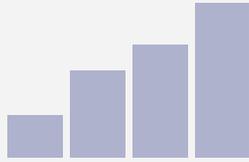
⊕ More information on LOGFIDD available at www.uncdf.org/logfidd

EFFICIENCY AND EFFECTIVENESS: EVALUATION, TRANSPARENCY AND KNOWLEDGE MANAGEMENT

Leveraging the knowledge accrued from experience in sustainable development and sharing it to support partners' work is critical at this time of rapid change. Bringing knowledge to bear when development assistance initiatives are designed and managed renders assistance more cost-effective and in sync with rising demand, while increasing impact and results. Performance and effectiveness in helping to achieve the Millennium Development Goals are directly related to how well knowledge is captured and shared.

In 2012, UNCDF continued its commitment to internal and external evaluations of its programmes and operations, and moved forward in distilling and promoting knowledge management so that information gained within UNCDF is accessible and available for others to learn from.

UNCDF also remains fully committed to transparency and to being accountable for the contributions we receive from funders. Over the past eighteen months, UNCDF has continued to implement the International Aid Transparency Initiative. In 2012, it published an expanded data set with information of its development projects and outputs.



UNCDF can make a difference in people's lives – from strengthening financial sectors to helping local governments improve socio-economic infrastructure and delivery of basic services.



Women in Saré Dao, Senegal were able to double their income through UNCDF's support to a local economic development project. Funds to support local economic initiatives and capacity building led to a more effective and efficient management of their activities, such as fisheries.

© UNCDF/Sandra Simmet

IN FOCUS

2 Working together with UNCDF Western and Central Africa Regional Office – UNCDF Evaluation Unit has also gone a step further in supporting ongoing assessment of project results by developing a project monitoring tool called ‘programme reviews’.

1 EAFS in Nepal for the most part exceeded expectations and performed well in most regions of the country. In a midterm evaluation of the programme in early 2012, UNCDF found that EAFS had improved institutional capacity at the retail level mostly in terms of expanded infrastructure (branch offices), additional staff for those offices, and some increase in credit portfolios.

Efficient and Flexible Performance in Nepal

When a major stakeholder withdrew from the programme

1 Enhancing Access to Financial Services (EAFS) in Nepal, the ability of UNCDF to respond with flexibility and innovation was put to the test. It was just before the document signing in 2008, and anticipated funding dropped dramatically, leaving less than 10 percent of the funds for the remaining stakeholders – UNCDF, UNDP,

and the Nepal Rastra Bank – to carry out the project. The intervention logic changed, and the partners re-assessed the project focus to concentrate on microfinance.

EAFS for the most part exceeded expectations and performed well in most regions of the country, though some aspects of the scaled-down programme did not yield the full benefits anticipated, e.g. grants to innovative partners did not spur the desired degree of expected

innovations. In a midterm evaluation of the programme published in early 2012⁶, UNCDF found that EAFS had improved institutional capacity at the retail level in terms of expanded infrastructure (branch offices), additional staff for those offices, and some increase in credit portfolios. There was an increase in the number of clients served, especially women. Expansions by financial service providers reached previously un-served geographic areas of Nepal, which increased the providers' interest in adapting their products to the needs of more remote and poorer clients. The portfolio at risk (PAR) rate decreased. Links were made between savings and credit groups and financial service providers, which piloted eight innovations in this area.

The project has contributed to growth of infrastructure, credit portfolio and clientele, and to increased knowledge of microfinance market research—support that will fortify the sustainability of financial service providers in the long term.

Agreements with partners ended for the Nepal EAFS project in July 2012, and the project will conclude in early 2013. By its conclusion, the project will have reached more than 280,000 people in 64 out of 75 districts throughout Nepal during its two-and-a-half years of operation, and opened more than 160 branches. EAFS strengthened technical know-how and increased confidence of financial institutions, and linked with over 3,000 community groups. It also improved financial literacy among low-income people in Nepal, training trainers, producing financial literacy materials for adolescents, engaging in a public television informational campaign, and developing a national strategy for financial literacy. Despite a budget significantly less than originally anticipated, the scaled-back EAFS in Nepal was a substantial success, demonstrating UNCDF's effectiveness at doing more with less.

 More information on UNCDF's work in Nepal available at www.uncdf.org/nepal

⁶ Evaluation carried out in 2011, with final report released and published in 2012.

Communicating UNCDF Evaluation Policies and Practices

Evaluation has been a longstanding priority for UNCDF, with an Evaluation Unit reporting directly to the Executive Secretary in place since 1996. A total of 35 evaluations have been commissioned since 2008, most at project level.

In 2011, the Executive Board revised the Evaluation Policy of UNDP to which UNCDF is party. This policy sets out the guiding principles, norms and key concepts for evaluation in UNDP, UNCDF and the UN Volunteers Programme. The policy in turn draws upon the Norms and Standards of the United Nations Evaluation Group, a professional network of 46 UN evaluation offices, whose objective is to strengthen the objectivity, effectiveness and visibility of the evaluation function across the UN system and to advocate the importance of evaluation for learning, decision making and accountability. Independence, intentionality, impartiality, quality and utility are among the most important of the norms.

Throughout 2012, UNCDF actively worked to communicate the Evaluation Policy to all staff and interested parties. The Evaluation Policy sets out mandatory evaluation criteria for UNCDF:

- At least one strategic or thematic assessment per year in response to corporate priorities;
- Mid-term or final evaluations of selected projects in critical areas of relevance to the two UNCDF practice areas of local development and inclusive finance;
- Project evaluations when required by a partnership protocol; and
- Participation in evaluations of joint programmes as required by approved joint programme documents.

UNCDF evaluations include (i) thematic or strategic evaluations focused on multiple projects in more than one country with the goal of generating findings of strategic or corporate relevance beyond the level of individual

projects; (ii) programme evaluations focused on parallel interventions in more than one country; and (iii) project evaluations focused on single interventions in one country. To support principles of accountability and transparency, all evaluations managed by the UNCDF Evaluation Unit are published on the UNCDF's website and the UNDP's Evaluation Resource Centre – where formal Management Responses to the main findings from UNCDF management are also tracked.

Since 2010, project evaluations have been designed according to the **Special Project Review Implementation Exercise (SPIRE)**. The SPIRE approach follows a theory-based approach to evaluation, setting out a series of common evaluation questions in response to standard intervention logics for each of the practice areas. These evaluation questions are further developed in an evaluation matrix which sets out a series of sub-questions and indicators that consultants should use to construct and synthesise their findings. This matrix is subject to external validation during the Inception Phase. The use of a standard evaluation framework is intended to promote comparability of results across the portfolio and ensure a minimum standard for the quality of evidence underlying broader evaluation findings.

Working together with the UNCDF Western and Central Africa Regional Office, the ② UNCDF Evaluation Unit has gone a step further in supporting ongoing assessment of project results by developing a project monitoring tool called 'programme reviews'. This tool is intended to support a snapshot assessment of performance according to the standard OECD DAC/UN evaluation criteria: relevance, efficiency, effectiveness, impact, sustainability. The result is a short report which provides decision-makers and programme managers with up-to-date information regarding on-going project and programme performance, structured according to an evaluative lens. This includes, for example, an assessment of the extent to which the project's intervention logic is still relevant and the extent to which project results are likely to be sustained over the time, in

addition to the standard assessment of project results at a single point in time.

Programme reviews are typically conducted by UNCDF programme staff with specialized inputs from external consultants where necessary. They do not replace mid-term evaluations in cases where externally-validated performance assessment and recommendations on course correction are required. Instead, they are part of the Regional Office's toolkit in managing their portfolio and in helping them self-assess or self-evaluate the likelihood of project results and the necessity to change direction where necessary.

⊕ More information on UNCDF's Evaluations and Assessments available at www.uncdf.org/evaluations-assessments

Continuing the Commitment to Independent Evaluations

UNCDF completed five external evaluations of its work in 2012 and expanded the range of products used to evaluate multi-country programmes. As part of its regular independent evaluation, the five evaluations completed included:

- An external Portfolio Review of the full range of UNCDF inclusive finance programmes and investments;
- A mid-term evaluation of the **MicroLead** programme;
- A final evaluation of the **Programme d'Appui à l'Émergence d'un Secteur Financier Inclusif (PAE/SFI)** in the Central African Republic;
- A final evaluation of the **Programme d'Appui à la Lettre de Politique Sectorielle Microfinance (PALPS)** in Senegal; and
- A mid-term evaluation of the **Provincial Government Support Programme** in the Solomon Islands.

Also in 2012, UNCDF increased the range of evaluation products that it uses, commissioning two multi-country programme evaluations in the area of youth financial services, namely the YouthStart programme, and the

Gender Equitable Local Development (GELD) programme in Africa. This complemented UNCDF's ongoing commitment to project evaluations under the SPIRE approach and periodic thematic assessments as per the Evaluation Policy.

In 2012, UNCDF was proactive in integrating a gender dimension to its evaluation processes, as recommended in the UN Evaluation Group's Guidance on Gender and Human Rights and in line with UNCDF Strategy on Gender Equality and the Empowerment of Women (2012-2017). Gender-related expertise has been included as one of the requirements in the selection of consultants, gender questions have been integrated into evaluation matrices and report templates now require the use of gender-disaggregated data wherever possible.

The review of the UNCDF inclusive finance portfolio judged the portfolio to be well aligned with its LDC mandate and the UNCDF strategic objective to work in so-called 'difficult' environments. Country programmes and global thematic initiatives were also judged to be highly relevant. Going forward, the review recommended that UNCDF better distinguish its programming in higher-risk LDCs, where the organization can capitalize on its advantage as 'first mover', from more mature markets where the UNCDF approach could focus more on specific markets such as savings or youth. The UNCDF management systems for supervising, monitoring and reporting on investments were judged to be generally strong, but it was recommended that better information be provided to external stakeholders on implementation progress and lessons learned. The review also recommended that UNCDF redesign the financing model for its country sector programmes to improve funding leverage and to enable better participation in the setting-up and governance of more viable investment fund structures.

In terms of portfolio performance at the aggregate level, the inclusive finance portfolio was judged to be

performing well. The UNCDF contribution was particularly praised where programmes targeted rural expansion, the development of new products directed at women and new delivery mechanisms (e.g. electronic banking). In its work on supporting macro-level reform, and in countries where national inclusive finance strategies and legislation are already in place, the portfolio review recommended more direct targeting of a number of policy topics for support by UNCDF, building, for example, on recent work by the organization on client protection or financial education/literacy. It also recommended the improved integration of the UNCDF country programme and global thematic approaches.

Regarding programme scaling-up and replication, evaluations have highlighted the need for better mechanisms to publicize and disseminate the results of work that are innovative with a view to better supporting the broader UNCDF objectives of supporting policy reform and leveraging additional amounts of investment capital into public and inclusive finance systems in LDCs.

⊕ All UNCDF Evaluation reports available at www.uncdf.org/evaluations-and-assessments

UNCDF Rated Highly by External Assessments

In 2012, the **Australian Multilateral Assessment (AMA)** ranked UNCDF among the most effective United Nations agencies. AMA is a programme of the Australian government that evaluates the effectiveness of multilateral organizations in which Australia participates to achieve its aid objectives, including UN agencies, global funds and multilateral development banks.

AMA evaluates evidence on 30 factors relative to multilateral agency performance, including: demonstrating development or humanitarian results consistent with mandate; focusing on crosscutting issues, particularly gender, environment and people with disabilities; and

In the same spirit and with the objective of creating new opportunities for poor populations in the LDCs, UNCDF intends to strengthen its interventions in the fields of financial inclusion and local development finance through more deliberate use of information and communication technology as the new enabling infrastructure for development of the twenty-first century.

filling policy or knowledge gaps and developing innovative approaches. UNCDF was ranked as satisfactory or strong in 29 of these 30 categories in 2012. A single less-than-satisfactory rating can be found regarding transparency in resource allocation, although the AMA notes that a heavy reliance on earmarked funds constrains UNCDF's capability to meet the performance target for this parameter.

This recognition follows on the 2011 ranking by the **SmartAid for Microfinance Index (SmartAid)** of UNCDF at the top of development organizations engaged in microfinance.⁷ SmartAid identified UNCDF it as an institution with "clear focus on pushing the frontiers of financial inclusion in some of the most difficult markets." SmartAid stated that UNCDF is "well placed to develop and pioneer new initiatives" and highlighted how "UNCDF's commitment to improving the effectiveness of its systems is exemplary and the responsiveness to recommendations made through SmartAid and other external or internal evaluations is impressive."

⊕ 2011 SmartAid for Microfinance Index Report on UNCDF available at www.uncdf.org/smartaid

2012 Australian Multilateral Assessment Report on UNCDF available at www.ausaid.gov.au/partner/Documents/uncdf-assessment.pdf

⁷ UNCDF received 83 out of the 100 points, the highest score amongst agencies participating in SmartAid 2009 and SmartAid 2011.

Increasing Access to Knowledge Capital

UNCDF has accumulated significant knowledge capital as a result of its years of interventions in 40 of the world's 49 least developed countries. UNCDF considers this knowledge to be a public good – a resource that governments and development practitioners from around the globe should be able to access, debate and use. The Knowledge Management, Policy and Advocacy unit at the UNCDF headquarters in New York, created in 2011, is leading the effort to distill and package this knowledge and make it available to all, while also enhancing UNCDF's organizational learning and impact.

UNCDF completed the design and testing of a web-based platform using technology to share knowledge and advance good governance that will allow users to share knowledge on local development finance. **The Local Development Academy** is an innovative online portal that will be fed by experts in the field of Local Development Finance. Like the knowledge it contains, it is conceived as a public good through which UNCDF would like to share its experience and expertise and learn from others in return.

Investment continued in the **MyUNCDF Intranet**, UNCDF's corporate tool for knowledge sharing and document management. The tool is bilingual, user-friendly and features a chat function facilitating meaningful information exchange between staff members

Also in 2012, UNCDF continued its effort to codify and share technical knowledge through the development of publications on selected topics in the fields of inclusive finance and local development finance. UNDP and UNCDF jointly produced a publication on '**Local Government and Social Protection**'. UNCDF also published '**Procurement for Local Development – A Guide to Best Practice in Local Government**' and developed a CleanStart approach paper to provide a methodological guide to expanding access to clean energy for poor people and micro-entrepreneurs

through microfinance and strengthened energy value chains. In addition, several policy briefs illustrated the insights of the YouthStart project.

⊕ UNCDF recent publications available at www.uncdf.org/practitioners-guides

Enhancing Transparency When Releasing Aid Information

UNCDF released aid information to the **International Aid Transparency Initiative Registry (IATI)** in October 2012. This will allow the public to see where aid money has been disbursed, and will enable partner country governments to see more clearly what is happening in their country.

UNCDF is committed to being transparent and to being accountable for all the contributions it receives. By being accountable and transparent, UNCDF can be more effective in its work and make a difference in people's lives – from strengthening financial sectors to making them more inclusive, to helping local governments improve socio-economic infrastructure and delivery of basic services.

Publication to IATI's common, open international standard will make this information much easier to find, use and compare. This in turn will help donors and developing country governments to plan and manage aid resources more effectively, and maximize the impact of aid in reducing poverty. And it will help parliaments, civil society organizations and citizens in both aid-giving and aid-receiving countries to hold their governments to account for aid spending.

UNCDF joined IATI in November 2011 during the Fourth High Level forum on Aid Effectiveness (HLF4) in Busan, reinforcing the organization's commitment to transparency and accountability. Other IATI members include, among



In Juba, South Sudan a salon owner, client of Finance South Sudan Ltd, one of MicroLead's grantees, is washing the hair of a customer. UNCDF's Microlead programme provides these clients, located in Souk Libya, small loans to help boost their businesses resulting in a small income for them and their families.

© Finance South Sudan Limited/Emma Kandelaars

others, the World Bank, the United Nations Development Programme, the European Commission, and The Global Fund to Fight AIDS, Tuberculosis and Malaria as well as donor countries including Australia, Canada, Denmark, Netherlands, Spain, Sweden, the United States and the United Kingdom. Ninety-two organizations have published their data on the IATI registry.

⊕ More information on UNCDF's contribution to the International Aid Transparency Initiative Registry (IATI) available at www.uncdf.org/iati

In spite of pressures on development budgets in the aftermath of the financial crisis, in 2012 UNCDF welcomed contributions from new development partners, saw existing donors increase their funding, and further strengthened its partnership with private foundations such as The MasterCard Foundation and the Bill & Melinda Gates Foundation.

In the past five years, contributions to UNCDF have grown steadily from an increasing numbers of donors with diverse backgrounds, including substantive contributions from the corporate sector. Public-private partnerships played an important role in efforts to reduce poverty by promoting financial services for the poor and public finance for local development, with increasing interest among investors who wish not only to see revenue returns but also to be socially and environmentally responsible.

UNCDF revenue in 2012 reached the highest level in two decades, thereby continuing a trend since 2006 of strong

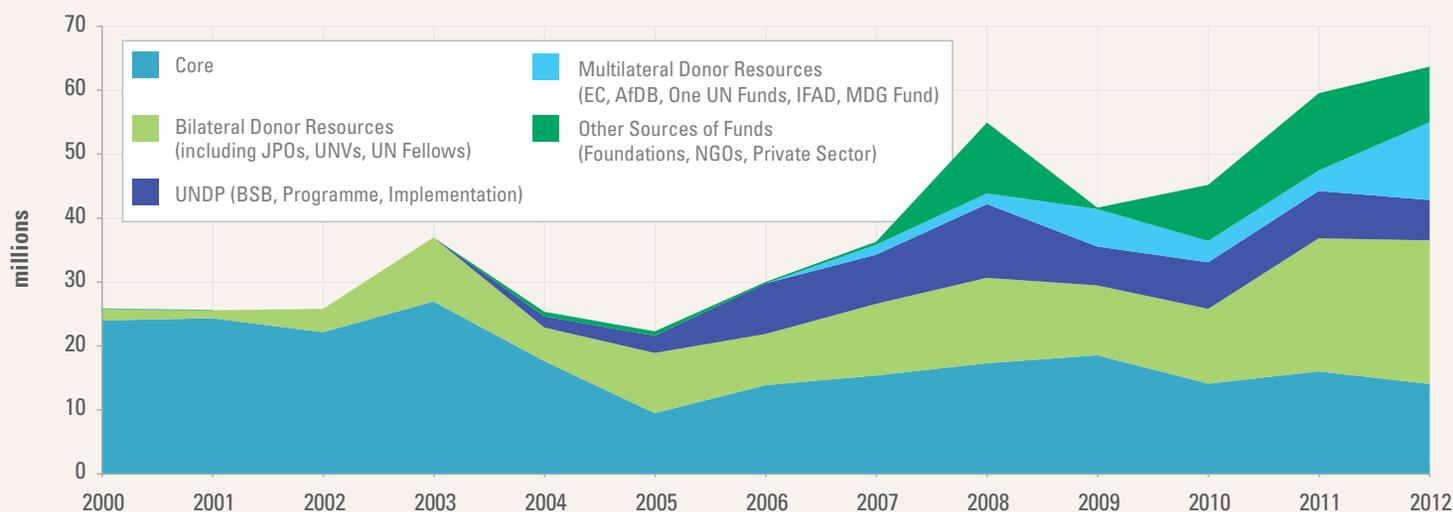
yet balanced growth in terms of both income and expenditures.

In 2012, total revenue continued to grow to around \$55 million, up from \$52.5 million in 2011, compared to \$22 million five years ago. UNCDF's donor base diversification also continued to improve in 2012 with 36 donors, up from 33 in 2011. Five years ago, there were 20 donors.

Donor contributions to UNCDF 2012 resources included \$10 million from six major private sector foundations and corporations, representing 17 percent of the total income. UNCDF's eight largest donors in 2012 were Sweden, followed by The MasterCard Foundation, One UN Funds (multi-donor), Belgium, the European Commission, Norway, Luxembourg and Australia.

Non-core resources (earmarked contributions) reached a record high of \$38.9 million in 2012, an increase of 15 percent from \$33.9 million in 2011. Non-core

CONTRIBUTIONS TO UNCDF 2000–2012



resources have increased dramatically – more than 300 percent over the past six years and are expected to continue to grow in 2013. Core resources reached \$14.5 million in 2012, in line with past years yet still falling well short of the estimated \$25 million minimum threshold level required to sustain UNCDF operations in 40 least developed countries.

This minimum threshold was among the future-oriented topics considered at the first meeting of the Stakeholders Consultations on Scenarios for UNCDF's Future, organized at the request of the Executive Board and initiated in late 2012. The stakeholders recognized that a \$25 million minimum level of core resources will be required to sustain UNCDF's programmatic presence in at least 40 LDCs.

Regarding core funding, a presentation by UNCDF to the Stakeholders Consultations explained that the threshold level is based on a carefully prepared investment plan covering 40 LDCs and builds on UNCDF's business model of delivering scalable interventions applying its investment mandate, and strong technical capacity in the world's most difficult and risky environments, where the needs are the highest. UNCDF is confident that based on its strong performance, and the relevance of its practice areas for the evolving post-2015 development framework, the necessary increase of approximately \$10 million per year in core resources from current levels can be achieved, which would allow UNCDF to continue leveraging substantive amounts of non-core resources from private and public sources for the benefit of the LDCs.

In addition, the Stakeholder Consultations recognized that there are a number of options to satisfy UNCDF's growing funding requirements, including a more flexible cost recovery policy and innovative financing mechanisms linking to UNCDF's investment mandate.

Stakeholders Consultations on Scenarios for UNCDF's Future Define a Common Objective

UNCDF offers a unique combination of seed capital and technical assistance to promote sustainable, inclusive growth in the least developed countries.

Local development finance programmes strengthen public financial management to improve infrastructure investment and delivery of basic services by local governments. **Inclusive finance** programmes increase access by poor people and small businesses to financial services including savings, credit, insurance and remittances.

Upon the Executive Board's decision 2012/12, UNCDF invested in listening and learning about how to sustain its value-added contribution to poverty reduction. A commitment to poverty reduction was the objective shared by all stakeholders, whether donor or a partner from the private sector. UNCDF launched a multi-stakeholders consultations process to sustain and enhance relationships with UNCDF partners.

The consultations process was not a single conversation, but a series of opportunities to create understanding about UNCDF's future interventions among partners. The process also enabled UNCDF to learn more about how external partners view the organization's future plans and its attendant risks, impacts, opportunities, and mitigation measures. "Listening to stakeholders' concerns and feedback can be a valuable source of information that can improve our outcomes and, ultimately, efficiency of development results," said Marc Bichler, UNCDF Executive Secretary.

UNCDF welcomed continued support from generous donors and launched several new partnerships in 2012, including an innovative \$16 million multi-programme partnership with Sida that provides maximum flexibility for UNCDF to deepen its comparative advantages related to sustainable development and inclusive growth in seven UNCDF global programmes. Known as the Partnership Framework for Inclusive Growth and Sustainable Development (PFIS), it also attracted contributions from Austria and Norway for the CleanStart global programme.

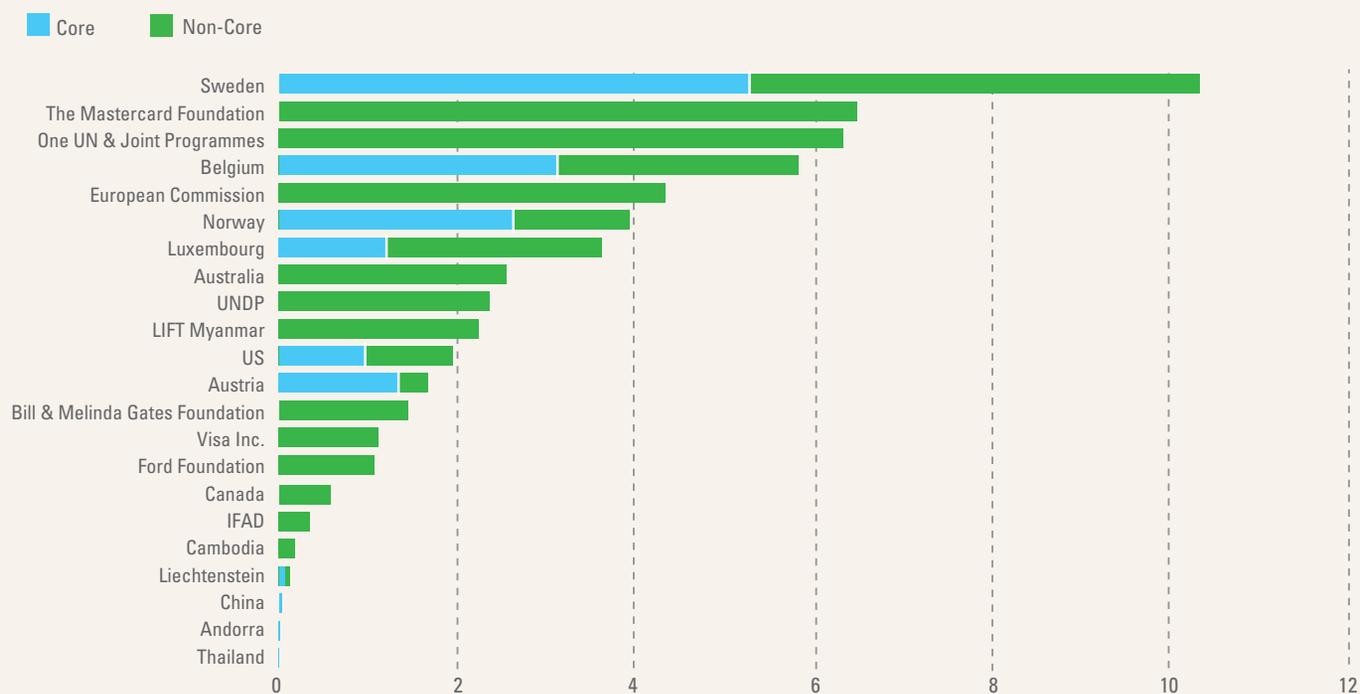
As the lead UN agency working to promote inclusive financial systems, UNCDF was asked in 2012 to host the secretariat of the Better Than Cash Alliance initiative, which provides expertise in the transition to digital payments

to achieve the goals of empowering people and growing emerging economies. Launched with initial funding of \$13.75 million, and expected to grow to \$38 million when fully funded, the Better Than Cash Alliance initiative is funded by the Bill & Melinda Gates Foundation, Citi, the Ford Foundation, Omidyar Network, US Agency for International Development (USAID), the UN Capital Development Fund (UNCDF) and Visa Inc.

Also in 2012, UNCDF expanded collaboration and partnership with Australia, Belgium, Denmark, the European Commission, Luxembourg, Norway, Switzerland, the United Kingdom, and the United States, who by supporting UNCDF's inclusive finance and local development finance programmes, joined UNCDF in its efforts to fight poverty and promote sustainable development.

CONTRIBUTORS TO UNCDF 2012 *(as of December 31, 2012)*

(millions of United States dollars)



STATEMENT OF FINANCIAL POSITION

(thousands of United States dollars)

	31 December 2012	1 January 2012 (restated)
ASSETS		
Current assets		
Cash and cash equivalents	37,159	35,120
Investments	38,777	32,960
Receivables – non-exchange transactions	–	948
Receivables – exchange transactions	279	438
Advances issued	1,966	2,865
Other current assets	178	178
Total current assets	78,359	72,509
Non-current assets		
Investments	13,366	7,554
Loans to financial service providers	3,207	4,816
Property, plant and equipment	488	1,005
Total non-current assets	17,061	13,375
Total assets	95,420	85,884
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	8,223	5,147
Employee benefits	2,033	1,696
Other current liabilities	38	59
Total current liabilities	10,294	6,902
Non-current liabilities		
Employee benefits	15,302	13,255
Total non-current liabilities	15,302	13,255
Total liabilities	25,596	20,157
NET ASSETS/EQUITY		
Reserves	24,600	24,600
Accumulated surplus	45,224	41,127
Total net assets/equity	69,824	65,727
Total liabilities and net assets/equity	95,420	85,884

STATEMENT OF FINANCIAL PERFORMANCE

(thousands of United States dollars)

	31 December 2012
REVENUE	
Voluntary contributions, net	54,139
Investment revenue	367
Other revenue	638
Total revenue	55,144
EXPENSES	
Contractual services	7,226
Staff costs	16,026
Supplies and consumables used	567
General operating expenses	8,193
Grants and other transfers	16,727
Other expenses	1,517
Depreciation	329
Finance costs	8
Total expenses	50,593
Surplus for the period	4,551

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSESTS/EQUITY

(thousands of United States dollars)

	Reserves	Accumulated surplus	Total net assets/equity
Balance at 31 December 2011 (UNSAS restated)	24,600	52,537	77,137
IPSAS adjustment for investments		–	–
IPSAS adjustment for property, plant and equipment		1,005	1,005
IPSAS adjustment for employee benefits		(13,606)	(13,606)
IPSAS adjustment for revenue		1,171	1,171
Other IPSAS adjustments	–	20	20
Balance at 1 January 2012 restated (IPSAS)	24,600	41,127	65,727
Changes in net assets/equity			
Funds with specific purposes (Note 20)		775	775
Actuarial losses		(1,229)	(1,229)
Surplus for the period		4,551	4,551
Total recognised revenue, expense and equity adjustments	–	4,097	4,097
Balance at 31 December 2012	24,600	45,224	69,824

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

UN CAPITAL DEVELOPMENT FUND

a. Mandate and goals

In its resolutions 2186 (XXI) of 13 December 1966, 2321 (XXII) of 15 December 1967 and 3122 (XXVIII) of 13 December 1973, the General Assembly established UNCDF with a mandate to assist developing countries, “first and foremost the least developed” amongst them, “in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans.”

Working throughout the least developed countries and making full use of its capital investment mandate and flexible financial instruments, UNCDF’s goals are to reduce poverty and advance the Millennium Development Goals by:

1. Increasing access by poor people and small enterprises to microfinance; and
2. Improving the delivery of pro-poor services and infrastructure at the local level.

The UNDP Administrator serves simultaneously as the Managing Director of UNCDF. UNCDF reports through its Managing Director to the UNDP Executive Board.

b. Initial adoption of International Public Sector Accounting Standards (IPSAS)

UNCDF’s financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). These are UNCDF’s first annual financial statements prepared in accordance with IPSAS and certain transitional provisions.

Prior to 1 January 2012, UNCDF prepared its financial statements in accordance with United Nations System Accounting Standards (UNSAS) which prescribed the use of a modified accrual basis of accounting.

On 1 January 2012, UNCDF adopted IPSAS reporting standards and the conversion to full-accrual accounting as prescribed by IPSAS has resulted in significant changes to accounting policies and in the type and measurement of assets, liabilities, revenues and expenses recognized. This includes de-consolidation from UNDP financial statements and UNCDF is considered as a separate reporting entity from UNDP under IPSAS. Accordingly, adjustments and reclassifications were made to UNCDF’s Statement of Financial Position as at 31 December 2011 under UNSAS to arrive at UNCDF’s restated 1 January 2012 IPSAS Opening Statement of Financial Position. The adoption of IPSAS will require the preparation of annual financial statements compared to the previous UNSAS financial statements.

c. Cash and Cash equivalents

The cash amount shown in schedule 7 includes the following currencies (in thousands of United States dollar);

	2012
Cash at bank accounts	15,469
Money market funds	21,690
TOTAL	37,159

d. Investments

The carrying value of investments for bonds and notes of \$52 million is disclosed in schedule 8.

Maturity	Beginning value 1 January 2012	Purchases	Maturities	Amortization	Reclassification long-term to short-term	31 December 2012
Short term	32,960	25,709	(42,600)	(611)	23,319	38,777
Long term	7,554	29,540	–	(409)	(23,319)	13,366
Total	40,514	55,249	(42,600)	(1,020)	–	52,143

e. Operational reserve

At its twenty sixth session in 1979, the Governing council approved the establishment of an operational reserve at the level of at least 20 percent of project commitments and contingent liabilities for the guarantees entered into by the Fund in respect of bank loans to Governments (excluding sub-trust fund and cost-sharing arrangements).

f. UNDP support to UNCDF Programme and Management resources

During the year 2012 UNDP allocated \$1.4 million to UNCDF in accordance with Executive Board decision 2007/34 and the allocation is fully utilized. In addition, \$4.48 million in the UNDP biennial support budget was set aside for UNCDF management expenditures that include \$3.5 million to fund seventeen core staff positions and \$0.9 million to fund General Operating Expense. From the total biennial support budget 88% was used. The amounts were expended by UNCDF but are being recorded and reported separately by UNDP.

SEGMENT REPORTING

(thousands of United States dollars)

	Regular resources	Cost sharing	Trust funds	RSS*	Elimination	Total UNCDF
REVENUE						
Voluntary contributions, net	14,520	27,363	11,574	682		54,139
Investment revenue	206	110	51	–		367
Other revenue	546	13	5	2,378	(2,304)	638
Total revenue	15,272	27,486	11,630	3,060	(2,304)	55,144
EXPENSE						
Contractual services	2,939	2,544	1,586	157		7,226
Staff costs	9,371	3,348	1,470	1,837		16,026
Supplies and consumables used	411	51	104	1		567
General operating expenses	4,519	3,859	1,436	683	(2,304)	8,193
Grants and other transfers	5,146	6,648	4,933	–		16,727
Other expenses	1,299	93	53	72		1,517
Depreciation	239	32	2	56		329
Other revenue	8	–	–	–		8
Total expenses	23,932	16,575	9,584	2,806	(2,304)	50,593
Surplus/(deficit) for the period	(8,660)	10,911	2,046	254	–	4,551

* RSS (Reimbursable Support Services and Miscellaneous Activities)

** Elimination – This adjustment is required to remove the effect of internal UNCDF cost recovery



UN Capital Development Fund

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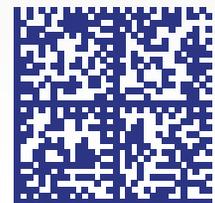
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