



UN  
CDF

# Investing with Partners for Results



ANNUAL REPORT 2013







# Investing with Partners for Results



ANNUAL REPORT 2013



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# FOREWORD

## Investing with partners for results

Development is neither a spectator sport nor a solo act. It is a result of people coming and working together, from the shared conviction that transforming the world for the better is not merely a possibility but an imperative.

For the least developed countries (LDCs) that we serve, the imperative carries a heightened sense of urgency. The accelerating pace of global change – digital gap, increased inequality, climate change and more – makes it even more challenging for poor people to seize opportunities as they arise, or risk falling further behind as the world vaults ahead.

The support we offer as a development partner provides the leverage for people to seize these opportunities and to better access the gains of global progress. Key to this are partnerships in innovation, which enable us to design, implement and scale up solutions with increasing speed and efficiency.

We are fortunate to work on the basis of a unique financial mandate that allows us to deliver substantial leverage from both public and private partners. 2013 saw us building on the innovations we have achieved with our partners in local development finance and inclusive finance, with development results achieved largely through new strategic synergies between those two programme areas. The ongoing and stable support of our partners to the regular resources helps us keep on innovating and remain flexible and responsive.

We are proud to work alongside a growing list of partners that believe in our work. We are grateful to all our donors – governments, civil society, and private sector partners. The volume of their combined financial contributions, which in 2013 reached a new record, reflects their confidence in our approach to making sustainable development more inclusive.





As we continue to lead support for MDG achievement in the LDCs, our attention is turning increasingly to what lies beyond. We have been active contributors to discussions around the post-2015 development agenda, advocating for a plan that empowers those on the margins of prosperity to participate more fully in economic development that can improve their lives.

Going forward, we count on continued fruitful collaboration with all our partners, leveraging our strengths to realize the common goal of lifting prospects and transforming lives of the poorest and most vulnerable. With the support of our partners, UNCDF will continue to extend its reach to millions more disadvantaged people eager to join in the global act of transformative change.

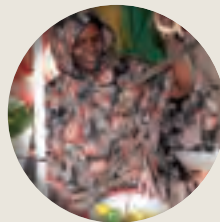


**Marc Bichler**  
UNCDF Executive Secretary

“If innovation  
is key to meeting  
sustainable development  
challenges, then

**PARTNERSHIP**  
is **KEY** to  
**INNOVATION.**”

Marc Bichler



# ABOUT UNCDF, The United Nations Capital Development Fund

The original UNCDF mandate from the UN General Assembly is to “assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans” (Resolution 2186, 13 December 1966). The mandate was complemented in 1973 to serve “first and foremost the Least Developed Countries (LDCs)”.

UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing makes its mandate complementary to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF has proven its ability to deliver high leverage on smaller and more risky investments and interventions within its core areas of expertise: Inclusive Finance and Local Development Finance.

UNCDF has also a proven track record in developing local public finance capacities, which were brought to a national scale by larger development partners (i.e. World Bank). It is also one

of the development agencies most involved in promoting financial inclusion through a market development approach. From its early support to national microfinance strategies in the 1990s, UNCDF has updated its market development approach through the development of a new diagnostic tool and programmatic framework to support the development of national financial inclusion strategies.

UNCDF is the only UN agency mandated to focus primarily on the Least Developed Countries (LDCs), currently supporting 33 out of the 48 LDCs with country programmes, as well as regional and global programmes.

UNCDF’s work on **inclusive finance** seeks to develop inclusive financial systems and ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range

of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer relevant potential for scale.

UNCDF’s work on **local development finance** aims at ensuring that people in all regions and locations benefit from economic growth. This means dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations. It means investing domestic resources into local economies and services through, inter-alia, fiscal decentralization, climate finance and project finance. UNCDF focuses its efforts towards strengthening public financial management and local revenue, improving the quality of public and private investments at the local level.



# 33

## COUNTRIES

LDCs WITH UNCDF  
PROGRAMMES IN 2013

### Least Developed Countries with Inclusive Finance programmes

Bhutan  
Burkina Faso  
Burundi  
Comoros  
Dem. Republic  
of Congo  
Ethiopia  
Lao PDR  
Lesotho  
Liberia  
Madagascar  
Malawi  
Mozambique  
Myanmar

Nepal  
Niger  
Rwanda  
Samoa  
Senegal  
Sierra Leone  
Solomon Islands  
South Sudan  
Tanzania  
Timor Leste  
Togo  
Uganda  
Vanuatu  
Zambia

### Least Developed Countries with Local Development Finance programmes

Bangladesh  
Benin  
Bhutan  
Burkina Faso  
Burundi  
Cambodia  
Ethiopia  
Guinea Conakry  
Lao PDR  
Lesotho  
Mali

Mozambique  
Nepal  
Niger  
Senegal  
Sierra Leone  
Solomon Islands  
Somalia  
Tanzania  
Timor Leste  
Uganda







# PARTNERSHIPS IN A NEW ERA

## An agile partner for development

The adoption of the Millennium Development Goals (MDGs) in 2000 established a form of partnership that was unique in two significant ways.

**FIRST**, the MDGs were an acknowledgement of the interconnectedness of people and of places – inspiring a coordinated effort to improve the lives of hundreds of millions of people around the world.

**SECOND**, taken together, the eight goals formed a vision for development that reflected the complex nature of the challenges people face in the real world.

Thirteen years later, progress towards the MDGs has been made on many fronts. Large groups of people have risen from extreme poverty. Primary school enrollment has soared. More women and girls are able to participate more fully in civic life, and more people worldwide are reaping the benefits of improved sanitary conditions and better health.

However, progress towards the MDGs remains highly uneven across and within regions and countries – and there is reason to believe that this is part of a trend of increasing global inequality.

Public policies have tended to overlook inequality, leading to widening individual and territorial disparities: often only a small part of the population has been able to take advantage of economic growth. As a result of these development dynamics, the economies of many developing countries remain concentrated in few urban centres, characterized by a narrow base and highly vulnerable to external shocks.



**THREEFOLD**

increase in  
the number of  
partners from the  
Private Sector  
since 2010





↑ NEPAL: UNCDF has partnered with UNDP to develop CleanStart, a programme to help poor households and micro-entrepreneurs access financing for low-cost clean energy. It creates microfinance opportunities for a clean energy future for low-income people.  
 ↓ © UNCDF/ Frederic Noy

The impact of the recent financial crises has been severe on this system, especially in the Least Developed Countries (LDCs): in many regions delocalized factories have started to close, construction has shrunk, tourism flows have declined, exports have become less competitive, and remittances have dwindled. What was working for only a part of the system before the crises was even less effective after these shocks.

The post-2015 development agenda aims to reinforce the international community's commitment to poverty eradication, recognizing the intrinsic interlinkage between poverty eradication and promotion of sustainable development in its three dimensions - economic stability, sustained economic growth, the promotion of social equity and the protection of the environment.

Rising global fortunes and expanding choices are presenting new opportunities to make development more sustainable and access to capital more inclusive. But accessing those opportunities takes the collective leverage of like-minded partners, who share a sense of both the transformative potential of the moment and the urgency to act upon it.

By its mandate and approach, UNCDF is committed to keeping pace with change as it affects the world's poorest. Nimbleness and adaptability are central to its operational structure, with a built-in capacity to leverage global innovation for local need wherever it may arise. Its proven ability to work from the ground up continues to earn UNCDF the confidence of a growing cohort of partners – and with it, the resources to support in increasingly reliable and comprehensive ways the development goals of the countries where it serves.

Building on its strong track record in assisting LDCs with technical assistance and seed capital towards building inclusive financial sectors and effective local government systems that deliver adequate services and infrastructure - and as the only UN agency with an explicit focus on the LDCs - UNCDF embarked in 2013 on a process of developing a new Strategic Framework for the 2014-17 period that provides an effective response to the specific challenges of inclusive growth and inequality faced by LDCs. The Strategy explicitly addresses the challenges of territorial inequality with a focus on unlocking and leveraging private and public capital, particularly from domestic sources, for smaller scale investments in local infrastructure, services and micro, small and medium-sized enterprises – often referred to as the “missing middle”. In order to allow UNCDF to expand into this new area of work, new expertise was recruited and new partnerships were built. Hence, in 2013, UNCDF expanded its staff capacity in areas such as off-grid energy, agribusiness, small scale project finance, mobile banking and electronic payment systems.

Similarly, UNCDF expanded its platform of partners and peer groups in these areas, e.g. by joining the Aspen Network of Development Entrepreneurs (ANDE) and the Global Impact Investing Network (GIIN). UNCDF also explored opportunities to engage with impact investors with a view to further broaden the opportunity of having its interventions scaled up by both private and institutional investors. This is of key importance to UNCDF's positioning in the aid architecture, as an incubator and early investor capable of applying its flexible investment mandate to de-risk and unblock investment opportunities for scaling and replication by partners with different risk appetites and investment strategies, such as e.g. IFC.

—————▶

**SOMALILAND:** The Joint Programme on Local Governance (JPLG) focuses on the development of institutions on different government levels. Using a participative investment selection process, the local governments are supported in elaborating and implementing investment programmes and annual work plans. In this context, the Burao Mohamed Ali Primary school has been financed and allows 130 children from a poor district of Burao to have a primary school education.  
© UNCDF/ Sandra Simmet



“UNCDF’s contribution was  
**PARTICULARLY  
PRAISED**

where programmes targeted rural expansion, the development of new products directed at women, and new delivery mechanisms (such as electronic banking).”

2011 – 2012 Inclusive  
Finance Evaluations



“UNCDF is at the  
**FOREFRONT** in  
the area of its niche  
mandate and has...  
clear comparative  
**ADVANTAGES**  
within it.”

Government of Sweden  
2008 Assessment of  
Multilateral Organizations

The rise of mobile technology and social media, coupled with the massive concentration of an increasingly younger population in urban areas, and changes in the flow of money and labour around the world, has ushered in an era of unprecedented possibility. As part of its expansion into new innovative areas of work, UNCDF continued to support the Better than Cash Alliance that brings together and supports governments, private sector companies and development organizations committed to making the transition from cash to electronic payments and achieve the shared goals of empowering people and growing emerging economies. The Better Than Cash Alliance is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. and UNCDF serves as the secretariat. For more information, see page 35.

As part of its strategy to build effective partnerships with other UN agencies, UNCDF was able in 2013 to considerably step up its support to fragile and post-crisis LDCs. One example of this is in Somalia, where UNCDF in 2013 was the largest recipient among five UN agencies of funding from a consortium of key bilateral donors. These resources allowed UNCDF to scale up support for local democracy and reconciliation, by supporting local governments in developing participatory planning processes for delivering social services and infrastructure to local communities.

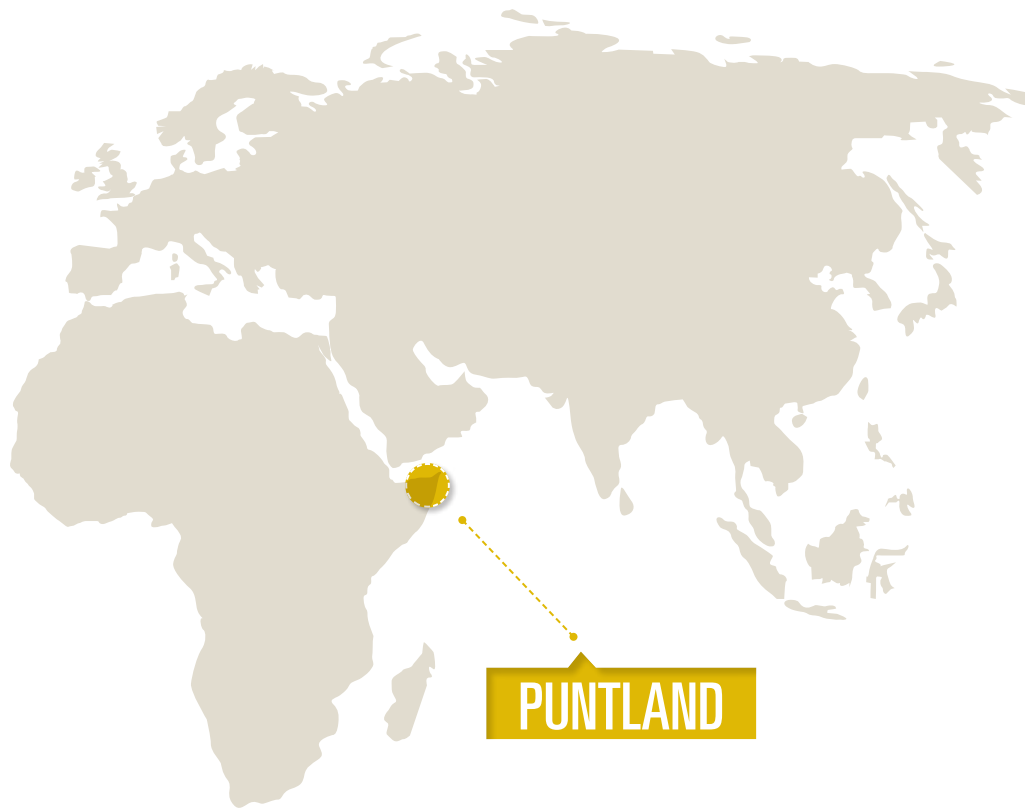
### JPLG: PARTNERSHIPS FOR IMPACT IN FRAGILE STATES

UNCDF has long been at the forefront of advocating for empowered local governance as a vector for sustainable development. In Somalia, UNCDF is a part of the UN Joint Programme on Local Governance and Decentralized Service Delivery (JPLG), which aims to strengthen local governance and bring services closer to local communities in Puntland, Somaliland and other regions of Somalia.

← SOMALILAND: The Somali region has been ravaged by civil war and unrest for many years, with direct consequences to its infrastructure. In Somaliland, the Burao Sheikh Road is vital for the community, as it connects to the region's most important port. The UN Joint Programme on Local Governance (JPLG) helps reconstruct the Burao Sheikh Road.  
© UNCDF/ Sandra Simmet







# 24 PROJECTS

Rehabilitating Roads

&

Improving Health  
and Sanitation

&

Education and  
Community Centres

# 1.5 MILLION RESIDENTS

As part of JLPG, UNCDF provides technical support to the IMCLG in the seven districts served by the programme: Berbera, Boroma, Burao, Gabiley, Hargeisa, Odweine, and Sheikh. It coordinates with central and local governments, four UN partner agencies (ILO, UNDP, UN Habitat, and UNICEF), numerous development partners, as well as the private sector and communities. Activities are financed by Denmark, DfiD, EU, Sida and Switzerland. In 2013, UNCDF was the biggest recipient of donors' funds among the participating agencies.

In Puntland, UNCDF supports six districts (Bayla, Bossaso, Eyl, Gardo, Garowe and Jeriban) to improve their capacity and better deliver services to their communities. In partnership with other JPLG agencies, UNCDF supported the districts in implementing 24 projects ranging from rehabilitating roads to improving health and sanitation to establishing education and community centres. Some 1.5 million residents across all six districts benefited from these projects.

"UNCDF is an  
**EFFECTIVE  
ACTOR**  
in fragile states."

2012 Australian Multilateral  
Assessment (AMA)

“UNCDF has made a  
**SIGNIFICANT  
 CONTRIBUTION**

to improving the financial  
 and public expenditure  
 management performance  
 of targeted local  
 governments.”

2011 – 2012  
 Local Development  
 Finance Evaluations

UNCDF also provides institutional support to the Ministries of the Interior and of Finance in implementing its fiscal decentralization policy, whereby a portion of the national budget is allocated to local government development projects. Through this initiative, the Ministry of Finance contributed 10 percent of the budget for each of the projects implemented in the target districts.

Recognizing the tangible benefits decentralization brings to citizens’ lives when government and its services move closer to the governed, the Government of Somaliland included in its 2001 constitution a framework for decentralization. The Vice President, the appointed champion for local governance, has created an Inter-Ministerial Committee on Local Governance (IMCLG). Its role is to increase civil servants’ capacity to deliver services, and to broaden opportunities for citizens to participate in defining priorities, creating policies and making decisions that affect their lives.

Public engagement has been high, thanks in part to the administration’s awareness-raising efforts, including a film on decentralization that highlights citizens’ experiences of local governance and service delivery.

Response so far has been enthusiastic. When the local government of Hargeisa created a new central market on land designated for economic development, vendors like Ms. Ismail found it easier to send children to school and even to university. Ms. Cali, Chairperson for vegetable sellers, became a more effective advocate for her constituents once she gained more direct access to local authorities and officials.

A scholarship from the local government has enabled Mr. Farah to study public health and hygiene at Hope University in Hargeisa. He and other budding civil servants from the community intend to use their new skills to sustainably improve living conditions for their fellow residents.

The empowerment of local government and improvement of service delivery benefits the most vulnerable communities as well. In Hargeisa, 400 families benefited from shelters and infrastructure developed by the local district to support returnees.

As part of JLPG, UNCDF provides technical support to the IMCLG in the seven districts served by the programme: Berbera, Boroma, Burao, Gabiley, Hargeisa, Odweine, and Sheikh. It coordinates with central and local governments, four UN partner agencies (ILO, UNDP, UN Habitat, and UNICEF), numerous development partners, as well as the private sector and communities. Activities are financed by Denmark, DfID, EU, Sida and Switzerland.

## What does UNCDF mean by Clean Energy?

Clean energy includes **RENEWABLE** energy solutions, **LOW-GHG** emitting fossil fuels, and **TRADITIONAL** fossil fuels, which through the use of improved technologies and practices produce less CO<sub>2</sub> emissions (e.g. improved cook stoves).



## **CLEANSTART:** ENGAGING PARTNERS FOR SUSTAINABLE ENERGY SOLUTIONS

The new partnerships era is also about mobilizing global action from all sectors of society: business, governments, investors, community groups and academia. The pioneering new initiative “Sustainable Energy for All” launched in 2011 by UN Secretary-General Ban Ki-moon convenes this broad swathe of actors and forges common cause in support of three inter-linked objectives: ensuring universal access to modern energy services; doubling the rate of improvement in energy efficiency; and doubling the share of renewable energy in the global energy mix.

In this context, UNCDF CleanStart programme directly contributes to the goals the Sustainable Energy for All Initiative by helping poor households and micro-entrepreneurs to access financing for low-cost clean energy and supporting at least 2.5 million people in Africa and Asia to move out of energy poverty by 2017.

CleanStart encourages greater financing choices for poor people, supported by high-quality technologies and services, and enabling ecosystems for energy and financial service providers to achieve scale and impact. The programme has the potential to cut carbon emissions by up to 300,000 tonnes, and its long-term objective is to create strategies for dramatically scaling up clean energy access to the underserved.



In addition to UNCDF, CleanStart is supported by the Austrian Development Cooperation, Liechtenstein, Norwegian Agency for Development Cooperation and Sida.

The estimated cost of CleanStart is US\$ 26.1 million over six years (2012-2017). CleanStart has syndicated initial funding of US\$ 7.9 million – enabling other development partners to co-invest an additional US\$ 18.2 million.

Currently operational in Nepal and soon in Uganda, with the aim of expanding to a further four countries in the short term, the CleanStart model is gaining traction globally.

It has selected four partner financial service providers in Nepal, which collectively plan to reach close to 145,000 clients by 2017 through loans for solar lighting, biogas digesters and improved cook stoves.

CleanStart also works closely with local partners to support national priorities in energy access, such as Nepal's Alternative Energy Promotion Centre (AEPC) and Uganda's Ministry of Energy and Mineral Development.

UGANDA: Tailor Robinah Kyayise used to work at night by the light of kerosene lamp. Such lamps, which can cause fires and health problems, are common in Uganda. Now using solar lanterns Robinah says "I can see clearly and leave my children with the lantern with no fear." To scale up such benefits, UNCDF's CleanStart programme aims to support 40,000 low-income Ugandan households and micro-entrepreneurs to access reliable and affordable clean energy through microfinance.

© UNCDF/ Frederic Noy

CleanStart's perspectives are broadening as it encounters new business models and opportunities for partnerships.

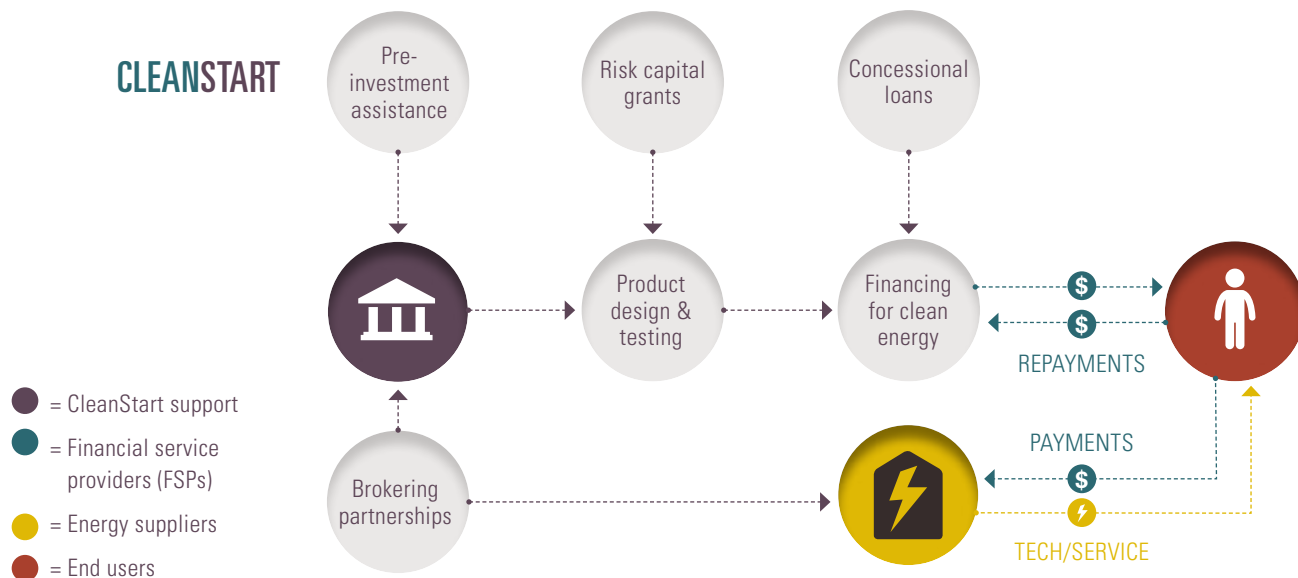
In November 2013, CleanStart launched CleanStart Connect, an annual forum that will in coming years find solutions for how ecosystems can enable energy businesses serving low-income consumers to reach scale and impact. CleanStart Connect 2013 looked at the role of finance in particular. Up to 70 participants attended the first CleanStart Connect Forum, among them energy enterprises, financial institutions, policy makers, investors, and development partners with operations in Africa and Asia.





← NEPAL: UNCDF has partnered with UNDP to develop CleanStart, a programme to help poor households and micro-entrepreneurs access financing for low-cost clean energy. It creates microfinance opportunities for a clean energy future for low-income people. © UNCDF/ Frederic Noy

## ONE CLEANSTART BUSINESS MODEL FOR FINANCING CLEAN ENERGY







## HOW UNCDF WORKS: A MATTER OF LEVERAGE

### Partnerships with and for a difference

Food-fuel price volatility, climate change and the global economic crisis are forcing much of the world to explore new strategies to reduce vulnerability. Solutions to global development challenges require a holistic view of market development, one that brings a comprehensive, evidence-based approach to diagnosing consumer need, designing responsive programmes, and promoting policies that drive market development, empower people and enable institutions to thrive. They require collaboration among partners who share the recognition that creating transformative options for those on the margins of prosperity is both the pillar and the purpose of stable, sustainable long-term growth.

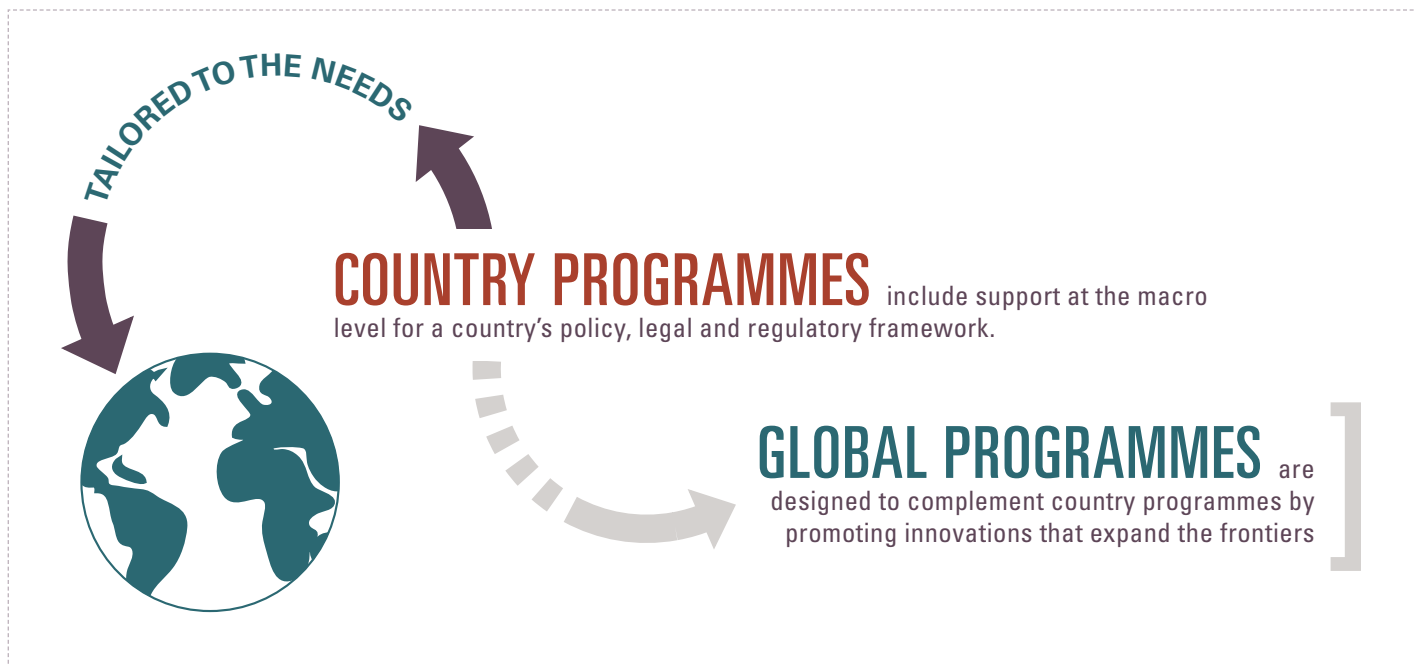
Partnership is at the core of how UNCDF achieves its mission – and it starts from within. The flexibility to pilot an idea in one location, evaluate results, and then scale it up for use elsewhere creates synergies system-wide, making each country and each initiative a partner in progress for the others. In this way, each of the countries served by UNCDF is able to tap into lessons and innovations gained across a global network, and to leverage those assets in pursuing its own development aims.



**1:10**

leverage of UNCDF  
core resources by  
2017 is the new  
corporate target





"... the World Bank's  
**OPERATIONAL WORK** was undertaken in collaboration with other development partners, based on **SUCCESSFUL** UN Capital Development Fund (UNCDF) pilot projects."

2008 Decentralization in Client countries: An Evaluation of the World Bank support

UNCDF delivers support through the integration of country and global programmes geared to expand local development finance and inclusive finance.

**Country programmes** are tailored to the needs of individual countries based on a country diagnostic. They include support at the macro level for a country's policy, legal and regulatory framework; support for strengthening financial infrastructure, such as associations of retail providers and training institutes; supporting financial service providers to operate more inclusively at the retail level; and strengthening public financial management and local revenue, improving the quality and sustainability of public and private investments and promoting accountability at the local level.

**Global programmes** are part of UNCDF's new product development agenda, and are intended to complement and create synergies with programmes at country-level. The 'identification of innovations' at the global level often converges with the 'gap analyses' of country programmes.

With its mandated focus on the world's least developed countries, UNCDF provides access where the need is greatest to drive a range of globally tested initiatives developed in collaboration with a vast array of stakeholders and partners, and supports national priorities by providing targeted yet multifaceted country-level support to local development finance and inclusive finance.

In Nepal for example, a local governance and community development programme is working to decentralize governance and improve local service delivery by fostering deeper engagement between government marginalized citizens and by improving the capacities of local authorities to deliver services. In addition to UNCDF, the Government of Nepal is leveraging implementation support from Canada, Denmark, Germany, Norway, Switzerland and the United Kingdom, as well as the Asian Development Bank.

At the same time, given that access to affordable clean energy is a priority among those services, Nepal is also participating in UNCDF's global CleanStart programme (see page 13) to help poor households and micro-entrepreneurs to access financing for low-cost clean energy. Partners here include the nationally based Alternative Energy Promotion Centre and – in the growing body of examples of effective South-South cooperation – the Ministry of Energy and Mineral Development of Uganda.

UNCDF recognizes that it takes a long-term, holistic approach to market development with strategic partners both at a global and a country level to ensure sustainable development that will benefit the poor. The MAP programme is designed to ensure that funding is leveraged at country level as well as with its global partners. This approach enables the best use of funds in country while also ensuring that the results of the diagnostic research is shared among multiple partners as well as creating buy-in and a focused effort towards agreed solutions to enhance financial inclusion at country level.

## MAP - MAKING ACCESS POSSIBLE: DATA-DRIVEN, PARTNERSHIP-POWERED INCLUSION

The 2.5 billion adults lacking access to formal financial services face more than mere inconvenience. They are on the precipice of a progress gap that over time can become more difficult to close. Recognizing that it takes a broader ecosystem of providers to enable a broader market development approach and thus deliver the diverse set of financial services that the poor require, UNCDF developed a multi-pronged partnership approach based on best of breed in financial inclusion both globally and at country level.

MYANMAR: A woman in the local Yangon market in Myanmar, where people make on average \$3.50 per day. 73% of adults do not have access to formal financial services. To help fill this gap, UNCDF's MicroLead project supports microfinance institutions that will provide financial services to at least 100,000 clients in the next 3 years.  
© UNCDF/ Paul Luchtenberg

“UNCDF’s strengths and comparative advantages allow it to act as a **FACILITATOR** on behalf of larger donors (such as foundations) making small grants to **HELP CATALYZE MARKETS** and to offer its infrastructure to other funders who are not as well positioned to facilitate at the local market level.”

SmartAid for  
Microfinance Index 2013



“The **MAP** **PROCESS** has allowed us to adopt a holistic and more coordinated approach. We now have a **FINANCIAL INCLUSION TASK** team which is at the core of Financial Inclusion framework development; additionally, the private sector and the donor community are now all aware of Financial Inclusion initiatives being undertaken.....”

David Myeni, Chairman, Financial Inclusion Task Team in Myanmar

UNCDF, in partnership with FinMarkTrust and the Centre for Financial Regulation and Inclusion (Cenfri), has developed Making Access Possible (MAP), a global initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue. The goal is to develop national financial inclusion roadmaps that leverage key drivers of financial inclusion and recommend actions for expanding access to financial services.

At the country level, MAP partners collaborate with government, other key stakeholders and donors to diagnose need, develop a roadmap and agree on practical actions, and leverage funding. This ensures that efforts and resources are pooled towards a common vision for achieving greater levels of financial inclusion, while providing space for institutions to each pursue their own areas of implementation, based on their focus, mandate and strengths. Beyond the diagnostic phase, the partnerships can extend into joint programming and a shared vision of a holistic market development approach.

From its inception in 2012, MAP has been deepening engagement in the 10 countries where it is currently operational. In Myanmar, a partnership among UNCDF, FinMark Trust, Cenfri and the Livelihoods and Food Security Trust Fund (LIFT) is working towards financial inclusion by means of MAP to accelerate financial inclusion.

In Thailand, MAP is part of a larger technical assistance initiative of the Asian Development Bank (with funding from the Japan Fund for Poverty Reduction) to develop a strategic framework for financial inclusion. And in the Southern African Development Community (SADC), FinMarkTrust is funding and implementing MAP diagnostics to extend and deepen work already under way in Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Swaziland and Zimbabwe.

Given the recognition that financial inclusion is receiving in global fora for its potential contributions to both growth and development, specific calls by the G20 for national financial inclusion strategies, and commitments by national bank regulators and supervisors via their Maya Declarations to develop such strategies, the MAP diagnostic and stakeholder process can contribute to a multi-stakeholder process based on sound diagnostics that is able to inform national strategies and develop robust plans to increase financial inclusion at country level.

The strategic partnerships cultivated through MAP at the global, national and local levels with market leaders, as well as at the country level, ensure a coherent and coordinated approach that will ultimately benefit poor consumers as access to financial inclusion improves. It has enabled greater innovation at country level as more providers, particularly private sector investors, are brought on board.





## A MATTER OF LEVERAGE: CASE STUDY 1

In the area of **INCLUSIVE FINANCE**, in 2009 UNCDF launched **MICROLEAD**, a global thematic initiative established to support savings-led market leaders for inclusive finance, which provides loans and grants on a competitive basis to microfinance institutions, commercial banks and financial cooperatives based in developing countries and pursues a savings-based approach to expand operations to underserved markets.

MicroLead – supported by the Bill & Melinda Gates Foundation,

The MasterCard Foundation and the LIFT Fund in Myanmar – targets southern microfinance market leaders to support their entry into underserved areas of the LDCs. In South Sudan, Equity Bank from Kenya established a greenfield bank which has mobilized **US\$137.5 MILLION** in deposits (2009-2013) from 105,065 depositors with **US\$2.5 MILLION** grant funding from UNCDF. The net change in savings mobilized, divided by UNCDF administered grant funding over the 4-year period, demonstrates a leverage of 55:1.

**MicroLead**

Targets  
**SOUTHERN  
MARKET  
LEADERS**



In South Sudan:

**US\$137.5 million**  
IN DEPOSITS (2009-2013) from  
**105,065 DEPOSITORS**



“A much-needed intervention, geared towards **POVERTY REDUCTION** through micro-infrastructure development”

2010 European Commission Results-Oriented Monitoring Report Laos Saravane Decentralisation Project

## **LFI** - LOCAL FINANCE INITIATIVE: SEEDS THAT ENRICH THE SOIL

Public-private partnerships have become a mainstay of growth and development for rich and poor countries alike. With the growing awareness that inclusiveness in public goods and services is a fundamental condition for private economic stability and sustainability, an era of social enterprise and cooperation has taken hold. The emergence of new partners from rising economies, eager to apply the best practices of development cooperation close to home, has prompted a reimagining of what can be achieved in developing countries using private resources to finance public projects at local and district levels.

UNCDF explores this concept in two domains with proven multiplier effects: infrastructure and agriculture-processing. Its Local Finance Initiative (LFI) is an innovative global programme that aims to unlock domestic financial sectors and improve business-enabling environments in developing countries.

LFI develops small and medium-sized demonstration projects, applies financial techniques proven to work on larger-scale projects, and supplements these with targeted credit enhancement, risk mitigation and capacity-building interventions.

Projects are chosen for their potential to change the perceived risk of investing in the local economy, promote inclusive local development and stimulate new relationships between local public and private actors, while building local capacity in both sectors.

The LFI partnership mechanism creates a virtual cycle of local development and inclusive growth: local (private) seed investment takes root in local (public) soil, thereby enriching the enabling environment for itself and other domestic projects and investors to flourish.

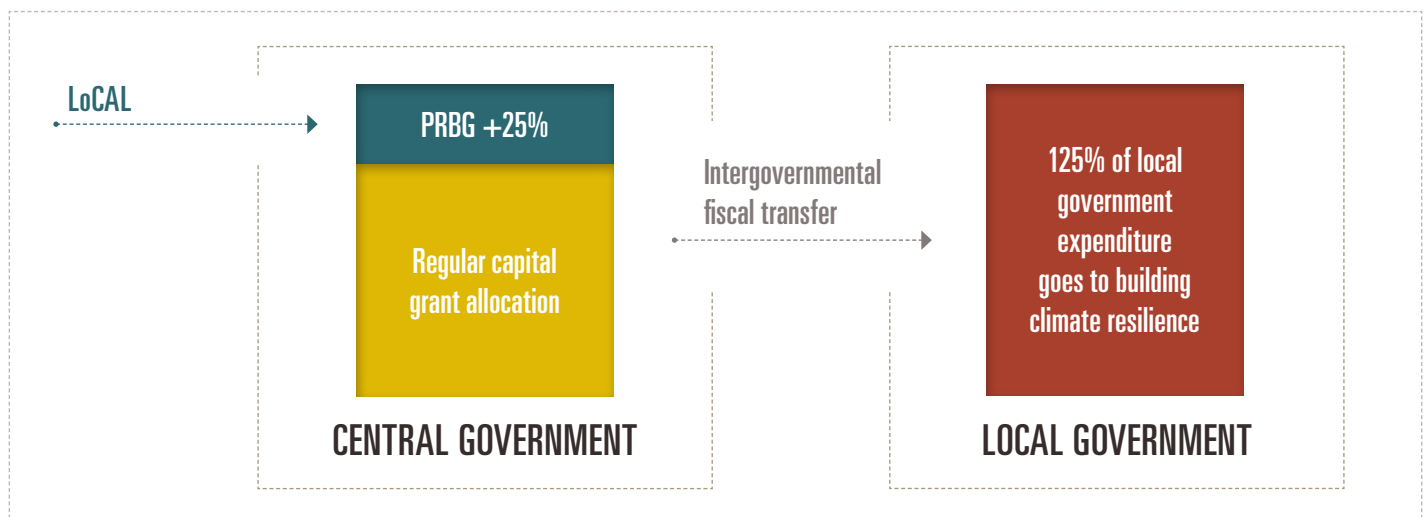
In 2013, LFI was active in Tanzania and in Uganda. In Tanzania, it continued to develop a portfolio of local infrastructure investments, with projects including the Arua IPS Hydroelectric Plant and the Busia Lorry Park. In Uganda, LFI worked with farmers' cooperatives on the Insingiro UCCCU Milk Processing Project.

## LoCAL - LOCAL CLIMATE ADAPTIVE LIVING FACILITY: FAST TRACK TO CLIMATE-PROOFING

As the world continues to grapple with climate change, there is growing evidence to suggest that the poorest communities are often the most vulnerable. Local governments on the front lines of helping communities to adapt often lack the fiscal capacity needed for dedicated climate change adaptation projects such as raising or reinforcing bridges, creating water catchment systems to harvest rain to withstand droughts, or investing in disaster risk reduction and preparedness.

To address this shortfall, UNCDF has created the Local Climate Adaptive Living Facility, or LoCAL. A dedicated fund for investment in local climate change resilience, LoCAL channels global adaptation finance to local governments and enables them to invest in building resilience at the community level, thereby contributing to the achievement of the Millennium Development Goals, particularly poverty reduction (MDG1) and environmental sustainability (MDG7).

The facility channels global adaptation finance to local governments - who are at the frontline of dealing with the effects of climate change - and enables them to invest in building local resilience. The method for doing so is innovative: the LoCAL Facility connects to existing national intergovernmental fiscal transfer systems and supplements capital grants with high leverage to local governments with performance-based climate adaptation funding. In doing so, it provides incentives for local authorities to mainstream climate-adaptive thinking into their everyday planning and investment, encouraging systematic analysis of changing weather patterns and their impacts on local economies. It is also able to leverage smaller investments for increased flows of resources to the local level.



LoCAL thus 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. LoCAL operates primarily in LDCs and is introduced in 3 phases:

- 1. PHASE I:** an initial scoping phase. This phase involves an initial scoping followed by a testing in a very small number of local governments with a baseline defined by the scoping study.
- 2. PHASE II:** a national pilot phase. This is a national pilot of LoCAL and is designed on the basis of the lessons of the previous phase, which takes place in around 5% to 10% of local governments (of the appropriate tier) in a country and is usually financed by UNCDF together with financing partners to the tune of up to US\$ 5 million.
- 3. PHASE III:** full roll-out phase in programme country. It is gradually extended to all local governments (of the appropriate tier) and is usually financed by central government through a re-adjustment of the architecture of existing resources to enable financing of local adaptation. It can also be co-financed by international finance institutions such as the World Bank, regional development banks and the climate trust funds. In 2013, a 'local climate adaptation summit' held in Cotonou, Benin, resulted in nine African countries signing up to the LoCAL roadmap for joining the facility. These are Benin, Burkina Faso, Burundi, Ghana, Guinea, Mali, Mozambique, Niger and Uganda. An important milestone along this road is the scoping and design studies, which were concluded in Bangladesh, Benin, Ghana, Mali, Nepal and Solomon Islands, during the year. By the end of 2013, Bangladesh and Benin had signed the Memorandum of Understanding and joined Bhutan and Cambodia as full partners in the facility.

BUTHAN: UNCDF's LoCAL facility channels global adaptation finance to local governments to help them invest in building community resilience. In this context, LoCAL (LGSP) has helped constructing the bailey bridge over the Likcheychhu.

© Cedric Jancloes



LoCAL is made possible by a partnership among UNCDF, UNDP, UNEP, the Cambodia Climate Change Alliance Trust Fund, the Adaptation Fund, and Sida. Further funding of \$7 million was secured from the European Union, Sida and Liechtenstein during the year.



## A MATTER OF LEVERAGE: CASE STUDY 2

In the area of **LOCAL DEVELOPMENT FINANCE**, UNCDF is working in Benin to strengthen local capacities to support local economic development and improve food security. Mindful of the power of ICT solutions to enable real-time public financial management of scarce resources and to link local businesses to internet-based services, UNCDF has developed a financial accounting software called “Gestion Budgétaire et Comptables des Communes – GBCO.”

Started in seven municipalities with a small investment of **US\$18,000**, GBCO has been extended countrywide with an investment of more than **US\$400,000**, thanks to the support of DANIDA, the Belgian Technical Cooperation and the European Union. Today, 75 percent of local governments in Benin are using the UNCDF model. The Belgian Technical Cooperation has recently exported GBCO to Niger and started its implementation in four municipalities, for an investment of US\$32,000. New adaptations are now under discussion to implement the software in Mali.



**GBCO**

BEFORE: GBCO  
**7 MUNICIPALITIES**  
WITH A SMALL INVESTMENT

NOW: GBCO  
**US\$400,000**   
COUNTRYWIDE WITH INVESTMENTS

GBCO IS USED IN **75%**  
OF LOCAL GOVERNMENTS  
IN **BENIN**

IS UNDER DISCUSSION  
TO BE IMPLEMENTED  
IN **MALI**

HAS STARTED ITS  
IMPLEMENTATION  
IN **NIGER**





# RESULTS FOR INCLUSIVE GROWTH AND SUSTAINABLE GROWTH

## 2013 Highlights

In a world of finite resources and competing development priorities, UNCDF's mandate – to promote economic development in the least developed countries – and unique ability to provide capital financing – in the forms of grants, soft loans and credit enhancement – is more relevant than ever. UNCDF works to create new opportunities for poor families and small businesses in the least developed countries. It focuses on local investment and financial inclusion because basic services and a thriving private sector empower people to improve their lives.

UNCDF is a flexible partner, capable of working with a wide array of development actors. In many respects, it operates more like a development bank than a traditional UN agency, with its ability to engage partners in a more direct, 'hands-on' manner. It can issue loans, guarantees and capital grants, and provide technical assistance, policy advice and risk capital directly to private interests or to any level of government. It has the institutional bandwidth to take calculated risks, to experiment and innovate in order to support promising yet unproven institutions and approaches. It enjoys strong credibility across the stakeholder spectrum: it can leverage downstream expertise to help shape upstream national policies on financial inclusion and decentralized service delivery.



**11** Global  
thematic initiatives  
launched in  
the period of  
2010-2013



“Working **TOGETHER**, [UNDP/UNCDF] have been able to **LEVERAGE** their respective expertise and resources in **SUPPORT** of local governance reforms particularly because of their perceived political neutrality and the long-standing **TRUST** built with national Governments.”

2010 Evaluation of UNDP contribution to strengthening local governance

Most importantly, UNCDF continues to evolve in the light of new realities and available technologies. From its early support of microfinance and market approaches to financial inclusion, it has taken a quantum leap forward in terms of diagnostic and analytical capacities. Making Access Possible, or MAP (see page 19), is a UNCDF-created diagnostic tool and programmatic framework to support the development of national financial inclusion strategies and the roadmaps and action plans to implement them. Another tool, known as LoOKING (Locally Owned Knowledge = Inclusive Growth) is aimed at improving local-level governance capacity. A process as well as a tool, it assesses how local authorities function and helps them find appropriate solutions for management and governance challenges using diagnostics and analysis.

UNCDF has a proven ability to deliver results within its core areas of expertise: inclusive finance and local development finance. Below are examples of results achieved in each area in 2013.

## Inclusive finance

Together with its partners, UNCDF supports efforts to make a broad range of financial services available and accessible to the 2.5 billion people currently excluded from formal financial services. Serving over 8 million clients in 26 least developed countries across Africa and Asia, it provides seed capital and technical support through inclusive finance programmes to ensure that more households and small business gain access to financial services that expand opportunities and reduce vulnerabilities.



## COUNTRY PROGRAMME

# UNCDF'S WORK IN MADAGASCAR

## CHALLENGE:

Recently emerged from the worst political crisis of its history, Madagascar is struggling with extreme poverty. Some 72 percent of its population lives on less than \$2 a day. Weak economic growth and an overwhelmingly rural population further combine to place formal financial services beyond the reach of most Malagasy.

## UNCDF RESPONSE:

The joint UNCDF-UNDP **Financial Inclusion Programme in Madagascar (PAFIM)** seeks to strengthen the legal and regulatory framework for developing a viable, sustainable microfinance sector. It

offers support to professionalize microfinance institutions (MFIs), strengthen the technical and financial infrastructure, and develop appropriate financial products and services for underserved groups. At the same

time, PAFIM helps prepare poor and vulnerable communities to participate in the financial services marketplace.

In 2013, PAFIM invested approximately \$1,000,000 directly into MFIs.

## RESULTS:

- More than 20,000 poor women were able to access capital from six PAFIM-supported MFIs.
- After developing new financial products targeting agricultural producers, partner MFIs provided financing to over 3,000 rural small businesses and micro-enterprises.
- A feasibility study exploring the financial needs of youth aged 12 to 24 has been commissioned for 2014.

**i** More information on UNCDF's work in Madagascar available at [www.uncdf.org/en/madagascar](http://www.uncdf.org/en/madagascar)



▲ **MADAGASCAR:** Madame Voahangy and her husband used to struggle to make ends meet. As a washer woman, she earned just 11 euros per month. She joined a group of women beneficiaries of the Credit with Education (CAE), where she took out a credit of 60.000Ar (20 euros) to develop a small restaurant business. She further diversified her business and even acquired some farmland, which helped her and her family to acquire a certain level of wealth and allow her 4 children to continue school.

© Hery/ CINU Antananarivo



## COUNTRY PROGRAMME

## UNCDF'S WORK IN PAPUA NEW GUINEA

**CHALLENGE:**

Despite significant gains made, the Pacific islands remain one of the least banked regions in the world. With 7.2 million people, over 850 ethnic groupings and indigenous languages, Papua New Guinea is the largest country in the Pacific, accounting for two-thirds of the region's population. Approximately 80 percent of the population are unbanked, living in difficult terrains with limited access to markets and infrastructure.

**UNCDF RESPONSE:**

Through FIPA's **Pacific Financial Inclusion Programme (PFIP)**, which is supported by the Australian Government, the European Union and UNDP, UNCDF works in Papua New Guinea, focusing on regulatory modernization for new products and acceleration of outreach; provision of performance-based grants and technical assistance to de-risk innovation; and demand research into the financial needs of low-income people and empowering consumers.

**RESULTS:**

- In partnership with the Centre for Excellence in Financial Inclusion and the Central Bank, UNCDF undertook a baseline review of financial inclusion and organized a series of consultations on

priority issues including women's access to financial services, the potential of branchless and rural banking, and decentralization of financial inclusion priorities through sub-national government offices – which resulted in the country's first National Financial Inclusion and Financial Literacy Strategy (2014-2015). UNCDF also helped establish the first working group on financial inclusion in the country to coordinate and monitor implementation of the strategy.

- The country has committed to the Maya Declaration<sup>1</sup> and membership in the Alliance for Financial Inclusion's Pacific Island Working Groups.
- Westpac PNG reported reaching 100,453 rural clients, 38 percent of them women. Westpac launched its branchless

banking programme, InStore Banking, made possible through performance-based grants from FIPA and the MicroLead Global Fund, to help roll out their branchless banking strategy in seven Pacific Island countries.

- Nationwide Microbank's mobile wallet MiCash registered 18,837 users, of which 89 percent are active, 80 percent previously unbanked, 37 percent women and 63 percent rural dwellers.
- Oceanic Communications Limited, which provides agent network infrastructure, now has 22,812 registered customers and supports two partners, Post PNG and NMB, with 231 agents.



More information on the Pacific Financial Inclusion Programme (PFIP) available at [www.pfip.org](http://www.pfip.org)

<sup>1</sup> The Maya Declaration is a global and measurable set of commitments made by developing and emerging country governments to unlock the economic and social potential of the 2.5 billion 'unbanked' people through greater financial inclusion.



## GLOBAL PROGRAMME

## MICROLEAD

## CHALLENGE:

To provide deposit services to low-income rural people who are currently un- or under-banked in order to enhance their capacities to weather shocks, smooth income streams, and save for the future.

## UNCDF RESPONSE:

**MicroLead**, a global initiative to support the development and roll-out of deposit services by regulated financial service providers. With the generous support of the Bill & Melinda Gates Foundation, The MasterCard Foundation and the LIFT Fund in Myanmar, MicroLead is working with a variety of Financial Services Providers (FSPs) to reach rural markets with demand-driven, responsibly priced products in combination with financial education so that customers not only have access but actually use quality services.

## RESULTS:

- Funding under MicroLead and MicroLead Expansion (phase I and phase II) awarded in 19 countries for 27 projects (working with 36 FSPs) totaling \$42 million. Included in these figures are three start-up grants to support Greenfield operations in Myanmar, a country with a dearth of financial services serving rural populations.
- Eclipsing its own targets, by the end of 2013, MicroLead's first phase with 19 partner FSPs working in 13 countries was reaching over 800,000 deposit clients.

- With a start-up grant of \$2.5 million from MicroLead in 2009, Equity Bank established its first greenfield bank in South Sudan. As of year-end 2013, the South Sudan affiliate has leveraged US\$77 million in deposits from 98,421 retail depositors. The net change in savings mobilized divided by UNCDF administered grant funding over the 4-year period demonstrates a leverage of 31:1.

**i** More information on UNCDF's work in Microlead available at [www.uncdf.org/microlead](http://www.uncdf.org/microlead)





## GLOBAL PROGRAMME

# YOUTHSTART

## CHALLENGE:

There are an estimated three billion people in the world under the age of 25. Approximately 1.2 billion are between the ages of 15 and 24, which accounts for 18 percent of the global population. They are disproportionately affected by high unemployment rates. In Africa, three out of five young people are unemployed and, in Southeast Asia and the Pacific, youth unemployment rates are six times those of adults. This suggests that economic growth has failed to translate into more and better economic opportunities for youth, and that more initiatives aiming at boosting youth entrepreneurship must be supported.

## UNCDF RESPONSE:

Various factors may explain the current situation. However, one that UNCDF has been addressing since 2010 is the dearth of demand-driven and responsible financial services — whether they involve a safe place to save, an account to receive cash transfers from welfare government programmes or an appropriately structured loan for investment in an enterprise or education — coupled with non-financial services (entrepreneurship training, financial literacy, mentorship and internship opportunities) that support youth to accumulate assets and realize their full potential.

In an intensified effort to address these gaps, UNCDF, in partnership with The MasterCard Foundation, launched **YouthStart** in 2010.

This innovative programme supports 10 FSPs in 8 countries in sub-Saharan Africa to pilot and roll out financial and non-financial services, in particular savings and financial education for youth.

A mid-term review of YouthStart has predicted that the programme and its partners are on the right track to not only reach the initial target of 200,000 young savers by the end of 2014, but to exceed this figure. The evaluation noted that YouthStart is building a convincing case for combining carefully conceived and targeted financial education with accessible and appropriate financial products in delivering positive, empowering outcomes for young people. At the same time, it found that the programme faced continuing challenges in delivering services to girls, and in fine-tuning its

model for delivering a combination of financial and non-financial services to youth. In response to this latter challenge, YouthStart has begun to experiment with varying configurations of service providers, including youth 'ambassadors', existing clients and community networks, working in tandem with external partners. Early signs show the hybrid experiments yielding not only better take-up and absorption of financial and non-financial services and lessons among young people, but also greater chances for longer-term institutional and financial sustainability for the FSPs.

## RESULTS:

- As of December 2013, YouthStart grantees have opened a total of 273,180 savings accounts for youth (46 percent of them young women), collected



US\$8.7 million in savings, granted US\$5.4 million in loans to 44,521 youth entrepreneurs (53 of whom are young women), and trained almost 305,000 youth in financial education, reproductive health and/or entrepreneurship. These early and promising outreach figures position UNCDF to almost double initial outreach projections.

- The programme has published more than seven knowledge products, to help others benefit from the internal lessons

and enable them to replicate similar experiences in their own countries. YouthStart aims to disseminate lessons learned and best practices in the field of access to finance for youth, as well as to demonstrate that there are compelling social as well as business incentives to provide financial services for youth.

- YouthStart has convened national dialogues and partnered with other UN agencies and like-minded organizations to remove barriers to financial

services for youth. Together with its UN partners, it contributed to a System Wide Action Plan for Youth that aims to inform programme development on youth throughout the UN system. YouthStart has ensured that youth access to finance has been adopted as a key indicator to measure under the broader goal of youth entrepreneurship and employment.

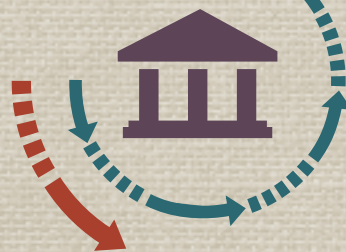
**i** More information on UNCDF's Youthstart seven knowledge products available at [www.uncdf.org/youthstart](http://www.uncdf.org/youthstart)

# 273,180

SAVINGS ACCOUNTS  
FOR YOUTH  
WERE OPENED



COLLECTED  
**US\$8.7 million**  
IN SAVINGS



GRANTED  
**US\$5.4 million**  
IN LOANS TO  
**44,521**

YOUTH ENTREPRENEURS



TRAINED ALMOST  
**305,000**



## GLOBAL PROGRAMME

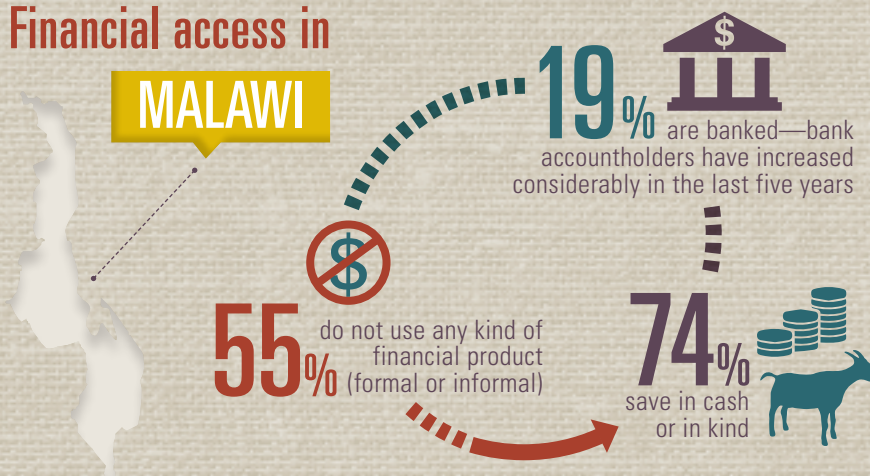
## MM4P

## CHALLENGE:

Across the developing world, mobile phone penetration is skyrocketing at double-digit growth rates – while access to financial services remains low. Even as mobile banking gathers momentum worldwide, people in the least developed countries are kept from participating by sluggish economies and low disposable incomes, poor infrastructure, and less developed regulatory and business environments.

## Financial access in

MALAWI



## UNCDF RESPONSE:

The result of a partnership among UNCDF, AusAID, Sida and the Bill & Melinda Gates Foundation, **Mobile Money for the Poor (MM4P)** aims to demonstrate the viability of mobile banking in select LDCs showing how the right mix of financial, technical and policy support can create the environment for branchless and mobile banking to thrive.

## RESULTS:

- UNCDF is actively supporting central banks, mobile network operators, banks and MFIs in Lao PDR, Liberia, Malawi, Nepal and Uganda.
- Mobile money is now reaching over 300,000 active participants in Malawi alone.
- With MM4P support, the Central Bank of Liberia changed its guidelines on mobile money,

which promises to improve the providers' chances of success.

- MM4P has garnered a grant of \$5.9 million from the Bill & Melinda Gates Foundation to develop a more inclusive, efficient and interconnected digital financial services ecosystem in Uganda. These services will include domestic money transfers, savings, insurance or other services that assist households in increasing their financial security. The grant will support a three-year digital financial services ecosystem support strategy, with a focus on regulatory and policy changes, building greater awareness and collaboration amongst stakeholders, agent network development, digital product design and implementation, as well as shifting bulk payments to digital platforms.



More information on UNCDF's MM4P programme available at [www.uncdf.org/mm4p](http://www.uncdf.org/mm4p)



## GLOBAL PROGRAMME

# BETTER THAN CASH ALLIANCE

## CHALLENGE:

Every year, billions of dollars in cash payments are made by governments, the private sector and development organizations to people in emerging economies, including millions of poor people. Shifting from cash to electronic payments can provide a pathway to a broader range of financial services, is generally safer, especially for women and girls, and more efficient for low-income people. Electronic payments provide cost savings and support transparency, economic growth and poverty reduction.

## UNCDF RESPONSE:

UNCDF serves as the secretariat for the **Better Than Cash Alliance**, created in partnership with the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. The Better Than Cash Alliance works to encourage governments, development organizations and the private sector to commit to the digital transition, and helps transform those commitments into action.

## RESULTS:

- As of the end of 2013, the Better Than Cash Alliance has secured commitments to digitize payments from 16 governments and development organizations: Afghanistan, Colombia, Kenya, Malawi, Peru and the Philippines; and from UNDP, USAID, the World Food Programme, ACDI/VOCA, CARE, Chemonics

International, Concern Worldwide, Grameen Foundation, MEDA and Mercy Corps.

- It has led 31 high level discussions on the benefits of transitioning to electronic payments, organized side events at major global fora such as Davos, the World Bank Spring Meetings and the UN General Assembly, and disseminated its message through more than 100 media outlets.
- Pilot programmes for a new technical assistance facility were launched, including a peer learning exchange between senior government representatives from Kenya and the Philippines as well as convening African ministers of finance to examine common opportunities and challenges of digitization.

- An initiative was established to study the transition processes of five countries. The first case study revealed that the Government of Mexico, by digitizing and centralizing its payments, is saving \$1.27 billion annually.

**i** More information on UNCDF's Better than Cash Alliance programme available at [www.uncdf.org/btca](http://www.uncdf.org/btca)





## Local development finance

UNCDF works to ensure that the benefits of development are accessible to people at local levels, beyond global, regional and national epicentres of power. It invests seed capital and provides technical assistance to promote increased capital flows to the local level, reducing inequalities, improving services and increasing opportunities for sustainable economic development. It does so through innovation and testing in new public and private financial systems that mobilize, allocate and invest additional resources and promote transparency and accountability in their use.

### COUNTRY PROGRAMME

## UNCDF'S WORK IN BENIN

### CHALLENGE:

Benin's agriculture-driven economy is highly vulnerable to weather conditions. Although the country is home to the regional breadbasket of Borgou, food security remains a challenge.

### UNCDF RESPONSE:

UNCDF is working in Benin to strengthen local capacities to support local economic development and improve food security. The **Local Development Finance Programme (LDFFP)** leverages ICT to contribute to effective local development by enabling real-time public financial management of scarce resources and by linking local businesses to internet-based services. UNCDF has developed a financial

accounting software called "Gestion Budgétaire et Comptables des Communes – GBCO."

### RESULTS:

- From its initial coverage of seven municipalities and a small investment of US\$18,000, GBCO has been extended countrywide with an investment of more than US\$400,000, leveraging the support of DANIDA, the Belgian Technical Cooperation and the European Union. Today,

75 percent of local governments in Benin use this model.

- The Belgian Technical Cooperation has recently exported GBCO to Niger to be implemented in four municipalities, for an investment of US\$32,000. Discussions are also under way to adapt the software for implementation in Mali.



More information on UNCDF's work in Benin available at [www.uncdf.org/benin](http://www.uncdf.org/benin)



## GLOBAL PROGRAMME

## LOBI

## CHALLENGE:

Cross-border zones are often dynamic centres of commerce, as well as of social and cultural exchange. But they also are vulnerable to conflict and insecurity resulting from disputes about border demarcations, weak governance, the inadequate management of common resources and the insufficient delivery of basic services.

## UNCDF RESPONSE:

UNCDF has partnered with the West African Economic and Monetary Union (UEMOA), the Economic Community of West African States (ECOWAS) and the Government of Luxembourg on the **Local Cross Border Initiative**, or LoBI.

LoBI aims to strengthen cross-border governance, support the development of viable national and regional strategies, and pilot cross-border local development processes to improve economic stability and human security.



↑ NIGER: Cross-border areas are of central concern to regional stability, though their communities are often marginalized from the national support systems. The Local Cross Border Programme (LOBI) was set up to strengthen cross-border governance through the definition of regional and national strategies and the promotion cross-border local development processes.

© UNCDF/ Christian Fournier

LoBI operates in two West African border regions: SKBo, covering the Burkina Faso/Côte d'Ivoire/ Mali border; and IIRSAhel, where Burkina Faso, Mali and Niger meet. It is working to build the shared capacity to respond to growing migratory pressure, tackle regional disparities, enhance services delivery and boost market competitiveness. LoBI also incorporates a cross-border local development fund, which will facilitate investments and support innovations in local economic development, gender and food security, as well as directly contribute to sustainable basic service delivery to cross-border communities.

## RESULTS:

- LoBI has worked to set up a joint cross-border strategy between UEMOA and ECOWAS; developed tools to analyze cross-border strategies and policies at regional and national levels; and mobilized local actors to engage them in the piloting of new tools for

cross-border cooperation at the local level.

LoBI has also participated in the General Assembly of the Local Authorities' Council of UEMOA, as well as in other key regional meetings, to promote regional integration through cross-border cooperation and finance.

- LoBI has conducted a study on the national cross-border policy and strategies of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo.
- It has evaluated the cross-border cooperation dynamic in participating areas, and evaluated the potential for pilot investment projects.
- Based on lessons learned in the UEMOA context, LoBI will look to expand to other regions, including Mano River Union, SADC and ASEAN, in 2014.

**i** More information on UNCDF's LOBI program available at [www.uncdf.org/lobi](http://www.uncdf.org/lobi)





## THE MEANS TO DELIVER

### The value of stable and predictable core funding through strong partnerships

As the only UN agency mandated to work primarily in the LDCs, UNCDF is committed to expanding development pathways for the world's poorest and most vulnerable. The organization is driven to ensure that, in this moment of historic progress and possibility, no one is left behind.

UNCDF's twin areas of expertise – local development finance and inclusive finance – present myriad strategic opportunities to pursue its objective. As development challenges deepen in complexity, these two core areas find themselves converging with greater frequency, creating synergies with the potential to exceed the sum of their parts.

That convergence finds UNCDF at the forefront of such innovations as branchless banking, mining the fertile terrain where high mobile saturation meets low access to finance. Its global programme Mobile Money for the Poor (MM4P - see page 34), can transform the lives of beneficiaries who number among the world's 2.5 billion unbanked.



**\$25M**

threshold required  
to sustain UNCDF's  
programming in  
40 LDCs





“As a small organisation focused on **COLLABORATION** with the private sector, UNCDF is particularly strong in the areas of policy development and sharing these developments with the wider **DEVELOPMENT COMMUNITY.**”

2012 Australian  
Multilateral Assessment

With MM4P, a person who was previously constrained by a reliance on physical cash suddenly can reap the benefits of performing everyday banking transactions through the mobile phone at her fingertips – saving untold hours spent in payment lines, reducing the anxiety of stockpiling cash that is easily lost or stolen, and creating new options for savings and remittances through the accumulation of interest. As mobile banking continues to gain ground, UNCDF is helping to lead the quest to extend its reach to the very poorest communities where penetration remains low.

Responding to challenges such as these requires the flexibility and freedom to innovate – and flexibility and freedom require money. UNCDF uses its core budget of regular resources primarily as investment capital for new programmes and projects. This means that the more robust and unfettered those resources are, the more effective its interventions and the greater the transformative impact on people’s lives.

Indeed, the value that UNCDF’s partners place on its work is reflected in their contributions, which in 2013 continued the upward trajectory of the past seven years. Encouragingly, while most of the increase is in other resources, this also included increased contributions to regular resources, both from existing donors and from new contributors to regular resources such as Liechtenstein, Luxembourg and Switzerland. By joining partners such as Sweden, Belgium, Luxembourg, Norway and the USA, new partners enable UNCDF to stabilize capital investment in support of inclusive growth and to deliver on its business model.

That model includes a unique financial mandate that allows UNCDF to leverage substantial additional resources on the basis of the regular contributions it receives. The greater the volume of regular contributions entrusted to UNCDF, the greater its ability to trigger even higher leverage in other funding from its growing base of partnerships with institutional and private sector donors and investors. Only investment capital in the form of non-earmarked contributions makes this possible.

If regular funding does not keep pace with the demands on UNCDF to respond flexibly and innovatively to the needs of those it serves, there is a real risk that UNCDF may be forced to scale down its interventions in LDCs. At a time when the demands for UNCDF's services are increasing along with opportunities to make a difference, support to the organization's ability to respond effectively – and to leverage the additional resources needed to extend its reach – becomes even more indispensable.

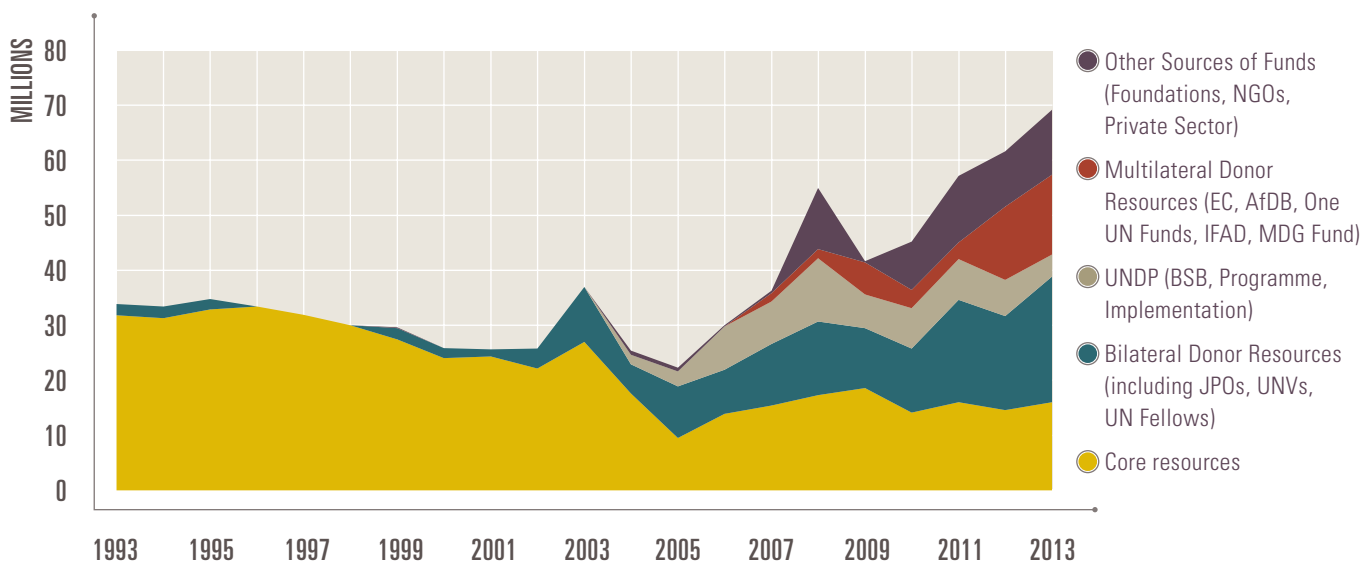
Clarity of purpose is another benefit of stable funding. UNCDF's profile as a trusted partner for development derives from its neutrality and independence. Working in partnership with national governments and non-state actors, it remains focused on implementing programmes and delivering the best quality services it can offer.



“UNCDF's flexible grant instrument puts it in a **UNIQUE POSITION** to support the building of **INCLUSIVE** financial sectors.”

Consultative Group to Assist the Poor (CGAP)

## Contributions to UNCDF 1993-2014 (last Updated May 6, 2014)





“With its high level of **TECHNICAL EXPERTISE** the Fund is able to adopt an approach involving more risk-taking and can implement small-scale projects, often as pilots, at local level that local organization and development banks have difficulty in setting up. UNCDF should therefore be seen as a **DEVELOPMENT ACTOR** that paves the way for others, rather than [as a] **FINANCING MECHANISM.**”

Government of Sweden  
2008 Assessment of  
Multilateral Organizations



## Stakeholder consultations on scenarios for UNCDF's future

In 2012, UNCDF began a series of consultations with its partners to solicit input and feedback on its Strategic Framework 2014-2017, which will be the basis of its support to accelerating MDG progress and of its contributions to the post-2015 development agenda. These Stakeholder Consultations have provided an opportunity to examine UNCDF's positioning in the international aid architecture, its comparative advantage and related resources requirements.

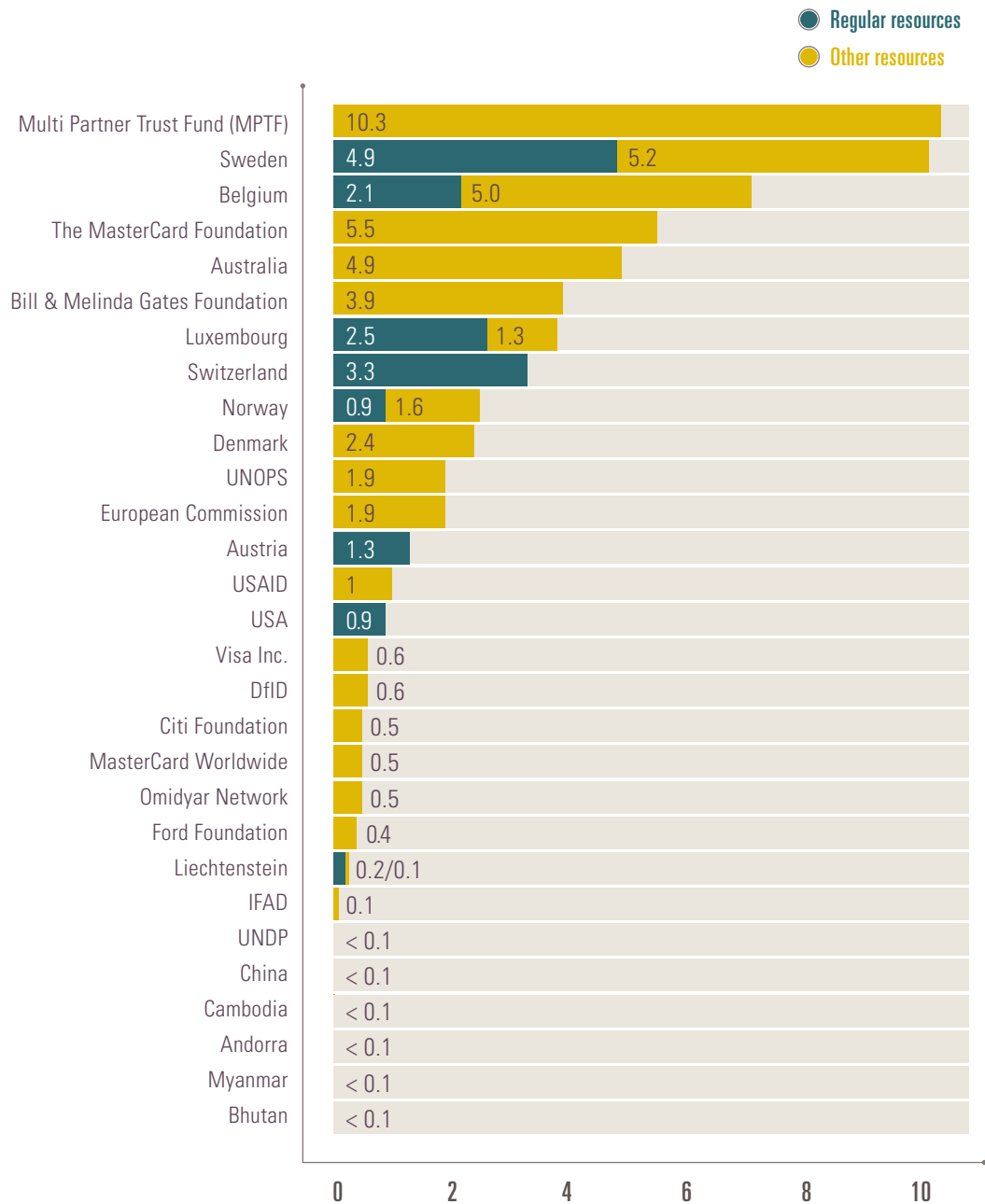
In addition to providing valuable contributions to the Strategic Framework (see page 45), the consultations drew three important conclusions.

First, they confirmed UNCDF's value proposition and the relevance and complementarity of its work in inclusive finance and local development finance. UNCDF was urged to explore further how its mandate and core expertise could be used to pilot innovations, given current trends in development financing as well as evolving technologies.

Second, they underscored that the UNCDF work and focus on inclusive and sustainable growth in least developed countries was central to the emerging post-2015 agenda.

Lastly, they emphasized the importance of significantly increasing regular resources to allow UNCDF to fulfill its investment mandate. Stakeholders agreed that regular resources afford a secure platform for country-driven programme activities, and allow UNCDF to invest in innovations that can be scaled up for global application. Furthermore, in an era of tighter fiscal budgets, they promote efficiencies across programmes, reducing administrative burdens on the organization, host countries, implementing partners, and donors alike.

## Revenue by Donor 2013 (In millions of United States dollars)





## PFIS: ACCELERATING PROGRESS

In 2012, the Swedish International Development Cooperation Agency (Sida) decided to supplement its already significant support from the Government of Sweden to UNCDF regular resources with additional multi-year funding, raising its total contribution by \$16.3 million. Its Partnerships Framework on Inclusive Growth and Sustainable Development (PFIS) aims to accelerate progress toward achieving the MDGs by providing simultaneous support to seven catalytic UNCDF global programmes: Mobile Money for the Poor (MM4P), Making Access to Financial Services Possible (MAP), CleanStart, the Local Climate Adaptive Living Facility (LoCAL) and the Local Finance Initiative (LFI), Youthstart and a Women's Economic Empowerment programme.

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 that grow naturally out of its existing expertise in financial services and local development finance and are complementary to its country programmes.

The PFIS allows UNCDF to respond more quickly and effectively to emerging global problems with multiplier effects, such as the impact of climate change and the lack of accessible financial services for low-income households and micro-entrepreneurs.

**MYANMAR:** In Côte d'Ivoire, Thailand, Democratic Republic of Congo, Mozambique and Myanmar, UNCDF is piloting its newest diagnostic tool Making Access Possible (MAP), a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. The MAP framework has been developed by UNCDF, in partnership with FinMark Trust and Cenfri, and is intended to become a public good that can advance the global financial inclusion agenda.

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**i** More information on UNCDF's global programmes:

<b>MM4P</b>	<a href="http://www.uncdf.org/mm4p">www.uncdf.org/mm4p</a>
<b>MAP</b>	<a href="http://www.uncdf.org/mafsp">www.uncdf.org/mafsp</a>
<b>LoCAL</b>	<a href="http://www.uncdf.org/local">www.uncdf.org/local</a>
<b>LFI</b>	<a href="http://www.uncdf.org/lfi">www.uncdf.org/lfi</a>
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<b>IELD</b>	<a href="http://www.uncdf.org/ield">www.uncdf.org/ield</a>



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# UNCDF STRATEGIC FRAMEWORK 2014 – 2017

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THE NEXT FOUR YEARS WILL BE A TIME OF TRANSITION.  
AS THE 2015 DEADLINE FOR ACHIEVING THE MDGS FAST APPROACHES,  
A NEW POST-2015 DEVELOPMENT AGENDA IS TAKING SHAPE TO CHART  
THE COURSE FOR THE NEXT PHASE OF GLOBAL DEVELOPMENT.



THE STRATEGY OUTLINES **THREE** MAIN DEVELOPMENT OBJECTIVES FOR UNCDF ACTIVITIES IN THE PERIOD OF 2014-2017





The UNCDF Strategic Framework 2014 – 2017 sets the parameters for UNCDF engagement with the least developed countries during this period. Designed to take advantage of synergies with the UNDP Strategic Plan 2014 – 2017, it draws on the full potential of the UNCDF capital mandate and flexible financial instruments in support of shared goals: eradicating poverty; reducing inequalities; and promoting inclusive and sustainable growth.

UNCDF will provide support through its two areas of programmatic expertise, inclusive finance and local development finance. It will deploy its capital mandate in innovative ways to leverage new sources of financing, tapping the growing cohort of impact investors who prioritize sustainable development alongside financial return. And it will help improve public financial management of scarce resources by fast-tracking ICT solutions and linking local businesses to internet based services.

This strategy aims to contribute to three major development objectives identified in the Framework: increasing financing for basic services and sustainable, inclusive growth; establishing financing mechanisms to increase resilience to economic

and environmental shocks; and fostering policy environments conducive to sustainable financing for sustainable development.

## MEASURING RESULTS

The Strategic Framework is accompanied by an Integrated Results and Resources Matrix (IRRM) which translates UNCDF's development objectives into results that allow UNCDF and stakeholders to monitor and evaluate achievements, learn lessons, and hold the organization accountable for the funds given to it.

It is backed up by a results-focused monitoring and evaluation system which will enable regular internal assessment and external evaluation of progress towards results and allow informed, evidence-based management of the full range of UNCDF's interventions.

This builds on UNCDF's existing commitment to measurement and evaluation exemplified by the more than twenty external evaluations commissioned by the organization's Evaluation Unit since 2010 as well as the organization's regular participation in external assessments of UNCDF results such as the Australian multilateral assessment of 2012.

In line with UNCDF's commitment to transparency, all of UNCDF's evaluations and assessments can be found on our website: [www.uncdf.org/en/evaluations-assessments](http://www.uncdf.org/en/evaluations-assessments).

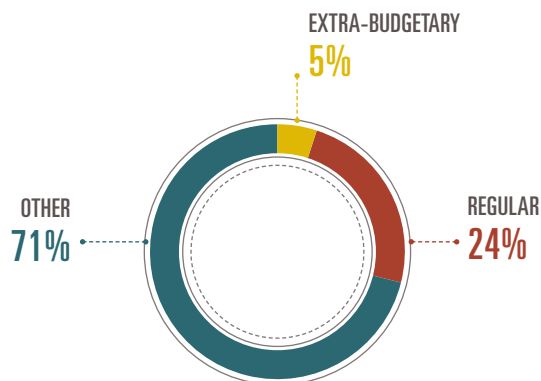
NIGER: UNCDF is helping Niger to address its development challenges through several projects combining inclusive finance and local development. The "Projet Appui au Développement Economique Local (PADEL II)" Programme aims at ensuring that people of the Maradi region have access to public and financial services. This school is being financed through the Local Development Fund.

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## Revenue by segment 2013



## Partners and resources

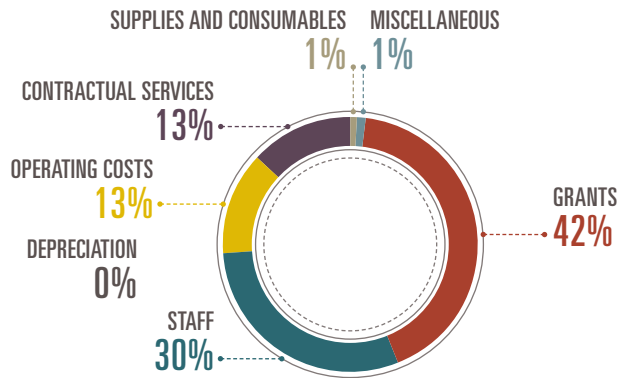
In 2013, due mainly to increasing other resources, UNCDF's total contribution revenue reached a record level of \$65 million up from \$55 million in 2012. The diversification of UNCDF's donors remained at the high level of 36 donors, up from 29 in 2010. Donor contributions to UNCDF's 2013 resources included \$12 million from seven major private sector foundations and corporations, representing 18 percent of total income. UNCDF's eight largest donors in 2013 were: One UN funds (multi-donor), Sweden, The MasterCard Foundation, Australia, Belgium, the Bill & Melinda Gates Foundation, Luxembourg and the European Commission.

Other resources reached a record high of \$49 million in 2013, an increase of 24 percent from 2012. Other resources have increased more than 300 percent over the past seven years and are expected to continue to grow in 2014 based on signed commitments. Regular resources reached some \$16 million in 2013 – a slight increase over 2012 mainly due to a first time contribution from Switzerland – yet still falling well short of the estimated \$25 million minimum threshold level required to sustain UNCDF operations in 40 LDCs.

The lack of significant increase in regular resources has forced UNCDF in 2013 to take drastic steps to switch the cost of its technical infrastructure to other resources funding and reduce the amounts available to deploy its investment mandate in the LDCs. During the Stakeholder Consultations, a number of key donors indicated their interest in exploring opportunities to increase or start contributing to UNCDF regular resources as applicable. UNCDF is eager to extend its services to all LDCs. Despite constraints on regular resources, it remains optimistic that it will be able to continue its operations in at least 33 LDCs, while continuing to leverage substantive amounts of other resources from private and public sources for the benefit of the LDCs.

Total expenditures in 2013 were \$60 million, 13 percent higher than in 2012 (\$51 million). Expenditures against regular resources decreased by 24 percent to \$18 million while expenditures against other resources increased by 42 percent.

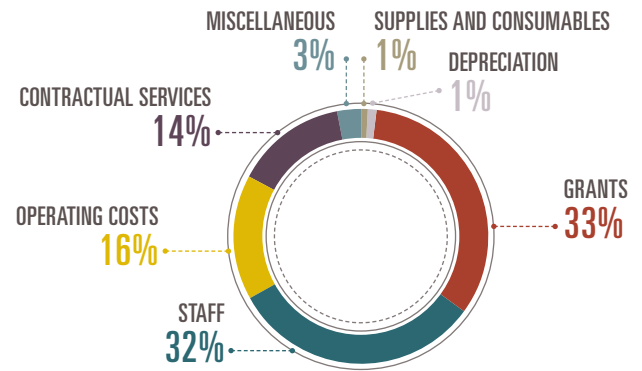
## Expenses of the year 2013



UNCDF continues to monitor its long-term financial stability very carefully, investing its limited regular resources strategically in initiatives that will maximize development results and attract significant other resources.

Fund balances at the end of 2013 were \$81 million. UNCDF has made provisions for the After Service Health Insurance (ASHI) as per IPSAS requirements and

## Expenses of the year 2012

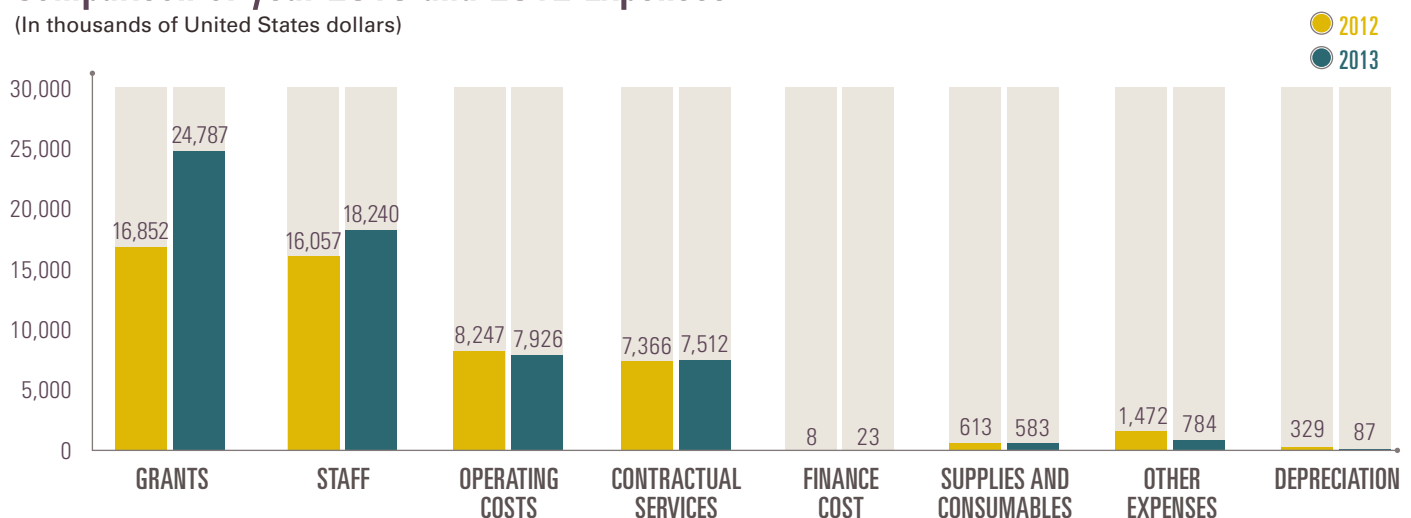


recalculated its operational core reserve to \$12 million. The extra budgetary reserve is at \$2 million.

In 2013, 59 percent of country expenditures were in Africa, followed by Asia and the Pacific at 39 percent. 64 percent of programme expenditures are delivered through country programmes and UNCDF global thematic initiatives accounted for the remaining 36 percent.

## Comparison of year 2013 and 2012 Expenses

(In thousands of United States dollars)





# FINANCIAL STATEMENTS

## Statement of financial position

(Thousands of United States dollars)

ASSETS	31 Dec 2013	31 Dec 2012
Current assets		
Cash and cash equivalents	16,515	37,159
Investments	52,059	38,777
Receivables – non-exchange transactions	3,698	–
Receivables – exchange transactions	8,876	279
Advances issued, net	1,031	1,207
Loans to financial service providers	783	–
Inventories	2	–
Other current assets	–	178
<b>Total current assets</b>	<b>82,964</b>	<b>77,600</b>
Non-current assets		
Investments	10,099	13,366
Loans to financial service providers	547	1,608
Property, plant and equipment	685	488
<b>Total non-current assets</b>	<b>11,331</b>	<b>15,462</b>
<b>Total assets</b>	<b>94,295</b>	<b>93,062</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	895	8,348
Employee benefits	2,110	2,033
Other current liabilities	–	26
<b>Total current liabilities</b>	<b>3,005</b>	<b>10,407</b>
Non-current liabilities		
Employee benefits	10,718	15,302
<b>Total non-current liabilities</b>	<b>10,718</b>	<b>15,302</b>
<b>Total liabilities</b>	<b>13,723</b>	<b>25,709</b>
<b>NET ASSETS/EQUITY</b>		
Reserves	14,618	24,600
Accumulated surplus	65,954	42,753
<b>Total net assets/equity</b>	<b>80,572</b>	<b>67,353</b>
<b>Total liabilities and net assets/equity</b>	<b>94,295</b>	<b>93,062</b>

## Statement of financial performance

(Thousands of United States dollars)

REVENUE	2013	2012
Voluntary contributions, net	65,169	54,139
Investment revenue	426	367
Other revenue	642	737
<b>Total revenue</b>	<b>66,237</b>	<b>55,243</b>
EXPENSES		
Contractual services	7,512	7,366
Staff costs	18,240	16,057
Supplies and consumables used	583	613
General operating expenses	7,926	8,247
Grants and other transfers	24,787	16,852
Other expenses	784	1,472
Depreciation	87	329
Finance costs	23	8
<b>Total expenses</b>	<b>59,942</b>	<b>50,944</b>
<b>Surplus for the period</b>	<b>6,295</b>	<b>4,299</b>

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

## Statement of changes in net assets/equity

(Thousands of United States dollars)

	Reserves	Accumulated surplus	Total net assets/equity
Balance at 31 December 2012	24,600	42,753	67,353
Prior period Adjustment	–	52	52
Balance at 1 January 2013 restated (IPSAS)	24,600	42,805	67,405
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(9,982)	9,982	-
Funds with specific purposes		920	920
Actuarial gains		5,952	5,952
Surplus for the period		6,295	6,295
<b>Total revenue and expense recognized directly in net assets/equity</b>	<b>(9,982)</b>	<b>23,149</b>	<b>13,167</b>
Balance at 31 December 2013	14,618	65,954	80,572

The accompanying notes are an integral part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS

### UN CAPITAL DEVELOPMENT FUND

#### a. Mandate and goals

The original UNCDF mandate from the UN General Assembly (UNGA) is to “assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans” (Resolution 2186 (XXI), 13 December 1966). The mandate was complemented in 1973 to serve first and foremost but not exclusively the LDCs.

UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing – in the forms of grants, loans and credit enhancement – and the technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes its mandate complementary to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF is headquartered in New York and is on the ground in 33 countries and territories.

The financial statements include only the operations of UNCDF. UNCDF has no subsidiaries or interests in associates or jointly controlled entities.

#### b. Adoption of International Public Sector Accounting Standards (IPSAS)

UNCDF’s financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS).

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.

#### c. Cash and cash equivalents

(Thousands of United States dollars)

	31 Dec 2013	31 Dec 2012
Cash in bank accounts	588	473
Money market funds	6,385	21,690
Money market instruments	9,999	14,996
Impairment	(457) <sup>a</sup>	-
<b>Total</b>	<b>16,515</b>	<b>37,159</b>

**d. Investments** The carrying value of investments for bonds and notes of \$62 million is as follows.

Maturity	Beginning value 1 January 2013	Purchases	Maturities	Amortization	Unrealized gains/(losses)	Reclassification long-term to short-term	31 December 2013
Short term	38,777	32,330	(38,260)	(585)		19,797	52,059
Long term	13,366	19,489	(2,502)	(459)	2	(19,797)	10,099
<b>Total</b>	<b>52,143</b>	<b>51,819</b>	<b>(40,762)</b>	<b>(1,044)</b>	<b>2</b>	<b>–</b>	<b>62,158</b>

**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.

**f. UNDP support to UNCDF programme and management resources**

During the year 2013, UNDP allocated \$0.2 million to UNCDF in accordance with Executive Board decision 2007/34. In addition, \$3.8 million in the UNDP biennial support budget was set aside for UNCDF management expenditures and of which \$3.2 million used to fund sixteen core staff positions and General Operating Expense. The amounts were expended by UNCDF but are being recorded and reported separately by UNDP.

## Segment reporting, Financial performance as at 31 December 2013, by Segment

(Thousands of United States dollars)

REVENUE	Regular resources	Cost sharing	Trust funds	RSS*	Elimination	Total UNCDF
Voluntary contributions, net	16,052	31,191	17,119	807		65,169
Investment revenue	239	134	53	–		426
Other revenue	593	37	8	2,540	(2,536)	642
<b>Total revenue</b>	<b>16,884</b>	<b>31,362</b>	<b>17,180</b>	<b>3,347</b>	<b>(2,536)</b>	<b>66,237</b>
EXPENSE						
Contractual services	2,271	3,582	1,454	205		7,512
Staff costs	9,297	5,309	1,737	1,897		18,240
Supplies and consumables used	318	84	164	17		583
General operating expenses	2,903	4,817	1,577	1,165	(2,536)	7,926
Grants and other transfers	3,187	11,638	9,962	–		24,787
Other expenses	508	163	54	59		784
Depreciation	64	10	1	12		87
Finance costs	7	–	16	–		23
<b>Total expenses</b>	<b>18,555</b>	<b>25,603</b>	<b>14,965</b>	<b>3,355</b>	<b>(2,536)</b>	<b>59,942</b>
<b>Surplus/(deficit) for the period</b>	<b>(1,671)</b>	<b>5,759</b>	<b>2,215</b>	<b>(8)</b>	<b>–</b>	<b>6,295</b>

\* RSS (Reimbursable Support Services and Miscellaneous Activities)

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



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