



MICROFINANCE RISK CAPITAL
NEW OPPORTUNITIES
INNOVATION CAPITAL INVESTMENT
LEAST DEVELOPED COUNTRIES POST-CRISIS
CATALYTIC SCALABLE
MILLENNIUM DEVELOPMENT GOALS

Annual Report 2010

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FOREWORD

by the Executive Secretary

“I declared 2010 to be the year of development. We need to focus attention and accelerate the process to achieve, to realize, the goals of the MDGs by the target year, 2015.”

Ban Ki-moon, Secretary-General of the United Nations



UNCDF Executive Secretary David Morrison visits country operations in Timor-Leste where UNCDF works in both microfinance and local development.

© UNCDF/Timor-Leste

2010 was an important year for all development actors: it marked the beginning of the countdown to the 2015 deadline to achieve the Millennium Development Goals.

The MDG Summit in New York in September confirmed that many countries have achieved major successes in tackling extreme poverty in its various dimensions. At the same time, the Summit highlighted how improvement in some areas has been unacceptably slow, and how some hard-won gains are being eroded by the climate, food and economic crises. The challenges are most severe in the Least Developed Countries (LDCs) – where UNCDF focuses its efforts.

UNCDF responded to these imperatives in 2010 by redoubling its efforts to support LDCs in the areas of microfinance and local development – both of which are strong enablers of MDG progress.

First, **UNCDF invested significantly in external programme evaluations in 2010** to verify whether the goals and methodologies of its work in microfinance and local development remained valid.

The goal of UNCDF’s microfinance work is to reduce poverty by increasing access by poor people and micro / small enterprises to financial services. UNCDF’s approach in the LDCs – often difficult and underserved markets – is to try to identify and nurture promising financial service providers. UNCDF works simultaneously at the policy and financial “infrastructure” levels, helping to enable a supportive larger national context.

The goal of UNCDF’s local development work is to reduce poverty by increasing investment in public infrastructure – schools, clinics, water systems – that will improve lives. UNCDF does this by building the capacities of local governments to make capital investments that respond to the priorities of poor communities, and will be sustainable over time.

The 2010 evaluations re-affirmed the overall relevance of UNCDF's goals and approaches in microfinance and local development; they also pointed to areas where strengthening is needed. Specific evaluations are referred to throughout this annual report; the evaluations themselves, as well as the responses of UNCDF management, can be found on the UNCDF website (www.uncdf.org).

Second, *several new initiatives with the potential to catalyze truly transformative change came on stream in 2010.*

MicroLead, UNCDF's flagship global microfinance programme, achieved considerable success during the course of the year. MicroLead seeks to "jumpstart" the microfinance sector in some of the world's most underserved markets, with a particular focus on post-crisis countries. It is now operating in 7 least developed countries, 5 of which are post-crisis countries. Microlead is on track to reach 815,000 depositors and 732,000 borrowers by the end of 2013. UNCDF intends to launch a new phase of the programme in 2011.

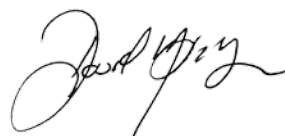
UNCDF is also making strong headway in "branchless banking", including through the use of mobile phone technology, as a means of including large numbers of poor people that will likely never be reached through traditional banking models. The UNCDF-supported "Pacific Financial Inclusion Programme" is demonstrating in real time the tremendous potential of new technologies to reach excluded populations. It is also serving to foster greater commitment and cooperation among stakeholders committed to inclusive financial systems throughout the Pacific Islands region. UNCDF is now actively exploring how to apply lessons learned in the Pacific to its financial inclusion work elsewhere.

Third, *UNCDF stepped up its knowledge sharing and advocacy in 2010, as a means of trying to effect even broader change.*

This was the idea behind the first Global Forum on Local Development, convened by UNCDF and UNDP in Kampala in October 2010. Coming on the heels of the MDG Summit in New York, the Global Forum asked whether greater emphasis on sub-national tiers of government might lead to faster progress on the MDGs. 600 participants from 81 countries attended, including over 40 ministers. The resulting "Kampala Call to Action" advocated a new policy approach based on the potential of local authorities to play a stepped up role in helping to meet MDG targets by 2015.

On the microfinance side, 2010 saw UNCDF play an increasingly prominent role across a range of issues, including consumer protection and responsible investing. UNCDF's role in support of the UN Secretary-General's Special Advocate for Inclusive Finance for Development, Her Royal Highness Princess Máxima of the Netherlands, also grew, as the Special Advocate took on a range of new advocacy initiatives in support of the rapidly growing and diversifying financial inclusion agenda around the world.

UNCDF will continue to pursue these and other priorities in 2011 and beyond, all in support of its mission to assist the LDCs in their efforts to meet the MDGs.



David Morrison
UNCDF Executive Secretary

I. INTRODUCTION

1 UNCDF creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF programmes help to empower women. The programmes are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals.

2 UNCDF programmes are designed to reduce extreme poverty and hunger (Millennium Development Goal 1) and to promote gender equality (Millennium Development Goal 3). In 2010 UNCDF provided support for microfinance and local investment in least developed countries (LDCs) throughout Africa and Asia, as well as in the Arab States and Haiti. (Haiti is the only least developed country in the Western Hemisphere). Local development programmes accounted for 66 per cent of 2010 programme delivery and microfinance for 34 per cent. 58 per cent of the programme delivery was in Africa, 35 per cent in Asia, and 7 per cent in the Arab States and Haiti.

3 Overall, 2010 proved a solid year for UNCDF. Despite a difficult external environment – donor countries facing severe fiscal constraints, least developed countries grappling with new and growing challenges – UNCDF managed to increase its overall resource base and to develop new interventions in response to country-level demand.

4 Highlights of the year included a Special Projects Implementation Review Exercise (SPIRE), under which UNCDF commissioned nine full evaluations in 2010, compared with two evaluations and several case studies in 2009. The objective was to develop a more robust evidence base regarding “what works.” Findings to date have validated the UNCDF approaches to both local development and microfinance. They have also pointed to areas in need of strengthening, which UNCDF intends to address.

5 Another highlight of 2010 was stepped up UNCDF efforts in the fields of global advocacy and knowledge sharing. UNCDF and UNDP convened the Global Forum on Local Development in Kampala, Uganda, in October. In addition, UNCDF launched several new publications, and, with the support of UNCDF, the United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development, Her Royal Highness Princess Máxima of the Netherlands, engaged in a full range of activities around the world.

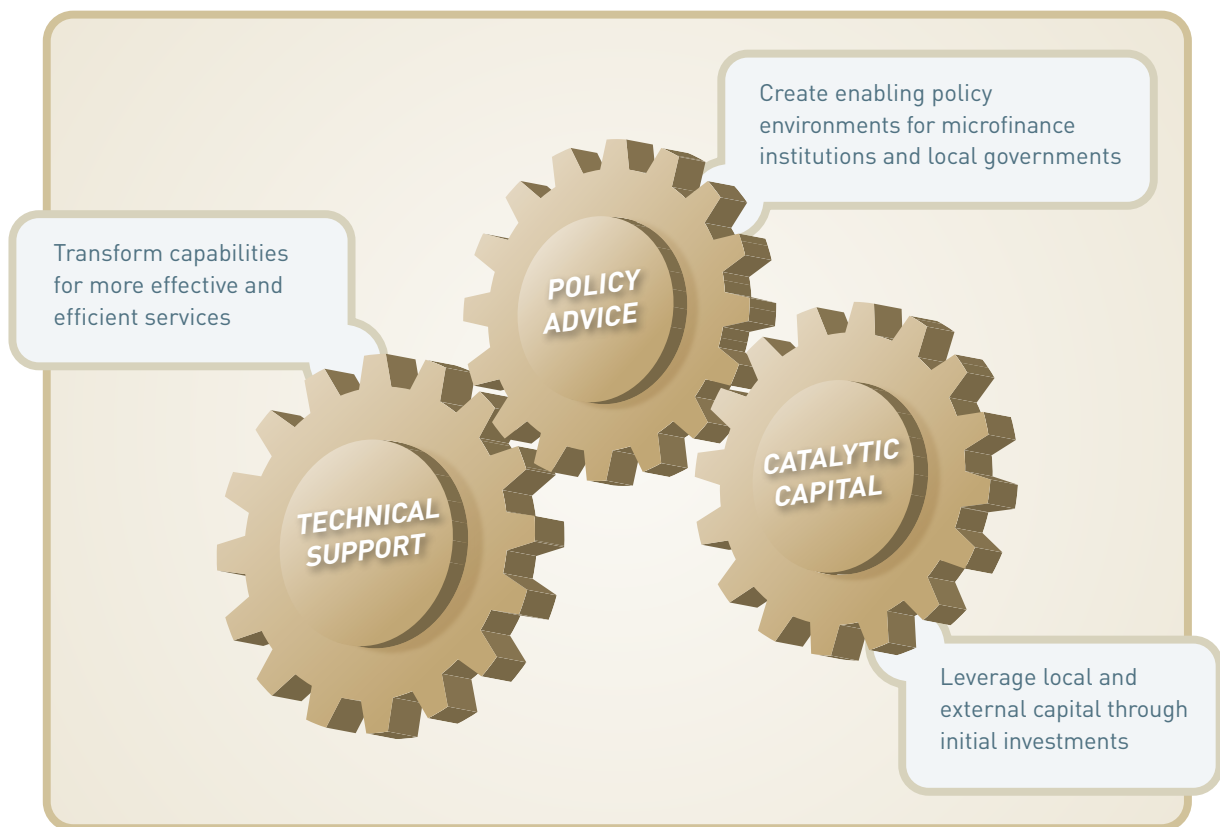
6 On the management side, 2010 saw the completion of the UNCDF Project 2010, a process of internal strengthening initiated in 2008. The project included the implementation of 22 far-reaching recommendations from an audit carried out in 2009. A follow-up audit conducted in October 2010 found that UNCDF had made “substantial” progress, achieving an overall implementation rate of 82 per cent. The follow-up audit made one new recommendation.

7 The financial results for 2010 show a reduction in core contributions because of a substantial cut by a major donor faced with fiscal constraints. All other donors maintained their contributions at 2009 levels

despite a challenging financial environment. Two donors were able to increase their contributions (Austria and Luxembourg), and one new donor (United States of America) began contributing to core resources. Non-core income continued to rise with strong diversification and support from entirely new partners such as The MasterCard Foundation.

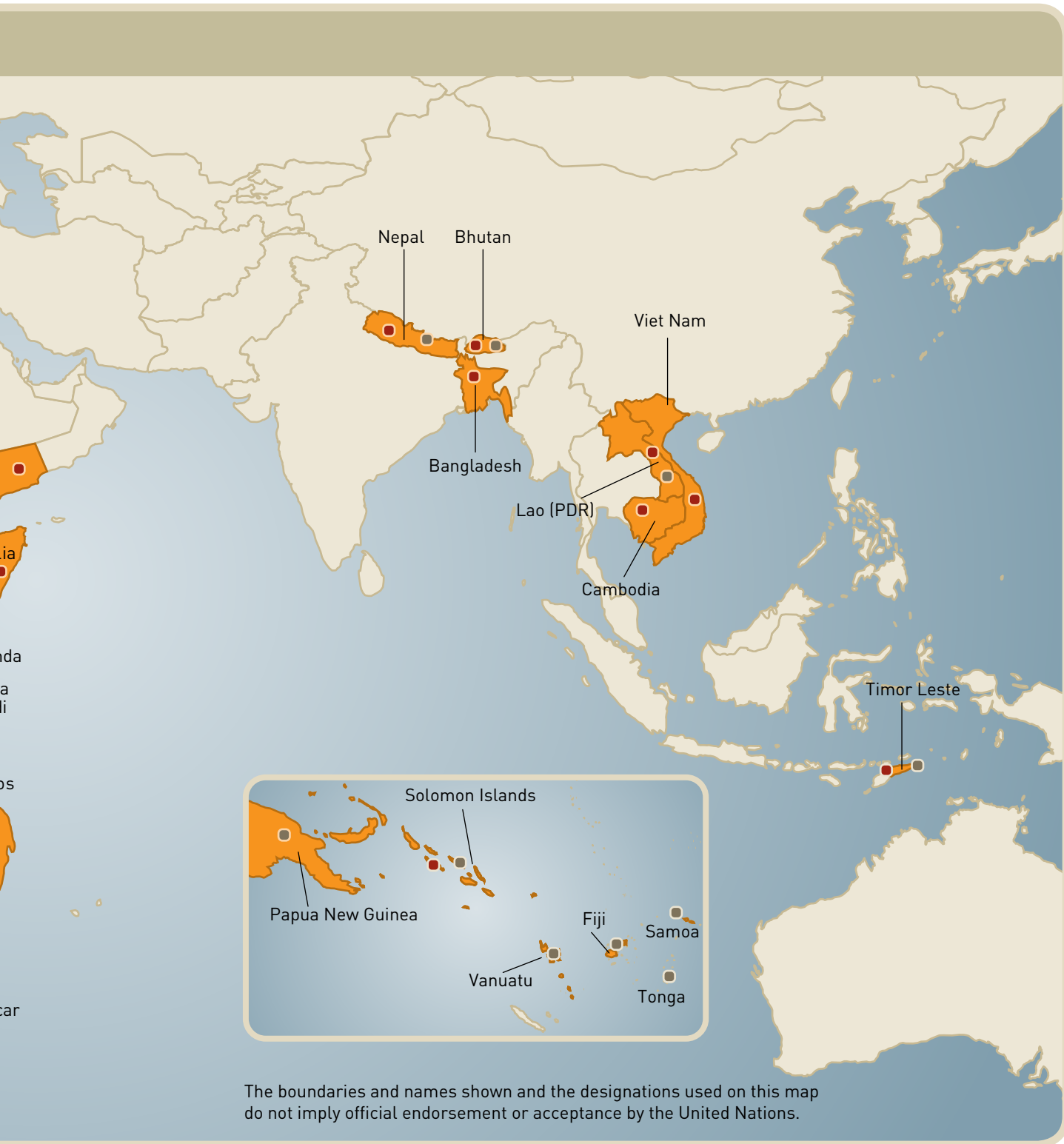
8 The present annual report documents the UNCDF programmatic, managerial and financial performance in 2010.

Figure 1 UNCDF Programme Approach



UNCDF Around the World







II. PROGRAMME RESULTS

A. Performance analysis: local development

9 Public investment is inadequate and inefficient in many least developed countries, especially in rural areas where most poor people still live. UNCDF works to ensure that local capital investment – in schools, irrigation schemes roads, water supply – is sustainable, and responds to the needs of poor communities. The UNCDF approach at the local level helps to advance almost all of the Millennium Development Goals, and achieves increasing impact as it is replicated and brought to scale by larger development partners and national governments.

10 UNCDF local development programmes strive to (i) improve the capacity of local governments to plan, allocate and manage resources; and (ii) ensure that lessons learned at the local level are fed into national policies and can be replicated at scale. In 2010, UNCDF pursued local development programmes in 30 least developed countries: 19 in Africa; 7 in Asia and the Pacific; 3 in the Arab States; and 1 in the Caribbean. These included fragile countries just emerging from armed conflict, through to stable countries with gradually maturing local governance systems.

11 Local development programmes in Eritrea, Sierra Leone, Rwanda, Burundi, Tanzania, Bangladesh and Timor-Leste were evaluated in 2010 as part of the UNCDF SPIRE initiative. Also in 2010, the European Commission, a key partner for UNCDF, evaluated the local development work of UNCDF in Liberia, Bangladesh, the Lao People's Democratic Republic and the Solomon Islands.

A young man helping to construct a new community market in Kenema City, Sierra Leone, where UNCDF is supporting the Kenema District Economic Recovery programme. The market is enhancing incomes and contributing to local employment.

© UNDP Sierra Leone/Christian A. Thomas

Local Government Capacity and Accountability

12 In order for local investment to be effective and respond to the Millennium Development Goals, local authorities must have the capacity to plan and budget in a participatory manner, and to manage resources transparently. In 2010 UNCDF was largely successful in fostering participatory processes and helping targeted local governments improve their planning, budgeting and implementation capacity across all regions (Outcomes 1 and 2). Illustrative examples are the Solomon Islands, where the local development programmes are in their early stages and where focus has been on introducing processes and tools for participatory planning and training of local officials. In Uganda, where local planning processes are already well-established, UNCDF has provided specialized support in identifying and costing interventions designed to catalyze local economic activity.

13 Improving the implementation capacity of local authorities takes various forms, but generally addresses issues related to procurement and financial administration. Timor-Leste and Lesotho are successful 2010 examples of enhanced procurement processes in which there was open bidding for local contractors and tighter financial management of the investment cycle.

Table 1 Local Government Capacity and Accountability

LOCAL GOVERNMENT CAPACITY AND ACCOUNTABILITY	PLAN	ACTUAL	ASSESSMENT OF PERFORMANCE*
OUTCOME INDICATOR 1: Percentage of target local authorities that, as a result of UNCDF support, have improved their plans and budgets.	100%	84%	+
OUTCOME INDICATOR 2: Percentage of target local governments that, as a result of UNCDF support, have improved their implementation capacity.	100%	83%	+
OUTCOME INDICATOR 3: Percentage of target local governments that, as a result of UNCDF support, manage their resources with greater transparency.	100%	92%	+
OUTCOME INDICATOR 4: Percentage of target local authorities that, with UNCDF support, have developed and/or executed gender-sensitized budgets and/or investment programmes (indicator based on the Gender Equitable Local Development programme)	100%	100%	+

* Assessment of performance based on figures from yearly programme monitoring and evaluation findings.

Box 1

Working to Empower Women through Local Development and Microfinance

A century ago, when the world first commemorated International Women's Day, equality between men and women, equal access to employment and equal pay, as well as the provision of services that can give women the opportunity to be independent and active were just remote ideas of courageous pioneers.

Since then significant progress has been achieved in closing the gender gap in education and in having more women active in political processes, including at leadership levels. Yet, much remains to be done to improve women's and children's health, to do away with discrimination and violence, and to ensure women's full and equal participation in all areas of public and private life.

Women are the backbone of rural economies throughout the least developed countries. They are marginalized, however, if not excluded altogether, from playing a key role in economic decisions. In addition to working in the fields, women also handle the large majority of domestic work, and engage in petty sales or micro enterprises, and other activities that support their families' well-being. But they are still frequently denied the right of representation in decision-making, the right to own land, obtain loans, or receive an education. This exclusion virtually guarantees a vicious cycle of poverty instead of the promise of sustainable development.

In 2009 UNCDF, together with UN Women (former UNIFEM) and Belgium, launched the Gender Equitable Local Development programme (GELD), a global initiative that seeks to address some of the key challenges faced by rural women. The program operates on two dimensions: first, it strengthens the institutional capacity of local governments to create an environment where policy planning, budgeting and public expenditure is aligned with women's priorities. These changes are particularly important in the health, education, and agriculture sectors, as well for investment in infrastructure; and second, GELD supports skills training for women to allow them to better access, engage and influence their local governments' policy formulation, investment approaches, processes and outcomes.

From this rights-based and bottom-up approach, GELD programs were implemented in six African countries: Mozambique, Rwanda, Senegal, Sierra Leone, Tanzania, and Ethiopia – added in 2010 thanks to a generous contribution from the government of Austria. This has resulted in gender responsive budgeting, which has led to – among others – investments in new wells to save women the backbreaking daily ritual of walking a dozen kilometers to find water, new clinics for maternal and child health services, and water and toilet infrastructures for girls in schools offering them privacy and dignity.

Through GELD, UNCDF and its partners have demonstrated it is both possible and desirable to place gender equality and women's empowerment at the centre of the local development agenda. GELD and similar programmes have repeatedly proved that giving women voice yields better results for everyone. In particular, evidence suggests that building the skills of women to participate effectively, combined with facilitating their access to resources such as information, credit and other basic services, advances gender equality and social justice.

Gender concerns are equally central to UNCDF's work in microfinance. Experience has shown that increasing women's access to microfinance has wide-ranging benefits, not only for women's well-being, but also for the welfare of the family and the health of the larger economy: women are more likely to use credit and savings to keep children in school and look after other basic family needs; they are also more likely to start businesses that can help entire families escape poverty.

UNCDF policy is that at least 50% of the clients of a UNCDF-supported microfinance institution should be women (in 2010 the average was 60%) as a way to meet the multiple economic and social development objectives of poverty alleviation strategies.

UNCDF deeply believes investing in women constitutes a breakthrough strategy for achieving the MDGs. It will continue to stress the centrality of women's participation at all levels of development in 2011 and beyond.

14 UNCDF interventions have helped achieve greater transparency in the way targeted local governments manage the public expenditure cycle (Outcome 3). Transparency is measured by the way local authorities apply the rules prescribed by law as they relate to management of and reporting on public expenditure, and also by how they inform their citizens of the decision-making process. Over the period under review, in the targeted local governments, competitive bidding processes were announced openly, usually through community notice boards or on the radio. It was also observed – particularly in Asia and the Pacific – that total costs are increasingly disclosed publicly upon completion of local projects.

15 The gender dimension was included in all the investment plans and budgets of local authorities in the five countries included in the Gender Equitable Local Development (GELD) programme of UNCDF and UN-Women (formerly United Nations Development Fund for Women, UNIFEM). This paved the way for gender-sensitive investments in 2011 (Outcome 4). The direct participation of women in local authorities' decision-making process is promoted in all other UNCDF interventions.

16 Evaluations have shown that UNCDF programmes have been broadly successful in introducing participatory planning and in establishing new techniques and approaches to embed participatory planning in the functioning of local governments. Poor communities highly appreciate being directly consulted and involved in the decision-making processes. There seems also to be a strong “value for money” case for empowering people at the local level to make investment decisions. Doing so in one instance was seen to have reduced the cost of capital projects by more than 50 per cent, with no discernable drop in quality.

17 On the other hand, the 2010 evaluations pointed to the following challenges:

- I** capacities of targeted local authorities to undertake operations and maintenance activities remains weak and is often neglected;
- II** initial baseline data required for effective decision-making is not always available and capacities for realistic target setting and reporting by local authorities can be improved;
- III** key constraints to enhanced performance remain outside the local authorities' control, affecting the planning and budgeting process; for example, in some situations, the local authorities do not receive timely information on annual fiscal allocations; and
- IV** more proactive gender strategies and budgets are needed to secure the rights of women and improve their access to power.

18 UNCDF will address these challenges. The lack of adequate budgeting for operations and maintenance is a perennial issue. UNCDF will redouble its efforts to ensure that local authorities include maintenance costs in their recurrent budgets. UNCDF will also invest more in helping local authorities establish appropriate baselines and targets, and will strengthen the monitoring function to ensure the collection of reliable data. Greater attention will be given to district coordination, and UNCDF will engage national policymakers to address the disconnect between the planning cycles of local governments and those of sectoral ministries. Lastly, the results from the GELD programme will inform the development of gender-sensitive strategies and budgets for use elsewhere in UNCDF local development work.

Policy impact, upscaling and replication

19 A key success criterion for UNCDF programmes is how other partners and governments adopt and replicate on a larger scale approaches, instruments and systems that UNCDF has helped to develop and refine at the local level (Outcomes 6 and 7; note that the results for Outcome 6 are cumulative over five years.).

20 Over the past number of years, all target programme countries have adopted or mainstreamed public-expenditure, management-related procedures and other innovations for national use. Some of these countries have also developed or amended policy, legislative, regulatory and/or monitoring and evaluation frameworks. In 2010 in Timor-Leste, for instance, the Local Government Support Programme was upscaled by the Government from the initial eight pilot districts to all 13 districts in the country.

Table 2 Policy Impact, Upscaling and Replication

POLICY IMPACT, UPSCALING AND REPLICATION	PLAN	ACTUAL	ASSESSMENT OF PERFORMANCE
OUTCOME INDICATOR 6: Number of countries where governments officially: (a) adopt/mainstream public-expenditure, management-related procedures and other innovations for national use; and/or (b) develop/amend policy, legislative, regulatory and/or monitoring and evaluation frameworks.	22	23	+
OUTCOME INDICATOR 7: Number of countries where development partners adopt UNCDF-supported local development approaches, tools or innovations in their own programmes.	22	15	±

21 In 2010 UNCDF continued to contribute to policy and legal reform processes in partnership with UNDP and other development partners. For example, in Bangladesh, a joint UNCDF-UNDP programme helped the Government to draft regulatory instruments for planning and budgeting in Union Parishads (one of the three tiers of Bangladeshi subnational government). These instruments are now applied nationwide. In Bhutan, a formula-based grant system was brought to scale nationwide. In Liberia, budgeting, public financial management and procurement procedures for local authorities – the formulation of which were supported by UNCDF – have been adopted by national authorities.

22 Despite the solid recent record of positively influencing policy development, important challenges remain. Decentralization and true empowerment of the local level is an inherently political process. UNCDF has found in some cases that a strong commitment by national authorities to empowering the local level can change as circumstances change (e.g. an opposition party gains strength at the local government level). In addition, political instability and reaction to natural disasters can lead to some “recentralization”. In Yemen, even before the difficulties of early 2011, the formulation of a national

Box 2

Performance-based Grants Offer Powerful Incentives to Local Governments

Performance-based grant systems are playing an increasingly important role in supporting local government efforts to meet the Millennium Development Goals. UNCDF has since the 1990s pioneered the grants' use in 15 African and Asian least-developed countries, often focusing on targeted projects addressing health, education, agriculture and sanitation.

The grants provide a means for central authorities to reward solid local government business practices, without interfering with municipal authorities' unique advantage to define area development priorities and MDG-oriented projects.

For example, a local government may be rewarded for increasing local revenue, transparent budgeting and solid procurement processes. The grants can also be expanded to include programmes that embrace gender equality or environmentally sensitive planning.

Local authorities remain responsible for decision-making in all performance-based grant system programmes. This is in keeping with one of the guiding principles of block grants, that the level of government closest to the people can best understand community needs and draft effective strategies.

The performance-based grants are conceived, in part, to ensure that as their financing increases, local governments' capacity to deliver programmes and services are also enhanced. Once municipalities have shown tangible improvements in their institutional and organizational performance, they are eligible to access earmarked money from the central government. The terms of the grant are absolute, but incremental. Authorities do not receive money for "almost" achieving the goals, but can qualify for partial payments as benchmarks are met.

The grants are also suited to the complexities of development efforts, which are often interrelated and overlapping and can rarely be resolved through a central government agency. They can complement performance budgeting and credit-rating systems, but operate in different ways.

In 2010 UNCDF experts distilled their experience in designing and implementing performance-based block grant systems in the book *Performance Based Grants Systems – Concept and International Experience*. The book was introduced the World Urban Forum in Rio de Janeiro in March 2010.

programme to implement the local governance strategy (approved by the Cabinet in 2008) had stalled, largely because of the increasingly fragile political and security situation. Transitioning from national policy reform to actual policy adoption by local authorities is also sometimes challenging. In Rwanda the public-expenditure management guidelines enacted by national authorities still have to be rolled out to local governments for implementation. UNCDF will address this gap in 2011 by developing manuals and training material that are needed by the central government to implement the roll-out.

23 Overall, however, the partnership between UNCDF and UNDP vigorously promotes policy development. UNDP has a long track record of bringing state and non-state actors together to address critical human-development policy issues, and UNCDF has extensive experience in the area of fiscal decentralization. (See the Evaluation of UNDP contribution to strengthening local governance and the management response thereto: <http://www.undp.org/evaluation/thematic/lg.shtml>). The 2010 SPIRE exercise found that UNCDF contributions to national policy debates were recognized and appreciated. Where the policy impact has not been as significant as hoped, the SPIRE evaluations suggest that UNCDF needs to do a better job at communicating programme results, and at advocating for change together with its partners. This is an area that UNCDF will pursue actively in 2011 and beyond.

24 Having its work replicated is a key measure of UNCDF success in local development. In 2010, in 68 per cent of target programme countries (Outcome 7) development partners adopted UNCDF-supported local development approaches, tools or innovations in their own programmes. In Bangladesh, the World Bank and the Government started formulating the next phase of the UNCDF/UNDP-supported Local Governance Support Project by incorporating many of the UNCDF/UNDP approaches and tools in areas such as fiscal transfers, local accountability and participatory processes. In Mali, the Local Authorities Financial and Institutional Management System, developed in-house by UNCDF, will be piloted by the African Development Bank in five regions.



A dealer sells goods at the local market in Manufahi, Timor-Leste. This market was built through a UNCDF-supported programme aimed at improving infrastructure and service delivery and reducing poverty in rural Timor-Leste.

© UNCDF/UNDP Timor-Leste/João Santos

Box 3

LoCAL helps Communities Adapt to Global Warming

The government of Bhutan announced in October 2010 it would host the pilot programme to test LoCAL, UNCDF's new initiative to help communities respond to threats posed by global warming.

The Local Climate Adaptive Living Facility, or LoCAL, will provide capital to municipal governments in LDCs, enabling them to develop and invest in plans of action designed to mitigate the effects of climate change and natural disasters.

LoCAL is a fusion of UNCDF's expertise in local financing (investment, fiscal decentralization, public financial management, and procurement), and UNDP and UNEP's experience in capacity building for climate and disaster resilience. The effort will build on UNCDF's existing financial support to local capital development.

This effort is based on the principle that local government has the responsibility, as well as comparative advantage, to incorporate climate adaptation concerns in their planning and delivery of infrastructure and services at the local level. Central authorities often lack the mandate or experience to define and implement effective local strategies, to the frustration of local governments.

The programme works by applying information from vulnerability assessments to mainstream planning process, to better generate a holistic local response within the existing investment portfolio of the local government, then calculating the additional costs of investing in new resilience measures. UNCDF can provide top-off grants to meet the incremental costs from within the local government financing system. LoCAL has a very low overhead and does not require a parallel system of project preparation, evaluation or financing mechanisms. A designated board will certify the incremental cost calculations.

Some strategies can be relatively simple to implement, yet yield significant results.

For example, landlocked Bhutan is laced by rivers that rise each spring with an ever swelling cascade of glacial meltwater. In October 2010, the Minister of Forestry and Environment and the head of Bhutan's Gross National Happiness Commission, which handles national planning, announced at the UNCDF Global Forum on Local Development, in Kampala, that it will use LoCAL resources to undertake a variety of programmes to adapt to climate change: improve drainage to protect villages and preserve farmland, harvest rainwater to provide water in the dry seasons and strengthen irrigation on its steep valley walls; improve road design to keep remote areas accessible for travel and trade; and even protect the habitat of the Black Necked Crane.

Preparatory work is already underway for programmes in Cambodia and Vietnam, efforts that will be undertaken with the Rockefeller Foundation and the Asian Cities Climate Change Resilience Network (ACCCRN).

Box 4

Localizing the MDGs: UNCDF's *Local Development Outlook*

Lack of progress towards the MDGs is often concentrated in specific regions and frequently depends on local circumstances. Yet significant development potential may exist even in areas where poverty and exclusion is highest. Development policies need to take account of local differences, disparities – and unexploited potential. They also need to be backed-up by robust analytical and advocacy tools, which are often unavailable.

UNCDF's *Local Development Outlook* aims at filling this gap. The *Outlook* is a unique tool to help Governments and development partners understand local development dynamics, and design appropriate local development policies. The Outlook supports National and Sub-National governments in:

- a. analyzing local development trends across their territories, including the tracking of local progress towards the MDGs;
- b. reviewing policy and governance arrangements and their impact on local development; and
- c. identifying options for policy and governance reforms.

The *Outlook* methodology can also be applied to focus on a specific development theme such as the role of local governments in addressing climate change resilience or gender equality. Empowered with detailed data, authorities and experts can better analyze which programmes are most effective, and encourage their adoption in other regions.

In 2010 UNCDF released its first *Local Development Outlook*, for Cambodia. The report provides a comprehensive overview of development trends, highlighting in particular the importance of decentralization and local development to ease disparities between urban and rural areas.

Local Development Outlook is the result of a rigorous analysis and a participatory process based on information provided by national and local governments, UN agencies, the private sector and academia. UNCDF is now making the *Outlook* approach and methodology available to other interested LDCs.

B. Performance analysis: Inclusive finance/microfinance

25 Ninety percent of people lack access to formal financial systems in the least developed countries. The UNCDF ability (unique in the United Nations system) to provide grants and loans directly to the private sector helps bring microfinance to underserved markets. This has a direct impact on the achievement of Millennium Development Goal 1 (poverty) and Millennium Development Goal 3 (gender). UNCDF ranks at the very top of the SmartAid for Microfinance Index, which measures aid effectiveness.

26 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 least developed 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.

27 In 2010, UNCDF supported inclusive finance sector programmes in 24 least developed countries: 15 in sub-Saharan Africa, 8 in Asia (with 5 least developed countries covered by a joint UNDP/UNCDF regional programme for Pacific Islands), and 1 in the Arab States. Ten of the least developed countries currently supported are post-conflict countries. In addition, in 2010 UNCDF supported UNDP inclusive finance activities in 14 countries where UNCDF did not have its own programmes. These included 13 countries that are not among the least developed countries.

28 The number of financial service providers supported by UNCDF increased in 2010 from 65 to 85, as new country programmes became fully operational. In addition, two mobile network operators were supported via the Pacific Islands programme.

29 The year 2010 also saw significant growth in UNCDF global microfinance programmes. These new programmes complement existing UNCDF national sector programmes, and bring additional resources to the least developed countries. In addition, 2010 saw increased advocacy by UNCDF, and a greater focus on savings-led institutions and client protection, in answer to the repayment crises that kept microfinance in the headlines for much of the year.

30 In all of its work UNCDF strives to

- I increase access to financial services, including by leveraging its own investments and working with other partners
- II increase the sustainability of the financial service providers it supports; and
- III strengthen the overall policy and institutional environment.

Improved access to financial services

31 The growth from 2004 to 2010 in clients served by UNCDF-supported financial service providers is shown below.

Table 3 Number of Active Clients

YEAR	2004	2005	2006	2007	2008	2009	2010
Number of active clients	379,018	438,272	616,035	1,171,306	1,768,931	2,550,565	3,511,723

32 UNCDF is well on target to reach its goal of serving 6 million active clients by 2013 through the financial service providers in which it invests. A 24 per cent compounded annual growth in client outreach is needed to achieve that result, and UNCDF was able to exceed that growth rate in 2010. Of these clients, 65 per cent of the borrowers were women. Thus UNCDF exceeded the global target: at least 50 per cent of clients should be women. Given that households on average comprise five persons, this represents an impact on the lives of some 17.6 million persons.

Table 4 Improved Access to Financial Services

IMPROVED ACCESS TO FINANCIAL SERVICES	PLAN	ACTUAL	ASSESSMENT OF PERFORMANCE
OUTCOME INDICATOR 1: Extent to which financial service providers are improving their client outreach	3,100,000	3,511,723	+
OUTCOME INDICATOR 2: Net change in value of loan portfolio of the financial service provider/Total UNCDF core contributions	10 to 1	18 to 1	+
OUTCOME INDICATOR 3: Net change in value of savings portfolio of the financial service provider/Total UNCDF core contributions	10 to 1	11 to 1	+

33 The ability of UNCDF to exceed its 2010 target for the number of active clients (Outcome 1) came primarily from the rapid growth (362,749 clients in the period of a few months) in branchless banking clients from the Pacific Financial Inclusion Programme, which is jointly supported by AusAID, the African, Caribbean and Pacific States initiative of the European Union, UNCDF and UNDP. This promising programme, which is pioneering both government-to-people payments and cellphone banking in the Pacific, underwent a midterm evaluation in 2010, as part of the SPIRE initiative. The evaluation found that while it was too

early to judge the sustainability of the new services, to date the programme had been “catalytically central to the major developments in the sector, facilitating and coordinating a comprehensive and cohesive sector agenda.”

34 In all of its interventions UNCDF strives to be catalytic, including by leveraging additional stakeholder resources within its programming frameworks. For every dollar that UNCDF invests in its microfinance programmes, other partners currently invest 3.8. This is a considerable level of engagement in UNCDF-designed interventions. UNCDF aims to raise this leverage ratio to 5 by 2013.

35 UNCDF investment of its core resources in financial service providers allowed these institutions in 2010 to improve the value of their loan and savings portfolio dramatically, and significantly more than anticipated (Outcome 2 and 3). This was in part because of MicroLead, the UNCDF \$28 million flagship global microfinance programme that has significantly boosted the value of the savings portfolio of target financial service providers. The programme, which is supported by the Bill & Melinda Gates Foundation, has awarded 10 grants worth \$17.6 million to Southern-based market leaders so that they can enter least developed countries with savings-led methodologies. UNCDF plans to expand the programme in 2011. The initial programme investment of \$7.9 million of UNCDF core resources is projected to reach 815,000 depositors and 732,000 borrowers by the end of 2013.

36 While the target for the loan portfolio was also exceeded, results may decrease over time as some financial service providers fail to fully meet the targets of the performance based agreements they sign as a condition of UNCDF funding. UNCDF will monitor both the savings and the loan indicators carefully, given the challenge that a rapid growth rate in microfinance brings, and will adjust targets as necessary.

Sustainability of financial service providers

37 The sustainability of the financial service providers that UNCDF invests in is captured via indicators that focus on profitability, portfolio quality and transparency (Outcomes 4 through 6).

Table 5 Sustainability of Financial Service Providers

SUSTAINABILITY OF FINANCIAL SERVICE PROVIDERS	PLAN	ACTUAL	ASSESSMENT OF PERFORMANCE
OUTCOME INDICATOR 4: Extent to which financial service providers are improving their sustainability (profitability)	80%	64%	±
OUTCOME INDICATOR 5: Extent to which financial service providers are improving their portfolio quality	80%	56%	±
OUTCOME INDICATOR 6: Financial service providers have audited financial statements (transparency)	>95%	99%	+

Box 5

Inclusive Finance must be Responsible Finance

The global financial crisis has dramatically illustrated the damage that can be caused by irresponsible provision of financial services. Whether the client does business in a Wall Street office tower or in a makeshift room in a rural town, over-indebtedness or unprotected savings carry enormous risks for business of all sizes and the families and communities that depend on them.

In developing countries, these risks are almost always greater and the consequences on individuals and communities more severe.

In the Indian state of Andhra Pradesh, a hot microfinance market became overheated, and in some cases the poor suffered. It is not easy to serve the poor and low income population, a market segment that often lacks collateral, business records or even a fixed address. Yet some financial services providers did not take the necessary care to ensure their products were appropriate for their clients, or were too aggressive in their efforts to sell into a competitive market. The hope in India, as elsewhere, is that a balanced approach can support expanded access to much needed and demanded financial services, but with protections in place so that borrowers can increase their income and assets, not their risk and vulnerability.

What is UNCDF doing about this?

UNCDF is focusing on client protection above all else. The ability of microfinance to “do good” – that is, to help reduce poverty and accelerate progress towards achieving the Millennium Development Goals – is dependent on first “doing no harm.”

UNCDF recognizes the six principles of client protection adopted by the global Smart Campaign:

1. Avoidance of over-indebtedness and appropriate product design;
2. Transparent and responsible pricing;
3. Appropriate collections practices;
4. Ethical staff behavior;
5. Effective mechanisms for managing complaints;
6. Privacy of client data.

These principles inform UNCDF’s work at the policy, industry, and retail levels.

UNCDF supports evidenced-based and proportionate regulation that balances access and protection, and does so by working with government and development partners to build consensus about sound policies and practices. In working with financial services providers and industry associations on client protection, UNCDF raises awareness, supports certification of providers, and builds provider capacity to operationalize the principles.

On the other side of the transaction is the client – and a more informed client is a better protected client. UNCDF is promoting financial literacy to build client capacity to make informed decisions and use financial products wisely.

More than 2.7 billion people around the world do not have access to financial services. Expanding their access is imperative, but the quality of that service is paramount: inclusive finance must be responsible finance.

38 Sixty-four percent (64 per cent) of the financial service providers supported by UNCDF managed to improve their profitability, and 56 per cent met targets for the quality of their portfolio. The risky and difficult environment in which UNCDF operates explains the performance target of 80 per cent and the moderate results achieved in 2010. The high standard (less than 5 per cent of portfolio at risk) set in UNCDF performance based agreements is also very challenging for many relatively new financial service providers. The disruptions and uncertain environments in many of the post-conflict least developed countries where UNCDF works also contributes to the difficulty of fully meeting this target. In addition, the impact on local economies of the global financial crisis has affected both the profitability and portfolio quality of many financial service providers globally.

39 The compliance rate for financial service providers with audited financials increased from 92 per cent in 2009 to 99 per cent in 2010, with funding suspended for non-complying financial service providers.

Policy impact, upscaling and replication

40 While expanded access to financial services helps reduce poverty and contributes to growth, the quality of that access matters. A sound policy framework is essential, but is incomplete without a proactive industry and farsighted financial services providers. By getting involved in issues related to client protection at an early stage in least developed countries, UNCDF is working to avoid the over-indebtedness crises that beset the industry in countries such as Bosnia and Herzegovina, Morocco, Nicaragua and India (Andhra Pradesh). To promote expanded access to responsible finance, UNCDF works at all three levels (macro/policy, meso/industry and micro/retail), championing, in particular, the Client Protection Principles of the Smart Campaign. In 2010, UNCDF began to operationalize these principles with the goal of achieving more than 80 per cent coverage by 2013.

Table 6 Policy Impact, Upscaling and Replication

POLICY IMPACT, UPSCALING AND REPLICATION	PLAN	ACTUAL	ASSESSMENT OF PERFORMANCE
OUTCOME INDICATOR 7: Extent to which national policy environment is improved for client protection	25%	38%	+
OUTCOME INDICATOR 8: Ability of networks and associations to provide advocacy (e.g. client protection) to financial service providers	25%	21%	+
OUTCOME INDICATOR 9: Extent to which financial service providers are engaged (e.g. in client protection)	10%	6%	±
OUTCOME INDICATOR 10: Extent to which donors support UNCDF financial systems approach	>66%	49%	±

Box 6

Bringing Financial Services to Young People

Today, more than a quarter of the population of Sub-Saharan Africa are between the ages of 12 and 24, making this group of young people the largest ever to be entering adulthood. Poverty affects this group in a personal and striking manner. Half of Africa's youth remain illiterate, and youth unemployment rates are two to three times that of adults. Young women, in particular, face a more complex and challenging transition to the workplace and independence than their brothers and males cousins. Not only are they less likely to be educated, but they are disadvantaged by ingrained discrimination in the labor market.

Findings suggest that young people significantly benefit from access to basic financial services, which can promote asset-building and emphasize sustainable livelihoods. The component is especially effective when complemented with training in entrepreneurship and financial literacy. However, currently, less than five percent of youth in the region have access to financial services and few financial institutions have experience serving youth or working with youth support organizations to design and deliver youth-centric programs.

UNCDF inclusive finance programmes are designed to address these kinds of gaps in the financial sectors of countries in Sub-Saharan Africa. The initiative will increase access to financial services for 200,000 low-income youth in Sub-Saharan Africa, with an emphasis on savings. The program will identify and support up to 12 financial institutions to pilot and roll out sustainable financial services tailored to the needs of young people. Youth Start was catalyzed by a four-year, \$12 million contribution from the MasterCard Foundation.

When fully operational, YouthStart will train financial service providers in the special needs of younger clients. UNCDF will work with providers to design and deliver programs and services tailored to the needs of younger people. The program will encourage collaboration between Financial Service Providers, Youth Serving Organisations and other agencies, sharing best-practices to spur innovation and influence policy decisions.

YouthStart presents another boost for reducing poverty and accelerating progress towards the Millennium Development Goals. The program directly addresses U.N. Secretary-General's call for young people to be given a chance to take an active part in local decision making.

Expanded access to financial services and a greater ability to use them appropriately can mean greater opportunities and improved livelihoods for young people. Mobilizing young merchants, farmers and others active in the local economy will go a long way towards realizing the overarching MDG goal to half poverty by 2015.

41 UNCDF works with financial services providers and industry associations to raise awareness, support certification and build capacity in order to operationalize the Client Protection Principles. Of the country-level networks with which UNCDF partners, 21 per cent engaged in some client protection activities in 2010. In Malawi, for example, the UNCDF-UNDP joint programme facilitated a stakeholders meeting that resulted in the establishment of national and technical committees to oversee the development and implementation of a national framework for financial literacy and consumer protection, championed by the Reserve Bank of Malawi.

42 Client protection will only be effective if those providing the services directly to clients: design their products and services to meet the needs of clients, provide these products and services in a transparent and ethical manner, and ensure that their clients are equipped to make good decisions about their use. In October 2010, UNCDF changed its standard performance based agreement with financial service providers to include endorsement of the Client Protection Principles. Six per cent of financial service providers have already endorsed these principles. The target of 10 per cent was not reached because of the relatively late introduction of the requirement in 2010 and the initial focus at the network level. A series of engagements are planned for 2011 in order to boost the endorsement and implementation of these principles.

43 Development efforts are enhanced when there is a shared vision among stakeholders and harmonized support for common goals. UNCDF works with other development partners at the global and country levels to align programmes and messages. At the country level, investment committees review new initiatives, and they coordinate and even pool country-level funding. Forty-nine per cent of donors participated in these investment committees in 2010 (as compared to the plan of 66 per cent). In Senegal, UNCDF has been particularly effective, bringing 80 per cent of the donors into the investment committee. As a result, UNCDF has been able to successfully support the implementation of the national microfinance strategy with appropriate resources and technical inputs.

44 At the policy level, UNCDF supports evidenced-based regulation that balances access and protection and that emphasizes disclosure and transparency. As UNCDF takes an approach that addresses the specific key constraints impeding access to financial services in any given country, there are no predetermined targets for this indicator. UNCDF looks for opportunities to make a difference at the policy level and then tracks the results of its interventions. In the West African Monetary Union, for example, UNCDF and other development partners consulted with the Central Bank of West African States during the formulation of prudential guidelines and regulations for microfinance. In Liberia, UNCDF helped move forward the passage of a microfinance deposit-taking act. Based on stronger diagnostics that will be available with the launch in 2011 of a new sector assessment tool, UNCDF will review whether annual targets for policy impacts could be set.

Box 7

Reaching the ‘Unbanked’: Branchless Banking in the Pacific Islands

The Pacific Islands have one of the highest percentages of ‘unbanked’ populations in the world. Without easy access to formal financial services, Pacific Islanders can face huge costs – financial costs if they have to resort to informal money lenders or pay high commissions; transaction costs if they have to travel considerable distances to reach a physical bank; and opportunity costs if they have to forgo potential new ventures because the necessary financial services are unavailable.

These are the challenges the Pacific Financial Inclusion Programme (PFIP) is designed to address. By extending access to financial services for low income and rural households and individuals through innovative and strategic partnerships, the programme aims to reach by 2012 500,000 clients of which 250,000 were previously unbanked. Innovation, especially around the concept of ‘branchless banking’ is at the core of programme approach.

In 2010, through its financial support facility, the programme provided grants to two mobile phone network operators to establish innovative projects on mobile money. The Vodafone MPAISA and Digicel Mobile Money networks quickly enrolled over 300,000 subscribers in Fiji. The two new platforms enable subscribers to deposit and transfer money domestically through an efficient and reliable service delivery system at a reduced transaction cost. In early 2011, the programme supported launches of mobile money systems in Samoa, Tonga, and Vanuatu with a target of reaching more than one half million Pacific Islanders.

In addition to helping enable money deposits and transfers through mobile telephones, the programme is assisting post offices, a bank and a microfinance institution to extend their services via networks of cash agents across the region. The cash agents – usually small scale shopkeepers – offer basic financial services on behalf of the parent enterprise, thereby extending financial services to new places and populations, without the necessity of building additional bricks and mortar branches.

PFIP is also working on a government-to-person (G2P) payment project. Through a public-private partnership involving the Fiji Ministry of Social Welfare, AusAID Fiji, the Pacific Financial Inclusion Programme and Westpac Bank, 15,000 social welfare recipients have been shifted from a voucher and cash-based system to an electronic system. These families received no cost accessible savings accounts, and are able to withdraw their monthly stipends at any point-of-sale merchant in the country, without having to travel to a bank branch.

Finally, the programme is working closely with the central banks throughout the region to assist them in monitoring and overseeing these developments, and to ensure that the new services can be obtained safely and soundly.



III. UNCDF AND THE MILLENNIUM DEVELOPMENT GOALS

45 The Millennium Development Goals lie at the core of the mission of UNCDF. They are the foundation of UNCDF programmatic work with both the public sector (local development) and the private sector (microfinance). They inform UNCDF advocacy. They shape the way UNCDF responds to new kinds of demand from its partner countries.

46 UNCDF local development work targets the local authorities that are typically tasked with delivering services critical for achieving the Millennium Development Goals (see Table 7). By strengthening the planning and implementation capacity of target local authorities and designing transparent and effective transfer mechanisms for channelling capital to the local level – and then using UNCDF capital to “prime the pump” – UNCDF helps to increase the flow of capital into investments that promote the achievement of Millennium Development Goals in pilot districts.

Right ▶ The joint UNCDF-UNDP-EU-AusAID Pacific Financial Inclusion Programme promotes financial inclusion and financial literacy in the Pacific Islands, the least banked region in the world. The programme pilots new initiatives – including branchless banking through mobile phones – to serve hard-to-reach populations, and fosters greater commitment and cooperation among regional stakeholders committed to inclusive financial systems throughout the Pacific.

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◀ Left YouthStart, a UNCDF initiative supported by the MasterCard Foundation, aims at increasing access to financial services, in particular savings, for 200,000 low-income youth in Sub-Saharan Africa, so that they can improve their standard of living. In Uganda, it supports the Microfinance Institution FINCA-Uganda to conduct youth inclusive market research and identify demand-driven and holistic financial services for youth. FINCA-Uganda plans to reach 50,000 youth with savings and financial education.

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Table 7 Relationship between service delivery functions commonly assigned to the local government level and the Millennium Development Goals

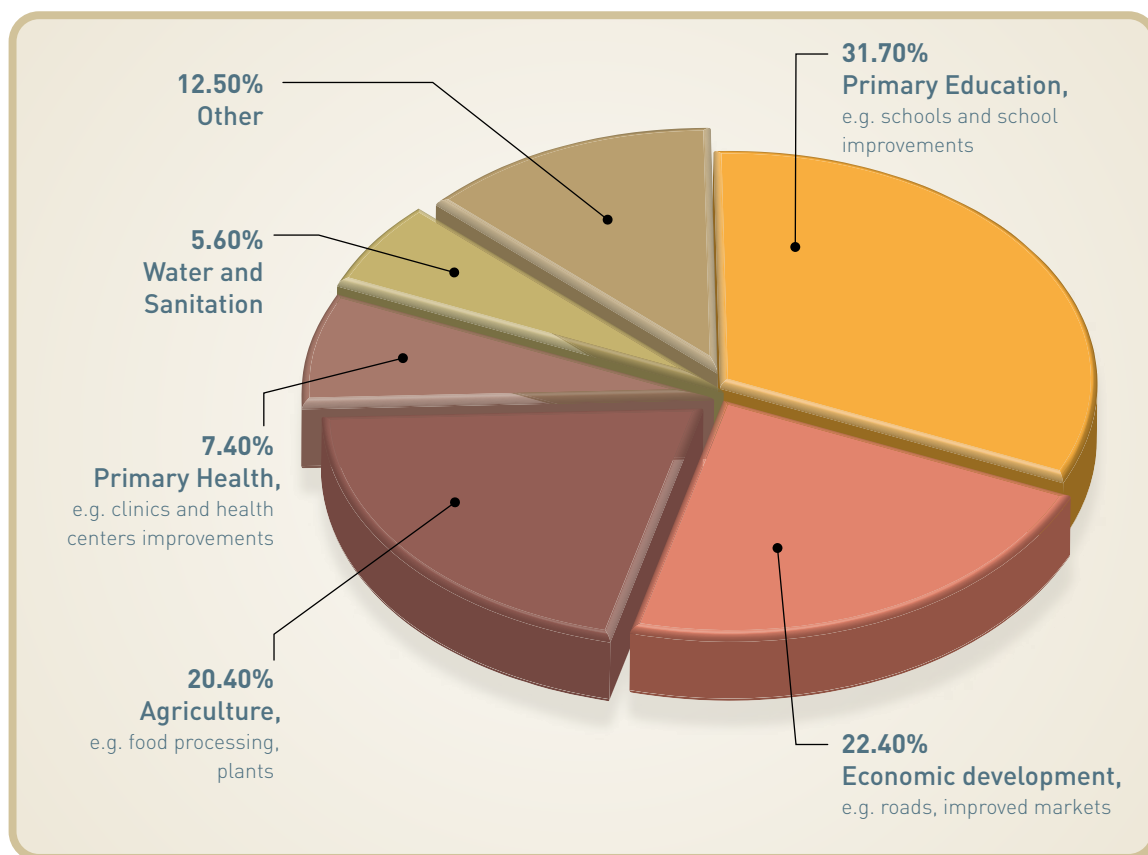
MDG	PRIMARY EDUCATION	PRIMARY HEALTH	AGRICULTURAL EXTENSION	WATER AND SANITATION	ROADS	SOLID WASTE MANAGEMENT	FIRE FIGHTING AND POLICE	LAND USE PLANNING*	ECONOMIC DEVELOPMENT*
1. Poverty and hunger	■ ■	■ ■	■ ■ ■	■ ■	■ ■	■	■ ■	■ ■	■ ■
2. Primary education	■ ■ ■ ■	■	■	■	■			■	
3. Gender equality	■ ■		■				■ ■		
4. Child mortality	■ ■	■ ■ ■ ■	■	■ ■	■ ■	■ ■		■	
5. Maternal health	■	■ ■ ■ ■	■ ■	■ ■	■ ■	■	■		
6. HIV/AIDS and malaria	■	■ ■ ■ ■	■	■ ■		■ ■		■	
7. Environmental protection	■	■	■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■	■ ■ ■ ■	■
8. Partnership									■

Key: ■ ■ ■ direct provision ■ ■ indirect relationship ■ some relationship

Note:* In some cases, local governments can influence the Millennium Development Goals negatively through poor governance

Source: Based on Improving Local Government: the Commonwealth vision, Commonwealth Local Government Forum, 2009

47 More capital at the local level translates into more, and more cost-effective, schools, clinics and water systems, all of which are critical to progress on the Millennium Development Goals. It also means improvements in the capital infrastructure – covered markets, irrigation schemes, feeder roads – critical for developing local economies (see pie chart below) and reducing poverty and hunger.

Figure 2 Use by local governments of UNCDF funding for capital investment in 2010

48 The role of UNCDF in stimulating additional local-level investments that promote the achievement of Millennium Development Goals – and in increasing the efficiency, cost-effectiveness and sustainability of the local initiatives – has yet greater impact when these efforts are replicated on a national scale by governments and larger development partners. This has been the case over time in countries such as Senegal, Uganda, Malawi, Mozambique, Uganda, Tanzania, Bangladesh and Cambodia. More recently, there has been progress in Puntland, in Somalia, where the authorities have decided to allocate 10 per cent of their national budgets to local-level investments. Similarly, the Government of Timor-Leste has recently decided to channel substantial new oil revenues to the local level via systems set up by UNCDF and its partners.

49 While a strong case can therefore be made for the relevance of UNCDF local-development work to the Millennium Development Goals, measuring the exact contribution of UNCDF at the level of outcomes for individuals and communities is more challenging. The recent SPIRE initiative highlighted anecdotal evidence that new infrastructure – an output of UNCDF programmes – is greatly valued by the people in various communities (and that the people also greatly appreciate having been consulted on regarding this infrastructure). Further, external evaluations by the European Commission in 2010 gave generally strong marks to the local work by UNCDF in the Solomon Islands, Bangladesh, Liberia and the Lao People’s Democratic Republic, including to the relevance and likely impact of this work on poverty reduction.

50 But accurately measuring changes in lives, especially over time, would require additional efforts to establish baselines at the beginnings of projects, as well as closer monitoring. There are also the challenges of attribution – of proving that any measurable improvement in a person’s life came about as a direct result of a given capital investment (as opposed to something else) – as well as of time frame. The impact

Box 8

External Evaluations to Improve Programme Quality

UNCDF commissioned nine external programme evaluations in 2010, as part of ongoing efforts to ensure that its programmes are as efficient, effective and sustainable as possible.

Six of these evaluations were of local development programmes (Sierra Leone, Rwanda, Burundi, Tanzania, Bangladesh and Timor-Leste). Three focused on inclusive finance programmes in Timor-Leste, Pacific Island States and Malawi.

In Bangladesh, the Learning and Innovation Component (LIC) of the national Local Government Support Programme was found to be an integral part of a country-wide effort to use funding from the central level – allocated on the basis of performance – to improve governance and service delivery at the lowest tiers of government. The Learning and Innovation Component of the larger programme applied an approach introduced by UNCDF in an earlier stage, and focused on enabling community participation in choosing, contracting and managing locally-funded infrastructure projects. Approximately 1,900 projects were supported – mainly focused on local-level roads, canals, footpaths – which reached some 3.2 million beneficiaries. The effort, based on a 6-year pilot programme, has been steadily expanded from 178 to 388 participating districts – nearly 10 percent of Bangladesh.

In terms of broader outcomes of the programme, the evaluators concluded that the increased participation of the public in critical decision making processes had ‘raised accountability by elected officials towards the public by shining a light on critical steps in the development of infrastructure and the provision of service’. The programme has also maximized national ownership and has resulted in an increase in grants from central to local government largely as a result of improved performance.

One of the innovations of the programme was the creation of Women’s Development Forums that allowed women’s participation in funding decisions by local government and provided a venue for women to share

on health of a new water system or clinic may not be immediately apparent. UNCDF is nonetheless currently exploring how it can cost effectively meet Millennium Development Goal measurement challenges. Since almost all UNCDF work is now done as part of joint programmes with UNDP and the wider United Nations system, strengthening the involvement of UNCDF in UNDP outcome evaluations and Assessments of Development Results (ADRs) will yield additional evidence of the UNCDF contribution to development outcomes.

51 Assessing the impact on the Millennium Development Goals of microfinance – and, more broadly, the impact of financial inclusion – is a challenge that UNCDF shares with other actors in the sector. Financial inclusion is a means to an end, not an end in itself. The end goal is progress on the Millennium Development Goals. For UNCDF the key question is, therefore, the extent to which financial inclusion enables such progress.

ideas and advocate for women's rights. Child marriage was the most frequently-mentioned concern. This kind of opportunity can help women gain equality in their communities, a fundamental MDG.

The joint UNCDF-UNDP evaluation also noted that it is difficult to ascertain the long-term effects of the small infrastructure projects on poverty alleviation. A European Commission evaluation of the project, also in 2010, concluded that development activities in the 5 Union Parishads visited were highly relevant and were meeting the needs of the community. For the future, it recommended that there should be an increased focus on synthesizing lessons learnt from the project and advocating these at the national level.

The Pacific Financial Inclusion Programme (PFIP), also evaluated in 2010, is a \$5 million programme funded by UNCDF, UNDP, AusAID and the EU/ACP aimed at developing low-cost mobile-banking markets in Fiji, Papua New Guinea, the Solomon Islands, Samoa and Vanuatu (see box 7). Its expected outcome is 500,000 new clients for banking services, of which 250,000 are intended to be those who have not previously held bank accounts.

The mid-term UNCDF evaluation found the programme to be well on track to meeting its objectives: it is helping to develop the necessary regulatory environment for new sustainable and competitive mobile banking markets and has introduced several new financial products into the market, which have lowered the cost of transferring funds and increased access to convenient and secure saving services.

While highlighting the project's strengths, the mid-term evaluation also pointed out some areas for improvement for PFIP to fully attain its objectives. It recommended that the programme expand market research on mobile banking with a view to preparing the sector for the expansion of other inclusive finance products, including the development of mobile banking products for women, as well as credit services more broadly. It should also develop a clear exit strategy, designed to ensure that sector leadership roles are passed to local institutions willing to take on various networking, advisory, funding and advocacy roles.

52 As is the case with local development, there would seem a very strong correlation between microfinance and progress on the Millennium Development Goals, especially as regards Millennium Development Goal 1 (poverty and hunger) and Millennium Development Goal 3 (gender equality and women's empowerment). While microcredit is well known for helping entrepreneurs, particularly women, pursue new opportunities, a growing body of evidence suggests that both credit and savings play powerful roles in helping poor people smooth consumption patterns (e.g. by planning for school fees or funerals) and respond to unforeseen events (e.g. a sudden sickness). In this sense, in addition to helping people break the cycle of poverty by pursuing new opportunities, financial inclusion appears to play a quite equally significant role in helping poor people avoid falling back into poverty.

53 In a larger sense, studies have shown that better access to finance not only increases economic growth, but also helps to fight poverty, by reducing income gaps between rich and poor people.¹ Recent impact studies² of savings accounts demonstrate that access to a savings account has had a substantial, positive impact on levels of productive investments among women, and, within 6 months, led to higher income levels (using expenditure as a proxy). In addition, anecdotal evidence abounds regarding the positive effects: of teachers receiving their salaries electronically and therefore being able to stay in the classroom instead of travelling to pick up cash payments; of poor people in rural areas having higher disposable incomes because technology is driving down the costs of receiving remittances; of new credit products enabling poor people and small businesses to purchase products that make use of new technology. Products such as cook stoves and solar panels lead to improved health and environmental outcomes and also reduce the 20–30 per cent of annual income previously spent on off-grid energy.

54 Yet more still needs to be done to determine the lasting impact of microfinance on individuals and communities over time. In the view of UNCDF and other organizations, assessments to date have tended to be based on time frames that are too short (e.g. 18 months) for determining the true, sustainable impact of interventions. The recent negative publicity concerning microfinance in several countries has made the imperative of better impact assessment all the more urgent.

55 UNCDF will continue to measure its performance in terms of improving sustainable access to microfinance for poor people and small businesses. At the same time, it will continue working with its partners in the Consultative Group to Assist the Poor (CGAP) to strengthen the ways in which the impact of microfinance on people and communities can be measured, and it will apply best measurement practices to its programmes as those practices become apparent.

1 See "Finance for All? Policies and Pitfalls in Expanding Access", World Bank, 2007, <http://www.worldbank.org/financeforall> and "Reaching out: Access to and use of banking services across countries", World Bank, September 2005.

2 See "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya", 2011, <http://www.econ.ucla.edu/pdupas/SavingsConstraints.pdf>.



UNCDF assists the Government of Mali in improving infrastructure and basic services at the local level. In Mopti, one of the country's poorest regions, the local government has built a new road which serves for transportation and also helps protect land from climate change-induced flooding. The presence of the road has helped to increase soil cover and has facilitated the restoration of biodiversity.

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Pursuing the MDGs
through
Government

SILVANO DI GIACOMO

NARCIS ANANG

ADOLF WINDIGER

DAVID WOODS

IV. PARTNERSHIPS, GLOBAL ADVOCACY AND KNOWLEDGE SHARING IN 2010

56 Partnerships, advocacy and knowledge sharing are central to the UNCDF agenda and business model, and allow it to have an impact well beyond its relatively modest financial resources. They are central to the mandate of UNCDF and to its overall effectiveness in the evolving “One UN” context.

57 The UNCDF strategic partnership with UNDP continued to strengthen in 2010. All UNCDF country programmes in both local development and microfinance are now joint UNCDF/UNDP programmes, and UNCDF provides, on demand, policy and technical advice in both of its practice areas in non-least developed countries on behalf of UNDP. Together with UNDP, UNCDF is committed to implementing commitments made in response to the 2010 evaluation of the UNDP contribution to strengthening local governance.

58 In operational terms, an almost complete integration of UNCDF and UNDP operational procedures, policies and systems has now been achieved, paving the way for even more effective joint programmatic activity at country, regional and global levels. In late 2010 UNCDF finalized an implementation plan for the rationalization of its country-level presence, including a renewed level of engagement with UNDP. The goal is to ensure that the resources of both organizations are allocated as strategically as possible.

59 In 2010 UNCDF entered into formal partnerships with the Swedish International Center for Local Democracy and The Hague Academy for Local Governance: two institutions that support innovative training for officials in the least developed countries. In microfinance, the major new partnership of 2010 was with the MasterCard Foundation, in support of a new programme, YouthStart, which is intended to increase access by young people, particularly young women, to financial services in sub-Saharan Africa. Studies show that access to financial services, in particular the ability to open savings accounts, when combined with financial literacy and leadership training, can lead to improved livelihoods for individuals and their families.

From the left: Mario Amano, OECD Deputy Secretary-General, Adolf Mwisige, Minister of Local Government of the Republic of Uganda, David Morrison, UNCDF Executive Secretary, and Basil Morrison, Chairman Ex-officio of the Commonwealth of Local Government Forum at the Global Forum on Local Development, in Kampala, Uganda, in October 2010. The Global Forum brought together over 600 participants from 81 countries for three days of discussion and debate on how local governments can help to accelerate progress toward the MDGs.

Box 9

Advocating for Financial Inclusion Around the World

Financial inclusion is universal access, at a reasonable cost, to a wide range of financial services, provided by a diversity of sound and sustainable institutions. Greater financial inclusion gives people more power over their lives. It can help them generate income, build assets, manage cash flow, invest in opportunities and strengthen resilience to setbacks. As means to an end, it helps reduce poverty and meet other social and economic development objectives.

Recognizing the potential of financial inclusion and the extent of work to be done, U.N. Secretary-General Ban Ki-moon designated HRH Princess Máxima of the Netherlands as his Special Advocate for Inclusive Finance for Development (UNSGSA) in September 2009. An economist and investment banker by training, Princess Máxima had played active roles in the UN International Year of Microcredit in 2005 and in the subsequent UN Advisors Group on Inclusive Financial Sectors from 2006 to 2008. UNCDF hosted the secretariats for both of these system-wide initiatives.

As the Special Advocate, Princess Máxima is well-positioned to work with government leaders, financial regulators and supervisors, intergovernmental organizations, parliaments, civil society, the private sector and the media to raise awareness and foster action on building inclusive financial systems.

The Special Advocate has identified several themes that form the core of her advocacy at global and country levels, and in international fora. People need access to a range of financial services. Savings is especially important. Financial inclusion pertains to individuals and small and medium enterprises (SMEs), which are local engines of growth and jobs. Princess Máxima underscores the need for a common approach to micro and SME finance that creates a continuum of access, rather than separate silos. Princess Máxima highlights how financial integrity, inclusion and stability are mutually reinforcing, and encourages increased collaboration among global standard setters and national regulators. As Special Advocate and Honorary Chair of the G20 SME Finance Data Working Group, the Princess emphasizes the need for high-quality data that will shed light on the use and impact of financial services on households and SMEs. She advocates for responsible finance, with protected clients empowered to make sound choices. To this end, in January 2011 she developed and launched with private and public sector partners the Principles for Investors in Inclusive Finance. Everywhere, Princess Máxima stresses the need for more coordination and leadership among stakeholders, and the right enabling environment.

UNCDF houses a small office that provides direct support to the Special Advocate. UNCDF is also a member of her advisory Reference Group, which also includes the Consultative Group to Assist the Poor, the Alliance for Financial Inclusion, the Bill & Melinda Gates Foundation, the International Finance Corporation, and the UN Department of Economic and Social Affairs. The office is funded by generous support from the Bill & Melinda Gates Foundation.



Her Royal Highness Princess Máxima of the Netherlands, the United Nations Secretary General's Special Advocate for Inclusive Finance for Development (UNSGSA), and David Morrison, UNCDF Executive Secretary, at the "Inclusive Finance: A Path to the MDGs" side-event during the MDG Summit in New York (September 2010). Dutch Prime Minister Jan Peter Balkenende, U.S. Secretary of State Hillary Rodham Clinton and HRH Princess Máxima, the UNSGSA, co-hosted this event to examine how political leadership, policy reform and service innovations can accelerate progress toward financial inclusion and the MDGs around the world.

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60 UNCDF also stepped up its global advocacy activities in 2010. Together with UNDP it convened the first Global Forum on Local Development, in Kampala, to look at the steps necessary to unleash the potential of local governments to promote the achievement of the Millennium Development Goals (www.uncdf.org/gfld). More than 600 delegates from 81 countries participated, and there was broad support for pursuing the agenda in a variety of complementary forums. On the microfinance side, UNCDF continued to support the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, Her Royal Highness Princess Máxima of the Netherlands, and to host her United Nations secretariat. In 2010 the Special Advocate played an influential role in a growing spectrum of inclusive finance issues, both at the country level (e.g. Rwanda, Kenya and Liberia) and in global forums (United Nations, G20, World Bank/International Monetary Fund)³

61 UNCDF publications in 2010 included:

- I *Performance-Based Grant Systems – Concepts and International Experience*, which documents the experiences of UNCDF, often in collaboration with the World Bank, the Asian Development Bank and others, in designing and implementing innovative local government grant systems.
- II *Local Development Outlook*, a pilot volume looking at the prospects for local development in Cambodia, initiatives which could be easily replicated elsewhere.
- III A discussion note on *Local Governance and Climate Change*, prepared in partnership with UNDP.
- IV A joint publication with the Organisation for Economic Co-operation and Development (OECD): *The United Nations Capital Development Fund (UNCDF) in West Africa*. UNCDF also collaborated with the Commonwealth Local Government Forum and UNDP on a study on the status of local governance in Eastern Africa.

³ www.uncdf.org/english/microfinance/uploads/project_annual_review/UNSGSA_AR.pdf

Box 10

Localizing the MDGs: the First Global Forum on Local Development

The Millennium Development Goals (MDGs) provide concrete, time-bound targets for tackling extreme poverty in its many dimensions. Ten years into the campaign, and with only five years left before the 2015 deadline, we can point to undeniable progress. Many countries are on track to meet some – if not all – of the MDGs.

Yet progress has not been evenly spread. Some countries are simply being left behind, and aggregate data can be misleading – ‘national averages’ showing a country is ‘on track’ often mask considerable internal disparities.

MDG efforts in many countries have until now been largely driven by national governments. National strategies and plans are of course crucial to achieving the MDGs. But centrally-led, top-down, policies have revealed their limitations, with large segments of populations not sharing in the benefits of economic growth. National policies aimed at specific sectors often fail to address complexities and interdependencies more easily seen from the local level.

This is why, in many developing countries, growing attention is being paid to the local knowledge, planning, monitoring and implementation – all in pursuit of the MDGs.

The first Global Forum on Local Development – held by the UN Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP) and the Government of Uganda in Kampala in October 2010 – engaged a large and diverse range of stakeholders around the central question: *Do local governments hold the key to faster MDG achievement?*

Over 600 participants from 81 countries came to Kampala for three days of discussion and debate. The Forum took place at a critical crossroads: immediately after the September 2010 MDG Summit in New York, which focused on the need for acceleration strategies, and at the beginning of the final five year stretch to reach the Goals.

The message coming out of Kampala was clear: a new policy approach must place greater emphasis on the local arena, and the potential of local authorities to tailor public policies to meet MDG targets by 2015. At a minimum this implies ensuring local governments have the means to help implement national MDG strategies. But many participants went even further: within national frameworks, local governments, with their greater understanding of local needs and trends, should be empowered to pursue their own MDG strategies. This would be a truly ‘bottom-up’ approach to MDG acceleration.

The *Kampala Call to Action*, issued at the end of the Forum, calls on all development actors – National Governments and their Development Partners, Private Sector and Civil Society organizations, Local Governments and their Associations – to work more closely together to design local development strategies and to ensure they are properly funded.



Mizengo Kayanza Peter Pinda, Prime Minister of the United Republic of Tanzania, at the Global Forum on Local Development. The Kampala Call to Action, issued at the end of the Forum, calls on all development actors – National Governments and their Development Partners, Private Sector and Civil Society organizations, Local Governments and their Associations – to work more closely together to design local development strategies and to ensure they are properly funded. It can be found at <http://www.uncdf.org/gfld/en/index.php?page=declaration>

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V. MANAGEMENT RESULTS

62 The year 2010 saw the successful completion of UNCDF Project 2010, which was initiated in 2008. This process of internal strengthening had far-reaching implications on the organization's structure and policies. The following measures were implemented:

- I the establishment of a Corporate Management Plan and a multi-year planning framework setting overall priorities and performance targets;
- II a new organizational structure with streamlined regional entities and better defined reporting lines and accountabilities;
- III a formal system for the delegation of authority;
- IV a codification of implementation modalities for UNCDF grants;
- V more robust monitoring and oversight mechanisms. UNCDF also issued several new strategies and policy documents in 2010 including: a revised operations manual, a learning strategy and a knowledge management strategy, a document management and classification policy and a policy on travel.

63 An on-site follow-up audit conducted from 11 to 20 October 2010 found that UNCDF had made "significant progress" in addressing weaknesses identified in the earlier 2009 audit, having implemented 82 percent of the 24 recommendations due by that time. One new recommendation was raised and is being addressed.

In Timor-Leste, water wells were identified as a priority by district administrators. Previously the water would run freely and animals would drink from it, causing infections and sickness in the local population. Now, water is collected in a basin, where the sediment sinks to the bottom, and the clean water is collected from taps. The Local Governance Support Programme, funded by UNCDF, UNDP, Irish Aid and Norway, is working closely with the Ministry of State Administration and Territorial Management to design and build a system of decentralized, locally-accountable government that respond to the needs of poor communities.

© UNCDF/Timor Leste

64 The table below summarizes UNCDF management results for 2010.

Table 8 2010 Management Results

PERSPECTIVE	STRATEGIC OBJECTIVE	INDICATOR	2009 RESULT	2010 TARGET	2010 RESULT
Client satisfaction	Relevant programming on LDCs, including post-conflict LDCs	LDCs with UNCDF programmes	40 LDCs	37 LDCs	37 LDCs
	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with timeliness and relevance of UNCDF services in its respective practice lines	60.6%	70%	*
Internal efficiency	Harmonize UNCDF and UNDP procedures to avoid overlaps and redundancies	UNCDF operations and procedures harmonized with those of UNDP	UNCDF operations manual fully harmonized with UNDP operations	Maximum integration of operational procedures, policies and systems	Achieved
	Strengthen United Nations coordination	Percentage of LDCs where UNCDF is active in which contributions are integrated in the United Nations country-level programming framework**	32 LDCs**	70%	70%
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	15.5%	15%	11.1%

PERSPECTIVE	STRATEGIC OBJECTIVE	INDICATOR	2009 RESULT	2010 TARGET	2010 RESULT
Internal efficiency	Strengthen people management	Staff perception	68.8%	75%	***
	Implementation of the audit recommendations of the Office of Audit and Investigation		13	22	18
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	\$19.7 million	\$ 20million	\$17.3 million ****
		Other resources mobilized	\$16.8 million	\$20 million	\$ 23.8 million
	Ensure delivery against plan	Delivery against approved annual spending limits	78%	80%	81%

* From the Headquarters Products and Services Survey. Survey not available at the time of the report.

** Indicator was refined in 2010 and criteria for integration in United Nations country-level programming frameworks were sharpened.

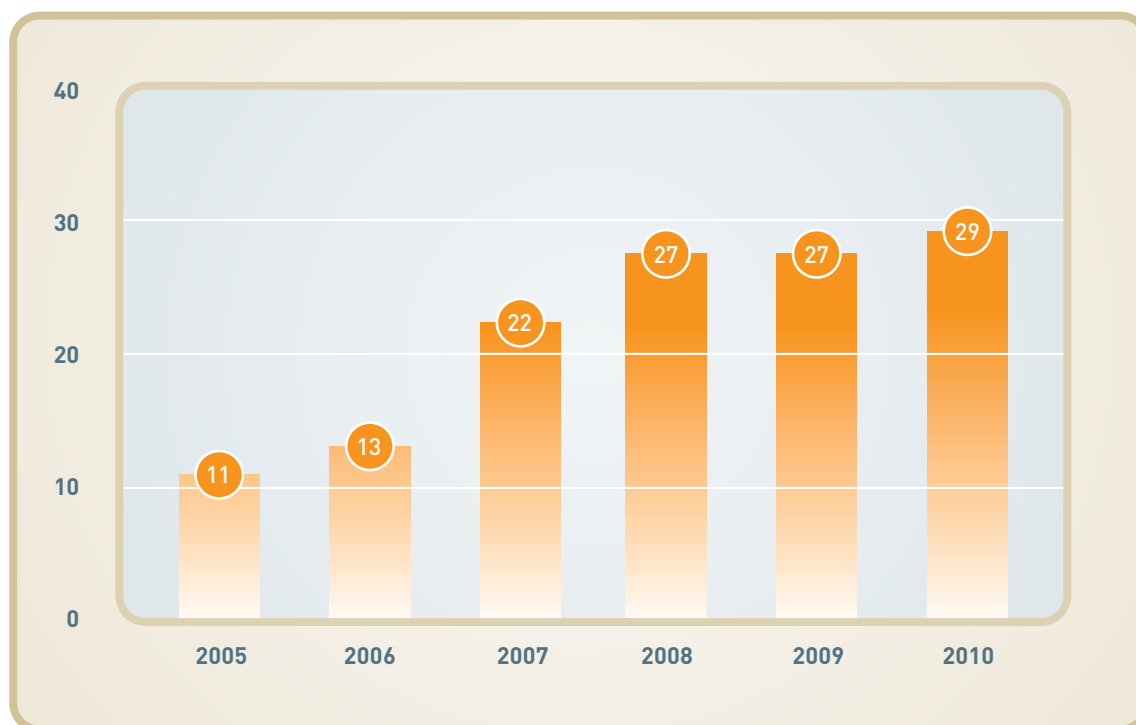
*** From Global Staff Survey. Survey not available at the time of the report.

**** Includes \$3.1 million from UNDP programme funds.

VI. FINANCIAL ANALYSIS

65 In spite of continued pressures on development budgets globally in 2010, total contributions to UNCDF resources increased by 14 per cent, from \$36.2 million in 2009 to \$41.1 million in 2010, including \$3.1 million in UNCDF programme funding received from UNDP. Also the number of donors and their diversity continued to improve, reaching 29 in 2010 (up from 27 in 2009 and 20 in 2007). Among the five largest donors to UNCDF in 2010, two were private sector foundations (the Bill & Melinda Gates Foundation and the MasterCard Foundation). The remaining top donors are Sweden, Australia and Belgium.

Figure 3 Number of Donors 2005–2010



Box 11

UNCDF Funding Increases in 2010, Despite the Global Downturn

Despite fiscal constraints being faced by donor countries, total contributions to UNCDF increased by 14% in 2010, from \$36.2 million in 2009 to \$41.1 million. The number and diversity of UNCDF's donors also continued to improve, reaching 29 in 2010 (up from 27 in 2009 and 20 in 2007). Two private foundations (the Bill & Melinda Gates Foundation and the MasterCard Foundation) were amongst the top five contributors to UNCDF resources in 2010, joining Sweden, Australia and Belgium. In addition, UNCDF received \$3.1 m in programme funding from UNDP in 2010.

Although a healthy signal of overall support for the organization, the growth in total contributions in 2010 masks a decline in core resources, from \$18.7 million in 2009 to \$14.2 million in 2010. The drop was because of a significant reduction by one major donor facing fiscal constraints, as well as exchange rate fluctuations. Other core donors were able to maintain their contributions at 2009 levels. Two donors were able to increase their core contributions (Austria and Luxembourg) and one new donor (USA) began contributing to UNCDF core resources. Sweden remained the largest single donor to UNCDF core resources in 2010, followed by Belgium, Norway and Austria.

UNCDF non-core income grew from \$16.5m in 2009 to \$23.8 in 2010. The largest donors were the Bill and Melinda Gates Foundation, the Australian Agency for International Development, the MasterCard Foundation, Denmark and the Belgian Fund for Food Security.

Multi-donor trust funds are a growing source of non-core income for UNCDF. In 2010, UNCDF received non-core income from the Peacebuilding Fund, the MDG Achievement Fund and several "Delivering as One" country-level funds. In addition, the European Commission continues to be a major source of non-core income for UNCDF's work in both microfinance and local development.

66 Although a healthy sign of continued and more diverse donor support, much of the recent growth has been in earmarked resources, which totalled \$23.8 million in 2010. Contributions to 2010 core resources dropped to \$14.2 million, from \$18.7 million in 2009 (excluding UNDP programming support). The drop was a result of exchange-rate fluctuations and a significant reduction by one major donor because of fiscal constraints. Other core donors maintained their contributions at 2009 levels despite a challenging financial environment. Two donors were able to increase their contributions (Austria and Luxembourg), and one new donor (United States of America) began contributing to UNCDF core resources.

67 Total expenditures in 2010 were \$49.4 million, roughly equivalent to 2009. UNCDF is watching its expenditure pattern to ensure that it continues to meet outstanding commitments but does not overextend itself, given the decreases registered in core contributions.

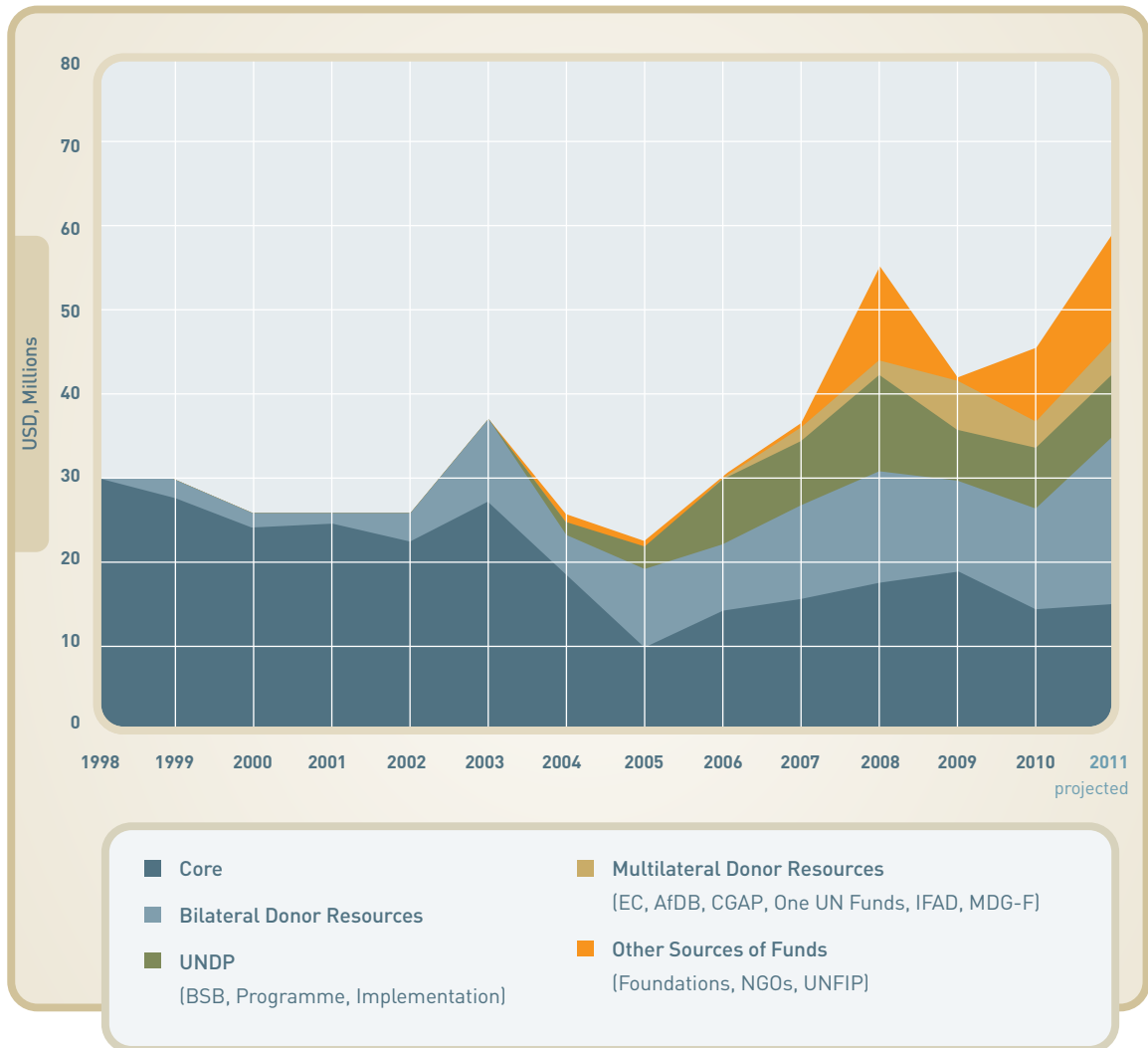
68 Fund balances at the end of 2010 were approximately \$53.0 million. UNCDF also has operational reserves of approximately \$24.6 million for core and extrabudgetary accounts.

Table 9 Expenditure trends 2003–2009 (in millions of dollars)

EXPENDITURES	2004	2005	2006	2007	2008	2009	2010
Programme expenditures	22.9	19.2	25.2	28.7	37.0	41.5	43.9
- of which regular resources	14.9	11.6	16.8	19.0	22.6*	22.2*	25.8*
- of which other resources	8.0	7.6	8.4	9.7	14.4	19.3	18.1
UNCDF support	5.3	6.7	4.6	5.4	6.8	7.6	5.5
TOTAL	28.2	25.9	29.8	34.1	43.8	49.1	49.4

* Expenditures in 2008, 2009 and 2010 include respectively \$6 million, \$1 million and \$3.1 million expended against UNDP programme contributions to UNCDF. 2008 and 2009 also include approximately \$4.7 million expended against the UNDP biennial support budget. This number dropped to \$4.1 million in 2010.

Figure 4 UNCDF Resources 1998–2011



69 The bulk of UNCDF programme resources continue to go to Africa (see the table below). In 2010, 47 per cent of country programme expenditures went to Africa, followed by Asia and the Pacific at 28 per cent. Africa also accounted for the majority of expenditures on UNCDF global thematic initiatives, which in 2010 accounted for 19 per cent of the total programme expenditures. Expenditures in this category included the flagship MicroLead programme, the Pacific Islands financial inclusion programme, an ILO/UNCDF joint programme on micro-insurance, the Gender Equitable Local Development joint programme with UN-Women, and global advocacy (e.g. the Global Forum on Local Development and support to the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development).

Table 10 2010 programme expenditures per region and practice area (in millions of dollars)

REGIONS/THEMES	LOCAL DEVELOPMENT	MICROFINANCE	TOTAL
Africa	13.2	7.3	20.5
Asia and Pacific	10.0	2.1	12.2
Arab States	0.3		0.3
Latin America	2.0		2.0
Global programmes	3.1	5.2	8.3
Research and development	0.1	0.2	0.2
Knowledge management	0.1	0.4	0.4
TOTAL	28.8	15.1	43.9

Source: Financial statements for UNCDF as of 31 December 2010 before final closing of accounts.



Cambodia has a higher proportion of forest cover (59%) than any other country in Southeast Asia. UNCDF, through its Innovations for Decentralisation & Local Development (IDLD), supports the Government of Cambodia in its Decentralization and Deconcentration reforms providing an opportunity to foster climate change resilience via a clear distribution of responsibilities and resources and the integration of climate change considerations into local planning and management processes.

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VII. UNCDF LOOKING FORWARD

70 UNCDF is coming out of a period of significant restructuring and change. Project 2010 has streamlined and strengthened its internal procedures and controls, taking account of its near doubling in size (by income) in the past five years, and positioning it for strong future growth. The UNCDF staff has been significantly renewed, and its partnership with UNDP has become both stronger and more multifaceted. While UNCDF – like all United Nations development agencies – will face a difficult external environment in 2011 and beyond, the growth in its non-core income, including from non-traditional sources, augurs well for the future.

71 Within this context the UNCDF priorities for the future can be grouped under three headings: products, partnerships and performance.

Products

72 UNCDF will respond to new kinds of demand from its least developed country partners via new products and approaches. In the area of microfinance these will include:

- I A new country diagnostic tool on financial inclusion being developed with the FinMark Trust (South Africa) and others. This tool will help all stakeholders – in least developed countries and non-least developed countries alike – to better understand the challenges to financial inclusion in a given country, and to tailor their strategies appropriately.
- II A second phase of the flagship MicroLead facility, targeted specifically to sub-Saharan Africa.
- III CleanStart, a pilot global facility that will help microfinance institutions in the least developed countries develop financial products that enable poor people and small businesses to purchase off-grid clean energy technologies (e.g. clean cook stoves; micro-solar solutions).
- IV Branchless banking, an initial attempt to apply elements of the highly innovative Pacific Islands programme (which features government-to-people payments and cellphone banking) to other least developed countries.

*Niger suffers from many of the same trends that afflict other West African nations with chronic food shortages: a population that is increasingly urban, climate disturbances that reduce crop yields, deteriorating and tired soil, and farmers' difficulty accessing land, credit, seeds and fertilizer. UNCDF is supporting, through its *Projet d'Appui au Développement Economique Local (PADEL II)*, local governments, socio-occupational associations and the private sector to play crucial roles in designing and implementing strategies that are effective and consistent with national policies to ensure that food security is sustainable,*

73 On the local development side, these new products and approaches will include:

- I The Local Climate Adaptive Living Facility and the Fiscal Grant Facility, two new investment products being tested in Bhutan. These are designed to help local governments shoulder the extra costs of planning infrastructure that is resilient to climate change and natural disasters.
- II Pilot initiatives being tested in four countries (Uganda, Tanzania, Senegal and Sierra Leone) to engage the private sector in attracting new investments and creating new jobs.
- III The Local Development Finance Initiative, being piloted in Tanzania, which is designed to develop innovative, private-sector-led ways of financing public infrastructure at the local level.

Partnerships

74 UNCDF will continue to build strategic partnerships as the best means of leveraging its technical expertise in local development and microfinance, and of increasing its overall impact.

- I Local development: UNCDF will explore how to take the successful partnership it enjoys with the World Bank, particularly in Bangladesh, to other countries, with a particular focus on Africa.
- II Microfinance: the new diagnostic tool being developed with the FinMark Trust (see above) will help UNCDF to build broad coalitions of actors committed to financial inclusion at the country level. UNCDF will also continue to build new partnerships with non-traditional funders, including private foundations, in the area of financial inclusion.
- III Advocacy and knowledge sharing: the new emphasis on partnerships for advocacy and knowledge sharing will continue.

Performance

75 UNCDF will continue to strive to improve its performance, particularly at the country level. The SPIRE initiative will continue in 2011. Separately, UNCDF has commissioned an external review of its entire microfinance portfolio. The results of all evaluations and reviews will be posted on the UNCDF website, together with the UNCDF management responses. In the period ahead UNCDF will pay particular attention to:

- I Setting appropriate baselines and targets for programmes and strengthening monitoring;
- II Striving for policy impact in partnership with UNDP;
- III Better communication of results through advocacy and knowledge products;
- IV Strengthening overall project portfolio management;
- V Implementing strategies designed in 2010.



At the occasion of the MDG Summit in New York (September 2010), the UN Capital Development Fund and the United Nations Programme for Human Settlements (UN-Habitat) hosted a panel of prominent speakers that addressed the prospects, challenges and opportunities of accelerating and localizing MDG-achievement through local governments.

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ANNEX: FINANCIAL STATEMENTS

UNCDF Income and Expenditures, 2010

(Thousands of United States dollars)

INCOME	2010	2009
Voluntary Contributions	14,221	18,706
Cost Sharing Contributions	16,419	11,855
Sub-trust funds contributions Schedule 7.1	7,405	4,642
Sub Total	38,045	35,203
Interest Income	253	416
Reimbursable Support Services	2,560	1,662
Other Income	1,154	1,150
TOTAL INCOME	42,167	38,431

EXPENDITURE		
Programme		
Regular Resources	22,806	20,974
Cost Sharing	10,783	11,212
Sub-trust funds Schedule 7.1	7,175	8,104
Sub Total	40,764	40,290
Biennial Support Budget - Net		
Management and Administrative costs		
Technical Support Costs		
Reimbursable Support Services Costs	1,300	2,820
Sub Total	1,300	2,820
Other Expenditure	-	221
TOTAL EXPENDITURE	42,064	43,331

EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(103)	(4,900)
Savings on prior biennium's obligations		
Transfer to/(from) Reserves		(2,000)
Refunds to donors and transfers to/(from) Other Funds	(20)	(943)
Fund balances 1 January	53,063	60,906
FUND BALANCES, 31 DECEMBER	53,146	53,063

Report date as of March 31, 2010

UNCDF Balance Sheet 2010

(Thousands of United States dollars)

ASSETS	2010	2009
Cash	2,742	4,328
Investments - Schedule 8	71,708	67,951
Loans to Financial Services	5,169	5,168
Operating funds provided to Governments		-
Operating funds provided to Executing agents	789	71
Due from UNDP - Regular Resources		4,810
Other accounts receivable and deferred charges	753	599
Accrued interest	400	16
TOTAL ASSETS	81,561	82,943

LIABILITIES		
Operating Fund payable to Governments		
Operating Fund payable to Executing agents	718	718
Unliquidated obligations	21	1,495
Accounts payable	1,029	2,506
Due to UNDP - Regular Resources	1,519	
Deferred Income	707	561
TOTAL LIABILITIES	3,994	5,280

RESERVES AND FUND BALANCES			
Operational Reserve		24,600	24,600
Unexpended Resources			
	Regular Resources	20,953	28,260
	Cost sharing	16,539	11,094
	Sub-trust funds	11,817	11,447
	Sub Total	49,309	50,801
	Reimbursable Support Services	3,659	2,262
	Total Unexpended Resources	52,968	53,063
TOTAL RESERVES AND FUND BALANCES, 31 DECEMBER		77,568	77,663
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		81,562	82,943

The accompanying notes are an integral part of the 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:

- a) Increasing access by poor people and small enterprises to microfinance; and
- b) 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) **Cash**

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

	2010	2009
Accumulated non-convertible currencies		
TOTAL	475	477

c) **Loans**

The outstanding loan balance shown in the statements reflect current loan that will be repaid.

	2010	2009
Loans to Financial Services	5,169	5,168
TOTAL	5,169	5,168

d) **Investments**

The carrying value of investments for bonds and notes of \$ 19,254 million is disclosed in schedule 8.

The increase of value of dollar \$ 19,254 million in the bond value in detailed below;

BEGINNING VALUE 1 JANUARY 2010	PURCHASES	MATURITIES	NET AMORTIZATION	CARRYING VALUE 31/12/2009	MOVEMENT (DECREASE)	MARKET VALUE	PAR VALUE
-	74,005	(53,891)	(860)	19,254	19,254	19,247	19,100

e) **Unliquidated obligations (ULOs)**

The balance of unliquidated obligations shown in schedule 7 consists of the following (in thousands of United States dollars);

	2010	2009
UNCDF-controlled funds	21	1,481
TOTAL	21	1,481

f) **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 per cent 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). In line with this decision, the operational reserve for regular resources originally established in 1979, remained unchanged dollar \$ 22,6 million as at 31 December 2009. An additional operational reserve of \$ 2,0 million has been set aside for extra budgetary resources.

g) **UNDP support to UNCDF Programme resources**

UNCDF received an amount of \$3.1 million from UNDP in 2010 (2009: \$ 1 million; 2008: \$ 6 million) to support its programme resources. Expenditures, incurred by UNCDF against these amounts, were transferred to UNDP and recorded to its Regional Programmes.



Financial inclusion helps to generate pro-poor economic growth. UNCDF's MicroLead Programme increases financial inclusion in the least developed countries, especially those recovering from conflict and crisis. In Liberia, for example, MicroLead's support for Bangladesh Rehabilitation Assistance Committee, BRAC, has enabled a fish seller to start a new business giving her and her family new opportunities.

© BRAC/Jake Lyell





UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals.



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Creating New Opportunities in the World's Poorest Countries