



UNCDF

**UNITED NATIONS CAPITAL
DEVELOPMENT FUND**

Annual Report 2008

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Foreword

from the Executive Secretary

I am pleased to present you with this report on UNCDF's activities and results in 2008.

2008 brought great challenges for the global economy, with particularly serious repercussions for the world's least developed countries. As the financial crisis became a full blown economic crisis, many of these countries - already struggling with high food and energy prices - were also forced to confront the prospect of steep drops in investment flows, declining remittances and increased protectionism. While Official Development Assistance has held up so far, future prospects remain uncertain given fiscal realities in donor countries.

Against this background UNCDF – together with its local, national and international partners – has adapted its existing interventions to help protect the most vulnerable in some of its partner countries. In Nepal, for example, as part of the Government's nation-wide *Local Governance and Community Development Programme*, UNCDF has piloted conditional cash transfers to poor families, managed by Village Development Committees. In Laos, through the local development component of a wider joint programme with UNDP, UNCDF is exploring options for piloting district-managed safety net programmes. In Rwanda, UNCDF and UNDP are working together to enhance the role of districts and sectors in monitoring and administering a cash transfer programme targeting the poorest families.

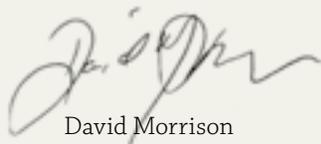
At the same time, UNCDF has stepped up its support for the next generation of sustainable financial service providers that focus on poor and low-income people. The new \$26 million Inclusive Finance facility, MicroLead, exemplifies the best of UNCDF, building on its core strengths in supporting the entry of high impact microfinance institutions into unserved areas, while emphasizing South-South cooperation and assistance to the most vulnerable, including in post-crisis environments. MicroLead, which has received generous support from the Bill & Melinda Gates Foundation, seeks to reach 525,000 new clients by the end of 2013.



UNCDF Executive Secretary David Morrison visits one of the 15 districts in Uganda where UNCDF is piloting an integrated approach to local economic development.

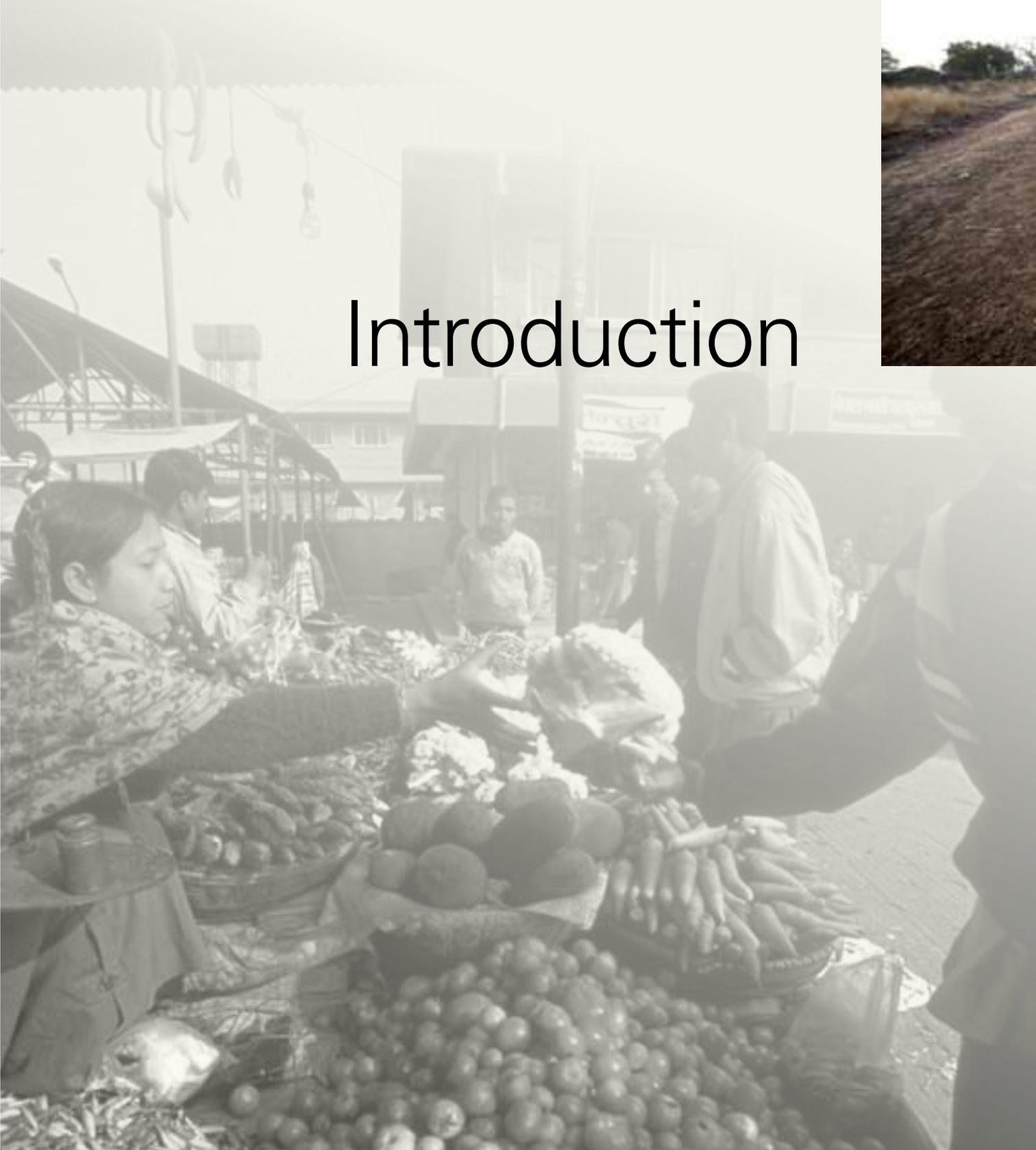
UNCDF's mission of supporting LDC efforts to reach the Millennium Development Goals (MDGs) has never been more relevant. This Annual Report details some of the milestones achieved in 2008 in UNCDF's two practice areas: (i) Decentralization and Local Development and (ii) Inclusive Finance. Both of these areas hold considerable promise for accelerating progress toward the MDGs, even in the face of the ongoing crises. The pages that follow also detail UNCDF's efforts to strengthen its management and operations, as well as its partnerships with UNDP and the wider UN system, to enhance overall development impact.

As we look towards 2015, UNCDF remains more committed than ever to working together with all development partners for the achievement of the MDGs.



David Morrison

Introduction





UNCDF assists the Government of Benin in improving infrastructure and basic service delivery at the local level.

1. The United Nations Capital Development Fund (UNCDF) – established in 1966 by the General Assembly and given a unique capital investment mandate – supports the Least Developed Countries (LDCs) to achieve the Millennium Development Goals (MDGs), as well as to implement the Programme of Action for the Least Developed Countries for the Decade 2001-2010¹. UNCDF focuses on two broad practice areas of high relevance for achieving the MDGs, particularly at the local level: (a) decentralization and local development; and (b) inclusive finance.

2. The comparative advantage and niche of UNCDF in those practice areas builds on its mandate and capacity to provide a mix of small-scale capital grants, credits and guarantees, and capacity-building services to important public and private sector actors. Based on local level interventions, UNCDF uses in-house technical expertise and its United Nations mandate to channel policy-relevant lessons to national governments for replication and broader national up-scaling. Such initiatives are usually funded by other development partners who aim for larger size interventions.

3. The decentralization and local development programmes of UNCDF seek to improve governance, social services and pro-poor economic infrastructure at the local level by providing technical assistance and capital grants directly to local authorities. Local experiences gathered permit UNCDF to provide evidence-based policy advice to support national governments in their efforts to launch decentralization strategies.

4. The inclusive finance programmes of UNCDF provide poor households, as well as small and micro-enterprises, with enhanced access to a wide range of affordable financial services by promoting the growth of inclusive financial sectors. Through a sector development approach, UNCDF provides a combination of investment capital to microfinance institutions and policy-relevant lessons and technical assistance to governments, central banks and the ‘meso-level’ support industry.

5. UNCDF interventions are well-aligned with the key principles of the Paris Declaration on Aid Effectiveness in terms of country ownership, alignment with country

¹ Adopted by the Third United Nations Conference on the Least Developed Countries in Brussels on 20 May 2001.

systems, donor harmonization and results-oriented approaches. This is, in fact, a pre-condition for UNCDF to achieve substantive policy impact and replication, contributing to the ultimate goal of poverty reduction through improved access to public and private services.

6. UNCDF actively demonstrates its commitment to the United Nations reform and system-wide coherence – at the programmatic level, by engaging with other United Nations organizations through joint programmes, and at the institutional level, by integrating its areas of interventions with those of the UNDP strategic plan and aligning administrative systems with those of UNDP to the greatest extent possible.

7. The 2008 annual report provides an overview of UNCDF performance from a programmatic, management and financial results perspective, against the backdrop of established targets. In 2008, UNCDF expanded its interventions to 38 least developed countries – up from 31 in 2007. UNCDF is making good progress towards expanding its programmes to 45 least developed countries by 2011, as set out in the UNCDF investment plan (2008-2011).

8. The expansion of interventions was made possible in part by a substantial increase in contributions to UNCDF regular and other resources in 2008. Total resources increased from \$28.5 million in 2007 to \$50.1 million in 2008 – a 76 per cent increase. Included in this amount, is \$6 million allocated by UNDP to UNCDF programme activities, in line with Executive Board decision 2007/34.

9. The performance of UNCDF in 2008 is measured against its strategic results framework, which highlights the innovative dimensions of the two practice areas. The performance also takes into account the contributions of UNCDF to key results in the UNDP strategic plan – specifically outcomes 5 and 6 of goal 1: achieving the MDGs and poverty reduction.



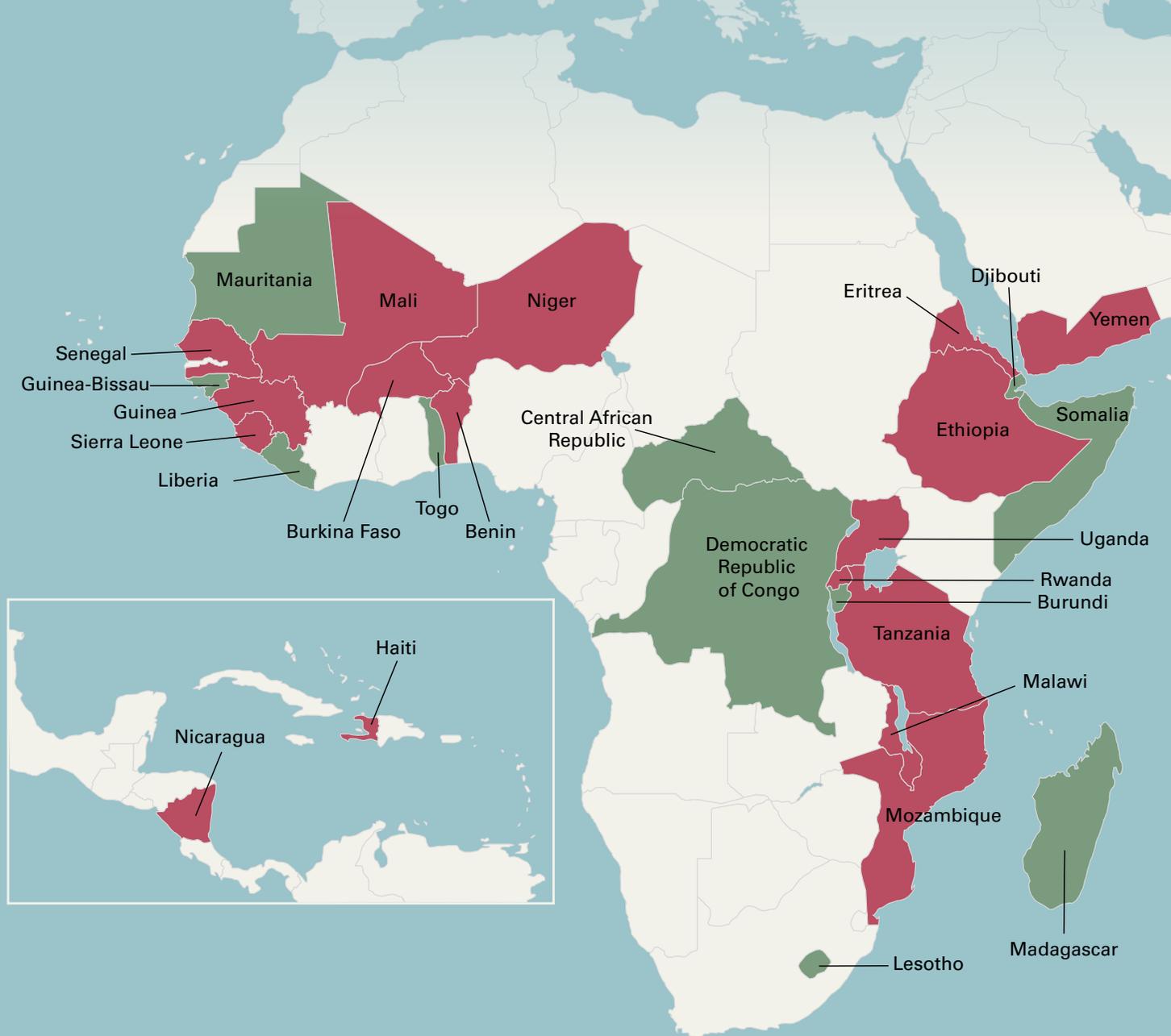
Women working in a construction site in the province of Nampula (Mozambique), as part of UNCDF's support to decentralised planning and financing in the provinces of Nampula and Cabo Delgado.



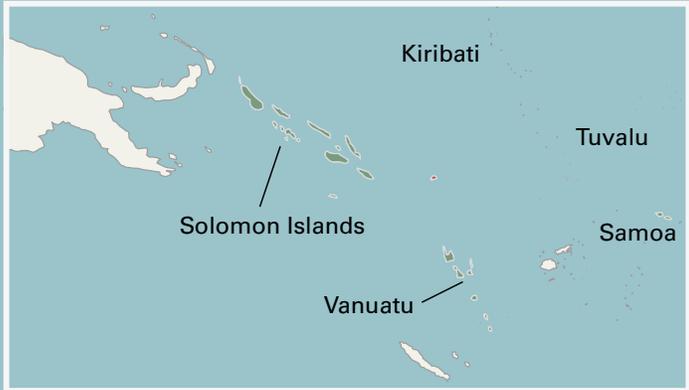
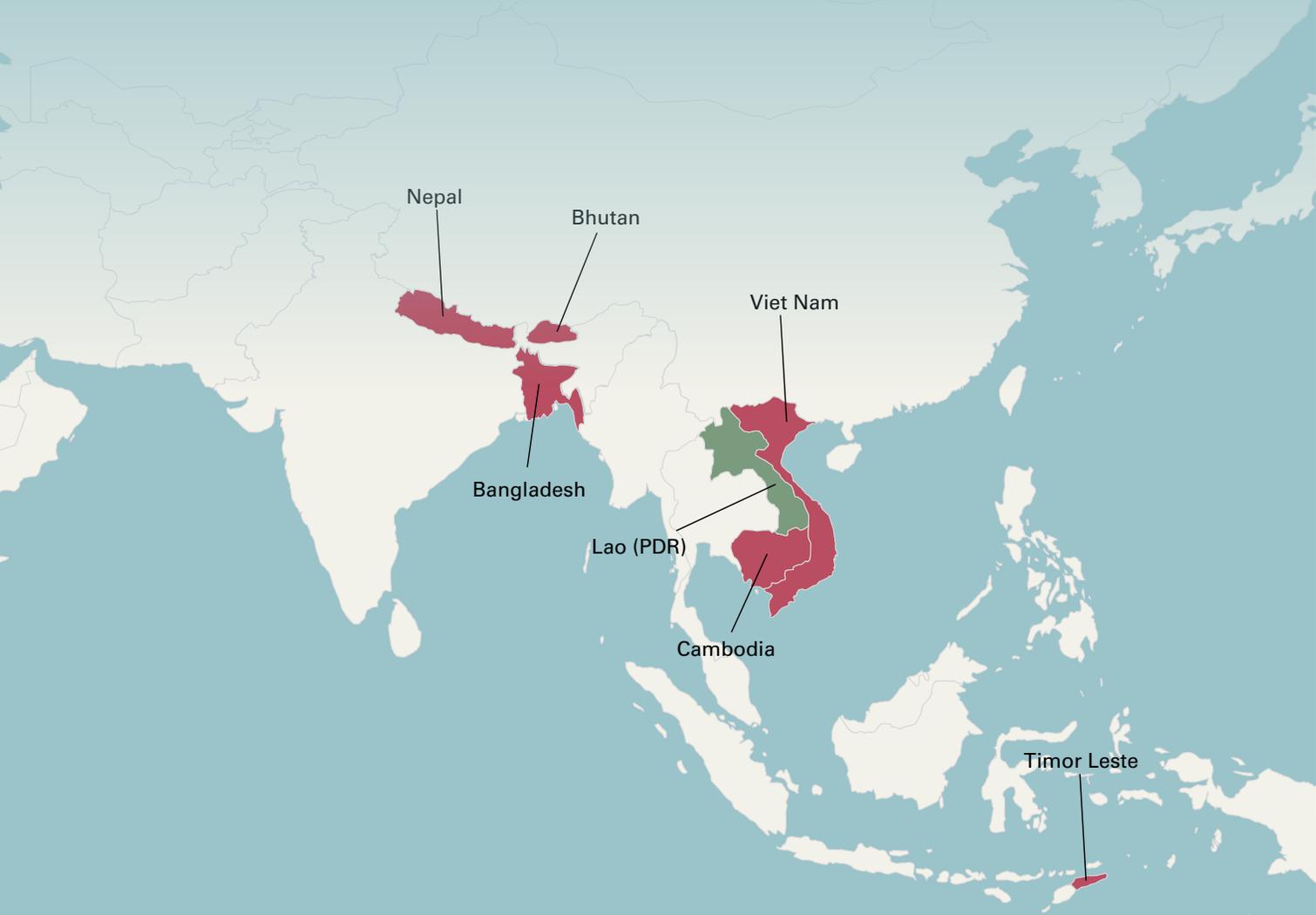
UNCDF Country Presence

The number of UNCDF programme countries expanded from 23 in 2004 to 40 in 2008.

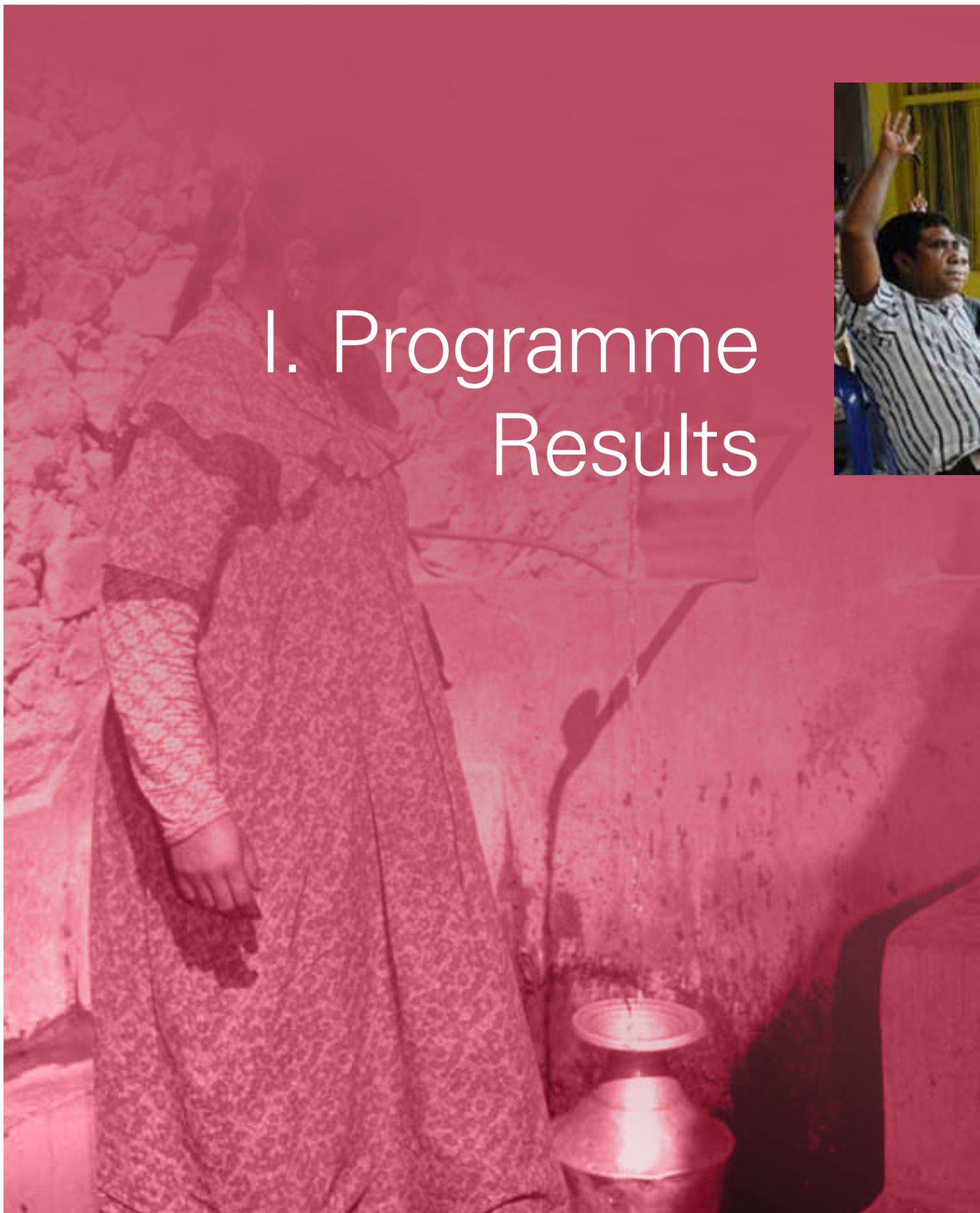
2004 ■ 2008 ■



2004-2008



I. Programme Results





Members of the Sub-District Development Committee (SDDC) in Venilale, Baucau (Timor Leste) vote on the development priorities for their sub-district in April 2008. The SDDC makes recommendations to the District Assembly in Baucau, which is responsible for taking the final decision on the annual investment plan for the entire district.

A. Performance analysis: local development

Framework for measuring results

10. Public expenditure management cycle. The main objective of the UNCDF local development practice area is to promote more effective, efficient, equitable and accountable pro-poor infrastructure and service delivery through rural local governments. This is accomplished by twinning innovations in funding mechanisms with 'capacity develop-

ment' innovations in planning, budgeting, delivery and accountability arrangements. The UNCDF approach to local development puts a strong emphasis on the promotion of 'scalable' local delivery systems for achieving the MDGs.

11. Developing local public expenditure management capacity. This is a key pillar of the UNCDF pilot concept, which aims at improving local government compliance with the roles and responsibilities they are supposed to have according to existing legislation (or potentially could have, once the local government system has been reformed and improved). By providing local authorities with budget support – rather than project financing – UNCDF capital investment grants provide an opportunity to activate the systems, related legislation and procedures of local governments. The assistance of UNCDF focuses initially on the establishment of a solid local planning process and generating an annual investment plan with strong local ownership. This in turn triggers an assessment of required budgetary resources and their availability, drafting of an annual budget and a highly transparent tendering and competitive bidding process using domestic procurement legislation and procedures. Results are measured against local government performance in managing the above-cited process and achieving high implementation rates of investment plans, and satisfactory maintenance of investments with own funds.

12. Budget delivery for achieving results. Out of \$37.0 million in total resources expenditures during 2008, the local development practice area accounted for \$22.07 million – 72 per cent – slightly lower than in the \$23.8 million in expenditures in 2007 (73 per cent in terms of budget delivery). However, when the numbers are broken down, 2008 expenditures show that almost 75 per cent of funds were allocated to local governments, for either institutional strengthening support or capital grants for investments in pro-poor infrastructure and delivery of social services. This is a

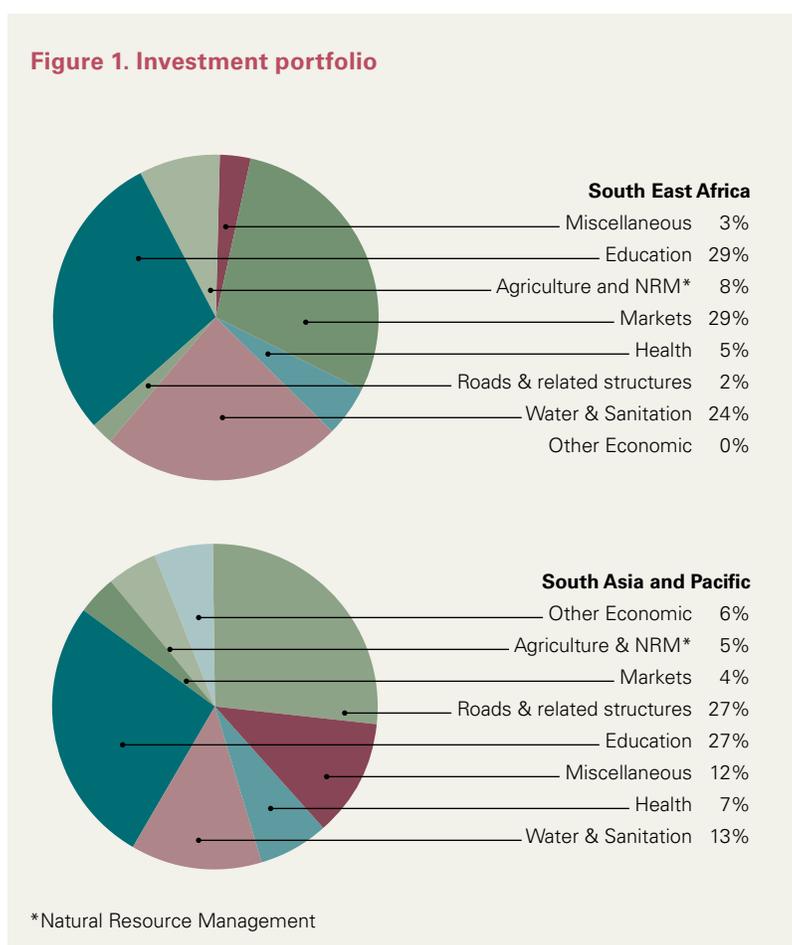
significant increase over 2007 (13 per cent), attributable in part to the considerable increase in 2008 contributions to UNCDF other resources.

13. Results in strengthening institutional capacity. Overall target achievement for 2008 indicate that approximately 75 per cent of UNCDF-supported local governments have gained the capacity to apply basic standards for a planning and budgeting process. Results also show that 82 per cent of local governments implemented their plans and budgets in a timely and efficient manner, and greater transparency was achieved in local investment decision-making. The participation of vulnerable groups and conflicting parties, particularly in the planning phase, also helped in post-conflict countries like Haiti to reduce tensions in regions governed by UNCDF-supported local governments. These results have been confirmed by external evaluations, such as those carried out in Lao People’s Democratic Republic, the Republic of Haiti, and Burkina Faso.

14. Local investment practices. The presentation of results uses a sample of programmes in full operational mode. In 2008, local governments made investments of \$11.8 million based on budgets approved for annual investment plans and UNCDF local development funds. The regional breakdown of these funds were: \$1.6 million in Asia and the Pacific (13 per cent); \$5.9 million in South and East Africa (50 per cent); and \$4.3 million in West Africa (37 per cent). The sector breakdown of the 1,162 micro-investments made by UNCDF-supported local governments in 2008 shows significant similarities between the two regions – 45 per cent of investments were made in local economic infrastructure (roads, markets, agriculture, natural resource management) and 55 per cent in social service facilities, including primary education (Asia and Pacific – 27.1 per cent; South and East Africa – 29 per cent), water (Asia and the Pacific – 12.5 per cent; South and East Africa: 24 per cent), and primary health (Asia and Pacific – 6.8 per cent; South and East Africa – 5 per cent).

15. Generally, investment composition is biased towards basic, primary, small-scale economic and social infrastructure and is generally consistent with the sectoral focus areas defined in national poverty reduction strategy papers. However, the global investment portfolio averages, outlined in the previous paragraph, masks considerable variation. In Bangladesh for example, investments are highly skewed to roads, because such infrastruc-

Figure 1. Investment portfolio



ture is perceived as critical during the rainy season. In Ethiopia and Eritrea, investment demand is focused on water supply, while in Rwanda and Burundi with a high population density, investments in the rural economy are a high priority.

16. The average investment amount in 2008 varied greatly within, as well as across, regions. The average investment amount in Bangladesh for example, was \$800, in Lao People's Democratic Republic, \$10,000-\$15,000, and in the Solomon Islands \$25,000. In Asia and the Pacific, 923 investments were made during the year with an average investment amount of \$1,733. In South and East Africa, 239 investments were made with the average investment totalling \$24,957.

17. The cost effectiveness of local service delivery was one of the themes assessed by external evaluations. In spite of limited data, the mid-term evaluation in Lao People's Democratic Republic confirmed evidence of cost-savings per infrastructure unit managed at local level in comparison to infrastructure delivery managed from central government. In Eritrea, cost comparisons between a commercial contractor and community-based delivery indicated savings of one third without any evidence of quality losses. Experiences in West Africa confirm the importance of a transparent bidding process for keeping construction costs low.

18. Achieving policy impact through results from the pilots. Technically sound and evidence-based linkages between downstream pilot operations and upstream policy impact are a key feature in UNCDF programme design. According to baseline data, the highest potential for success in using policy relevant lessons at the local level for upstream policy impact exists in the areas of: (a) direct funding of locally-elected bodies; (b) official recognition of local governments roles and functions; (c) enhancing the national programme framework for decentralization; (d) piloting instruments for fiscal decentralization; and (e) innovations in financial transfer mechanisms that are equitable and encourage improved performance.

19. As table 1 at page 17 illustrates, target achievement rates in the area of policy impact vary considerably regarding different areas measured (50 – 73 per cent) and also across regions (50 – 100 per cent). Table 1 includes performance data from those programmes that, due to their cycle, had planning targets for policy impact outcome indicators in 2008. The degree to which UNCDF manages to take full consideration of a country's legal and institutional framework and its political and policy dynamics is a key factor for successful policy impact.

20. Strategies for achieving policy impact. In countries where the decentralization process has not yet generated the necessary institutional setup at the local level, UNCDF designs its local development programmes with a view to establish simulated local councils or similar institutional entities that have the capacity to deliver services at the local level. In Lao People's Democratic Republic, the district development committee model (simulating councils) received official adoption through a provincial decree. Similarly, in Timor Leste, the pilot local assemblies that were established are now

being used as the base module for a new local government assembly system. In Niger, the national assembly approved an amended legal and regulatory framework for decentralization improving funding and transfer mechanisms to communes through the national treasury.

BOX 1 Good Practice becomes Good Policy: the case of Niger

Two UNCDF-supported local development projects in Niger helped the Government to establish an approach to fighting poverty that places local bodies in the central decision-making role.

The *Support for Local Development in Nguigmi project* and the *Support to Local Development in Mayahi project*, implemented in partnership with the Belgian Survival Fund, UNDP and the Government of Niger, have sped up the decentralization process by equipping decision-making bodies with the resources and competencies needed to lead local development work, as well as the necessary tools for planning, budgeting, implementing and monitoring socio-economic investment projects.

These interventions have focused on gender, improving disadvantaged groups' access to social services, and reducing food insecurity by introducing technical innovations in farming. The participatory approach was later adopted by the Government in constructing the legal and institutional framework for its decentralisation policy, which involved setting up 265 communes following the first local elections held in July 2004, with a prominent leadership role for local development and intercommunity committees. Given the success of the Nguigmi and Mayahi experiences, the UNCDF model was subsequently replicated in several Niger regions by the World Bank, Belgian Development Cooperation and the European Union.

Based on the achievements of the Mayahi and Nguigmi projects, UNCDF has launched a new *Programme to support the urban commune of Diffa*. The programme uses the treasury to transfer funds from central to local level, to be invested according to a participatory planning process. This mechanism has increased the state's credibility and strengthened the commune's role as project leader.

The effectiveness and transparency of this approach have led the Government to replicate it more broadly across the country through a new National Agency for Regional and Local Authorities Investment Financing, created in June 2008. While the new agency gradually becomes operational, some partners – including the Danish International Development Agency – have opted to use the treasury procedure.

The Niger experience has demonstrated the importance of UNCDF support to a country in the initial stages of decentralization, and the value of local community participation in planning and managing development.

21. In programme countries where the political commitment for decentralization is still developing, UNCDF usually focuses on local-level piloting, in combination with informed advocacy to influence the national policy agenda. In Burkina Faso, a final evaluation stated: "The UNCDF programme helped communities to manage local development paving the way for an effective transition from pre-commune supported structures to formal commune-elected local government entities." In Guinea Conakry, the UNCDF management information system has been installed after a programme pilot phase at the national level (Direction Nationale de la Décentralization) and has been then adopted for replication at the regional level.

22. In programme countries with a clear political commitment to decentralization, UNCDF programmes usually include a more substantial technical and policy advisory component to assist national authorities in developing and implementing national decentralization policies, legislation, and procedures (e.g. Nepal, Senegal and Mali). Through technical assistance to the Ministry of Local Government in Rwanda, for example, UNCDF contributed to the ongoing restructuring of public service delivery systems with a concrete proposal on assignment of expenditure responsibilities between central and local government.

23. Performance-based funds transfer. Concrete results in putting fiscal transfer mechanisms in place were mainly achieved in countries where UNCDF provided local governments with performance-based grants. Linking block grant allocations to local government performance represents a strong incentive to ensure proper use of

Table 1. Policy impact at national level (overall total and per region)

UNDP/Strategic Plan Outcome (1.5): Strengthened capacities of local governments and other stakeholders to foster participatory local development and support achieving the MDGs.	Plan	Actual	%	Assessment of performance*
Outcome 1.1: Countries that have developed with UNCDF support national strategies and programmes for decentralization and local development in order to achieve the MDGs.				
Outcome indicator 1.1.1: # of countries where governments officially a) adopt / mainstream PEM** related procedures and other innovations for national use. b) develop/amend policy, legislative, regulatory, and / or M&E framework.				
Regional portfolio: Asia and Pacific	5	5	100	Achieved
South East Africa	4	2	50	Partly achieved
West Africa	6	4	67	Partly achieved
Total	15	11	73	Partly achieved
Outcome 1.2: Countries that - with UNCDF support – have transparent fiscal transfer systems in place that support local governments.				
Outcome indicator 1.2.1: # of countries with improved fiscal transfer mechanisms in place (e.g. performance-based formula).				
Regional portfolio: Asia and Pacific	5	4	80	Achieved
South East Africa	2	1	50	Partly achieved
West Africa	1	1	100	Achieved
Total	8	6	75	Achieved
Outcome indicator 1.2.2: # of countries where UNCDF supported local governments have received performance-based grants.				
Regional portfolio: Asia and Pacific	6	3	50	Partially achieved
Total	6	3	50	Partially achieved

* Performance assessment scores: (1) Achieved: 75 – 100 per cent; (2) Partially achieved: 50 – 75 per cent; (3) Not satisfactory: < 50 per cent

** Public Expenditure Management

transferred funds in compliance with rules. Despite the particular differences between minimum conditions in various countries, their application is based on a set of common principles: (a) They are usually directly derived from the provisions of the national legal and regulatory framework; (b) Satisfactory compliance is an absolute precondition for access to the next year's block grant funding; (c) all local governments must undergo an annual performance review; and (d) the reviews are used to enhance the local demand for remedial capacity building.

24. In Senegal, the recently-launched national programme (Projet d'Appui au Développement Économique Local en ancrage au Programme National de Développement Local) has adopted key principles of a performance-based budget access based on an earlier UNCDF pilot. The governments of Bangladesh, Nepal and Solomon Islands have started the roll-out of this approach through national decentralization programmes. In Burundi, the government has manifested interest in a nationwide adoption of the UNCDF grants model on the commune level.

25. Replication through strategic partnerships.

Based on lessons-learned by activating government systems at the local level, UNCDF provides evidence-based policy advice to national governments towards replication and up-scaling at national level.

The subsequent launches of national strategies for decentralization are usually funded by other development partners who target larger-scale interventions, such as the World Bank or European Commission. Hence, strategic partnerships are a key feature in UNCDF interventions during the UNCDF programme piloting phase, and the subsequent up-scaling and replication phase at national level thereby accelerating efforts towards achieving the MDGs.

26. Table 2 illustrates UNCDF high overall performance in terms of: (a) adoption by donors of UNCDF-supported local development strategies through innovations in their own programme or in a joint programming with UNCDF, and (b) the number of countries where UNCDF has been instrumental in developing national programmes or providing a framework to national governments for harmonizing donor support.

27. In Asia and the Pacific, the number of countries targeted for replication and up-scaling in 2008 was relatively high. Bilateral and multilateral development partners,



UNCDF's Local Development Programme in Guinea aims to promote decentralisation and citizen participation in local management to accelerate poverty reduction.

such as the Danish International Development Agency, Swiss Agency for Development and Cooperation, the World Bank and the Asian Development Bank have shown a particular interest in replicating innovations such as performance-based block grants, participatory planning and budgeting arrangements, policy framework on fiscal decentralization and social protection mechanisms through local governments. In 60 per cent of the programmes, UNCDF played a leading role in designing national government frameworks for donor harmonization.

Table 2. Replication through strategic partnerships (overall total and per region)

UNDP Strategic Plan Outcome (1.5): Strengthened capacities of local governments and other stakeholders to foster participatory local development and support achieving the MDGs.	Plan	Actual	%	Assessment of performance
Outcome 1.1: Countries that - with UNCDF support – have developed national strategies and programmes for decentralization and local development in order to achieve the MDGs.				
Outcome indicators 1.1.3: Number of countries where donors independently adopt UNCDF-supported local development strategies or innovations in their own programme, or subscribe to a joint programme with UNCDF.				
Regional portfolio: Asia and Pacific	6	6	100	Achieved
South East Africa	3	2	66	Partly achieved
West Africa	3	2	66	Partly achieved
Total	12	10	83	Achieved
Outcome indicator 1.1.4: Number of countries where UNCDF is instrumental in developing national programmes, or providing a framework to national governments for harmonizing donor support.				
Regional portfolio: Asia and Pacific	5	5	100	Achieved
South East Africa	2	1	50	Partly achieved
West Africa	3	2	66	Partly achieved
Total	10	8	80	Achieved

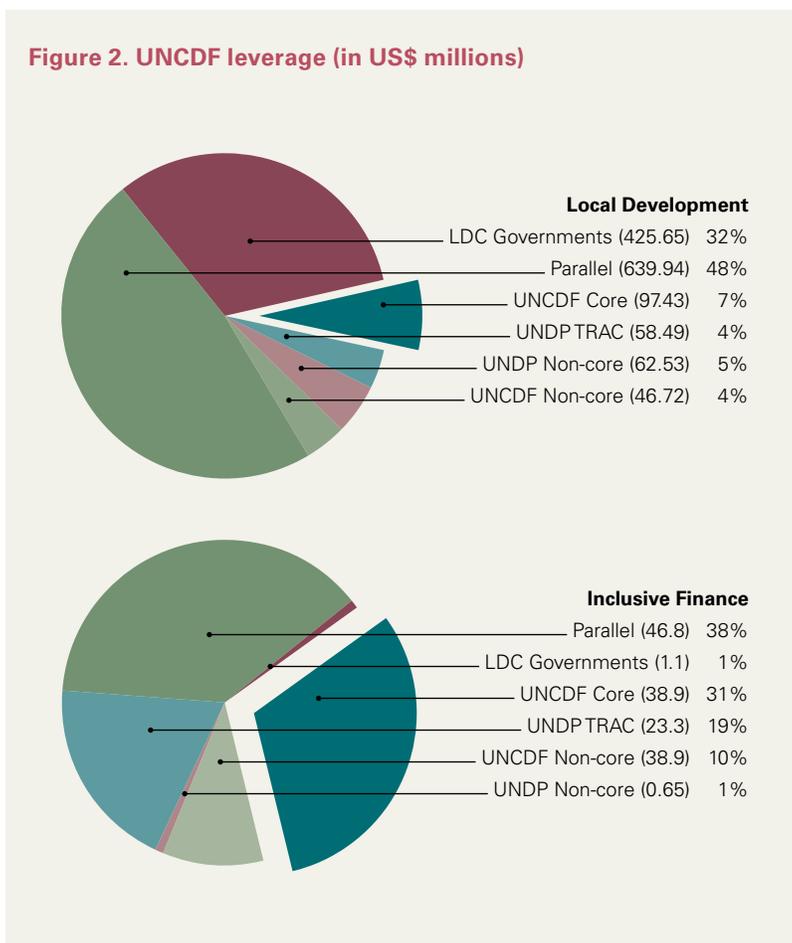
28. In South and East Africa, targets were only partially achieved as a result of particular portfolio circumstances. However, in countries where UNCDF has had strong strategic partnerships – Tanzania, Uganda, Malawi and Mozambique – significant results were achieved where highly successful UNCDF pilots were mainstreamed into national programmes. UNCDF is now taking the lead in a ‘third generation’ of programmes with a focus on innovations in new niches such as local economic development based on demand from governments and in partnership with development partners (Uganda, Tanzania, Ethiopia). The portfolio in this region comprises a high number of post-conflict countries, which is particularly challenging for achieving significant policy impact and replication in a short term.

29. Strong partnerships across regions. In 2008, UNCDF had ongoing strategic partnerships with 24 donor development partners. Examples of new partnerships include: (a) the gender equitable local development programme – a joint UNCDF-United Nations Development Fund for Women initiative; and (b) the local economic development programme, co-financed by Austria. In West Africa, strategic partnerships with bilateral partners like France, Belgium and Luxembourg are well established. In recent years, co-financing by donor development partners of UNCDF ‘second generation’ local development programmes have increased by 300 per cent compared to co-financing of previous pilot phases. The ‘buy-in’ of multilateral donors such as the European Commission or the African Development Bank has become increasingly important. In Guinea Conakry, a fruitful partnership has evolved with private mining companies who allocate investment funds to local governments for investments agreed upon in a local planning cycle based on principles previously piloted by UNCDF.

30. Figure 2 illustrates the resources leveraged from other development partners within programmes where UNCDF has had a leading role, or otherwise has been strongly involved in program design and implementation.

31. As of 31 December 2008, across UNCDF’s active local development and inclusive finance programme portfolio, the UNCDF leverage ratio amounted to approximately 1:10². With more new national programmes and larger initiatives the leverage ratio is expected to approach 1:15 during the 2008-2011 period. This considerable leverage reflects, above all, strong efforts made by UNCDF and UNDP in the past three years to fully implement their new strategic partnership for the enhanced delivery of development results, including increased levels of resources for the least developed countries. A particularly high leverage ratio in Asia and the Pacific region is attributable to donor contributions for large-scale national decentralization programmes that are based on reforms and innovations introduced and tested in UNCDF pilots, such as in the case of Nepal and Bangladesh.

Figure 2. UNCDF leverage (in US\$ millions)



² \$ 1 core contribution to UNCDF leverages \$ 10 of (i) UNDP TRAC, (ii) UNCDF non-core, (iii) UNDP non-core, (iv) parallel contributions and (v) contributions by LDC governments.

BOX 2 UNCDF as Catalyst: the case of Bangladesh

Rural local governments, known in Bangladesh as *Union Parishads*, have been functioning as the lowest tier of administrative government units since the 1870s. The UNCDF and UNDP *Sirajganj Local Governance Development Fund Project* was the first to involve elected rural local governments implementing a development programme. The project provided – for the first time in Bangladeshi history – rural local governments with unconditional block grants for investment in pro-poor infrastructure and social services, along with technical assistance in planning, budgeting and implementation with local community participation.

The project not only improved local community access to social services and economic infrastructure, but also empowered citizens to participate in public decision-making, enhancing democratic governance and heightening accountability. Opportunities for empowering women were identified at both the community and government level, and thirty percent of block grants were earmarked for investments of particular importance to women.

Based on lessons learned from the project and with technical assistance support from UNCDF, in 2004 the Government of Bangladesh adopted a new policy for channeling funds directly to Bangladeshi Union Parishads. It also allocated direct unconditional block grants to all 4,498 local government and administrative units of Bangladesh.

Based on this new policy, the World Bank approved in 2006 a credit of US\$109.50 million to the Government of Bangladesh to replicate and upscale the project in terms of a national programme – the “*Local Governance Support Programme (LGSP)*”, covering all local governments of the country. This national programme will provide investment capital and help strengthen the service delivery capacity of Union Parishads.

Within the wider LGSP, UNCDF and development partners including UNDP, the European Commission and Danida have been implementing a learning and innovation component covering some 388 Union Parishads. The good practices that emerge from this component will be upscaled and adopted throughout the country.

32. External feedback. The results of the self-assessment above were largely confirmed by external evaluations conducted in 2008. According to the findings of a mid-term evaluation in Lao People’s Democratic Republic, donor development partners (European Commission, World Bank and the Luxembourg Agency for Development Cooperation) chose to fund the replication and scaling up of the UNCDF pilot programme because of the close links between the UNCDF programme design and national policy concerns. The recent evaluation in Haiti has acknowledged that the successful mobilization of parallel funding was a result of high quality of local planning and the degree of participation of vulnerable groups initiated at commune level. The joint assessment of development results for Benin states: “Working with the UNCDF model and technical support, UNDP contributed to establishing an example of good practice. The central government adopted decentralized and participatory mechanisms from the UNCDF pilot that qualitatively improved its capacity to develop pro-poor policies”.

33. An evaluation of World Bank support to decentralization³ made reference to the substance and quality of UNCDF work on the ground, with special recognition of the organization’s innovative approaches and strong technical expertise. The report emphasized that the most successful World Bank technical support interventions to national governments occurred in countries that previously enjoyed support from UNCDF; these countries benefitted in the areas of in-depth policy analysis, new models for fiscal decentralization, and modalities for performance-based grant access.

3 Decentralization in Client Countries, An Evaluation of World Bank Support 1990-2007 (World Bank, 2008).

BOX 3 Learning from Evaluations

UNCDF established programme evaluation as a priority for learning and accountability early in the 1990s and has since remained committed to using independent evaluations as a guide for corporate decision-making. All evaluations are conducted by external consultants, with final reports published on the UNCDF website.

In 2006, UNCDF became party to the Evaluation Policy endorsed by the UNDP Executive Board, which has helped sharpen its evaluation approach and practice. UNCDF is mandated to undertake four types of evaluation – strategic, thematic, outcome and project evaluation. Any project of at least five years' duration involving a total of \$2.5 million is subject to mandatory mid-term and final evaluation by independent, external consultants.

Three local development evaluations were undertaken in 2008: a final evaluation in Burkina Faso, and mid-term evaluations in Lao PDR and Haiti.

In Burkina Faso and Lao PDR, the evaluations found that the projects had set in place structures and modalities to ensure community participation in planning, which helped prepare these communities for their new roles in a decentralized environment. In post-conflict Haiti, decentralization is embryonic and further hindered by recent natural disasters. In this context, the participatory dimensions of the local development approach have helped reduce tensions at the community level in the UNCDF-supported local governments. Meanwhile, the Lao project evaluation found that the project had performed well in its brief three years, and that lessons learned from the Saravane experience are already being replicated in other provinces. However, it also found that the poorest segments of society, women and ethnic groups needed to be more involved in participatory planning. Procurement processes were deemed sound, but infrastructure projects were of uneven quality and the team recommended better monitoring of construction during the project's second half.

In November 2008, UNCDF contracted the IRIS Center of the University of Maryland to undertake a review of Phase I of a regional project entitled *Building Inclusive Finance Sectors in Africa (BIFSA)*, jointly funded by UNCDF and UNDP. The project encompassed 11 African countries, of which the evaluation conducted case studies of three - Togo, Madagascar and Liberia - to ascertain the project's impact in providing technical support. The evaluation recognized UNCDF as one of the few development donors to work on building inclusive financial sectors in least developed and post-conflict countries in Africa. Despite ongoing design and implementation challenges, the overall strategic change in focus represented by BIFSA (i.e. broadening from UNCDF's traditional focus on the level of retail microfinance) was found appropriate and progress commendable. The evaluation noted that UNCDF has first-mover advantage in post-conflict countries and those with emerging inclusive finance sectors, as well as the reputation among governments of being an 'honest broker'.

34. Demand-driven piloting in new areas. UNCDF enjoys strong demand for its capacity building and technical advisory services, as well as its investment capital within the area of decentralization and local development. Examples for UNCDF support in piloting new innovations are the following:

(a) Support for local economic development – The local economic development concept in Tanzania is embedded in the context of decentralization by devolution ('D by D') and the national strategy for growth and poverty reduction. The local economy in Mwanza programme represents a second-generation local development programme model, developed in 2006 by UNCDF, and is an integral part of local government reform in Tanzania. The programme pioneers an innovative approach to pro-poor local economic development that stresses the importance of partnerships between local governments, the private sector and community groups to mobilize and manage local resources in order to unleash local entrepreneurship and stimulate the local economy. The district forum for local economic stakeholders programme plays a vital role in promoting public-private partnerships. The establishment of business development shops has proven to be a successful model for providing relevant services at the local level.

(b) Strategies for post-conflict and crisis-prevention – The UNCDF approach contributes to: (i) Revision of political, developmental and humanitarian assis-

BOX 4 Alleviating Poverty through Local Economic Development: Piloting a Local Approach in Uganda

Economic development creates jobs - the key to reduce income poverty. This is the basis for the new UNCDF pilot programme in Uganda, designed to enhance the role of local government in promoting local economic development. Initiated by UNCDF in partnership with UNDP, the *District Development Programme III* builds on two long-running decentralization support programmes to further develop the role of local government in creating an enabling environment for local economic activity.

The programme features two parallel tracks of intervention. The first aims to clearly define the legal mandate and assigned functions of local government in promoting local economic development. Once that framework is clear, the focus shifts to deepening local government understanding of the local economy and to improving coordination and guidance of other local economic actors – the private and informal sectors, labour, and others. The programme then helps develop local government capacity to create an enabling environment through strategic investment in economic infrastructure, an enhanced regulatory environment and promotion of responsive business development and financial services. Finally, the programme supports local government in devising a strategic plan for integrated local economic development that can be used to orchestrate a range of interventions.

The second track addresses the sustainability of these efforts with a focus on harmonizing the legal and regulatory frameworks for local economic development in the most salient sectors – agriculture, industry, trade, vocational training, and others. It aims to ensure that the mandates and functions of the relevant institutions are adequately aligned with those of local government. It also supports macro policy revisions in favour of local economic development in monetary, tax, trade, labour, land and other key policy areas.

Based on the results of this pilot, UNCDF plans to roll out additional programmes aimed at enhancing the role of local government in local economic development in other least developed countries during the coming years. UNCDF will work actively with development partners that can contribute specialized capacities to support this integrated approach.



In Togo, UNCDF is working to increase access to sustainable micro-financing services for poor or low-income families and micro-businesses, and to support the implementation of the National Micro-Finance Strategy.

tance; (ii) Clear definition of linkages between humanitarian interventions and/or reconstruction in post-conflict situations with on-going efforts for reconciliation; (iii) The importance of analysis of the underlying causes of civil conflict often related to lack of governance, lack of participation of the poor in decision-making and poor human rights; and (iv) Establishing a new conceptual framework for the management of complex emergencies. In countries such as Burundi and Sierra Leone for example, the UNCDF performance-based local development fund model, combined with public expenditure management training, has been introduced with considerable success.

(c) *Food security.* UNCDF is gaining considerable experience in developing and implementing strategies for food security. In 2008, a new approach to food security was launched focusing on establishing linkages of food security strategies with private financial service providers. The Ministry of Finance in Benin has expressed particular interest in a model that prevents risks emerging from food crisis situations for vulnerable groups living in rural areas. A warranty fund amounting to \$900,000 has been established with a private financial service provider at the community level. The Islamic Development Bank and Belgian Technical Cooperation have expressed an interest to replicate this approach with

a fund of \$400,000 in the pipeline, allocated at sub-regional and departmental levels.

(d) *Social protection.* In Nepal, UNCDF is working with the government and World Bank to establish a pilot to test the role of village development committees in supporting a social protection agenda targeting resources to those groups who have been long marginalized. The aim is to establish a conditional cash transfer mechanism whereby monthly stipends will be allocated to households meeting agreed exclusion and poverty criteria. A similar initiative is also planned for implementation in Lao People's Democratic Republic and Rwanda.

BOX 5 Scaling up UNCDF's Work in a Post-Conflict Country: the case of Nepal

Since its launch in 1999, the *Decentralised Financing and Development Programme* has been helping to improve transparency and decentralization in the financing of infrastructure and service delivery for rural communities in Nepal – and to keep decentralization and local government reform on the policy agenda through periods of conflict and instability.

Though the programme involves small block grants at the district level, its real strength is its system of performance-based funding processes and procedures. The effectiveness of these methods have been so well recognized that the Government in 2008 began to replicate the system, linking its own intergovernmental fiscal transfers for 75 districts of Nepal to an annual compliance review with established benchmarks for good local governance.

Lessons learnt from the programme have significantly influenced the Government's national framework for decentralization and local governance, the *Local Governance and Community Development Programme* (LGCDP). Launched in 2008 with UNCDF support, the framework prepares the ground for future sector-wide approaches in decentralisation and local governance, and brings together key bilateral and multilateral development partners, including international financing institutions. Five UN organisations (UNDP, UNCDF, UNV, UNICEF, UNFPA) are currently leveraging their expertise through a joint programme to support the LGCDP.

LGCDP enables the Government to better harmonize previously fragmented donor support in decentralization, local governance and community development. The UNCDF-piloted performance-based funding system, a central element of LGCDP, helps reduce the fiduciary risk for donors and identify capacity gaps within local and central government, which the programme can then address.

In post-conflict Nepal, much remains to be done to address political instability and the root causes of the conflict – the persistent inequality and exclusion experienced by a large proportion of the population. LGCDP aims to address the multiple dimensions of exclusion, broadening participation in development activities and service delivery, in particular for disadvantaged groups, and widening engagement in the peace-building process. In this context, a more efficient, inclusive and responsive local governance system will be key to sustainable peace.

B. Performance analysis: microfinance

35. In its microfinance practice area, UNCDF supports the development of inclusive financial sectors that provide a broad range of affordable financial services to poor and low-income families as well as small and micro enterprises in least developed countries. This is an effective mean of contributing in a sustainable way to poverty reduction and achievement of the MDGs.

36. In 2008, UNCDF applied its inclusive finance sector development approach in 20 least developed countries, in line with reaching the objective of 25 countries by 2010. Although no new programmes were formally approved in 2008, programme formula-

tion did proceed so that three new ones were approved in early 2009. In 2008, due to rapid expansion in 2007 (eight new countries), intensive efforts were focused on making current programmes operational. Least developed countries supported in national efforts to build an inclusive financial sector include: 11 in sub-Saharan Africa; seven in Asia; and two in Arab States.

37. UNCDF participated in the independent review of aid effectiveness conducted by the Consultative Group to Assist the Poor in 2007 and 2008. Dubbed the ‘SmartAid for Microfinance Index’, results for both 2007 and 2008 showed UNCDF to be among the leading donor organizations; the fund received strong marks on all five elements of the index – strategic clarity, staff capacity, accountability, knowledge management and appropriate instruments.

BOX 6 UNCDF Rated Highly by leading Microfinance Index

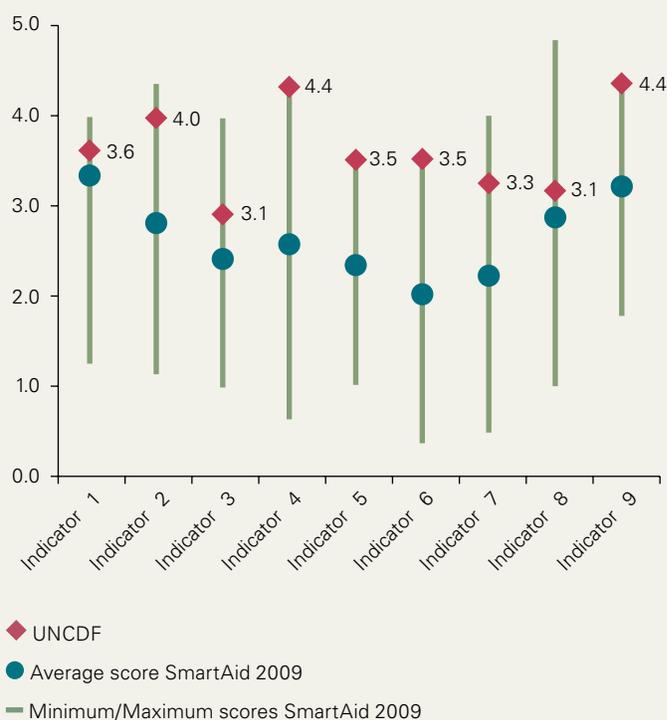
The SmartAid for Microfinance Index (SmartAid) measures whether funding agencies are set up to support microfinance effectively. Created by the Consultative Group to Assist the Poorest (CGAP), the donor group of reference on issues of microfinance, the SmartAid Index scores agencies on a framework of five elements of effectiveness — *strategic clarity, staff capacity, accountability for results, knowledge management, and appropriate instruments* — that capture the requirements for quality aid management throughout the project or investment cycle.

UNCDF scored 73 out of 100 points in the 2009 Index⁴, ranking consistently high in all five elements necessary to effectively promote inclusive and sustainable financial sectors⁵.

The final report identified UNCDF as a ‘specialized and focused institution with the privileged position to have inclusive finance specialists maintain control of the portfolio throughout the project cycle’ and ‘often one of the first funders with good practice experience to enter frontier markets’.

Among UNCDF’s strengths, the review highlights its ‘specialists with responsibility for quality assurance and systems to flag microfinance projects as well as appropriate instruments’. The UNCDF strategy was found to be user-friendly and consistent with good practices, with a clearly described approach to promoting inclusive financial sectors. The primary UNCDF instrument, grant funding, was found to be well aligned with the strategy and well suited to its risk-taking approach and focus on retail institutions in least developed countries.

The assessment points out that UNCDF has a history of supporting the next generation of sustainable financial service providers that focus on poor and low-income people. Its new facility, MicroLead (see Box no. 6), ‘exemplifies the best of UNCDF, building on its core strengths while innovating through partnerships with strong Southern providers and an emphasis on savings’.



⁴ Data submitted in 2008.

⁵ Full information is available at <http://www.cgap.org/p/site/c/template.rc/1.11.7956/>

Also highlighted was UNCDF’s accountability for results framework, particularly the requirement that retail partners report to the Mix Market (the microfinance industry standard database for capturing financial service provider performance).

The assessment also points out some areas for improvement, including the need for UNCDF to align systems to address all levels of financial systems development and manage the performance of its growing portfolio. The report points out that UNCDF lacks both clarity on its comparative advantage – particularly at the meso level – and adequate knowledge management systems. It questions how UNCDF will operationalize the facilitation role described in its strategy, and how the participation of other funders and stakeholders will be ensured for the implementation of these key strategic areas. It suggests that UNCDF seems stronger in supporting national associations and transparency initiatives than in helping to create credit bureaus, develop payments systems, or initiate financial sector policy – and that this should be articulated more explicitly. The review points out that existing staff levels may be inadequate to manage the organization’s rapid expansion and an increasingly complex technical agenda.

UNCDF is committed to addressing all challenges that were highlighted by the Smart Aid Index. Since UNCDF submitted its data for the Smart Aid Index rating, new technical staff has been recruited to support UNCDF’s ambitious 2008-2011 growth strategy.

SmartAid for Microfinance Index Indicators

Strategic Clarity	1	Funder has a policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints	15%
Staff Capacity	2	Funder has designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project/investment cycle	15%
	3	Funder invests in microfinance/access to finance human resources	10%
Accountability for Results	4	Funder has a system in place that flags all microfinance programs and components	10%
	5	Funder tracks and reports on performance indicators for microfinance programs and components	10%
	6	Funder uses performance-based contracts in its microfinance programs and components	10%
	7	Funder regularly conducts portfolio reviews	10%
Knowledge Management	8	Funder has systems and resources for active knowledge management for microfinance	10%
Appropriate Instruments	9	Funder has appropriate instrument(s) to support the development of local financial markets	10%

Background to SmartAid for Microfinance Index

At the Better Aid for Access to Finance meeting in 2006, 29 development leaders representing the largest microfinance funders committed to measuring the quality of their aid management in microfinance by developing and piloting this Index.

SmartAid builds on the premise that sound management systems, policies, procedures and incentives are necessary (though not sufficient) conditions for successful programmes. The Index is inspired by the ISO standards that specify requirements for state-of-the-art products and services and for good conformity assessment, as well as for managerial and organizational practice. As such, the Index does not evaluate the on-the-ground performance of microfinance portfolios, but rather helps identify areas in which all types of funders can improve systems and policies for microfinance programming.

CGAP developed SmartAid in partnership with its members and with advice from experts from the Center for Global Development, OECD, and the United Nations World Institute for Development Economics Research (WIDER) University. Ten funders — AECID, AFD, AfDB, EC, GTZ, IFAD, ILO, MIF, SDC, and UNCDF — participated in SmartAid 2009.

Table 3. Achievements of 2008 targets in the microfinance practice area

UNDP Strategic Plan outcome 1.6: Policies, strategies and partnerships established to promote public-private sector collaboration and private-sector and market development that benefits the poor and ensures that low-income households and small enterprises have access to a broad range of financial and legal services.	Plan	Actual	%	Assessment of performance
Policy				
Outcome: (2.1) Countries that have developed with UNCDF support an action plan in support of building an inclusive financial sector.				
Outcome indicator 2.1.1: Increased capacity of government to support conducive policy environment for an inclusive financial sector.	16	16	100	Achieved
Outcome indicator 2.1.2: Increased capacity of regulatory and supervisory authorities to develop conducive legal framework for an inclusive financial sector.	10	6	60	Partly achieved
Outcome indicator 2.1.3: Nationally-owned government and donor action plans exist in support of building inclusive financial sectors.	9	8	88	Achieved
Capacity building: Meso-level – industry support infrastructure				
Outcome: (2.2) Supporting industry infrastructure for delivery of financial services to low-income households established.				
Outcome indicator 2.2.1: Local financial service provider networks in place.	12	12	100	Achieved
Outcome indicator 2.2.2: Increased visibility (microfinance information exchange market) of UNCDF-supported financial institutions.	37	20	54	Partly achieved
Outcome indicator 2.2.3: Increased transparency (audit) of UNCDF-supported financial institutions.	37	37	100	Achieved
Capacity building: Retail level – services to clients				
Outcome: (2.3) Financial service providers (microfinance institutions/financial service providers) that provide sustainable access to financial services for poor families and small and micro enterprises.				
Outcome indicator 2.3.1: Increased breadth and depth of services provided by UNCDF-supported financial intermediaries to low income households.	*	*	*	*
Outcome indicator 2.3.2: Increased sustainability of UNCDF-supported financial intermediaries serving low-income households.	37	27	73	Partly achieved
Outcome indicator 2.3.3: Increased efficiency of UNCDF-supported financial intermediaries serving low-income households.	37	17	46	Below expectations
Outreach to clients:				
Outcome: (2.4) Clients have sustainable access to financial services from UNCDF-supported (microfinance institutions/financial service providers), including at least 50 per cent women.				
Outcome indicator 2.4.1: Number of active clients.	2,100,000	1,768,931	84	Achieved
Outcome indicator 2.4.2: Percentage of women.	>67	65	97	Achieved
Total			80	Achieved

* Indicator 2.3.1 will be captured by the new UNCDF joint programmes with the International Labour Organization (microinsurance) and International Fund for Agriculture-Consultative Group to Assist the Poor-European Union (remittances).

38. In 2008, UNCDF achieved overall performance of 80 per cent in its ongoing inclusive finance activities. In almost all countries, the capacity of governments to support a policy environment conducive to inclusive finance (outcome 2.1.1) has increased. In

addition, 60 per cent (six out of 10 countries) of regulatory and supervisory authorities have increased their capacity to develop favourable legal and regulatory frameworks. Although overall the result was only partially achieved, the quality of the results for the six countries was positively evaluated. Ninety-two per cent of microfinance institutions/financial service providers are providing performance reporting to regulatory authorities to increase their understanding of the sector's development (outcome 2.1.2).

39. Almost all active UNCDF sector programmes have as targets the development of joint government and donor strategies (outcome 2.1.3). The percentage of countries with approved action plans has increased from 38 per cent in 2007, to 88 per cent (eight out of nine) in 2008. In line with the Paris Declaration on Aid Effectiveness, UNCDF seeks to support national ownership and engage all of the development partners in designing national action plans for building inclusive finance sectors.

40. Performance remained strong in terms of the local financial sector supporting infrastructure (outcome 2.2). All of the countries assisted have a supporting industry infrastructure primarily in the form of national associations and networks (microfinance institutions/financial service providers). In addition, 98 per cent of Microfinance Institutions (MFIs) / Financial Service Providers (FSPs) supported by UNCDF belong to a national association or network. These results have remained strong even as the total number of MFIs/FSPs supported has increased from 29 to 37 in 2008. These two results also clearly show the recognition by microfinance institutions/financial service providers of the importance of collaboration for purposes of advocacy,

BOX 7 Microfinance Product Innovation: the case of Mozambique

The financial sector in Mozambique is still fairly young, especially microfinance. Lack of access to financial services has often been identified as the major impediment to economic development, especially in rural areas. While the financial sector has been challenged to ensure that each district of the 11 Mozambican provinces has a bank, so far it has been difficult for financial service providers to expand to rural areas because of limited infrastructure, high transport costs, low population density and limited specialized human capacity.

In 2007, UNCDF and UNDP jointly launched the project *Building an Inclusive Financial Sector in Mozambique*. The project helped establish an *innovation fund*, which allocated US\$188,000 to set up a mobile bank for the Province of Zambezie in January 2009.

The mobile bank is an armoured vehicle, equipped to bring financial services to the poor rural population. It will serve thousands of rural people who have previously been excluded from traditional financial services. Households that were unable to secure their savings can now maintain safe, interest-bearing accounts without the inconvenience of long and costly trips to the cities. Farmers and poor households who run microbusinesses in Zambezie will be able to access and repay micro-loans and deposit small amounts of savings during the bank's weekly visits to their communities. The mobile bank aims to provide financial services to 9,000 clients and loans to at least 3,000 clients.

All of the capabilities of the parent bank's integrated IT system are installed in its mobile unit, including digital fingerprint identification, web cameras and updated account information – all linked via cellular technology. The mobile bank will not transport large amounts of cash and employs the most effective and sophisticated security measures to mitigate risks. Data transfers are made between the mobile bank and the branch periodically throughout the day.

The mobile bank offers a sustainable solution for hard-to-reach 'unbanked' communities with limited infrastructure. Its high-tech equipment ensures optimal security and offers products adapted to the rural area, such as solidarity loans.

With the implementation of this project, UNCDF is working to ensure that microfinance, as a recognized poverty alleviation tool, can be accessed by even the most rural communities.



UNCDF's support to the National Microfinance Strategy Programme helps to reduce poverty in Madagascar by increasing sustainable access to financial services for poor and low-income people, both male and female.

standard setting and knowledge management. In 11 least developed countries, UNCDF provided direct support to strengthen the institutional capacities of the national microfinance institution associations, either in the form of grants or by ensuring their inclusion in training activities and the elaboration of national strategies.

41. In 2008, 54 per cent (down from 66 per cent in 2007) of MFIs/FSPs reported to the microfinance information exchange market – the microfinance industry standard database for capturing financial service providers performance. Although the number of MFIs/FSPs reporting to the microfinance information exchange market increased from 18 to 20, the percentage dropped somewhat in 2008 as many recently established MFIs/FSPs were added to the UNCDF portfolio. Some of the weaker MFIs/FSPs have difficulty posting their data in the microfinance information exchange market database and will require initial UNCDF support to do so. In 2008, 100 per cent (up from 62 per cent in 2007) of MFIs/FSPs had industry standard audits (outcome 2.2.2), reflecting the strong effort made by the UNCDF Africa team.

42. Results on the sustainability of MFIs/FSPs decreased slightly from 76 per cent in 2007 to 73 per cent in 2008. The number of MFIs/FSPs achieving profitability increased from four to seven in 2008, a confirmation that UNCDF is taking risk and investing in younger, unproven institutions⁶. The number of MFIs/FSPs supported by UNCDF that are meeting the international standard of strong portfolio quality increased from 11 to 17 (46 per cent). Although the efficiency of MFIs/FSPs as measured by portfolio quality (outcome 2.3.2) still remains unsatisfactory (46 per cent), there was improvement from the 38 per cent in 2008. In addition, 28 of 37 (76 per cent) have a 'portfolio at risk' of less than 7.5 per cent, an acceptable level, indicating that reaching a 'fully achieved' result is within reach in 2009. Stronger portfolio monitoring and building repayment capacity will continue to be a key focus of UNCDF technical support in 2009.

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⁶ Five to seven years is considered a reasonable span of time for a financial service provider to achieve financial sustainability (profitability)

43. Regarding UNCDF outreach – that is, the number of people with improved access to financial services – 2008 performance met expectations. In sub-Saharan Africa, 1,768,931 active clients (of which, 65 per cent were women) were being served by 37 MFIs/FSPs supported by UNCDF and UNDP joint programmes to build inclusive financial sectors. This constitutes 84 per cent of achievement of the target to reach 2,100,000 clients in 2008. Given that the average household has five people, this represents an impact on 8,844,655 lives. Table 4 shows steady annual increases.

Table 4: UNCDF active client base 2004-2008

Year	2004	2005	2006	2007	2008
Number of active clients	379,018	438,272	616,035	1,171,306	1,768,931 of which 1,150,455 (65 per cent) are women.

44. UNCDF plays an important role as policy and technical advisor to UNDP, including in non-least developed countries, to ensure consistent application of best micro-finance practices. In 2008, UNCDF supported UNDP inclusive finance activities in 11 countries where UNCDF did not have investments, including seven non-least developed countries.

BOX 8

UN Advisors Group on Inclusive Financial Sectors – Recommendations to the United Nations

Approximately two billion people still lack access to even the most basic financial services, such as a secure bank account, simple life insurance or safe ways to transfer money. In the current economic crisis, financial inclusion is more important than ever before. The 'unbanked' are not subprime; in fact, low-income households make good, reliable banking clients if offered appropriate products and practices. And their inclusion can reap real economic dividends for communities and countries alike.

The UN Advisors Group on Inclusive Financial Sectors (UNAG) - a group of 25 high-level experts assembled by the United Nations following one of the main recommendations of the 2005 International Year of Microcredit - has helped boost efforts to advance financial inclusion and ensure sustainable access to a broad range of financial products and services for poor and low-income households and micro and small entrepreneurs.

The Advisors Group remained active in advocating its vision of financial inclusion throughout 2008, concluding with a side event panel, '*Mobilizing Domestic Financial Resources for Development: the Role of Microfinance*', organized jointly by the Group and UNCDF at the November 2008 Doha International Conference on Financing for Development. On this occasion, the UN Advisors Group presented Secretary-General Ban Ki-moon with concrete recommendations on how to expand financial services to the world's 2.1 billion 'unbanked'.

UNAG recommendations focus on the role of governments, regulators, the private sector and development partners in promoting and advancing inclusive financial services and integrating efforts and resources across industry sectors for development. The recommendations emphasize cross-sector coordination in creating successful inclusive financial systems and extending access and opportunity to the poorest populations.

The key UNAG messages also note that:

- **Governments** should promote access for all citizens to a broad range of financial products and services, embrace new technologies and delivery channels, create helpful policy environments, reject interest rate ceilings that limit credit expansion, and promote consumer protection, transparent

prices, financial education and an open, competitive market.

- **Regulators** should establish conditions that allow a diverse range of institutions to provide financial services, enable appropriate supervision for financial services providers and supporting industries, and mitigate risk without limiting access.
- **Development partners** should enhance human and institutional capacity to meet funding needs, support the range of financial institutions that are a part of inclusive financial sectors, and monitor the financial and social performance of development-partner investment portfolios.
- The **private sector** plays an important role in expanding access, and should realize market opportunities, engage at the executive level, and forge partnerships with both the financial sector and businesses that support the financial services industry.

The full text of the UNAG key messages, as well as additional resources and information about the UNAG and inclusive finance, are available at www.unadvisorsgroup.org.

45. UNCDF also achieved policy impact and leverage through its harmonized support to the Central Bank of West African States. This support is being harmonized with the newly approved Luxembourg development assistance for West Africa (\$25 million) that will assist the eight countries of the West African Monetary Union to implement a new regulatory framework. The evaluation noted that all three development partners managed to function as a real consortium, successfully coordinating approaches and maintaining an open attitude regarding new funding for the central bank. This approach has contributed to the success of the project, especially the regulatory framework.

UNCDF's support in Laos helped Mr. Phi and his brother Phou to invest in a new tractor to sell rice-husking services to their neighbours.



46. The programme has, so far, had three major achievements in West Africa: (a) the regulatory framework was significantly modified, eliminating key obstacles hindering development of the regional microfinance sector; (b) a new accounting framework was defined and is currently being disseminated; (c) closer coordination between the Central Bank of West African States and national authorities and the organization of joint inspection missions have helped improve supervision in Union Monétaire de l'Afrique Occidentale countries.

47. Micro-insurance. In 2007, UNCDF developed a joint project with the International Labour Organization (ILO) in the area of micro-insurance. The objective of UNCDF support to micro-insurance is to provide low-income households in least developed countries with access to appropriate insurance services that would enable them to more effectively cope with perils and risks in their environments. In 2008, using a UNCDF sector-based approach, the promotion of micro-insurance was tested in Ethiopia. A decision was also made to develop similar sector-based pilot programmes in Zambia as well as Nigeria (with UNDP funding for the latter) in 2008.

BOX 9 Promoting Access to Micro Insurance

The impact of small loans on breaking the cycle of poverty for microentrepreneurs and their households is now widely recognized. While it is generally agreed that access to appropriate savings opportunities is at least as beneficial as access to microcredit, too little attention has been paid to the role of insurance in protecting the poor. Yet any gains in alleviating poverty through microcredit can easily be lost if poor households lack the means to manage risk, whether through illness or death, destruction of property or livelihood, or natural disaster.

Against this background, UNCDF is collaborating with the International Labour Organization (ILO) to promote the development of more inclusive insurance markets in developing countries. The initiative follows the signature UNCDF sector development approach to building inclusive financial sectors, starting with a comprehensive analysis of the constraints to responding to the needs of poor households and small and micro firms. The analysis assesses demand from un-served market segments, the inhibitions on insurers from serving these segments, and regulatory roadblocks. With this evidence in hand, UNCDF and ILO then facilitate a dialogue among key stakeholders – policymakers, insurers, prospective delivery channels including microfinance institutions and cooperatives, and donors – to prioritize the obstacles and identify solutions.

This approach, currently being tested in Ethiopia and Zambia, is being primed for rollout in other countries where insurance markets are falling short in serving low-income households and small and micro firms. In Ethiopia, the UNCDF and ILO sector analysis coincided with an appraisal of a World Bank sector-based programme to reform insurance regulations. Based on consultations with the UNCDF and ILO team, the World Bank has expressed its interest to consider inclusive insurance policies in its final recommendations to the Government of Ethiopia. The UNCDF and ILO analysis has led to the formulation of a national action plan for building an inclusive insurance sector in Ethiopia. A local steering committee, led by the Insurance Commissioner of Ethiopia, is in charge of implementing the plan, which focuses on building the capacity of insurers to design and deliver appropriate products for the low-income market while providing lessons for regulation of the insurance sector.

To develop appropriate insurance products for poor families and small and micro enterprises, several Ethiopian insurers have applied for grants from the ILO's Microinsurance Innovation Facility, established in 2008 with funding from the Bill & Melinda Gates Foundation. The Facility provides grants to help insurers and microinsurers to provide better insurance services to low-income households and enterprises. This facility, together with lessons learned from the piloting of the UNCDF and ILO sector development approach to microinsurance, offers a comprehensive and systematic approach to promoting inclusive insurance markets. If scaled up, the approach promises to significantly broaden access to microinsurance in developing countries.

48. Remittances. In 2008, UNCDF officially joined the \$12 million multi-donor funding facility for remittances with its \$600,000 contribution. As member of steering and investment committees, UNCDF took an active part in the facility's second call for proposal, which funded 21 pilot programmes around the world (including five in Africa), which core objectives are to facilitate access to cost-effective remittance services for low-income people, strengthen the linkage between remittances and other financial services including savings and insurance, and help harness the development potential of remittances. The facility is also actively engaged in action-research work and, in 2008, commissioned a major study on remittance corridors in Africa.

49. UNCDF MicroLead. Leading microfinance institutions and other financial service providers (MFIs/FSPs) from developing countries are showing an increasing interest in expanding their operations regionally and globally. Based on proven business models these MFIs/FSPs market leaders have shown they can rapidly scale-up their operations in new countries and offer a variety of products and services to a large number of poor families and small firms. Their entry into new markets also inspires domestic MFIs/FSPs to improve their business practices resulting in an overall acceleration of access to financial services. While acting as an excellent example of South-South cooperation, at present most of these MFI/FSP market leaders are focusing their expansion primarily on non-least developed countries large market countries. Against this background, UNCDF has launched MicroLead, a USD 26 million fund

partially funded by the Bill & Melinda Gates Foundation, that will provide loans and grants to leading MFIs/FSPs on a competitive basis to facilitate their entry into least developed countries where access to finance is most challenging.

BOX 10 MicroLead: Bringing Financial Services to Unserved Markets

The important role of microcredit in the fight against poverty is well recognized and documented. Less well known, but potentially as important, is the high demand for savings opportunities for poor families and small and micro enterprises in developing countries. Many poor households are in fact net savers seeking convenient and safe deposits, which can also ultimately fund microcredit activities. This is particularly true in post-conflict and crisis environments, where safe savings services are not available.

Similarly, savings-based microfinance institutions have been found to be better positioned to weather periods of financial downturn, as is the case in the current global financial crisis, which has reduced the supply of capital from capital markets and donors to microfinance institutions. Microfinance institutions are in this way able to principally fund themselves through local deposits, similar to ordinary retail banks. Furthermore, local funding is generally more stable and carries no foreign-currency risk.

Against this background, UNCDF recently launched MicroLead, a US\$26 million fund for developing savings-led market leaders for inclusive finance in the least developed countries. With substantial support from the Bill & Melinda Gates Foundation, MicroLead will provide loans and grants to leading microfinance institutions and financial service providers on a competitive basis to facilitate their entry into least developed countries where access to finance is most limited.

MicroLead will also provide early support to post-conflict countries. By encouraging the entry of good practice microfinance institutions and financial service providers as soon as key security conditions are met, financial sectors in post-conflict countries will be able to accelerate sustainable outreach to poor families and small firms.

In its pilot phase in 2008, UNCDF and the Government of Southern Sudan approved three proposals under MicroLead's post-conflict window. Among these was funding for the Bangladeshi Microfinance Institution, BRAC, to launch its plan to reach 225,000 active clients in Southern Sudan in five years. UNCDF has launched a request for applications targeted towards globally top-performing microfinance institutions and financial service providers. MicroLead currently has funding to approve at least 10 proposals, designed to reach at least 525,000 active clients by the end of 2013, and UNCDF will be inviting development partners to fund additional proposals that are deemed promising.



A dealer sells pineapples, plaintain and other types of fruit in the Benin Central Market in Central Nigeria. She has received a total of four loans from the Lift Above Poverty Organization, a Microfinance Institution that had received technical support from UNCDF.

UNCDF at a glance: UNCDF currently invests in 40 programme countries with a total programme portfolio amounting to approximately US\$200 million.

II. Management Results





As part of its Diffa Urban District Programme in Niger, UNCDF introduced local elected officials and other stakeholders to the Local Authorities Financial and Institutional Management System (LAFIAS). LAFIAS, a set of tools developed by UNCDF, helps local authorities to improve planning, infrastructure development and public service provision in poor rural areas.

C. Performance analysis: organizational performance

50. The UNCDF performance framework for measuring organizational performance was developed in 2005 based on the UNDP framework. Considering recent efforts to establish a UNDP Executive Balance Scorecard system (launch anticipated in 2009), the use of the 2007 UNCDF performance framework, shown in table 5, should be considered a transitional measure. UNCDF will adjust this framework in accordance with the new system in

place at UNDP, taking into account specific business/management needs and priorities set out by the UNCDF senior management team.

51. As seen in table 5 at page 39, the overall target to provide support services to 38 least developed countries in the area of local development and inclusive finance in 2008 was achieved, as well as the new emphasis to move progressively into post-conflict countries. In this regard, UNCDF successfully provided services to 10 post-conflict countries out of 14 targeted (71 per cent).

52. United Nations Development Assistance Frameworks (UNDAFs), common country assessments and country programme action plans. The contributions of UNCDF in its two practice areas are now being better integrated into the United Nations common country programming frameworks. Ongoing discussions with UNDP regional bureaux are translating into a more regular engagement of UNCDF in UNDAF formulation processes. As a concrete example of this, UNCDF was invited early this year to participate in the strategic review of the progress on the UNDAF implementation and the United Nations business plan in Malawi. For UNCDF, integration in the United Nations joint programming process means working closely with United Nations country teams to promote and clarify the importance of its two practice areas for the achievement of the MDGs. It also means advocating the comparative advantages of UNCDF within the larger United Nations.

BOX 11 Contributing to UN Reform

'Delivering as One' is a UN-wide initiative to strengthen efficiency and coordination among the many UN entities operating at country level. The overall objective is to improve development results and accelerate progress toward the Millennium Development Goals. In eight countries, the UN system has piloted various models to 'Deliver as One' by pooling common elements, such as 'One Programme', 'One Budgetary Framework', 'One Leader' and 'One Office', contributing the strengths and comparative advantages of the different organizations to a more effective common UN presence.

UNCDF has made a priority of UN reform, at both the operational and institutional levels. Almost all UNCDF's programmes launched in the past three years have been joint programmes with other UN organizations – primarily UNDP, but also UNICEF, UNFPA, UNIFEM, UN-Habitat, ILO, IFAD and others. For example:

- In Rwanda, UNCDF signed the One UN programme Document in November 2007 along with 19 other resident and non-resident UN agencies.
- In Tanzania, UNCDF helped to plan and design a joint programme focused on areas affected by the influx and repatriation of refugees.
- In Mozambique, UNCDF has supported activities aimed at achieving the One UN common elements, particularly 'One Budgetary Framework', 'One Office' and common security.

At the institutional level, UNCDF actively participates in a number of UN-wide processes aimed at improving development results. It has also integrated its areas of intervention in the 2008-2011 UNDP Strategic Plan and better aligned its administrative systems with those of UNDP.

Meanwhile, at the regional and global levels, UNCDF has engaged with other UN entities such as UNIFEM, ILO and IFAD through thematic and regional joint programmes. Examples include:

- The Gender Equitable Local Development Programme, developed within the 'One UN' principles. This programme forges a partnership between UNCDF and UNIFEM to support local governments in five African countries to ensure gender-equitable development and improve women's access to resources and services at the local level. The programme encompasses gender-responsive planning, programming and budgeting.
- Participation in a multi-donor funding facility on remittances managed by IFAD, through which UNCDF is promoting innovations to improve remittance systems for the poor (e.g link among remittances, savings and credit). Similarly, through a partnership with ILO, UNCDF is promoting a sector-based approach to micro-insurance and the development of national micro-insurance strategies to widen access by the poor and by small and micro firms to adequate insurance products.

53. UNCDF internal efficiency. In an effort to increase internal efficiency, UNCDF completed the transition period that started after the change management process in 2005. The strengthening of the regional and country-level presence of UNCDF slightly increased to 75 per cent, compared to 70 per cent in 2007. Given its recent growth, UNCDF has started an operational strengthening process called 'UNCDF Project 2010' – based on an operational scan conducted by an external consultant in 2008 and an audit carried out by the Office of Audit and Investigation of UNDP, to ensure UNCDF internal structures and systems are updated to support expanded operations and meet future demand. The process will evolve over the next 20 months and will consider, *inter alia*, the optimal balance of headquarters, regional and country presence of UNCDF. In 2008, the ratio of administrative to total costs reached 25 per cent, higher than the target of 20 per cent. Depending on the direction of ongoing cost classification exercise in UNDP, there could be an opportunity for UNCDF to paint a more realistic picture of overall organizational costs in the future.

54. UNCDF growth. In 2008, contributions to UNCDF regular and other resources increased significantly by approximately \$8 million (regular resources) and \$13.7 million (other resources) respectively, which is an overall increase of 76 per cent from 2007. Delivery against 2008 targets for practice areas was 70 per cent. The 'UNCDF

Project 2010' process of operational strengthening should help the organization improve this score in 2009.

Table 5. Achievement of 2008 targets for organizational performance

Perspective	Strategic objective	Indicator	2007 result	2008 target	2008 result
Client satisfaction	Expand geographically to more least developed countries, including post-conflict least developed countries	Least developed countries with UNCDF programmes	31 least developed countries	38 least developed countries	38 least developed countries
		Post-conflict least developed countries with UNCDF programmes	14 least developed countries	14 least developed countries	10 least developed countries
	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with overall quality of partnership with UNCDF*	60 per cent	75 per cent	76.9 per cent
Internal efficiency	Increase staff at regional and country level to be closer to clients and investments	Ratio of professional staff posted at country and regional levels	70 per cent	75 per cent	75 per cent
	Strengthen United Nations coordination	Integration of UNCDF in United Nations country-level programming framework	31 least developed countries	32 least developed countries	31 least developed countries**
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	22 per cent	20 per cent	25 per cent
		UNDP country office satisfaction with timeliness of operational support*	55 per cent	75 per cent	76.9 per cent
	Strengthen 'people management'	Staff perception*	75 per cent	80 per cent	76.9 per cent
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	\$15.6 million	\$25.0 million	\$23.5 million ***
		Other resources mobilized	\$12.9 million	\$20.0 million	\$26.6 million
	Ensure delivery against plan	Delivery against approved annual spending limits	84 per cent	80 per cent	70 per cent

** Targeted United Nations common country programming processes not yet finalised by the time this report was drafted.

*** Including earmarked contributions of \$6.0 million from UNDP managed by UNCDF but not reflected in UNCDF financial statements (Executive Board decision 2007/34).

55. Table 6 provides a snapshot that anticipates strong and growing demand for UNCDF-specific services. In the local development practice area, the number of local governments supported by UNCDF in 2008 totalled 649, which exceeded set targets. For inclusive finance, planned country expansion in 2008 did materialize due to the rapid expansion in 2007 (eight new countries) and the intensive work in making current programmes operational. The number of least developed countries supported in their national efforts to build an inclusive financial sector includes 11 in sub-Saharan Africa, seven in Asia and two in Arab States. Thirty-seven private service providers ensured access by 1.7 million active clients to financial services. With the approval of three new programmes in early 2009, UNCDF estimates that 25 least developed

countries will be benefiting from UNCDF support in the area of inclusive finance by the end of 2009.

56. By 2011, the strategic goals are to be operational in 45 least developed countries, consolidate interventions of both UNCDF business lines, reach 1,250 local governments, and have 55 private service providers in inclusive finance meeting the demand of 6.0 million active clients. Considering the current UNCDF growth rate, internal capacity is anticipated to increase. Options are being discussed with UNDP on providing strategic advisory services to non-least developed countries as well.

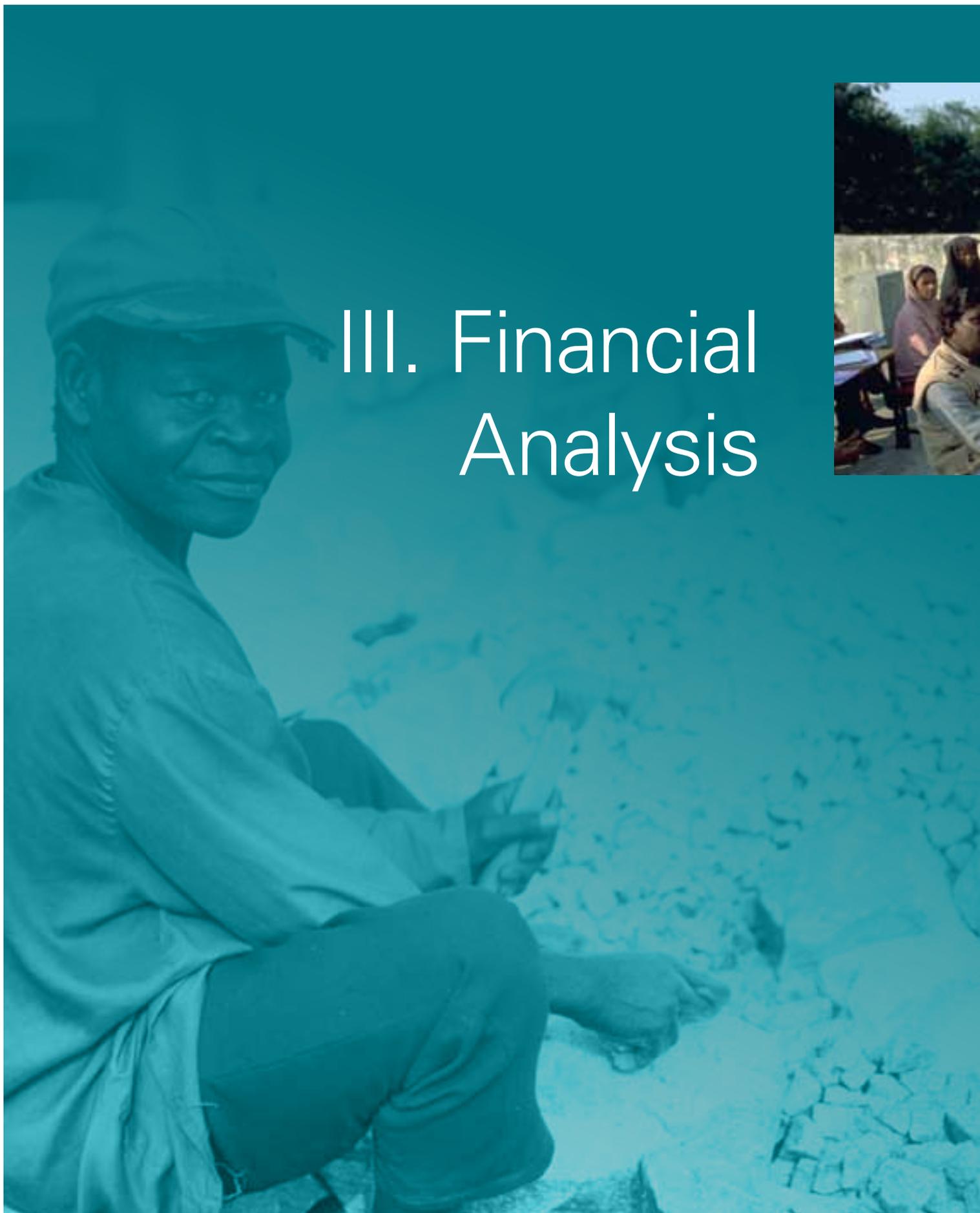
Table 6. UNCDF programme targets 2007 – 2011

Business lines	2007	2008			2009	2011	2008 -2011
Local Development	Actual	Plan	Actual	%	Plan	Plan	Growth per annum (percentage)
Number of countries	29	34	34	100	37	45	8
Number of local governments	518	600	649	108	850	1,250	27
Inclusive finance							
Number of countries	20	20	20	100	25	30	12
Number of service providers	11	40	37	92	45	55	9
Number of active clients (millions)	1.6	2.1	1.7	81	2.0	6.0	46
Total number of countries	28	38	38	100	40	45	8



The UNCDF Malawi
Decentralised Governance
Programme supports
infrastructure development at
the local level.

III. Financial Analysis





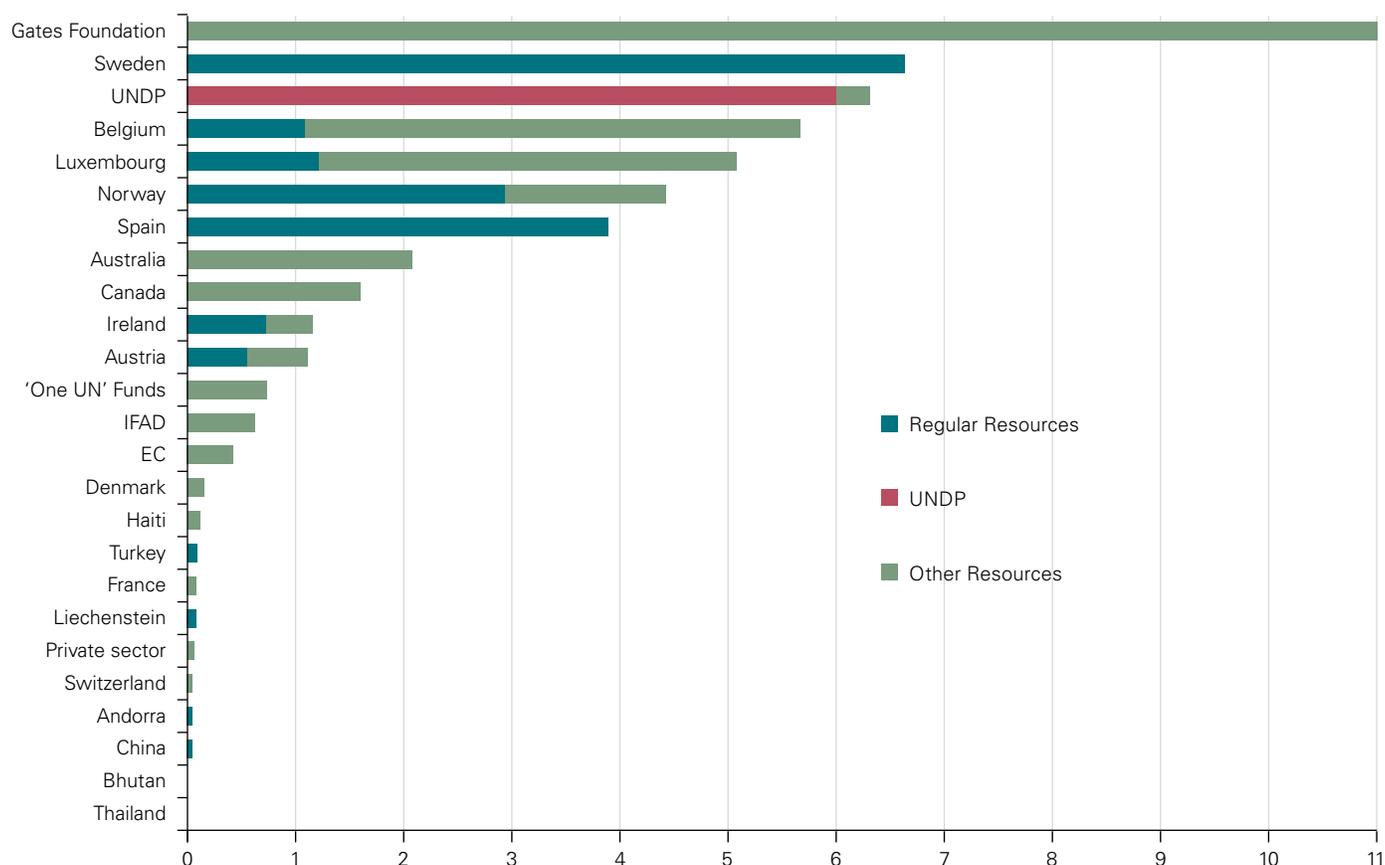
UNCDF and other development partners are providing support to the Government of Bangladesh to enhance the role of Union Parishads, the lowest tier of Government's administrative units. Interventions include performance-linked financing arrangements; local public expenditure management procedures; local accountability institutions; human resource development and training; and national policy development and coordination.

a relatively small set of donors for the bulk of its regular resources. In 2008, the 5 largest contributors to UNCDF regular resources (in order of size) – Sweden, Spain, Norway, Luxembourg and Belgium – constituted 91 per cent of total contributions to regular resources. Six out of 13 core donors increased their contributions to regular resources in 2008.

The total income of UNCDF surpassed the \$50 million mark in 2008, resulting in the highest total income level during at least the past 15 years. This strong result was mainly accounted for by a substantial growth in contributions to other (non-core) resources, which increased from \$12.9 million in 2007 to \$26.6 million in 2008. The top five contributors to UNCDF other resources in 2008 were (in order of size) Bill & Melinda Gates Foundation, Belgian Survival Fund (BSF), Government of Luxembourg, Australian Agency for International Development (AusAID) and Canadian International Development Agency (CIDA). Non-core resources represent earmarked contributions to specific themes, programmes and activities, and tend to be geographically or thematically concentrated.

In 2008, UNCDF received funding from One UN Funds as part of One UN Programmes in Rwanda and Mozambique, as well as from the Millennium Achievement Fund for its programme in Nicaragua.

57. Contributions to UNCDF regular (core) resources increased by 51 per cent - from \$15.6 million in 2007 to \$23.5 million in 2008, including a \$6 million contribution by UNDP to UNCDF programmes funds. The upward trend in UNCDF regular resources initiated in 2006 and sustained throughout the past three years did not, however, reach the desired minimum target of \$25 million in 2008 set in the UNCDF 2008-2011 Investment Plan. Furthermore, even though the number of donors to core and non-core resources has increased from 14 in 2004 to 24 in 2008, UNCDF continues to rely on



58. As shown in table 7, total programme expenditure increased to \$37.0 million in 2008, compared to \$28.7 million in 2007. Other resources expenditures increased from \$14.4 million in 2008, compared to \$9.7 million in 2007 and accounted for 39 per cent of total programme resources.

59. Total UNCDF support expenditure in 2008 was \$6.8 million compared to \$5.4 million in 2007. The increase of \$1.3 million can be attributed to 2007 outstanding service level agreements and non-recurrent staff costs.

Table 7. Expenditure trends 2002-2008 (in millions)

Expenditures	2002	2003	2004	2005	2006	2007	2008
Programme expenditures	\$24.8	\$21.1	\$22.9	\$19.2	\$25.2	\$28.7	\$37.0
- of which regular resources	\$22.6	\$16.3	\$14.9	\$11.6	\$16.8	\$19.0	\$22.6
- of which other resources	\$2.2	\$4.8	\$8.0	\$7.6	\$8.4	\$9.7	\$14.4
UNCDF support	\$5.5	\$6.2	\$5.3	\$6.7	\$4.6	\$5.4	\$6.8
Total	\$30.3	\$27.3	\$28.2	\$25.9	\$29.8	\$34.1	\$43.8

60. In 2008, UNCDF also disbursed \$2,687,983 in loans (together with \$1,825,000 in grants, already reflected in expenditure) to microfinance institutions in Southern Sudan. These funds were disbursed under the post-conflict window of the MicroLead programme to help jump-start the microfinance sector in Southern Sudan. Together with the Government of Southern Sudan and UNDP, UNCDF will formulate a sector programme in 2009.

61. Table 8 shows that in 2008, the Africa region accounted for 63 per cent of total expenditures at field level, while Asia and the Pacific accounted for 17 per cent.

Table 8. Programme expenditures per region/practice area (in millions)

Regions/specific purposes	Local development	Microfinance	Total
Africa	\$17.4	\$6.0	\$23.4
Asia and the Pacific	\$6.1	\$0.2	\$6.3
Arab States	\$1.0	\$0.1	\$1.1
Latin America	\$1.5	\$0.0	\$1.5
Regional projects	\$0.5	\$3.3	\$3.8
Research and development	\$0.2	\$0.1	\$0.3
United Nations advisors group	\$0.0	\$0.6	\$0.6
Total	\$26.7	\$10.3	\$37

Source: Financial statements for UNCDF as at 31 December 2008, before final closing of accounts.



The first UNCDF projects in Laos, dating back to the '90s, involved the construction of major infrastructure, including irrigation schemes, urban infrastructure and roads. During this time, UNCDF and its partners rehabilitated the Nam Tan Irrigation Scheme in Sayaboury province. Today, this system irrigates 1,800 hectares serving 17 villages in the watershed. It ranks among the largest irrigation schemes in Laos.

UNCDF at a glance: UNCDF's interventions in the least developed countries strive to be risk-taking, innovative, scalable and results-based. UNCDF actively promotes the UN reform through joint programmes with UNDP and other UN agencies.

A group of people, including men and women, are seated around a dark table in a meeting room. They are looking at documents and papers spread on the table. The scene is overlaid with a semi-transparent teal color. The word "Annexes" is written in a white, sans-serif font in the center of the image.

Annexes

Annex I: UNCDF Global Project Portfolio 2008/2009

UNCDF PROJECT PORTFOLIO 2008-2009 / AFRICA						
COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION	
BENIN						
Appui au Développement Communal et aux Initiatives Locales dans le Borgou (ADECOI)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund (BSF)	2.399.165	7.596.055	2003-2008	
Projet d'appui à la décentralisation, à la déconcentration et au développement économique régional et local au Bénin (PA3D)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund (BSF), Borgou district	2.000.000	9.700.000	2008-2013	
BURKINA FASO						
Projet de Développement des ressources Agro-Pastorales dans le Namentenga (PAPNA)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund, Village communities, WFP	2.652.708	6.324.097	2000-2008	
Appui aux Communes Rurales et aux Initiatives Intercommunautaires (ACRIC)	Decentralization and Local Development	UNDP, Government, Boucle de Mouhoun district	2.000.000	3.353.000	2008-2012	
Programme de Renforcement du Secteur de la Microfinance (PRESEM)	Inclusive Finance	UNDP, Government, Réseau des caisses populaires du Burkina (RCPB), AfDB, World Bank	1.500.000	3.737.143	2007-2009	
BURUNDI						
Projet d'Appui à la Reconstruction et au Développement Communal dans la Province de Rutana (PARDC/R)	Decentralization and Local Development	UNDP, Government, Swiss Agency for Development and Cooperation (SDC)	1.500.000	6.200.000	2006-2011	
CENTRAL AFRICAN REPUBLIC						
Programme d'Appui à l'Emergence d'un Secteur Financier Inclusif en République Centrafricaine (PAE/SFI)	Inclusive Finance	UNDP, Government, AGFUND	1.200.000	4.000.000	2007-2010	
DEMOCRATIC REPUBLIC OF CONGO						
Appui à la Décentralisation et au Développement Local (PADEL)	Decentralization and Local Development	UNDP, Government, UK Department for International Development (DFID)	2.000.000	88.275.000	2008-2012	
Programme d'Appui au Secteur de la Microfinance (PASMIF)	Inclusive Finance	UNDP, Government, France, Kreditanstalt für Wiederaufbau (KfW)	1.453.193	2.673.173	2005-2009	

COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
ERITREA					
Anseba Local Development Project (ALDP)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund (BSF)	2.023.642	5.969.899	2002-2009
ETHIOPIA					
Local Development Project (LDP)	Decentralization and Local Development	UNDP, Government	1.700.000	1.800.000	2005-2008
Emerging Regions Development Programme (ERDP)	Decentralization and Local Development	UNDP, Government, Austria, ITU	2.000.000	13.531.042	2007-2011
GUINEA BISSAU					
Projet d'Appui au Développement Régional et Local de la Région de Gabu (PADRL)	Decentralization and Local Development	UNDP, Government, Gabú district	1.137.150	5.065.855	2006-2009
Programme D'Appui à L'Emergence et au Développement du Secteur de la Microfinance (PAED/MF)	Inclusive Finance	UNDP, Government	314.775	1.364.775	2005-2008
GUINEA					
Programme de Développement Local en Guinée (PDLG II)	Decentralization and Local Development	UNDP, Government, Development rural communities, Urban communities, Semafo, Plan Guinée	2.000.000	7.960.000	2008-2012
LESOTHO					
Lesotho Local Development Programme (LLDP)	Decentralization and Local Development	UNDP, Government	1.200.000	2.514.000	2008-2011
LIBERIA					
Liberia Decentralization and Local Development Programme (LDLD)	Decentralization and Local Development	UNDP, Government, European Commission	2.500.000	9.000.000	2007-2011
Launch of an Inclusive Financial Sector in Liberia (LIFSL)	Inclusive Finance	UNDP, Government, Cordaid	891.107	3.414.557	2005-2008
MADAGASCAR					
Projet d'Appui à la Stratégie Nationale de Microfinance (PASN/MF)	Inclusive Finance	UNDP, Government	1.625.800	4.454.239	2005-2009

COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
MALAWI					
Financial Inclusion in Malawi (FIMA)	Inclusive Finance	UNDP, Government, Cordaid	2.000.000	6.233.825	2007-2011
MALI					
Collectivités Territoriales et Développement Local (CTDL)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund (BSF), European Commission, Luxembourg	2.032.250	10.210.970	2006-2010
Projet d'appui à la décentralisation et au développement économique (PADDR) * * UNCDF executes the SAFIC component of the AFDB Projet	Decentralization and Local Development	UNDP, Government, African Development Bank (AfDB)	0	1.500.000	2008-2012
MAURITANIA					
Programme d'Appui aux Communes de l'Assaba (PACA)	Decentralization and Local Development	UNDP, Government, France	450.000	3.420.505	2005-2009
MOZAMBIQUE					
Programa de Planificação e Financiamento Distrital (PPFD) / Decentralized Planning and Financing Programme	Decentralization and Local Development	UNDP, Government, Irish Aid, The Netherlands, Norway, Swiss Agency for Development and Cooperation (SDC), One UN Fund	5.420.744	22.958.296	2002-2009
Construir Sector de Finanças Inclusivo / Building an Inclusive Financial Sector in Mozambique (BIFSMO)	Inclusive Finance	UNDP, Government	1.342.379	3.142.379	2007-2009
NIGER					
Projet d'Appui à la Commune Urbaine de Diffa (PACURD)	Decentralization and Local Development	UNDP, Government, Diffa district, France	382.173	2.410.574	2005-2008
Projet d'Appui au Développement Local dans la région de Mayahi (PADL/M)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund (BSF), WFP	2.625.310	7.858.268	2000-2008
RWANDA					
Projet d'Appui au Développement Communautaire de Gicumbi et Rulindo (PADC/GR)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund (BSF), One UN Fund	2.538.947	9.108.069	2004-2009

COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
SENEGAL					
Programme d'Appui à la Décentralisation en Milieu Rural (PADMIR)	Decentralization and Local Development	UNDP, Government, Local communities, Microfinance Institutions (MFIs), European Commission	6.000.000	10.388.150	2000-2008
Projet d'Appui au Développement Économique Local en ancrage au Programme National de Développement Local (PADEL/PNDL)	Decentralization and Local Development	UNDP, Government, Luxembourg	2.000.000	10.000.000	2008-2013
Programme d'Appui à la Lettre de Politique Sectorielle (PA/LPS)	Inclusive Finance	UNDP, Government, Canadian International Development Agency (CIDA)	2.500.000	9.489.500	2007-2011
SIERRA LEONE					
Kenema District Economic Recovery Programme (KDERP)	Decentralization and Local Development	UNDP, Government, Belgium, ITU	3.250.000	6.920.000	2007-2011
Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (DSPFS)	Inclusive Finance	UNDP, Government, Kreditanstalt für Wiederaufbau (KfW)	4.264.989	11.013.705	2004-2009
TANZANIA					
Support to Local Economy in Mwanza Programme (SLEM)	Decentralization and Local Development	UNDP, Government	1.500.000	7.800.000	2006-2010
One UN Joint Programme - Transition from Humanitarian Assistance to Sustainable Development in North Western Tanzania	Decentralization and Local Development	UNDP, Government, ILO, WFP, UNHCR, UNEP, UNIDO, UNICEF, UNESCO	0	5.700.000 * * Budget only for the period July 2008 - June 2009	2008-2010
TOGO					
Programme d'Appui à la Stratégie Nationale de Microfinance (PASNAM)	Inclusive Finance	UNDP, Government	1.461.860	3.678.204	2005-2008
UGANDA					
District Development Programme II (DDPII)	Decentralization and Local Development	UNDP, Government, DfID, Austria, Danida, Japan Women Trust Fund	3.000.000	4.010.000	2002-2009
District Development Programme III (DDPIII)	Decentralization and Local Development	UNDP, Government	2.000.000	10.360.000	2008-2011

UNCDF PROJECT PORTFOLIO 2008-2009 / ASIA						
COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION	
BANGLADESH						
Local Governance Support Programme: Learning & Innovation component (LGSP-LIC)	Decentralization and Local Development	UNDP, Government, Danish International Development Agency (DANIDA), European Commission, Swiss Agency for Development and Cooperation (SDC), World Bank	2.510.000	18.118.000	2007-2011	
BHUTAN						
Local Governance Support Programme (LGSP)	Decentralization and Local Development	UNDP, Government, Danish International Development Agency (DANIDA), Austria, Swiss Agency for Development and Cooperation (SDC)	800.000	2.300.000	2008-2010	
CAMBODIA						
Innovations for Decentralization and Local Development (IDLID)	Decentralization and Local Development	UNDP, Government, Danish International Development Agency (DANIDA)	1.551.165	2.051.165	2008-2010	
LAO PDR						
Saravane Governance & Public Administration Reform & Decentralised Service Delivery Project (GPAR-SP)	Decentralization and Local Development	UNDP, Government, European Commission	1.999.410	3.178.040	2005-2010	
Governance & Public Administration Reform for Strengthening Basic Service Delivery: District Development Fund component (GPAR/SBDS: DDF)	Decentralization and Local Development	UNDP, Government, Luxembourg, Swiss Agency for Development and Cooperation (SDC), World Bank	700.000	10.343.083	2007-2010	
NEPAL						
Decentralised Financing and Development Programme (DFDP)	Decentralization and Local Development	UNDP, Government, UK Department for International Development (DFID)	5.000.000	10.200.000	2000-2008	

COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
Local Governance & Development Programme (LGDP)	Decentralization and Local Development	UNDP, Government, UK Department for International Development (DFID), Canadian International Development Agency (CIDA), Swiss Agency for Development and Cooperation (SDC), Danish International Development Agency (DANIDA), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), NORAD, Asian Development Bank (ADB), World Bank, UNFPA, UNICEF, UNV	2.250.000	53.752.604	2008-2010
Building Inclusive Financial Sectors in Nepal (BIFSN)	Inclusive Finance	UNDP, Government	1.500.000	9.966.065	2008-2012
SOLOMON ISLANDS					
Provincial Governance Strengthening Program (PGSP) - Preparatory Assistance Phase	Decentralization and Local Development	UNDP, Government, Australian Agency for International Development (AusAID)	299.000	1.024.125	2007-2008
Provincial Governance Strengthening Program (PGSP)	Decentralization and Local Development	UNDP, Government, Australian Agency for International Development (AusAID), European Commission	1.000.000	16.047.516	2008-2012
TIMOR LESTE					
Local Government Support Programme (LGSP)	Decentralization and Local Development	UNDP, Government, Irish Aid, Norway	652.255	3.818.714	2007-2011
Inclusive Finance for the Under-Served Economy (INFUSE)	Inclusive Finance	UNDP, Government	1.050.000	5.000.000	2008-2012
VIETNAM					
Strengthening Local Government Project (SLGP)	Decentralization and Local Development	UNDP, Government, UK Department for International Development (DFID)	750.000	2.250.000	2005-2011

UNCDF PROJECT PORTFOLIO 2008-2009 / LATIN AMERICA						
COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION	
HAITI						
Appui à la Gouvernance Locale dans le Département du Nord Est (AGLNE)	Decentralization and Local Development	UNDP, Government, Canadian International Development Agency (CIDA), Inter-American Development Bank (IADB)	2.500.000	3.732.050	2005-2010	
NICARAGUA						
Proyecto de Apoyo a la Descentralización y a la Territorialización de los Objetivos del Milenio (PADETOIM)	Decentralization and Local Development	UNDP, Government	1.609.125	1.909.125	2007-2009	
Gobernabilidad Económica del Sector Agua Potable y Saneamiento en la RAAN y la RAAS	Decentralization and Local Development	UNDP, Government, UNICEF, WHO/PAHO, UNODD, UNESCO	485.700	7.693.738	2009-2011	
De la Retórica a la Realidad: Hacia la Equidad de Género y Empoderamiento de las Mujeres a través de la Participación y Prácticas de Género en los Presupuestos Públicos	Decentralization and Local Development	UNDP, Government, UNFPA, UNIFEM, UNICEF, WHO/PAHO, FAO, ILO, WFP	629.470	8.000.000	2009-2011	
UNCDF PROJECT PORTFOLIO 2008-2009 / ARAB STATES						
COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION	
DJIBOUTI						
Programme d'Appui à la Décentralisation et aux Collectivités Locales (PADCL)	Decentralization and Local Development	UNDP, Government	516.909	2.229.120	2008-2011	
SOMALIA						
UN Joint Programme on Local Governance and Decentralised Service Delivery (LG/DSD) * Indicative	Decentralization and Local Development	UNDP, Government, UNICEF, ILO, UN-Habitat	2.000.000	88.000.000	2008-2012	
Launch of an Inclusive Financial Sector in Somalia (LIFSS)	Inclusive Finance	UNDP	2.000.000	8.500.000	2008-2012	

COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
YEMEN					
Decentralization and Local Development Support Programme (DLDSP)	Decentralization and Local Development	UNDP, Government, Danish International Development Agency (DANIDA), France, Italy, Social Fund for Development, United States Agency for International Development (USAID)	2.934.200	16.283.234	2004-2009
UNCDF REGIONAL/GLOBAL PROJECT PORTFOLIO 2008-2009					
COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
Building Inclusive Financial Sectors in Africa (BIFSA)-Phase I	Inclusive Finance	UNDP, Governments of Angola, Benin, Burkina Faso, Central African Republic, Chad, Democratic Republic of Congo, Gambia, Guinea Bissau, Liberia, Madagascar, Malawi, Mozambique, Senegal, Sierra Leone, Togo and Tanzania	3.309.262	3.309.262	2004-2008
Building Inclusive Financial Sectors in Africa (BIFSA)-Phase II	Inclusive Finance	UNDP, Governments, Luxembourg, IFAD	4.214.255	13.968.740	2008-2011
Gender Equitable Local Development (GELD)	Decentralization and Local Development	UNDP, UNIFEM, Governments of Senegal, Sierra Leone, Rwanda, Tanzania and Mozambique	200.000	6.155.000	2007-2010
Pacific Financial Inclusion Programme	Inclusive Finance	UNDP, Governments of Solomon Islands, Samoa, Vanuatu, Kiribati, Tuvalu, European Commission	1.250.000	5.000.000	2008-2011
Promoting Access to Micro-insurance for Financial Inclusion and Decent Work	Inclusive Finance	ILO, Luxembourg	792.816	1.317.816	2007-2010
Promoting Local Infrastructure & Service Delivery Capacities for the MDGs In Asia and the Pacific	Decentralization and Local Development	UNDP, UNICEF	50.000	250.250	2008
Regional Technical Consultation on the Role of Local Governments in Promoting Local Economic Development	Decentralization and Local Development	UNDP, Austria	0	340.000	2006-2009

COUNTRY/PROJECT	PRACTICE AREA	PARTNERS	UNCDF GRANT SIZE in US\$	TOTAL PROJECT COST in US\$	DURATION
Promoting Access to Remittances for Financial Inclusion	Inclusive Finance	IFAD, European Commission, InterAmerican Development Bank (IADB), Spain, Consultative Group to Assist the Poor (CGAP), UK Department for International Development (DFID)	622.222	9.832.222	2008-2010
LDC Fund to Develop Savings-led Market Leaders for Inclusive Finance	Inclusive Finance	Bill & Melinda Gates Foundation, Governments of Rwanda, Liberia, Guinea Bissau, Cambodia	6.559.875	26.529.875	2008-2013

Annex II: Financial Statements

UNCDF, Income, and Expenditures, 2008 (Thousands, of United, States, dollars)		
INCOME	2008	2007
Voluntary Contributions	17.415	15.552
Cost Sharing Contributions	11.673	6.043
Sub-trust funds contributions Schedule 7.1	14.969	6.902
<i>Sub Total</i>	44.057	28.497
Interest Income	2.146	2.558
Reimbursable Support Services	4.796	1.924
Other Income	202	382
TOTAL INCOME	51.201	33.261
EXPENDITURE		
Programme		
Regular Resources	16.803	18.982
Cost Sharing	5.956	4.184
Sub-trust funds Schedule 7.1	8.364	5.574
<i>Sub Total</i>	31.123	28.740
Biennial Support Budget - Net	-	-
Management and Administrative costs	-	-
Technical Support Costs	-	-
Reimbursable Support Services Costs	1.944	1.292
<i>Sub Total</i>	1.944	1.292
Other Expenditure	2	3
TOTAL EXPENDITURE	33.069	30.035
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	18.132	3.326
UNCDF, Income, and Expenditures, 2008 (Thousands, of United, States, dollars)		
Transfer to/(from) Reserves		
Refunds to donors and transfers to/(from) Other Funds	(492)	
Fund balances 1 January	41.282	37.961
FUND BALANCES, 31 December	58.922	41.282

UNCDF Balance Sheet 2008 (Thousands, of United, States, dollars)		
ASSETS	2008	2007
Cash	5.758	3.402
Investments Schedule 8	64.462	60.946
Loans to Financial Service Providers	2.695	-
Operating funds provided to Financial Service Providers	-	-
Operating funds provided to Executing agents	71	71
Due from UNDP - Regular Resources	12.482	3.191
Other accounts receivable and deferred charges	755	514
Accrued interest	269	801
TOTAL ASSETS	86.492	68.925
LIABILITIES		
Operating Fund payable to Financial Service Providers	-	-
Operating Fund payable to Executing agents	718	718
Unliquidated obligations	2.377	1.349
Accounts payable	1.875	2.976
Due to UNDP - Regular Resources	-	-
Deferred Income	-	-
TOTAL LIABILITIES	4.970	5.043
RESERVES AND FUND BALANCES		
Operational Reserve	22.600	22.600
Unexpended Resources		
Regular Resources	27.430	25.224
Cost sharing	11.010	5.587
Sub-trust funds	14.981	7.961
<i>Sub Total</i>	53.421	38.772
Reimbursable Support Services	5.501	2.510
Total Unexpended Resources	58.922	41.282
TOTAL RESERVES AND FUND BALANCES, 31 DECEMBER	81.522	63.886
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	86.492	68.925

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

United Nations Capital Development Fund

a. Mandate and goals

The United Nations Capital Development Fund (UNCDF) is a multilateral donor organization affiliated with United Nations Development Programme (UNDP). Its mission is to support the Least Developed Countries in their efforts to achieve the Millennium Development Goals by providing investment capital (grants, loans and guarantees), capacity building and technical support. UNCDF focuses on 1) Decentralization and Local Development and 2) Inclusive Finance.

The General Assembly established UNCDF as an autonomous organization within the United Nations system by its resolution 2186 (XXI) of 13 December 1966. The Assembly further decided, by its resolution 2321 (XXII) of 15 December 1967, that the UNDP Administrator would administer the Fund and serve by performing the functions of the Managing Director while the UNDP Governing Council would act as the Fund's Executive Board.

b. Cash

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	2008	2007
Accumulating non-convertible currencies	-	480
TOTAL	-	480

c. Loans

The amounts reported only include current year disbursements. In prior years similar payments were recorded as grants.

	2008	2007
Loans to the Financial Services Providers	2.695	-
TOTAL	2.695	-

d. Investments

The carrying value of investments for bonds and notes is zero as disclosed in schedule 8. The decrease of \$2,499,442 in the bond value is detailed below:

Beginning value 1 January 2007	Purchases	Maturities	Net Amortization	Carrying Value 31/12/2008	Movement (Decrease)	Market Value	Par Value
2.499.442	-	(2.500.000)	558	-	-	-	-

e. Unliquidated obligations

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

	2008	2007
UNCDF-controlled funds	2.287	1.254
Biennial support budget and others	90	95
TOTAL	2.377	1.349

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 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 originally established in 1979, remained unchanged \$22.6 million as at 31 December 2008 as shown in schedule 7.



The Village Leader of Holsa, Bobonaro (Timor Leste), Mr. Antonio Santa Cruz, supervises the construction of a new well built through the UNCDF Local Development Programme (LDP). Projects constructed through the LDP are chosen by local assemblies, composed of village leaders that make independent decisions on local infrastructure budgets – a system which often leads to greater local ownership of the development process.

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Page 5: Kodjo Mensah-Abrampa

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Cover page: Solar panel at the Project Management Office of the Eco-Development and Irrigation project (EDI) in Lao Peoples Democratic Republic (Laos).

Background for Introduction chapter title: UNCDF's intervention in Nepal allowed the renovation of Kathmandu's Kalimati Market. The market now provides facilities for some 270 traders to operate both on their own account and as commission agents and for farmers to sell directly to consumers and retailers.

Background for Programme Results chapter title: The community of Fulchoki (Nepal) recently benefited from the installation of a new freshwater system, which pipes in water from high in the mountains. The system was identified through a local planning process supported and partially funded by UNCDF.

Background for Management Results chapter title and for the Back page: Women from low-income households collecting money for their micro-credit activities, as part of the Support to the Togo National Micro-finance Strategy Programme.

Background for Financial Analysis chapter title: Men working in a construction site in the province of Nampula (Mozambique), as part of the project Support to Decentralised Planning and Financing in the Provinces of Nampula and Cabo Delgado.

Background for Annexes chapter title: Local Government Support Programme project staff provide training for local administration officials and authorities on the planning and budgeting systems of the Local Development Programme (LDP) in Same, Manufahi (Timor Leste). Four new districts were included in the LDP in 2008 – a 100% expansion from the previous year.

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Annual Report 2008

The annual report documents and analyses the performance of the United Nations Capital Development Fund (UNCDF) against established programme, management and financial results targets. It forms part of the results-based management system of UNCDF and reflects efforts to continually monitor and improve performance in its two practice areas – decentralization and local development, and inclusive finance.

In 2008, UNCDF had operations in 38 countries, of which 10 were post-conflict countries. The overall budget delivery rate stood at 70 per cent; the performance rate in the decentralization and local development practice area was 77 per cent, and the performance rate in the inclusive finance practice area was 80 per cent. In short, the organization achieved its programmatic targets.

Resource mobilization during 2008 was particularly successful. Total income increased from \$28.5 million in 2007 to \$50.1 million in 2008, which includes \$6 million managed by UNCDF on behalf of UNDP (in accordance with Executive Board decision 2007/34).

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