



**Executive Board of the  
United Nations Development  
Programme and of the  
United Nations Population Fund**

Distr.: General  
6 May 2003

Original: English

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**Annual session 2003**

6 to 20 June 2003, New York

Item 3 of the provisional agenda

**United Nations Capital Development Fund**

**2002 Results-oriented annual report of the United Nations  
Capital Development Fund**

*Summary*

This is the third results-oriented annual report (ROAR) of the United Nations Capital Development Fund (UNCDF), produced in compliance with Executive Board decision 99/22. The report captures the results achieved in 2002 within the UNCDF strategic results framework (SRF) for 2000-2003.

In line with Executive Board decision 99/22, UNCDF investments and capacity building services are concentrated in two areas – local governance and microfinance. The organization's overall goal of contributing to poverty reduction is served by three sub-goals, defined in the 2000-2003 SRF as follows:

*(1) to increase sustainable access of the poor to basic infrastructure and public services, as well as to productive livelihoods opportunities, through good local governance and enhanced natural resources management;*

*(2) to increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment; and*

*(3) to promote a financially sound organization which develops and implements quality programming in local governance and microfinance.*

Sub-goals (i) and (iii) have direct parallels in the SRF of the United Nations Development Programme (UNDP).

This report assesses the performance of the organization in terms of the achievement of annual targets under each sub-goal. In addition, the 2002 ROAR is formulated in a more management-oriented manner, covering the key results produced by the organization, the main challenges and the way forward.



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## **I. Introduction**

1. In 2002, the operational activities of the United Nations Capital Development Fund (UNCDF) were severely affected by the low level of contributions to its core resources. With annual contributions in the order of \$22.3 million, far short of the target of \$30 million endorsed by the Executive Board in its decision 2002/26, UNCDF was obliged to reduce its expenditures significantly. Starting with a planned budget of about \$40 million based on previous years' programme commitments, UNCDF had to align target programme expenditures with actual resources available, ultimately resulting in a total expenditure from core resources of \$22.7 million – a reduction of about a third compared with 2001. The consequences on the ground were severe for the programme countries affected. However, due largely to the efforts of project staff and local partners, the impact was minimized to a point where the inevitable reduction in performance was less than proportional to the reduction in programme expenditure.

2. In decision 2002/26, the Executive Board recognized the excellence of the results produced on the ground by UNCDF and the consistency of its mission with the principal poverty reduction objective of the Millennium Development Goals (MDGs). The Board also reaffirmed the unique role played by UNCDF within the international development financing architecture as a small-scale multilateral investment organization in support of the least developed countries (LDCs), as well as its relevance to the implementation of the Brussels Programme for Action for the Least Developed Countries for the Decade 2001-2010 endorsed by the United Nations General Assembly in 2001 (A/RES/55/279). UNCDF contributes directly to the implementation of five of the seven commitments contained in the Brussels Programme for Action (A/CONF/191/11). UNCDF investments foster a people-centred approach, promote good governance at national and local levels, reinforce human and institutional capacities, reduce vulnerability, and protect the environment. UNCDF activities are geared to mobilizing additional financial resources. In the same decision, the Executive Board noted that the current level of UNCDF resources falls far below the demand of programme countries for its investment and capacity building services. This situation will have to be improved.

3. UNCDF will continue to ensure the financial integrity of the Fund. However, it will be unable to continue to deliver programmes and services effectively if resources continue to decline. UNCDF has forged effective partnerships to ensure the sustainability of its investments, and, at the request of programme countries as well as donor partners, UNCDF has provided technical advisory services, on a cost-recovery basis, to support the replication of its pilots in local governance and microfinance. At the same time, in the spirit of United Nations Secretary-General's call for harmonization of United Nations activities, UNCDF has pursued partnerships with other United Nations agencies to ensure complementarity and avoid duplication. The local governance and microfinance operations of UNCDF directly support two of the six practice areas of its principal partner, UNDP – democratic governance and poverty reduction. Recognizing that it will never be affluent, UNCDF has strategically emphasized its comparative advantage as a piloting organization, using resources as seed money to help programme countries launch new initiatives and to attract further investments when results are produced. UNCDF increased the recorded incidences of policy impact and replication, and the amount of non-core resources has tripled. While UNCDF has demonstrated its effectiveness in achieving concrete results on the ground through replication by other development partners, it will require a minimum critical mass of core resources (\$30 million per year) to fulfill its mandate in a manner responsive to programme countries.

## **II. Results, challenges and the way forward**

4. The performance of UNCDF in 2002 must be assessed in the context of the significant reduction in programme expenditures necessitated partly by the unrealized target for core contributions. The report uses the established methodology of measuring end-of-year results against targets set at the beginning of the year on the basis of prior commitments, thus capturing the full impact on programmes of the reduction in expenditure. Despite the significant financial diminution, results attained in 2002 were robust in a few areas, while others inevitably suffered.

5. The reduction in programme expenditures, by about a third in 2002, did not affect the performance of operational activities proportionally. Indeed, the area of local governance showed performance gains in local resource mobilization and increased replication of the decentralized public investments models tested at the local level. In microfinance, progress was made by microfinance institutions (MFIs) towards operational self-sufficiency. An increased level of policy impact was recorded in both areas. And despite the fact that local-level capacity building was the area most affected by the reduction in programme expenditures, the volume of infrastructure constructed was greater than anticipated under the reduced budgets, indicating efficiency gains.

6. Institutionally, UNCDF made considerable progress in 2002. In response to increased demand from programme countries, the organization established technical advisory services on local governance and microfinance, operating on a cost-recovery basis. In microfinance, UNCDF underwent a donor peer review organized by the Consultative Group to Assist the Poor (CGAP), which recognized the excellence of the technical services provided by the Special Unit for Microfinance (SUM) of UNCDF. The Local Governance Unit (LGU) of UNCDF was called upon to support several technical missions of the World Bank and the Belgium Survival Fund for the Third World. UNCDF strengthened its partnership with UNDP and other development partners through formal partnership agreements. The results achieved by UNCDF attracted additional non-core resource commitments, valued at 205 per cent more than in 2001.

### **The way forward**

7. In line with the organization's overall goal of poverty reduction, the MDGs and the objectives of the Brussels Programme for Action for the LDCs are expected to constitute the framework for UNCDF action in the coming years.

8. **Operational policies.** In support of the attainment of these vital objectives, a primary task for UNCDF is the full implementation of the operational policies reflected in its Business Plan 2000-2002, which has been extended to include 2003.

9. In local governance, in countries where the UNCDF Local Development Programme (LDP) approach has matured and LDPs have already achieved significant contributions to the decentralization agenda, UNCDF, in collaboration with UNDP, will innovate and pilot more focused and strategic approaches to the provision of decentralized public investments. In countries in the early stages of decentralization, the Fund will, depending on available resources, develop and support new programmes in partnership with local communities, governments and donor partners.

10. Recent developments worldwide indicate that the microfinance sector is evolving from a relief tool to a tool for development. There is general consensus that microfinance should be provided sustainably to ensure outreach and have a lasting impact on poverty reduction. SUM will focus on the development of the microfinance sector in LDCs as an integral part of the financial sector rather than a support mechanism for individual projects and institutions, while ensuring that the commercialization of microfinance continues to serve the purpose of alleviating poverty.

11. In its decision 99/22, the Executive Board requested that UNCDF report to it in 2004 on the impact of its programmes and activities. This independently conducted impact assessment, now under way, will provide UNCDF and the Board with an opportunity to assess the relevance and effectiveness of the organization's operational policies in supporting its overall goal of poverty reduction.

12. **Results and quality.** As a small-scale investor, the organization's impact at the country level will emanate from its ability to provide stakeholders with concrete operational results on the ground on a pilot scale, paving the way for larger-scale replication and policy impact. In local governance, the positive results from the implementation of decentralized systems of participatory planning, infrastructure delivery and maintenance are being replicated and disseminated. To capitalize further on the experience gained from these successful pilots, lessons learned will continue to be documented and analysed, and those with policy implications will be disseminated appropriately. In microfinance, both UNCDF and UNDP are committed to ensuring the quality and effectiveness of their microfinance investment portfolios. UNCDF is

strengthening its own portfolio, and in 2003 a portfolio review will be undertaken in partnership with CGAP and UNDP with the aim of increasing effectiveness in this area.

13. Human resources and management. In order to carry out the above activities, adequate high quality human resources and continuity in effective management are needed. UNCDF will attract, develop and retain the best staff available to support its corporate goals. The preparation of the administrative budget for the next biennium (2004-2005), already initiated, will provide an opportunity to review the alignment of the functions performed by the organization and staff, the expected results and the financial and human resources available and needed. The goal will be to maximize expenditure of available resources on programmes while minimizing administrative costs. As an organization specialized in two areas of concentration, UNCDF will build on its efforts to be a centre of excellence in both local governance and microfinance, but drawing on its network of programme and donor countries and research partners.

14. **Partnership.** UNCDF will faithfully implement decision 99/22, in which the Executive Board encouraged UNCDF and UNDP to intensify their collaboration and urged UNCDF to strengthen its strategic alliances with other partners, including governments, civil society, bilateral donors and multilateral organizations, such as the World Bank, to enhance the impact of its policies and programmes. UNCDF will ensure that its interventions are aligned with the poverty reduction strategy papers (PRSP) and the United Nations Development Assistance Frameworks (UNDAF) of the programme countries.

15. **Resource mobilization.** Implementation of Executive Board decision 2002/26 with regard to the core resources target of \$30 million a year is a high priority. The increased number of donor and programme countries contributing to UNCDF in recent years is a vote of confidence in its work. Recognizing that non-core resources should serve as a complement to, and not a substitute for, core resources, and that they should be aligned with the operational work of the organization, the UNCDF resource mobilization target was to reach a level of \$10 million in 2002. This target was surpassed, and a greater volume of non-core resources can and should be mobilized in the coming years in order to respond effectively to the demand of programme countries for results. At the same time, UNCDF will ensure compliance with the disbursement schedules and reporting requirements included in different agreements.

16. For each dollar spent by UNCDF on programme activities in 2002, it mobilized an equivalent amount in parallel funding from programme country governments, local communities and donor countries. In addition, a significant proportion of UNCDF pilot small-scale investment and capacity building initiatives were replicated on a larger scale with the support of development partners. Accordingly, with a \$35<sup>1</sup> million annual level of programme expenditures (\$25 million against core resources and \$10 million in non-core), UNCDF can generate a level of operational activities in its two areas of focus exceeding \$100 million a year. If one compares this level of operational activities to its annual core resources (\$30 million), and to its annual administrative budget (\$6 million), UNCDF represents a sound investment for the international community.

### III. Financial and portfolio analysis

#### A. Financial analysis

17. UNCDF introduced performance budgeting to its operations in 2001. The following financial analysis for 2002 is based on provisional figures available as of March 2003.

<sup>1</sup> Assuming \$30 million in core contributions and \$10 million in non-core, plus \$1 million in interest earnings, UNCDF will have an annual total budget of \$41 million, of which \$35 million is spent on programmes and \$6 million is spent on administration and programme support.

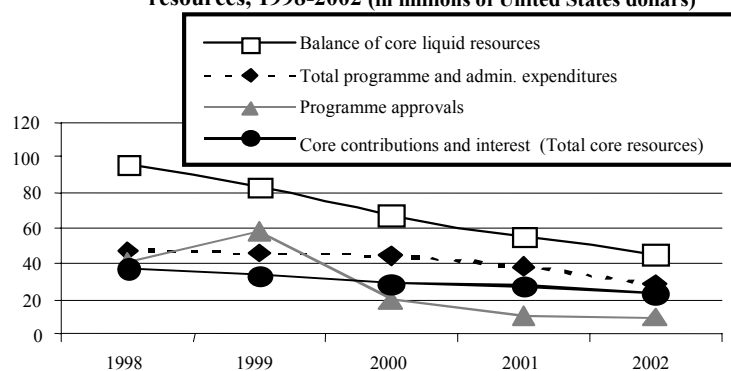
**Figure 1. Total core and non-core expenditures  
(in millions of United States dollars)**

Expenditures (in US\$ millions)	2001	% Total	2002	% Total
From core	32.8	81%	22.7	75%
From con-core	1.6	4%	2.2	7%
<b>Total programme level expenditures</b>	<b>34.4</b>	<b>85%</b>	<b>24.9</b>	<b>82%</b>
Management and administration	3.2	8%	2.7	9%
Programme support	2.8	7%	2.8	9%
<b>Headquarters expenditures</b>	<b>6.0</b>	<b>15%</b>	<b>5.5</b>	<b>18%</b>
<b>Grand total</b>	<b>40.4</b>		<b>30.4</b>	

19. As in its 2001 report, UNCDF has estimated the total expenditure per SRF sub-goal. Local governance programmes remain the primary focus of UNCDF expenditures, but they also suffered the bulk of the reduction, shrinking by \$6.8 million. Microfinance operations, with 10 per cent of total expenditures, suffered a smaller reduction in absolute terms (\$2.5 million), but this almost halved its expenditure in relation to the previous year. Expenditures in support of organizational strengthening were reduced by \$0.7 million, but remained at eight per cent of total UNCDF expenditure.

20. Figure 3 shows the decline in core resources from \$37.2 million in 1998 to \$23.2 million in 2002. Over the same period, expenditure from core resources fell from \$48.0 million to \$28.1 million.

**Figure 3. UNCDF financial situation for core resources, 1998-2002 (in millions of United States dollars)**



18. Due to the continuing decline in core resources, total expenditure in 2002 amounted to \$30.4 million, down from \$40.4 million in 2001 (a 25 per cent drop). Expenditures at the programme and headquarters levels were reduced by \$9.5 million and \$0.5 million respectively. Consequently, the ratio of headquarters expenditures to total expenditures increased slightly. However, since half of headquarters spending goes to programme support, management and administrative costs make up only nine percent of total expenditure.

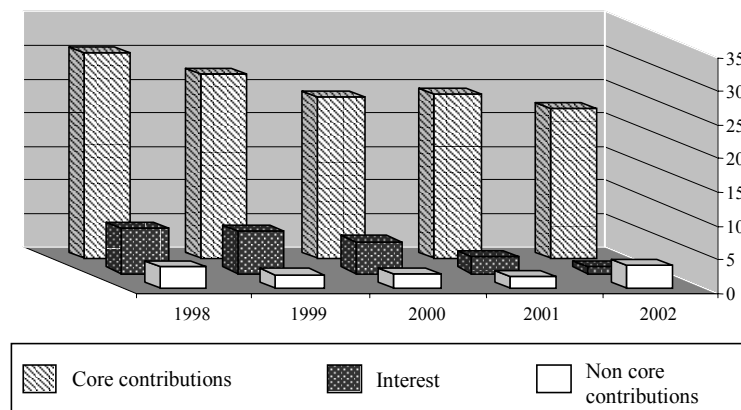
**Figure 2. Total core and non-core expenditures by sub-goals  
(in millions of United States dollars)**

	2001	%	2002	%
<b>Local governance</b>				
Project level	29.4		23.3	
HQ level	2.7		2	
<b>Subtotal</b>	<b>32.1</b>	<b>79%</b>	<b>25.3</b>	<b>83%</b>
<b>Microfinance</b>				
Project level	4.1		1.9	
HQ level	1.1		0.8	
<b>Subtotal</b>	<b>5.2</b>	<b>13%</b>	<b>2.7</b>	<b>9%</b>
<b>Org. strengthening</b>				
Project level	0.9		(0.3)	
HQ level	2.2		2.7	
<b>Subtotal</b>	<b>3.1</b>	<b>8%</b>	<b>2.4</b>	<b>8%</b>
<b>Grand total</b>	<b>40.4</b>	<b>100%</b>	<b>30.4</b>	<b>100%</b>

In 1998 and 1999, the accumulated liquid resources supported a high level of new project approvals (\$40.9 million and \$58.6 million respectively), since after the 1998 policy shift, UNCDF needed to demonstrate the potential impact of the LDPs. From 2000, declining core contributions and a reduction in accumulated liquidities necessitated measures to preserve the financial integrity of UNCDF. This was achieved through a combination of project budget reductions and rephasings, and reduced levels of project approvals (down to \$9.5 million in 2002). These budget cuts and the lower level of new approvals are, however, jeopardizing the impact of UNCDF on the ground.

21. As figure 4 illustrates, voluntary core contributions make up the bulk of UNCDF overall resources. Since 1998, core contributions have declined from \$30.5 million to \$22.3 million in 2002. Until 2001, the interest earned on accumulated liquidities was the second largest 'contributor' to UNCDF. As UNCDF responded to demands from donor and programme countries to ensure impact on the ground through increased programme delivery, accumulated liquidities were depleted, while interest earnings declined significantly – from \$6.7 million in 1998 to \$1.0 million in 2002. Non-core contributions overtook interest earnings as the second largest component of UNCDF resources.

Figure 4. Types of resources, 1998-2002 (in millions of US dollars)



## B. ROAR portfolio analysis

22. In 2002, UNCDF had an active project portfolio of 93 projects, 54 of which met the criteria for reporting<sup>2</sup>. Annual reports were received from 40 projects covering 29 countries, which have been aggregated into the 2002 ROAR. Others were omitted due to late submission or incomplete data. Of the reporting projects, just over half are LDPs, with infrastructure projects second, followed by microfinance projects and eco-development projects. Total programme expenditure in 2002 for all active projects was \$24.9 million. The reporting projects account for \$21.1 million, or 85 per cent, of total programme expenditures, and for \$19.0 million, or 84 per cent, of programme expenditures against core resources.

23. Analysis of the financial data shows that UNCDF core resources are concentrated in Africa (85 per cent), where the majority of LDCs are located. In 2002, LDPs again accounted for the majority of expenditures (68 per cent), followed by infrastructure (17 per cent), microfinance (10 per cent) and eco-development projects (five per cent). While infrastructure and eco-development projects are being phased out, the low number of microfinance projects is due to a combination of natural attrition (i.e. completion of

Figure 5. ROAR portfolio per project type and region (in millions of US dollars)

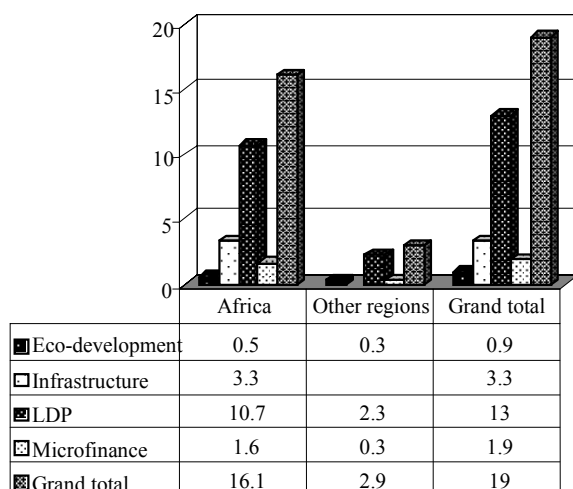
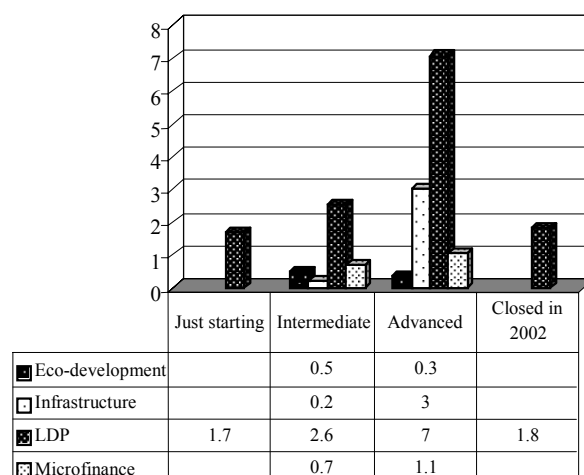


Figure 6. ROAR portfolio per project maturity and type (in millions of US dollars)



<sup>2</sup> Only projects having activities lasting more than five months or with expenditure over \$50,000 in 2002 are reported.

project support), and portfolio management decisions to wind down support to MFIs with chronic poor performance. In the future, new microfinance operations will be financed in line with the new focus on sector development and microfinance will remain an important pillar of UNCDF.

24. Analysis of expenditures by project maturity shows the same pattern as in 2001, with projects in advanced stages of implementation or completed in 2002 accounting for the bulk of expenditures (\$11.5 million or 60 per cent for advanced implementation, and \$1.8 million or 9 per cent for projects completed in 2002). Dwindling core resources have resulted in a reduction in new project approvals.

## IV. Performance analysis

### A. Performance analysis for sub-goal 1: Local governance

25. Sub-goal 1 is *to increase sustainable access of the poor to basic infrastructure and public services, as well as to productive livelihoods opportunities, through good local governance and enhanced natural resources management*. Accountability for results rests with the Local Governance Unit (LGU) of UNCDF. Thirty-four reporting projects are accounted for under this sub-goal (22 LDPs, four eco-development projects and eight infrastructure projects).

#### Key results

26. While UNCDF support to local governance has been affected by the resource situation at the programme level, there were achievements in some key areas.

(a) At least 2.9 million people in LDC programme countries benefited from 1 406 newly constructed small-scale infrastructures such as health centres, wells, schools and irrigation schemes.

(b) Performance gains were achieved in improved access to sustainable funding sources by local authorities.

(c) More projects succeeded in policy impact and replication, with cost-sharing and trust fund agreements signed with donors (including Belgium, the Netherlands, Norway and the United Kingdom) resulting in over \$12 million in non-core resources for UNCDF.

(d) An operational strategy was developed and implemented to provide development partners with technical advisory services in support of decentralized systems for public investments and replication of ongoing activities. In 2002, LGU technical advisors supported technical missions of UNDP and other agencies, including the World Bank and the United Nations Department for Economic and Social Affairs (UNDESA).

**Table 1. Performance under sub-goal 1**

Outcome	2001 results	2002 results
1.1.1. Improved capacity of local communities and civil society organizations to participate in local development planning	82% Satisfactory	63% Partially achieved
1.1.2. Participatory planning processes are institutionalized at the level of local authorities	79% Satisfactory	67% Partially achieved
1.2.1. Financing mechanisms, based on good-governance principles, are institutionalized at the local level	71% Partially achieved	65% Partially achieved
1.2.2. Local authorities have improved access to sustainable funding sources	44% Below expectations	63% Partially achieved
1.3.1. Local capacity to deliver basic infrastructure and public services is increased	57% Partially achieved	45% Below expectations
1.3.2. Local capacity to maintain basic infrastructure and public services is increased	51% Partially achieved	54% Partially achieved
1.3.3. Local communities are empowered to hold local authorities accountable for delivery of basic infrastructure and public services	77% Satisfactory	52% Partially achieved
1.4.1. Capacity of local authorities and communities to manage the natural resources base in a sustainable manner is improved	62% Partially achieved	50% Partially achieved
1.5.1. National policy and regulatory frameworks for decentralization and strengthened local government is improved	52% Partially achieved	53% Partially achieved
1.5.2. Best practices of UNCDF pilot projects are replicated by other donors and central governments	60% Partially achieved	59% Partially achieved



27. In 2002, there were significant gains in the area of increased access by local authorities to sustainable funding sources. This was an encouraging sign of strengthened local capacity and improved sustainability. The number of projects reporting achievements in policy impact doubled, while the number reporting replication of UNCDF programmes by other donors also increased significantly.

28. These results indicate that the earlier achievements in the participatory planning, capacity building and local infrastructure delivery indicators are beginning to have the desired effect on local resource mobilization and policy impact indicators. The mobilization of \$12.5 million in non-core resources to support local governance activities is further evidence of this.

### Challenges

29. The ability of UNCDF to mobilize non-core resources to support local governance activities in 2002 did not compensate for the shortfall in core resources. At the same time, it should be noted that the decline in performance on the ground was not proportional to the reduction of project expenditures. This was particularly true for the number of local development plans and annual investment plans prepared (300 in 2002 versus 270 in 2001) and the total number of infrastructure projects constructed (1 656 in 2002 compared to 1 406 in 2001). Inevitably, there were adverse impacts on project components related to capital investments and capacity building. Since the construction of the much-needed basic local infrastructure is the end result of a long process of popular consultation, it is important that the local authorities, UNCDF and development partners be in a position to fulfill all commitments made between local populations and local partners.

### The way forward

30. The main priority for UNCDF in local governance work is to support the poverty reduction efforts of LDCs as they work towards the MDGs. As a provider of capital assistance, UNCDF contributes in a concrete manner to the implementation of key development objectives embodied in the Brussels Programme for Action for the LDCs. Specifically, UNCDF works to ensure better access of the poor to essential infrastructure and socio-economic services in the sectors of health and education, road transport, markets, water supply and natural resources management.

31. UNCDF has piloted the LDPs successfully in several countries, where it will work in collaboration with donor partners to ensure that the lessons learned are capitalized upon, through national replication and/or scaling up of the pilots. UNCDF will continue to fine-tune the systems already developed to better serve the particular needs of the local population. In countries in the early stages of decentralization, UNCDF will develop and support new programmes in partnership with local communities, governments and donor partners, providing seed money to pilot new systems for decentralized public investments.

32. In response to growing demand, UNCDF will provide technical advisory services to support the local governance programmes of donor partners and will strengthen its ties with relevant organizations within and outside the United Nations family. The memoranda of understanding (MOUs) signed between UNCDF and the UNDP Bureau for Development Policy will be implemented through joint activities, another MOU will be sought with the UNDP Regional Bureau for Africa, and UNCDF will continue to lend its expertise to missions led by partners such as UNDP, UNDESA, and the World Bank. Partnerships will be developed with donors, governments, and research institutions to promote the lessons learned by UNCDF and its own learning agenda, while new thematic areas and programming instruments will be developed to ensure innovation and adaptation to emerging challenges and to attract new sources of financing.

#### **Partnerships in Niger**

*In Niger, UNCDF is participating in the implementation of two local development programmes in Nguigmi and Mayahi. A model for decentralized public investments was tested in collaboration with UNDP, the government and local communities, successfully producing much-needed social and economic infrastructure for the local communities. Based on the lessons learned from the initial \$5 million investment, UNCDF mobilized a further \$3 million from the Belgium Survival Fund for the Third World. In addition, in response to the urgent problem of food insecurity, the BSF provided an additional \$400 000 to support a sustainable strategy for food security. Other donors, including the World Bank, have since turned to UNCDF for technical advice in formulating new programmes, and France has confirmed its participation in a multi-year agreement to fund LDPs in Niger.*

33. As 24 out of the 49 LDCs are in special development situations, there has been a growing demand for UNCDF technical expertise and seed investments to support local public investments in these countries. In 2003, UNCDF will seek to establish an MOU with the UNDP Bureau for Crisis Prevention and Recovery to strengthen cooperation and complementarity in this area.

## B. Performance analysis for sub-goal 2: Microfinance

34. Sub-goal 2 is to increase access of the poor, especially women, to financial services on a sustainable basis through strengthened MFIs and an enabling environment. Accountability for results in this area rests with UNCDF's Special Unit for Microfinance (SUM). In addition to managing UNCDF investments in microfinance, the Unit represents UNDP programmes and projects in CGAP and is their technical and policy advisor in the area of microfinance. The original SRF indicators under this sub-goal covered only UNCDF investments, which account for only a small portion of its microfinance activities. With the full integration of SUM into UNCDF, a more representative picture of UNCDF performance in the area of microfinance necessitates broadening the reporting to cover key results in SUM's additional output areas.

### Key results

- (a) Under MicroStart, 380 069 persons have received microfinance services from the MFIs supported, with women accounting for 79 per cent of clients.
- (b) More than half of the MFIs supported have achieved operational self-sufficiency and have a portfolio at risk at 30 days of less than five per cent.
- (c) The UNCDF portfolio of investments in microfinance was strengthened.
- (e) There has been demonstrable impact on the development of national microfinance policy in at least four programme countries: Kenya, Malawi, Mauritania and Nigeria.
- (f) SUM was recognized internationally, following the CGAP review, as a key provider of technical advisory services, training and best practice dissemination in microfinance.

35. Through MicroStart, UNCDF has partnered with UNDP in 19 countries. Collectively, by end-2002, the 73 MFIs receiving assistance had increased their active clients and made significant progress towards sustainability. The criteria for a second phase of MicroStart were finalized in 2002, and UNCDF collaborated with four UNDP country offices (Ghana, Nigeria, the Philippines and Yemen) to formulate Phase II programmes, successfully mobilizing \$7 million for their expansion.

36. In addition to the support provided to the MicroStart programme, UNCDF has a small portfolio of investments supporting microfinance operations in LDCs. The performance of UNCDF-supported microfinance projects according to SRF targets is summarized in table 2. There were notable achievements, including the expansion of the female client base, an increase in the number of savers, and the attainment of full operational self-sufficiency by more than a third of the MFIs. Nevertheless, for many of the UNCDF-supported MFIs, particularly those operating in difficult environments, self-sufficiency remains a significant challenge.

**Table 2. Performance under sub-goal 2**

(SRF indicators 2.1.1 and 2.2.1 relate only to UNCDF investments; 2.3.1 relates to both UNCDF and UNDP investments)

Outcome	2001 results	2002 results
2.1.1 The poor, especially women, have greater access to microfinance services	70% Partially achieved	<b>70%</b> <b>Partially achieved</b>
2.2.1 Microfinance institutions are financially viable and provide high-quality services	56% Partially achieved	<b>67%</b> <b>Partially achieved</b>
2.3.1 Countries have improved their enabling environments for supporting the development of microfinance <sup>3</sup>	5 countries Satisfactory	<b>9 countries</b> <b>(cumulative)</b> <b>Satisfactory</b>

<sup>3</sup> In 2000 and 2001, results were skewed as only one project reported. At the Executive Board's request, the indicator has been revised for 2002 to track the countries in which an improvement in the enabling environment for supporting the development of microfinance was attributable to UNCDF that year.

37. In 2002, UNCDF had a demonstrable impact on the development of national microfinance policy in at least four programme countries. In addition to country-specific examples of policy and practice change, UNCDF collaborated with Acción International to conduct a high-level policy workshop on regulatory frameworks in Africa for representatives from 12 African countries. Central bank supervisors were subsequently trained to evaluate and monitor MFIs to assist in the development of, and ensure compliance with, supervisory frameworks.

### Challenges

38. One of the primary challenges in 2002 was to downscale and close projects that did not meet performance expectations. This portfolio streamlining will be completed by mid-2003, leaving UNCDF with a stronger portfolio of microfinance investment. Poor performance is often the result of non-compliance with established principles or the weak capacity of technical partners. More rigorous design criteria and selection criteria for technical implementers have been developed to address these issues. However, there remains the problem of insufficient funding available to initiate new investments, resulting in a diminishing portfolio.

#### ***Nigerian Government funding for MicroStart Phase II signals policy shift.***

*The Nigerian MicroStart Advisory Board approved a \$3.9 million second phase to help participating MFIs scale up to reach a sustainable 100 000 active clients by the end of 2005. The National Poverty Alleviation Programme of the Government of Nigeria is contributing to the programme, signifying an important shift in operational policy in support of sustainable microfinance.*

***Nigerian MFIs benefiting from TCDC.*** *Participating Nigerian MFIs are benefiting from technical assistance from ASA (<http://www.asabd.org>), a Bangladeshi MFI serving 2.3 million clients in Bangladesh. According to a review by MicroSave-Africa and the CGAP, ASA is "one of the best-managed and sustainable microfinance providers in the world". The organization is known for its efficient credit delivery and recovery system and its no-nonsense loan repayment discipline.*

***Impressive gains in MFI sustainability:*** *In MicroStart Phase I, the participating Nigerian MFIs reached 37 084 active borrowers, all of whom are poor women. Five of the seven MFIs achieved operational self-sufficiency during the first three years, while the other two made visible progress. Repayment performance is excellent, with five of the MFIs having a portfolio at risk at 30 days under five per cent. Among the Nigerian MFIs, Lift Above Poverty Organization (LAPO) has achieved 15 460 active borrowers. Other potential breakthroughs include the Justice, Development and Peace Commission and the Development Exchange Centre, which have 4 495 and 5 819 active clients, respectively.*

### The way forward

39. SUM will provide technical advisory services and develop the capacity of UNDP funds and programmes to apply best microfinance practices consistently, as well as support the strengthening of strategically selected individual retail microfinance operations.

40. UNCDF believes that a coordinated strategic approach to building microfinance as an integral part of the formal financial sector is the most effective route to reducing poverty and ensuring the aid effectiveness required for meeting the MDGs. SUM has developed a strategy for selected developing countries with young or emerging microfinance sectors that have the potential to integrate into the commercial sector. SUM believes it has a strong comparative advantage in facilitating this approach. Its successful implementation, however, will require an increase in the investment resources available to the Unit, which amounted to only \$1.9 million in 2001.

## C. Performance analysis for sub-goal 3: Organizational strengthening

41. Sub-goal 3 is to promote a financially sound organization which develops and implements quality programming in local governance and microfinance. UNCDF is committed to managing for results. UNCDF strives to maintain and, where necessary, build systems and capacities for optimum performance.

42. In order to capture the performance of the organization and to use the ROAR effectively as a management tool, this report includes some new and revised indicators. These improvements have been made without sacrificing comparability with 2001.

## Key results

- (a) There was a significant increase in the number of projects reporting achievements in policy impact and replication.
- (b) External evaluations confirmed the relevance and effectiveness of UNCDF operations.
- (c) Quality of results was assured as UNCDF followed through on the recommendations of the 1999 external evaluation, embodied in the UNCDF Action Plan 2000 and the Business Plan 2000-2002.
- (d) Partnerships with UNDP, programme countries, donors and implementation partners were strengthened, as demonstrated by the signing of several partnership agreements and the 205 per cent increase in non-core contributions.
- (e) Management and financial efficiency was maintained despite reduced core expenditures.

**Table 3. Performance under sub-goal 3**

Outcome	2001 results	2002 results
<b>3.1.1 UNCDF moves from policy refinement to achieving operational impact</b> <i>(Previously 3.1.1; UNCDF will have moved from policy refinement to an emphasis on operational impact)</i>	Satisfactory	<b>Partially achieved</b>
<b>3.1.2 UNCDF maintains operational results and quality assurance through improved elements of the project cycle and continuous learning through monitoring and evaluation</b>	Satisfactory	<b>Satisfactory</b>
<b>3.1.3 UNCDF maximizes its comparative advantage through strengthened and expanded strategic partnerships</b>	Satisfactory	<b>Satisfactory</b>
<b>3.2.1 UNCDF maintains effective corporate management</b> <i>(Previously part of 3.1.1; Action Plan 2000 targets are respected)</i>	Satisfactory	<b>Satisfactory</b>
<b>3.2.2 UNCDF attracts, develops and retains high quality personnel</b>	N.A.	<b>Satisfactory</b>
<b>3.2.3 UNCDF improves financial efficiency</b> <i>(Previously 3.2.1; UNCDF has become more efficient and cost-effective through improved tracking and analysis of its finances)</i>	Partially achieved	<b>Partially achieved</b>
<b>3.2.4 UNCDF expands and diversifies its funding base</b> <i>(Previously 3.2.2; A culture of resource mobilization based on measurable performance, efficiency and value for money is developed; and 3.2.3; Resource base is diversified and the number of donors increases)</i>	Satisfactory	<b>Satisfactory</b>

43. With the major policy refinement tasks completed in previous years, UNCDF was able to ensure the overall development relevance and effectiveness of its programmes. On aggregate, the 15 independent, external evaluations conducted in 2002 assessed UNCDF projects to be making positive contributions toward the goal of poverty reduction. To ensure operational results and quality, UNCDF brought about far-reaching changes in its project formulation and implementation processes, resulting in more efficient formulation and start-up of activities.

44. Both local governance and microfinance operations attracted interest from development partners, resulting in a 205 per cent increase in non-core resources over the previous year. The demand for UNCDF as a provider of technical advisory services in local governance and microfinance increased, and these services were provided on cost-recovery basis. Advisory services in local governance and post-conflict issues were provided to eight countries, while in microfinance, they were provided to 35 country offices, covering national strategies, policy advice, institutional appraisals and support to investments.

45. In follow-up to the 1999 external evaluations and the recommendations endorsed by the Executive Board in its decision 99/22, UNCDF has almost fully addressed the factors pertaining to UNCDF management efficiency; such as strengthening and formalizing partnership arrangements with UNDP through MOUs in the areas of local governance and microfinance, and articulating and internalizing policies on the contribution of UNCDF to poverty reduction in these areas.

## Challenges

46. A central challenge facing UNCDF remains that of resource mobilization. In 2003, this takes on a heightened level of urgency, as the level of core contributions fell from \$30.5 million in 1998 to \$22.3 million in 2002, forcing UNCDF to reduce total programme expenditures from \$34.4 million in 2001 to \$24.9 million in 2002. This trend must be reversed in order to allow UNCDF to answer the growing demand for its support. Operational challenges include the need for continued attention to gender

mainstreaming, monitoring and evaluation, and operations and maintenance. In terms of organizational strengthening, two unfinished tasks in follow-up to the recommendations of the 1999 external evaluation are the full implementation of the tested management information systems (MIS) and further enhancement of financial tracking and reporting, which is now linked with the development and implementation of the UNDP corporate Enterprise Resource Planning (ERP) system scheduled to become operational in January 2004.

### The way forward

47. The main tasks for 2003 (see paragraphs 7-16), are described in detail in the UNCDF 2001/2003 Business plan. To summarize, they are: (i) ensuring quality results on the ground; (ii) resource mobilization; (iii) strengthening and developing partnerships, and (iv) assessing the relevance and effectiveness of UNCDF operations through an independent impact assessment, as requested by the Executive Board (99/22).

## V. Analysis of outcomes by strategic areas of support

48. This section provides analyses of the different outcomes grouped under strategic areas of support for each of the three sub-goals.

### A. Local governance

49. The first strategic area of support for local governance is *1.1: Promote a participatory development process at the local level*. It has two outcomes.

<b>Outcome 1.1.1. Improved capacity of local communities and civil society organizations to participate in the planning of local development.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.1.1.a - Community needs are assessed in a participatory manner	14/16 projects (95%) Satisfactory	<b>18 projects</b>	<b>12 projects (67%) Partially achieved</b>
1.1.1.b - Women participate in community needs assessments	10/12 projects (69%) Partially achieved	<b>8 projects</b>	<b>7 projects (87%) Satisfactory</b>
1.1.1.c - Members of local development committees and women's groups are trained in participatory planning	13/16 projects (81%) Satisfactory	<b>15 projects</b>	<b>7 projects (47%) Below expectations</b>
<b>Average score and assessment:</b>	<b>82% - Satisfactory</b>		<b>63% - Partially achieved</b>
<b>Outcome 1.1.2. Participatory planning processes are institutionalized at the level of local authorities.</b>			
1.1.2.a - Local authorities approve local development plans	14/17 projects (82%) Satisfactory	<b>17 projects</b>	<b>8 projects (47%) Below expectations</b>
1.1.2.b - Guidelines for elaborating local development plans exist and are complied with	8/11 projects (73%) Partially achieved	<b>16 projects</b>	<b>13 projects (81%) Satisfactory</b>
1.1.2.c - Local authorities' guidelines require that local development plans derive from participatory planning exercises	5/6 projects (83%) Satisfactory	<b>2 projects</b>	<b>2 projects (100%) Satisfactory</b>
1.1.2.d - Local authorities define and apply transparent investment selection criteria	10/10 projects (100%) Satisfactory	<b>11 projects</b>	<b>6 projects (55%) Partially achieved</b>
1.1.2.e - Community representatives, including women, are involved in the approval of local development plans	7/12 projects (58%) Partially achieved	<b>11 projects</b>	<b>9 projects (82%) Satisfactory</b>
<b>Average score and assessment:</b>	<b>79% - Satisfactory</b>		<b>67% - Partially achieved</b>

50. In 2002, seven projects reported that at least 261 041 people in 771 villages had taken part in participatory needs assessment exercises and at least 270 local development plans were subsequently approved (55 540 community members were reportedly involved). In addition, 2 621 persons were trained in, and 22 604 were informed about, participatory planning. In three countries, these activities were undermined by the budgetary cuts, resulting in lower performance relative to 2001. Progress was seen towards the target for participation of women (on average, 30 per cent of the participants in needs assessment exercises were women), though fewer women (20 per cent) were consulted in the preparation of local development plans. Continued attention needs to be given to gender mainstreaming.

51. The second strategic area of support for local governance is *1.2: Promote sound, sustainable financing and financial management practices at the local level*. It has two outcomes.

<b>Outcome 1.2.1. Financing mechanisms based on principles of good governance are institutionalized at the local level.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.2.1.a - Local authorities prepare annual investment plans	11/11 projects (100%) Satisfactory	<b>13 projects</b>	<b>11 projects (85%)</b> Satisfactory
1.2.1.b - Local authorities' accounts are audited by a national audit authority	2/5 projects (40%) Below expectations	<b>6 projects</b>	<b>1 project (17%)</b> Below expectations
1.2.1.c - Improved compliance by local authorities with national financial, management and accounting procedures	3/4 projects (75%) Satisfactory	<b>6 projects</b>	<b>5 projects (83%)</b> Satisfactory
1.2.1.d - At least 75 per cent of local authorities meet project-defined minimum conditions for fund access	8/10 projects (80%) Satisfactory	<b>8 projects</b>	<b>6 projects (75%)</b> Satisfactory
1.2.1.e - Local authorities' staff are trained in accounting and financial management	5/15 projects (33%) Below expectations	<b>17 projects</b>	<b>9 projects (53%)</b> Partially achieved
1.2.1.f - Local authorities publicize budgets and expenditures (including indicative planning figures)	8/8 projects (100%) Satisfactory	<b>10 projects</b>	<b>7 projects (70%)</b> Partially achieved
<b>Average score and assessment:</b>	<b>71% - Partially achieved</b>		<b>65% - Partially achieved</b>
<b>Outcome 1.2.2. Local authorities have improved access to sustainable funding sources.</b>			
1.2.2.a - Local authorities' local revenues increase	3/6 projects (50%) Partially achieved	<b>12 projects</b>	<b>8 projects (67%)</b> Partially achieved
1.2.2.b - Intergovernmental fiscal transfers to local authorities are stabilized or increase	2/6 projects (33%) Below expectations	<b>4 projects</b>	<b>2 projects (50%)</b> Partially achieved
1.2.2.c - Donors' funding to local authorities increases	3/6 projects (50%) Partially achieved	<b>8 projects</b>	<b>5 projects (62%)</b> Partially achieved
1.2.2.d - Projects with increased replacement rate of UNCDF funds by alternative external resources	No reporting	<b>6 projects</b>	<b>4 projects (67%)</b> Partially achieved
<b>Average score and assessment:</b>	<b>44% - Below expectations</b>		<b>63% - Partially achieved</b>

52. The institutionalization of financing mechanisms based on principles of good governance and on improving local authorities' access to sustainable funding sources began to bear fruit. Three projects reported increases in local revenues ranging from four to 200 per cent, while at least four were successful in mobilizing additional resources from other donors to co-finance approved local development plans.

53. The third strategic area of support for local governance is *1.3: Develop local capacity to deliver and maintain basic infrastructure and public services on a sustainable basis*. It has three outcomes.

<b>Outcome 1.3.1. Local capacity to deliver basic infrastructure and public services is increased.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.3.1.a - Number of basic infrastructure and public services at community level increases	12/23 projects (52%) Partially achieved	<b>26 projects</b>	<b>9 projects (35%)</b> Below expectations
1.3.1.b - Targets for km of roads rehabilitated or constructed are met	6/10 projects (60%) Partially achieved	<b>10 projects</b>	<b>5 projects (50%)</b> Partially achieved
1.3.1.c - Micro-projects are completed within 125% of planned budget	10/14 projects (71%) Partially achieved	<b>10 projects</b>	<b>3 projects (30%)</b> Below expectations
1.3.1.d - Micro-projects are completed within 125% of scheduled timing	4/10 projects (40%) Below expectations	<b>9 projects</b>	<b>2 projects (22%)</b> Below expectations
1.3.1.e - At least 75% of micro-projects are positively assessed for quality	3/10 projects (30%) Below expectations	<b>14 projects</b>	<b>8 projects (57%)</b> Partially achieved
1.3.1.f - Local authorities and the private sector are trained in the delivery of basic infrastructure and public services	15/21 projects (71%) Partially achieved	<b>25 projects</b>	<b>15 projects (60%)</b> Partially achieved
<b>Average score and assessment:</b>	<b>57% - Partially achieved</b>		<b>45% - Below expectations</b>
<b>Outcome 1.3.2. Local capacity to maintain basic infrastructure and public services is increased.</b>			
1.3.2.a - Physical infrastructure is being maintained two years after it was built	3/5 projects (60%) Partially achieved	<b>4 projects</b>	<b>3 projects (75%)</b> Satisfactory
1.3.2.b - Micro-projects have operation and maintenance plans and budgets prior to construction	7/14 projects (50%) Partially achieved	<b>13 projects</b>	<b>9 projects (69%)</b> Partially achieved
1.3.2.c - Targets regarding km of roads rehabilitated or constructed that have maintenance plans and budgets are met	2/2 projects (100%) Satisfactory	<b>3 projects</b>	<b>2 projects (67%)</b> Partially achieved
1.3.2.d - Local authorities and the private sector are trained in the maintenance of basic infrastructure	6/14 projects (43%) Below expectations	<b>19 projects</b>	<b>7 projects (37%)</b> Below expectations
<b>Average score and assessment</b>	<b>51% - Partially achieved</b>		<b>54% - Partially achieved</b>

54. The construction of basic infrastructure was the activity most severely affected by the budgetary cuts in 2002. Yet the reduction in infrastructure constructed was not proportional to the reduction in the project expenditures (1 406 infrastructures against 1 656 in 2001). To ensure the sustainability of such investments, 76 597 persons and 88 local development or non-governmental organization committees were trained in infrastructure operations and maintenance and at least 288 operations and maintenance committees were established.

#### **Concrete results and benefits 2002**

*In 2002, at least 2 891 837 persons benefited from 1 406 newly constructed small-scale infrastructures and at least 406 000 persons benefited from the 226 km of road constructed. Small-scale infrastructure constructed in 2002 include: 35 health centres, 405 wells or drinking water supply schemes, 16 kindergartens, 99 primary schools, 148 irrigation schemes, 55 grind mills, 14 markets, 29 public buildings, 31 bridges, 87 latrines.*

<b>Outcome 1.3.3. Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.3.3.a - Local authorities have put in place and are using consultation mechanisms	8/12 projects (67%) Partially achieved	<b>16 projects</b>	<b>7 projects (44%)</b> <b>Below expectations</b>
1.3.3.b - Local authorities are bound by rules that ensure that bidding and contracting is transparent and that the processes are open to public review	6/7 projects (86%) Satisfactory	<b>12 projects</b>	<b>6 projects (50%)</b> <b>Partially achieved</b>
1.3.3.c - Local communities have access to public spending records	3/3 projects (100%) Satisfactory	<b>3 projects</b>	<b>3 projects (100%)</b> <b>Satisfactory</b>
<b>Average score and assessment:</b>	<b>77% - Satisfactory</b>	<b>52% - Partially achieved</b>	

55. Although in absolute terms performance was lower in 2002 than in 2001, an almost equal number of projects reached their set targets as compared to the previous year, and, according to the information provided by ten projects, 1 342 local development committees (or similar fora for dialogue and consultation) were created or strengthened.

56. The fourth strategic area of support for local governance is *1.4: Promote productive livelihoods opportunities through sustainable local management of natural resources*. It has one outcome.

<b>Outcome 1.4.1. Capacity of the local authorities and the communities to manage the natural resource base in a sustainable manner is improved.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.4.1.a - Local authorities plan and invest in initiatives relating to natural resource management	5/8 projects (62%) Partially achieved	<b>12 projects</b>	<b>6 projects (50%)</b> <b>Partially achieved</b>
1.4.1.b - Local authorities control and regulate access and use of natural resources	3/5 projects (60%) Partially achieved	<b>8 projects</b>	<b>4 projects (50%)</b> <b>Partially achieved</b>
1.4.1.c - Initiatives relating to natural resource management supported by two or more local authorities	2/5 projects (40%) Below expectations	<b>9 projects</b>	<b>6 projects (67%)</b> <b>Partially achieved</b>
1.4.1.d - Natural resource management user groups are established and functional	5/7 projects (71%) Partially achieved	<b>9 projects</b>	<b>4 projects (44%)</b> <b>Below expectations</b>
1.4.1.e - Households derive their income from new on-farm or off-farm activities	8/12 projects (67%) Partially achieved	<b>14 projects</b>	<b>6 projects (43%)</b> <b>Below expectations</b>
<b>Average score and assessment:</b>	<b>62% - Partially achieved</b>	<b>50% - Partially achieved</b>	

57. Again, the apparent setback in performance under the natural resource management indicators is deceiving. In absolute terms, more projects achieved their set targets in 2002 than in the previous year. Projects were successful in encouraging local authorities to plan inter-communal activities over shared natural resources, such as a forest or a lake, with 18 inter-communal committees and 128 natural resource management committees created. Local authorities and communities also embarked successfully on impressive land rehabilitation efforts.

#### **Concrete results and benefits 2002**

*1 283 hectares of land rehabilitated; 881 hectares planted with trees; 461 000 seedlings distributed; 22 664 cattle vaccinated; 128 natural resources management committees established; 18 inter-communal committees created; 595 income-generating activities initiated; 34 156 farmers and 200 extension staff trained; 3 800 persons sensitized to natural resources management issues.*

58. The fifth strategic area of support for local governance is *1.5: Advocate for national policies supporting decentralization, and for replication of pilot programmes*. It has two outcomes.

<b>Outcome 1.5.1. National policy and regulatory frameworks for decentralization and strengthened local government are improved.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.5.1.a - National policy directions on decentralization are influenced by UNCDF programmes	3/7 projects (42%) Below expectations	<b>12 projects</b>	<b>6 projects (50%)</b> <b>Partially achieved</b>
1.5.1.b - Statutory and legal frameworks are influenced by UNCDF programmes.	4/4 projects (100%) Satisfactory	<b>4 projects</b>	<b>2 projects (50%)</b> <b>Partially achieved</b>
1.5.1.c - Regulatory framework is influenced by UNCDF programmes	3/5 projects (60%) Partially achieved	<b>3 projects</b>	<b>3 projects (100%)</b> <b>Satisfactory</b>
1.5.1.d - Percentage of projects where norms, systems and procedures at the local level reflect UNCDF lessons learned	3/9 projects (33%) Below expectations	<b>13 projects</b>	<b>6 projects (46%)</b> <b>Below expectations</b>
<b>Average score and assessment:</b>	<b>52% - Partially achieved</b>	<b>53% - Partially achieved</b>	
<b>Outcome 1.5.2. Best practices of UNCDF pilot projects are replicated by other donors and central government.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
1.5.2.a - UNCDF support to local authorities is replaced or increased through co-financing by other donors	2/2 projects (100%) Satisfactory	<b>5 projects</b>	<b>2 projects (40%)</b> <b>Below expectations</b>
1.5.2.b - UNCDF programmes are replicated outside of UNCDF programme areas by other donors	1/2 projects (50%) Partially achieved	<b>3 projects</b>	<b>2 projects (67%)</b> <b>Partially achieved</b>
1.5.2.c - Elements of UNCDF programme methodology have been adopted by other donors	0/1 projects (0%) Below expectations	<b>9 projects</b>	<b>6 projects (67%)</b> <b>Partially achieved</b>
<b>Average score and assessment:</b>	<b>60% - Partially achieved</b>	<b>59% - Partially achieved</b>	

59. Policy impact and replication are the most challenging aspects of the LDP approach. In 2002, a total of 13 projects carried out activities with the specific aim of affecting some level of policy-making, with half achieving their targets satisfactorily. In Uganda, the LDP prepared a fiscal decentralization strategy that was eventually implemented by the Government. Nine projects set targets for replication activities, six of which attained satisfactory results and succeeded particularly in promoting the adaptation of UNCDF project design, strategy, and methodology by other donors.

## **B. Microfinance**

60. In the following analysis, the performance assessments presented in the tables for outcomes 2.1 and 2.2 refer only to UNCDF microfinance investments, while the assessment of UNCDF support to UNDP microfinance investments is provided in narrative form.

61. The first strategic area of support for microfinance is *2.1: Support an increase in assets of the poor*. It has one outcome.

62. Through MicroStart, UNCDF partnered with UNDP in 19 countries. Collectively, at the end of 2002, the 73 MFIs that received assistance had increased by more than a quarter million (252 948) the number of active clients they serve. Seventy-nine per cent of these clients are women. In 2002, an independent mid-term evaluation was carried out of MicroSave Africa II, for which UNCDF provides implementation support. Among the evaluation conclusions was that "MicroSave Africa II... has continued to enhance its high reputation in the region, and generally across to the provision of financial services to the poor". In 2002, MicroSave Africa II and its partners provided new or enhanced financial services to 229 093 clients, and increased the capacity of an additional 64 MFIs to carry out new product development.

<b>Outcome 2.1.1. The poor, especially women, have greater access to microfinance services.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
2.1.1.a - MFIs reach targets regarding number of active borrowers	<b>19/27 MFIs (70%)</b> <b>Partially achieved</b>	<b>23 MFIs</b>	<b>16 MFIs (70%)</b> <b>Partially achieved</b>

63. With respect to the microfinance investments of UNCDF in 2002, 16 MFIs, or 70 per cent, attained their targets for active borrowers, with eight exceeding their targets. Measured in terms of the total number of active borrowers reached, the performance is even more satisfactory – of a combined target of 68 993, the MFIs managed to reach 61 267 active borrowers, or 89 per cent of their combined targets. However, the result owes more to improved consistency and accuracy in institutional reporting than to an actual improvement in performance. Importantly, the MFIs report an increase in the percentage of female



borrowers in 2002 – 46 per cent, compared with 41 per cent in 2001. In addition, despite the lower number of MFIs reporting, the number of active savers increased from 107 069 in 2001 to 134 817 in 2002.

64. The second strategic area of support for microfinance is 2.2: *Promote the development of sustainable microfinance institutions*. It has one outcome.

65. For the MicroStart investments of UNDP managed by SUM, 2002 saw an increasing number of 'breakthrough' MFIs<sup>4</sup>. Gains in sustainability also emerged. It takes an MFI three to five years to reach operational self-sufficiency, and at the end of 2002, the length of time MicroStart country programmes had been operational averaged only two and a half years. Even so, 59 participating MFIs (82 per cent) demonstrated clear progress towards operational self-sufficiency, and 42 of these (58 per cent) had already achieved it. In addition, 38 MFIs (53 per cent) had a portfolio at risk at 30 days of less than five per cent.

<b>Outcome 2.2.1. Microfinance institutions are financially viable and provide quality services.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
2.2.1.a - MFIs reaching targets regarding operational self-sufficiency rates	16/27 MFIs (59%) Partially achieved	<b>21 MFI</b>	<b>20 MFI (95%)</b> <b>Satisfactory</b>
2.2.1.b - MFIs reaching targets regarding portfolio at risk	11/26 MFIs (42%) Below expectations	<b>23 MFI</b>	<b>11 MFI (48%)</b> <b>Below expectations</b>
2.2.1.c - MFIs reaching targets regarding portfolio outstanding	18/27 MFIs (67%) Partially achieved	<b>23 MFI</b>	<b>14 MFI (61%)</b> <b>Partially achieved</b>
<b>Average score and assessment:</b>	<b>56% - Partially achieved</b>		<b>67% - Partially achieved</b>

66. With respect to UNCDF investment in microfinancing, 2002 saw a significant increase in MFIs making satisfactory progress towards operational self-sufficiency as compared to 2001, up from 59 per cent to 95 per cent. Eight have attained full operational self-sufficiency, and five of these have attained full financial self-sufficiency. However, performance towards reducing the portfolio at risk remains a challenge. Although 11 (48 per cent) of reporting MFIs have made satisfactory progress towards their portfolio-at-risk targets, only six of them have attained the industry standard of portfolio at risk at 30 days of five per cent. Clearly, for many of the MFIs, operational and financial self-sufficiency remains a challenge.

67. The third strategic area of support for microfinance is 2.3: *Advocate for an enabling environment for sustainable microfinance activities*. It has one outcome.

<b>Outcome 2.3.1. Countries have improved their enabling environment for supporting the development of microfinance.</b>		
<b>Indicators</b>	<b>Prior to 2002</b>	<b>2002</b>
2.3.1.a - Number of countries improving their enabling environment for supporting the development of microfinance with UNCDF support (Previously 2.3.1.a. Percentage of projects having led to institutional change in the microfinance environment)	5 countries Cambodia Madagascar Mongolia Morocco Uganda	<b>9 countries (cumulative)</b> <b>Kenya</b> <b>Malawi</b> <b>Mauritania</b> <b>Nigeria</b>
<b>Average score and assessment :</b>	<b>Satisfactory</b>	<b>Satisfactory</b>

68. This indicator was revised to monitor the running total of countries where UNCDF has improved the enabling environment for microfinance, bearing in mind that it is not realistic to expect results every year. Prior to 2002, UNCDF had success in five programme countries; in 2002, four more were added to the list. This result represents an important shift in the operational policies of governments towards supporting sustainable microfinance.

<sup>4</sup> A 'breakthrough' is an organization that becomes a major service provider in its geographic area, attaining substantial independence from donors through financial viability, and influencing other providers.

## C. Organizational strengthening

69. The first strategic area of support for organizational strengthening is 3.1: *Promote excellence in the planning, implementation, monitoring and evaluation of local development programmes and microfinance operations*. It has three outcomes.

<b>Outcome 3.1.1. UNCDF moves from policy refinement to achieving operational impact.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
3.1.1.a - Projects evaluated with overall positive findings (Previously 3.1.1.b; Evaluations show greater levels of impact)	“UNCDF interventions contribute significantly to the well-being of the poor” [Satisfactory]	15	11 (73%) <b>Partially achieved</b>
3.1.1.b - Results attained in policy impact and replication. (Previously 3.1.3.c; Number of programmes with strategies for policy impact and replication)			
Policy impact	14/26 (54%)	31	21 (68%)
Replication	3/5 (60%) (55%)	17	10 (59%) (65%)
	Partially achieved		<b>Partially achieved</b>
<b>Average score and assessment:</b>	56% - Partially achieved		<b>69% - Partially achieved</b>

70. After finalizing its policy documents and guidelines, UNCDF went on to ensure operational impact. Fifteen projects were evaluated by independent, external evaluators, out of which 11, or 73 per cent, were assessed as having an overall positive impact. The evaluations found room for improvement, particularly in terms of gender mainstreaming, monitoring and evaluation, and infrastructure operations and maintenance. In terms of policy impact and replication, there was a significant increase in the number of projects reporting replication of UNCDF funded activities in both areas.

<b>Outcome 3.1.2. UNCDF maintains operational results and quality assurance through improved elements of the project cycle and continuous learning through monitoring and evaluation.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
3.1.2.a - Projects formulated within a year (from fielding of mission to approval) (Previously 3.1.2.b; Average time of project formulation)	9 months Exceeded expectations	4	4 (100%) <b>Satisfactory</b>
3.1.2.b - Projects formulated according to corporate guidelines and approved (Previously 3.1.2.c; Programmes formulated according to guidelines, and 3.1.2.d;- Percentage of new projects with exit strategy)	(100%) Satisfactory	5	4 (80%) <b>Satisfactory</b>
3.1.2.c - Projects approved that start implementation within six months		6	4 (80%) <b>Satisfactory</b>
3.1.2.d - Ongoing projects with monitoring and evaluation systems in place	44/92 (48%)	93	40 (43%) <b>Below expectations</b>
3.1.2.e - Projects reporting through MIS		20	15 (75%) <b>Satisfactory</b>
3.1.2.f - Annual reports available for ROAR		58	40 (69%) <b>Partially achieved</b>
3.1.2.g - Evaluations implemented according to plan	15/21 (71%)	23	15 (65%) <b>Partially achieved</b>
3.1.2.h - Best practices documented and disseminated (Previously 3.1.3.b)	9 case-studies documented	2 best practices documented	7 (350%) <b>Exceeded expectations</b>
<b>Average score and assessment:</b>	Satisfactory		<b>108% - Satisfactory</b>

71. To ensure operational effectiveness and enhance efficiency, UNCDF has been systematically following through on the recommendations of the 1999 external evaluation. This work is now producing results. All four projects formulated in 2002 were formulated within a year of initialization. Five out of six projects began implementation within six months of approval. Much effort was put into developing and establishing effective monitoring and evaluation systems in UNCDF-supported projects. In 2002, MIS-based monitoring systems were tested in 20 countries, with a 75 per cent success rate.

72. Since UNCDF is a piloting, innovating organization, emphasis is placed on evaluation, research, documentation and dissemination of the lessons learned in local governance and microfinance. UNCDF has achieved the majority of its targets for continuous learning.

<b>Outcome 3.1.3. UNCDF maximizes its comparative advantage through strengthened and expanded strategic partnerships.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
3.1.3.a - Number of programmes, projects and joint activities with replication partners <i>(Previously 3.1.3.a; Number of programmes/projects with replication partners, and 3.1.3.d; Increased networking and growth in number of partnerships)</i>	2 partnerships 2 MOUs signed	4 partnerships 1 MOU signed	8 partnerships 1 MOU (100%) Satisfactory
3.1.3.b - Number of technical advisory services provided	19/5 (380%)	LGU: 5 SUM: 35	LGU: 8; SUM: 35 (108%) Satisfactory
3.1.3.c - Increase in number of external visits per week to website	3800	-	7000
3.1.3.d - Number of new publications or videos produced as planned		2	2 (100%) Satisfactory
<b>Average score and assessment:</b>	Satisfactory	103% - Satisfactory	

73. The MOU between UNDP and UNCDF in the area of local governance and decentralization was finalized in 2002, paving the way for greater collaboration between the two agencies. In strengthening other partnerships, the LGU provided technical inputs to the Low-Income Countries Under Stress (LICUS) initiative of the World Bank, supported a World Bank-led formulation mission in Niger (which included the European Union and the African Development Foundation as partners), and signed a strategic framework for programme cooperation with the Belgium Survival Fund. In microfinance, SUM provided a \$450 000 loan co-financed by the UNDP Regional Bureau for Africa to support the Africap Microfinance Fund, the first equity fund to support microfinance in Africa. Demand for UNCDF expertise in local governance and microfinance remained high. LGU provided technical advisory services in support of local governance and post-conflict issues to eight countries, while SUM provided these services to 35 countries.

74. The second strategic area of support for organizational strengthening is 3.2: *Promote sound corporate and financial management of the organization and expand and diversify the funding base.* It has four outcomes.

<b>Outcome 3.2.1. UNCDF maintains effective corporate management.</b>			
<b>Indicators</b>	<b>2001 results</b>	<b>2002 targets</b>	<b>2002 results</b>
3.2.1.a - Targets of Corporate Management/Business Plan are met <i>(Previously 3.1.1.c; Action Plan 2000 targets are respected)</i>	8.5/11 (77%) Satisfactory	All Action Plan 2000 and Business Plan 2000- 2002 targets met	Action Plan 9/11 (82%) Business Plan 50/61 (82%) Satisfactory
3.2.1.b - Targets of unit plans are met		All unit plan targets met	LGU – 81% SUM – 90% Evaluation Unit – 75% (82%) Satisfactory
<b>Average score and assessment</b>	Satisfactory	82% - Satisfactory	

75. The majority of the follow-up activities to the recommendations of the 1999 external evaluation, captured in the Action Plan 2000, have been completed. Those remaining relate to full implementation of the MIS and further improvement of financial tracking and reporting, which is linked to the UNDP ERP effort. In 2002, all units were required to prepare unit management plans. These were completed in timely manner and end-of-year reviews indicated a high rate of target achievement by all three units.

<b>Outcome 3.2.2. UNCDF attracts, develops and retain high-quality personnel.</b>		
<b>Indicators</b>	<b>2002 targets</b>	<b>2002 results</b>
3.2.2.a - Ratio of actual staff to planned staff in HQ	51	47 (92%) Satisfactory
3.2.2.b - Number of staff days assigned to formal learning events	510	611 (120%) Partially achieved
<b>Average score and assessment</b>	106% - Satisfactory	

76. The vacancy rate for the combined headquarters and country office establishment is currently eight per cent. The staffing gap resulted from a conscious decision taken to reduce headquarters costs. However, there are consequences in terms of the overall productivity of the organization and the additional pressure placed on staff. In order to ensure the quality of its results and to establish itself as a centre of excellence, UNCDF supports the capacity development of its staff and seeks to ensure that at least five per cent of staff time is spent on personal competency development.

<b>Outcome 3.2.3. UNCDF improves financial efficiency.</b>			
<b>Indicators</b>			
<b>3.2.3.a - Financial performance</b>		<b>2001</b>	<b>2002</b>
1. HQ expenditures as a percentage of total UNCDF expenditures <i>(Previously 3.2.1.b; Percentage of administrative costs)</i>		15%	18%
2. Project expenditures as a percentage of total UNCDF expenditures		85%	82%
<b>3.2.3.b - Accuracy of financial planning (i.e., variance analysis of actual expenditure in relation to planned expenditure)</b> <i>(Previously 3.1.1.a; Annual programme targets met)</i>			
		<b>2001 results</b>	<b>2002 targets</b>
			<b>2002 results</b>
a.	Expenditures	\$36 million/\$35 million	<b>\$25 million</b> <b>\$22.7 million (90%)</b> <b>Satisfactory</b>
b.	Approvals	\$10.6million/\$10.6million (100%) Satisfactory	<b>\$6 million</b> <b>\$9.1 million (52%)</b> <b>Partially achieved</b>
<b>3.2.3.c - Change in cost-recovery through technical advisory services (TAS)</b>			<b>\$409,045</b> <b>(50% of TAS costs)</b> <b>\$193,023 (47%)</b> <b>Below expectations</b>
<b>Average score and assessment</b>		Satisfactory	<b>63% - Partially achieved</b>

77. With project expenditure at 82 per cent and headquarters expenditure at 18 per cent, UNCDF resource deployment was correctly proportioned in 2002, especially as half of headquarters expenditure was in programme support. Furthermore, the ratio does not account for the significant volume of programme expenditures under UNDP-funded microfinance programmes, which receive technical support from UNCDF. One of the ways in which UNCDF attempted to increase revenue was by recovering costs from the technical advisory services provided to its development partners. For the first year of its implementation, a target of 50 per cent cost-recovery was set, of which 24 per cent was attained.

78. Core contributions to UNCDF for 2002 reached \$22.3 million as compared to \$24.3 million in 2001. The main factor explaining this situation is that one of the most generous contributors to UNCDF, in the name of burden sharing, significantly reduced its contribution to UNCDF in 2002. Non-core contribution agreements signed have more than tripled, from \$4.1 million in 2001 to \$12.5 million in 2002.

<b>Outcome 3.2.4. UNCDF expands and diversifies its funding base.</b>			
<b>Indicators</b>			
<b>3.2.4.a - Change in core and non-core funding</b> <i>(Previously 3.2.3.a; Increase in core funding and 3.2.2.b; Increase in non-core funding)</i>		<b>2001 results</b>	<b>2002 targets</b>
			<b>2002 results</b>
a.	Core	\$24.3million/\$30 million (81%) Satisfactory	<b>\$30 million</b> <b>\$22.3 million (74%)</b> <b>Partially achieved</b>
b.	Non-Core	\$4.1 million/\$8million (51%) Partially achieved	<b>\$10 million</b> <b>\$12.5 million (125%)</b> <b>Exceeds expectation</b>
<b>3.2.4.b - Change in number of donors</b>		15 (115%) Satisfactory	<b>17</b> <b>17 (100%)</b> <b>Satisfactory</b>
<b>Average score and achievement</b>			<b>Satisfactory</b> <b>100% - Satisfactory</b>

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## **VI. Lessons learned in results-based management**

79. UNCDF implemented its results-based management (RBM) system over a very short period, initiating it in 1999 and producing a ROAR every year since 2000. However, the institutionalization process is not yet complete. Three key lessons have emerged to date from the efforts to institutionalize RBM and performance budgeting in UNCDF.

80. First, in order to make the ROAR a 'live' management tool, the 2002 ROAR was reformulated to go beyond reporting on results attained, and identify management challenges and the way forward. This effectively integrates the management agenda with the results desired.

81. Second, in order to further infuse RBM into the work culture of the organization, specific and, as far as possible, direct relationships will have to be established between the results produced and the utilization of human and financial resources; that is, direct links will have to be made between the SRF and the unit and individual performance plans.

82. Third, and finally, while the setting of SRF indicators helps to focus the organization on long-term strategic goals, these indicators often fail to capture achievements responding to changing contexts and situations. In order for the SRF to remain relevant, the indicators must be constantly reviewed and revised, although this necessary flexibility may complicate inter-year comparisons.

## Annex. The SRF/ROAR methodology

The strategic results framework 2000–2003 was developed in 2000 in consultation with all UNCDF partners and staff, including field staff, and was approved by the Executive Board in June 2000. As a ‘live’ management tool, the SRF is revised regularly. Results based management tools - the annual work plan and the annual work plan report – have been introduced to facilitate the preparation of the ROAR.

At the beginning of each calendar year, annual outcomes and outputs are identified for programmes and projects (with specified targets and budgets) and linked with SRF indicators (if and when relevant). Programme managers, monitoring and evaluation technical advisors and the Evaluation Unit screen the plans to ensure compliance with the SRF and that targets are realistic. At the end of the year, annual achievements are compiled and reported through the annual work plan reports. To validate the data submitted, field technical reports and external project evaluation conclusions are compared with the annual work plan reports of those projects.

Performance is rated according to target achievement rates for each project reporting under a specific SRF outcome indicator. The categories are defined as follows:

- |    |            |                    |
|----|------------|--------------------|
| 1. | Over 100%: | Exceeded targets   |
| 2. | 75 - 100%: | Satisfactory       |
| 3. | 50 - 74%:  | Partially achieved |
| 4. | Below 50%: | Below expectations |

Using this rating system, the assessment of performance under each SRF outcome indicator is calculated by dividing the total number of projects assessed as “satisfactory” and “exceeded targets” by the total number of projects reporting under the indicator. For example:

PROJECT	TARGET	ACHIEVEMENT	PERCENTAGE	CATEGORY
Project 1	100 villages	80 villages	80%	Satisfactory
Project 2	50 communes	25 communes	50%	Partially satisfactory
Project 3	200 villages	210 villages	105%	Exceeded targets
Project 4	2 districts	2 districts	100%	Satisfactory
Overall assessment of indicator			3 of 4 projects attain 75% or more of their targets	Satisfactory

Following the assessment of performance by SRF indicator, for sub-goals 1 and 2, the assessment of overall progress towards an outcome is calculated by dividing the number of projects performing satisfactorily or above expectations by the total number of projects reporting. A “satisfactory” assessment means that UNCDF has progressed acceptably towards achieving of the outcome. For example:

Outcome indicator	Total number of projects reporting	Number of projects satisfactory or better
Indicator 1	4	3 (75%)
Indicator 2	16	15 (93.8%)
Indicator 3	10	7 (70%)
Overall assessment of progress towards outcome	30	25 (83.3%) [Rating: Satisfactory]

For sub-goal 3, due to the different units of measurements utilized, the assessment of overall progress is calculated by taking the average of the percentage scores for each indicator. In the analysis, certain indicators that may skew the results must be discounted.

Finally, the assessments of outcomes are aggregated under each sub-goal and analyzed to determine the Fund’s overall performance.