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

Summary

In its decision 2006/4, the Executive Board noted the progress that UNCDF has made in implementing its business plan, 2005-2007, and requested that it report on the status of implementation of the business plan. The present report responds to this request and provides an update on the status of the strategic review and implementation of the business plan. In addition, in line with the UNCDF managing-for-results strategy outlined in the business plan, the report gives a detailed overview of UNCDF performance in 2005 in terms of programme, management and financial results.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the current document.

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Introduction

1. The United Nations Capital Development Fund (UNCDF) makes investments in the least developed countries (LDCs). Its overall goal is to reduce poverty in the LDCs and to help them achieve the Millennium Development Goals (MDGs). It does so by investing in two practice areas, local development and microfinance, while striving to strengthen organizational performance. The three sub-goals of the UNCDF strategic results framework, as included in the UNCDF business plan 2005-2007, capture these performance dimensions.

2. This report provides an overview of UNCDF performance in 2005 for each of the sub-goals against the background of a rapidly changing internal and external environment. The format has been streamlined, to the extent possible, using the format of for the UNDP multi-year funding framework (MYFF) report. Further, this document responds to Executive Board decision 2006/4 and provides an update on the status of the strategic review and implementation of the business plan.

3. 2005 was a challenging year for UNCDF for several reasons. First, the January 2005 Executive Board decision on the preferred option for the UNCDF business model (decision 2005/5) made it possible to prepare the business plan. The plan was approved by the Executive Board in June 2005 (decision 2005/5). That decision formed the basis for mainstreaming the UNCDF administrative budget as of 2006-2007 into the UNDP biennium support budget, with a formal decision (2005/33) taken at the second regular session of the Executive Board. Internally, the vision outlined in the business plan formed the basis for a change management process that resulted in a substantial reorganization of UNCDF from July 2005 onwards. In August 2005, the new Executive Secretary joined UNCDF. In addition, 2005 was the International Year of Microcredit, for which UNCDF had significant responsibilities for organizing, sponsoring and hosting many of the events and activities.

4. The first chapter of the present report provides a summary of the ongoing progress of UNCDF in implementing the business plan. The three remaining three chapters discuss the programme, management, and financial results for 2005.

I. Implementation of the business plan

A. Investment plan

5. In the first quarter of 2006, UNCDF completed a strategic review of the business plan and used its conclusions to prepare a detailed investment plan for 2006-2007 (see annex). The number of LDCs in which the Fund plans to invest by 2007 has increased to 45. In the microfinance practice area, there is an increased interest for UNCDF microfinance support following the International Year of Microcredit and the issuing of the UNDP microfinance policy in January 2006. This included expressions of interest from five LDCs in the Asia and the Pacific region, bringing the total number of LDCs to be covered in the microfinance practice area to 28. In the local development practice area, several programme formulations originally scheduled for 2008-2009 have been advanced, so as to ensure a smooth transitions from the end of the old local development programme to the beginning of the new one, and to respond in a timely fashion to demand from other LDCs.

6. Local economic development is a fast-growing area of UNCDF support, with pilot programmes under formulation in Tanzania, Uganda and Zambia. Emphasis on exploiting more systematically the potential synergies between the two practice areas is resulting in

joint missions and innovations on the ground in countries such as Burundi, Liberia and Zambia.

B. Business development strategy

7. UNCDF is seeking to expand its donor base and improve burden-sharing for non-earmarked resources, both as directed by the Executive Board in January 2006 (decision 2006/4). In early March, 2006, UNCDF presented fundraising materials to 34 Member States in an effort to raise at least $10 million in new non-earmarked resources in both 2006 and 2007. The materials identified specific geographical and thematic areas in which UNCDF is active (such as post-conflict countries and building inclusive financial sectors in Africa) and for which discrete financial support could be provided. While initial responses have been positive, it is expected that the total feedback on the fundraising package will not be known until the Executive Board meets in June 2006.

8. UNDP and UNCDF collaborated with the Member States during the resource mobilization process. Further, UNDP and UNCDF have agreed to adjust the resource mobilization incentive structure at the country level to ensure that resources mobilized for UNCDF are included in the balanced scorecard of the country office concerned. This is particularly important in that the two service lines on which UNDP capacity building support is programmed jointly with UNCDF investment and technical support are among the four largest in terms of UNDP delivery. In addition to its resource mobilization at the Member State level, UNCDF is actively pursuing financial support on a programme basis at the country level.

C. Managing-for-results strategy

9. UNCDF is at the final stage of refining the coherent managing-for-results framework for UNCDF. It is seeking to use systems that are user-friendly and that generate useful, timely information to enable effective management for results. The UNCDF strategic results framework is close to finalization and will be used for reporting on results in 2006 and 2007. It links UNCDF results in the local development and microfinance practice areas to MDG objectives and to the UNDP results framework, and identifies core indicators that can be measured through monitoring and evaluation and used for management and reporting purposes.

10. Over the past year, a closer working relationship has been established between UNCDF and UNDP in monitoring and evaluation. One important result is the common evaluation policy for UNDP and its associated funds and programmes, submitted to the Executive Board for approval at its annual session 2006. Specific criteria for UNCDF regarding the types of evaluation to be conducted and the mandatory evaluation requirements, as well as future management arrangements for evaluation, are being finalized. Further, UNCDF has adopted the UNDP balanced scorecard tool for assessing organizational performance. In 2006 and 2007, other areas for improving the overall accountability framework of UNCDF will be tackled, notably the strengthening of audit planning and reporting.

D. Organizational structure, staffing and budgetary arrangements

11. Consistent with United Nations reform initiatives, UNCDF continued restructuring to achieve greater decentralization and improve its operating efficiency and effectiveness. By April 2006, the streamlining of UNCDF headquarters to focus on strategic functions and management had been largely completed, with the incumbents of two new functions – Operations Adviser and Business Development Adviser – assuming their posts.

12. While staffing levels in New York were down by 34 per cent compared to April 2005, the number of regional level staff tripled over the same period. One unplanned and unfortunate consequence of the change management process has been a deteriorating gender balance at the professional level, which was due to individual decisions largely beyond the control of UNCDF. The Fund has identified this as a key area for attention in terms of human resources management. UNCDF is working with the Office of Human Resources (OHR) to address the issue.

E. Partnership with UNDP

13. The overall partnership between UNDP and UNCDF was strengthened, operationally and financially, in 2005. UNCDF plays a strategic role in 'investing in LDCs,' which is an integral part of UNDP and United Nations efforts to achieve the MDGs in the LDCs. In line with UNCDF geographic expansion plans, the number of joint UNDP/UNCDF programmes grew rapidly during the year, including a joint regional programme for building inclusive financial sectors in Africa. Joint programmes are most common in the UNDP governance and poverty practices, specifically in service lines 2.6 (local governance, decentralization and urban/rural development), and 1.3 (pro-poor initiatives, including microfinance). In addition, the Fund is seeking to formulate joint programmes with the Bureau for Crisis Prevention and Recovery (BCPR) in the crisis prevention and recovery practice, and to work with Regional Bureaux in providing technical support to their microfinance activities.

14. UNCDF moved closer to UNDP physically, by expanding its presence in the UNDP regional service centres in Dakar, Johannesburg and Bangkok, and financially, through UNDP support to UNCDF resource mobilization and through the decision to mainstream the administrative budget of UNCDF for 2006-2007.

15. UNDP and UNCDF are preparing a draft strategic partnership agreement to address a variety of strategic and operational issues between the two organizations. An update on these discussions will be provided at the annual session 2006 of the Executive Board.

II. Programme results

A. Performance analysis for sub-goal 1: local development

16. The UNCDF local development practice area is concerned with building local capacity for, and making investments in, small-scale socio-economic infrastructure and social services. This institutional development concerns all interventions that build human and institutional capacity for local governments to perform their developmental role and, ultimately, deliver capital investment for pro-poor infrastructure and services. In 2005, UNCDF had local development programmes and local development funds in 23 LDCs. Highlights of results in this practice area are:

(a) An independent impact study showed that during a six year period (2000-2006) the local development programme in Timbuktu supported the design and implementation of 419 micro-investments in socio-economic infrastructure in 21 local governments. The bulk of investments were in agriculture, water, livestock, health and education. The investments averaged $8,750 and benefited a total population of about 250,000 people. The study provides details on the direct impact of these projects at the local level.

(b) In Mozambique, the UNDP evaluation report on the assessment of development results highlighted how the UNCDF-led consortium of five donors (the Netherlands, Norway, SDC, UNCDF and UNDP) tested a model for local governance that was scaled up, replicated and adopted by the Government as official policy. The evaluation singled this out as a 'flagship programme' in the UNDP country portfolio.

(c) In Yemen, UNDCF is supporting the development of a national decentralization strategy within the Ministry of Local Authorities, with all donors pooling their resources into a common basket fund under a single policy framework. Again, in the UNDP assessment of development results for Yemen, this joint UNDP/UNCDF programme was singled out for its success.

(d) Due to the success of the UNCDF project in Sirajganj, the Government of Bangladesh has decided to launch a national local government support programme to roll out the local development programme innovations to all Union Parishads in the country. The Government focus is on using the proven UNCDF methodology to improve public expenditure management and accountability. The $165 million programme will be supported by the Government of Bangladesh ($50 million), the World Bank ($100 million), UNCDF ($2.5 million), and UNDP ($2 million), with co-funding from the European Commission ($10.5 million).

(e) The UNCDF local development practice area published 'Delivering the Goods: A Practitioner's Guide from UNCDF Experience in LDCs' (www.uncdf.org/delivering), which records UNCDF experience and lessons learned in building local government capacity to achieve the MDGs.

(f) A new generation of local development programmes stressing local economic development is currently being launched with formulations in Tanzania, Uganda and Zambia, totalling at least $10 million. Table 1 presents UNCDF performance against the various local development outcomes.

Table 1. Achievements of 2005 targets for the local development practice area

Core results and outcomes	**Overall target achievement (%)**					**Performance achieved**
	Asia	**E/S Africa**	**West Africa**	**Others**	**Global**	
Core result 1: Pilots for public expenditure management infrastructure and service delivery (ISD) successfully implemented						
Outcome 1.1: Effective, participatory assessment of demand for ISD by local governments in UNCDF pilots	83.2	82.1	95.3	75.0	85.5	Fully achieved
Outcome 1.2: Increased expenditure on ISD effectively, equitably and transparently managed by Local gov'ts in UNCDF pilots	74.7	84.5	73.1	*	77.6	Fully achieved
Outcome 1.3: Increased. more effective supply and maintenance of basic socio-economic infrastructure and services by local gov'ts, service providers and local communities in UNCDF pilots	82.5	58.2	60.3	80.3	68.1	Partly achieved
Outcome 1.4: Sustained management of the local natural resource base ensured by local gov'ts in UNCDF pilots	*	*	56.7	69.1	60.4	Partly achieved
Outcome 1.5: Enabling environment for local economic development established by local governments in UNCDF pilots	*	*	*	*	*	*

Core result 2: Pilot models and lessons leveraged for policy impact and replication						
Outcome 1.6: Government amendments to policy/legal/regulatory frameworks reflect lessons from UNCDF pilots	50.0	71.0	33.0	50.0	52.0	Partly achieved
Outcome 1.7: UNCDF pilots scaled up through replication by other funding entities and/or government's own budgetary resources	82.6	75.6	71.5	78.2	76.0	Fully achieved
Total	**80.7**	**75.1**	**71.4**	**75.6**	**75.5**	**Fully achieved**

*Outcomes for which no targets had been set in 2005, but for which targets will be set in 2006 and 2007.

17. The high level of performance in participatory assessment of demand (outcome 1.1) confirms that local development programmes are quite effective in delivering participatory planning mechanisms. Project teams reported increased dynamism among local populations participating actively in the local planning process. As the timely delivery of annual investment plans was a crucial performance prerequisite to accessing funding, new planning approaches in all projects were institutionalized in a relatively short time. Areas of concern remain, such as the quality of plans, their consistency with sectoral and higher-level planning (such as regional, provincial, and poverty-reduction strategies), and the cost-effectiveness of the local planning process. These concerns are increasingly being taken into account in the respective capacity building programmes for local authorities.

18. In 38 per cent of UNCDF projects. a high emphasis on training of women was documented in the area of needs assessment, participatory planning approaches, and monitoring and financial management. In Bangladesh, for example, women's rights awareness campaigns were held; and 44 per cent of the participants in the needs assessment and planning process were women. In 76 per cent of the local development programmes, women's groups and associations were supported with funds to implement small-scale projects, especially for income-generating activities.

19. Performance under outcome 1.2 reflects the issues faced by local authorities in raising their own revenues and integrating these additional resources into the budget process in a transparent manner. The increase in local investments for infrastructure and service delivery is mainly due to an increase in local revenue. Efforts to incorporate more systematically a sound strategy to mobilize local resources, as well as appropriate tools for tax collection, into new local development programmes, are bearing results. In some countries, such as Bangladesh and Guinea, annual local revenue targets for 2005 were exceeded.

20. Capital investment in basic socio-economic infrastructure and access to social services is the expected result of the new 'capacity to perform' of local government systems. The support to these local authorities has provided them with the capacity to facilitate and measure successful performance. Table 2 gives an indication of the efficiency of local government systems to deliver capital investment through local development programmes, while table 3 provides a summary of the beneficiaries of UNCDF local development investments in 2005.

Table 2. Expenditure to types of capital investment – Local development, 2005

Type of investment	No. of projects	Investment (in dollars)	Average unit cost (in dollars)	Percentage of projects
Education	343	1,879,114	5,478	23 %
Health	171	996,970	5,830	12 %
Water supply	385	1,542,188	4,005	18 %
Local government offices, community facilities	273	1,242,948	4,552	15 %
Markets, agriculture, natural resources management	1,054	1,901,784	1,804	23 %
6. Roads, bridges, culverts	553	708,167	1,280	9 %
Total	**2,779**	**8,271,171**	**2,976**	**100 %**

21. Though the target for the supply of infrastructure and services (outcome 1.3) was only partially achieved, a total of 493 UNCDF-supported local governments were able to deliver 2,976 small-scale investments at an average cost of $2,976 per investment. These investments benefited about four million people in 23 different LDCs. In comparison with 2004, the total number of investments increased by 12 per cent, with the average value of an investment increasing by 24 per cent. This was largely due to the increased share of education and water projects in the investment portfolio, which have a higher average cost than road projects. The total number of beneficiaries, however, declined by about 13 per cent, notably due to a decreasing share of road projects that in general tend to have a far higher number of beneficiaries per investment. At the same time, the average investment per capita has increased to $2.10.

Table 3. Beneficiaries of UNCDF local development investments – 2005

	No. of Countries	Local gov'ts supported	Avg. local gov'ts per country	No. of projects	Beneficiaries (thousands)
West Africa	7	269	38	1,292	1,096
Eastern/Southern Africa	7	74	10	159	1,700
Asia	6	112	18	1,291	1,050
Others	3	38	12	37	96
Total	**23**	**493**	**21**	**2,779**	**3,942**

22. Education and rural economic activity each constituted 23 per cent of UNCDF investments in 2005. These were followed by water supply (18 per cent), health (12 per cent) and roads, bridges, and culverts (9 per cent). More than 60 per cent of all investments were dedicated to enhancing access to social services and infrastructure. As in 2004, about a quarter of UNCDF investment in 2005 was used for economic capital formation, such as markets, natural resource management and agriculture. These investments contribute directly towards achieving the MDGs at the local level.

23. The limited delivery in natural resource management (outcome 1.4) is due to the fact that such activities are quite complex. They relate to a variety of sensitive issues, such as

traditional versus modern land-pattern ownership, pastoral versus sedentary land uses, and cadastral inventory. In addition, external factors, including drought, forced a reallocation of planned resources in Niger, from longer-term investments in natural resource management to emergency programmes in food security. None of the UNCDF-supported programmes established 2005 targets for local economic development; the first reporting on this outcome will therefore take place in 2006.

24. Performance, in terms of the leveraging of the pilot models for policy impact and replication, was mixed. Outcome 1.6, which was partially achieved, reflects the long gestation period for government amendments to policy and regulatory frameworks. In terms of replication, the performance was fully satisfactory, as indicated in outcome 1.7, with notable successes in Bangladesh, Mozambique, Senegal and Yemen, among other countries.

B. Performance analysis for sub-goal 2: microfinance

25. UNCDF has identified microfinance as an effective means of contributing on a sustainable basis to poverty reduction and the achievement of the MDGs. In 2005, in accordance with the new UNCDF approach to microfinance as set forth in the business plan, UNCDF strengthened its focus on building inclusive financial sectors as its main area of emphasis in the microfinance practice area. The 2005 results-oriented annual report (ROAR) initiates reporting on the new financial sector development approach to building inclusive financial sectors. Highlights of results in this practice area are as follows:

(a) UNCDF approved two new inclusive finance programmes, bringing the number of countries applying its new sector development approach to six, plus one regional support programme for Africa. All the countries are LDCs in Sub-Saharan Africa. Other countries in Africa and Asia have requested UNCDF assistance in 2006 in building an inclusive financial sector;

(b) The International Year of Microcredit, jointly coordinated by UNCDF and the Department of Economic and Social Affairs (DESA) and hosted by UNCDF, was officially completed on 19 November 2005. UNCDF has prepared a final report on the global activities during the year, available on the UNCDF website as of April;

(c) Fourteen countries have improved their policy and enabling environment for microfinance services, with support from UNCDF;

(d) Almost 440,000 people are receiving microfinance services from financial service providers, which include commercial banks, non-bank financial institutions, credit unions, microfinance institutions, community banks, and a variety of other financial services providers supported by UNCDF;

(e) Seventeen out of 19, or 89 per cent, of the financial service providers currently supported by UNCDF have demonstrated a positive trend in financial sustainability.

26. Initial indications of the results of the sector development approach to financial inclusion are encouraging. In late 2004, for example, together with KfW Bankengruppe (Germany), Cordaid (the Netherlands) and UNDP, UNCDF launched a $10.3 million programme to build an inclusive financial sector in Sierra Leone. As part of that programme, investments were made in a variety of financial service providers. The financial service providers supported by the programme have already increased their numbers of active clients from 13,000 to 37,325. This surpasses the programme target of 20,000 for the end 2005 by 87 per cent.

27. As part of the financial sector development approach, UNCDF supported the design of national inclusive finance strategies in the Democratic Republic of the

Congo, Madagascar and Senegal. The process gathered key stakeholders, including the Government (the Prime Minister and the Minister of Finance), Parliament, financial service providers, the Central Bank, donors, and technical service providers in a focused dialogue on financial sector constraints, challenges, opportunities, and the vision going forward. UNCDF facilitated the development of action plans and the design of national support programmes in the three countries, initially co-funded by UNDP and UNCDF, with an invitation to other partners to join. The recent Madagascar country level aid effectiveness review from the Consultative Group to Assist the Poorest (CGAP) noted, “Although it is too early to judge the results, the process has been favourably judged by all the partners, and the content is in accord with good practice principles”. Table 4 presents UNCDF performance against the various microfinance outcomes.

28. In terms of outreach (outcome 2.1), there was a 16 percent overall growth in clients, with the growth percentage evenly split between male and female. From a baseline of 379,018 clients in 2004, of which 171,690 were female, the combined clientele of UNCDF-supported financial intermediaries grew to 438,272 by the end of 2005, including 199,352 female clients. Overall, financial service providers in which UNCDF invested added 59,254 clients in 2005. Female clients comprised 45 per cent. The overage loan size for these institutions was 55 per cent of GDP per capita in 2005.

29. This increased outreach is based largely on a combination of prior institutional investments by UNCDF and its partners in leading financial service providers in West Africa. It takes into account the reporting from the sector development approach for inclusive finance in Sierra Leone. The first sector programme added 15,363 clients in its first year, 76 per cent of the total clients being female. The average loan size in Sierra Leone is 14 per cent of GDP per capita, reaching poorer people than the overall average.

30. In terms of sustainability (outcome 2.3), more than 50 per cent of the microfinance institutions supported by UNCDF are meeting the international standard of strong portfolio quality (portfolio at risk at 30 days of less than 5 per cent). This level of performance is appropriate for institutions at this stage in their development cycle and is primarily due to (a) high standards set by UNCDF in its performance agreements; and (b) the challenge young financial service providers face in building systems to maintain portfolio quality as they grow rapidly. UNCDF monitors portfolio performance closely and focuses significant capacity building around this issue. Sixteen per cent of the institutions have achieved profitability. These are older institutional investments in West Africa, confirming that UNCDF is taking risk and investing in younger, unproven institutions. The fact that 89 per cent of the financial service providers in which UNCDF has invested demonstrates a positive trend toward sustainability, which is promising, and is a strong indication of the future sustainability of these institutions.

31. The high percentage (92 per cent) of countries with supporting industry infrastructure (outcome 2.4), primarily FSP associations and networks, reflects the recognition of financial service providers of the importance of collaboration to establish good practices in countries new to microfinance. The low percentage (63 per cent) of financial service providers with industry standard audits or ratings (outcome 2.5) similarly reflects the niche where UNCDF is working. That niche consists almost exclusively of countries at the start-up or emerging phase of sector development, including post-conflict countries. For example, in Sierra Leone, the first audit of a financial service provider meeting CGAP-recognized audit standards took place in 2005. It provided a learning experience both for the auditors and for the financial service providers. Future audits for the sector will be based on this newly established standard.

Table 4. Achievements of 2005 targets in the microfinance practice area

Core results and outcomes	Overall target achievement (%)	Performance achieved
Core result: established sustainable retail intermediaries providing a range of financial services to low income households		
Outcome 2.1: Increased outreach of UNCDF-supported financial intermediaries to low-income households Outcome 2.2: Increased breadth and depth of services provided by UNCDF-supported financial intermediaries to low income households Outcome 2.3: Increased sustainability and efficiency of UNCDF-supported financial intermediaries serving low-income households	16 % overall growth ** 17/19 financial service providers, or 89% (trend: profitability) 10/19 financial service providers, or 53% (portfolio quality)	Fully achieved ** Fully achieved Partly achieved
Core result: supporting industry infrastructure for delivery of financial services to low-income households established		
Outcome 2.4: Local financial-sector supporting infrastructure in place Outcome 2.5: Increased visibility and transparency of UNCDF-supported financial institutions	11/12 countries, or 92% 12/19 financial service providers, or 63%	Fully achieved Partly achieved
Core result: Enabling environment for building inclusive financial sectors fostered		
Outcome 2.6: Increased capacity of government to support conducive policy environmnent for an inclusive financial sector Outcome 2.7: Increased capacity of regulatory and supervisory authorities to develop conducive legal framework for an inclusive financial sector Outcome 2.8: Nationally-owned government and donor strategies exist in support of building inclusive financial sectors	14/15 countries or 93% (2.6 and 2.7 combined) 10/15 countries or 67%	Fully achieved Fully achieved Partly achieved
Total		**Fully achieved**

* Reporting on indicator 2.2 will be captured by the national household surveys that UNCDF will carry out in partnership with the World Bank under the data project. Reporting of results will take place after baseline and follow-up surveys have been completed.

32. The UNCDF sector development approach builds the capacity of national policymakers to develop national strategies for inclusive financial sectors. A constraints-based approach to policy issues builds the capacity of policymakers to identify constraints to an inclusive financial sector and to then remove the most serious ones. Almost all the countries assisted made immediate improvements in their enabling environment (outcome 2.6), a result achieved through training and capacity-building of regulatory and supervisor authorities (outcome 2.7). Over two-thirds have developed joint government and donor strategies (outcome 2.8). This percentage will increase as more countries complete their consultative processes. In six countries the implementation of the action plans has commenced.

International Year of Microcredit (2005)

33. In 2003 the General Assembly designated UNCDF, together with DESA, to serve as the focal point to coordinate the activities of the International Year of Microcredit (2005). The year provided an opportunity to highlight the contribution of microfinance to the MDGs and the building of inclusive financial sectors. In 2005, more than 100 Member States participated in activities associated with the International Year of Microcredit, and

62 Member States established national committees to support activities related to the year. More than 350 conferences and events were held around the world, and more than 100 academic institutions hosted seminars and conducted research on microfinance. Finally, more than 700 people attended a highly focused series of discussions on microfinance and issues related to inclusive financial sectors at a two-day conference and conclusion of the year from 7-9 November 2005 at United Nations headquarters. Other advocacy activities included the Global Micro-entrepreneurship Awards programme, which organized 30 national contests to identify and honour low-income entrepreneurs.

34. Two substantive projects related to the year were carried out in partnership with the Bretton Woods Institutions, the Financing for Development Office of DESA, the International Fund for Agricultural Development, the International Labour Organization, and UNCDF. UNCDF facilitated a multi-stakeholder consultative process that brought together national governments, central banks, various financial institution supervisory bodies, multilateral institutions, civil society, the private sector and stakeholders in the microfinance industry to consider global issues and challenges related to inclusive finance. The result was a tool and guide for global policymakers, the ‘Blue Book on Building Inclusive Financial Sectors for Development’. This book, commonly referred to as the ‘Blue Book’, is available at www.uncdf.org/bluebook/, available in printed form as of May 2006.

35. The data project, another important initiative begun during the International Year of Microcredit, brought together expert statisticians and researchers from the Bretton Woods Institutions, the United Nations, governments, the Central Bank of West African States, a variety of development agencies, and the private sector, to address data gaps and to anticipate future data needs with respect to inclusive finance. The data project built a consensus on the best ways to benchmark how many people have access to financial services, particularly in poor countries; to ascertain the quality of that access; and to begin the process of developing a global index of financial inclusiveness.

36. UNCDF serves as the policy and technical advisor to the UNDP family to ensure consistent application of best microfinance practices. UNCDF developed an action plan to follow up on the recommendations to UNDP from the CGAP peer and portfolio review processes. The action plan was approved by the UNDP Executive Team, and the new UNDP microfinance policy has been communicated to all staff. As part of the implementation of this policy, UNCDF works closely with UNDP to ensure the quality of UNDP microfinance programmes and projects.

III. Management results

C. Performance analysis for sub-goal 3: organizational performance

37. In the second half of 2005, UNCDF developed a performance framework for measuring organizational performance. The framework uses the UNDP balanced scorecard for country offices as a starting point. As is the case for UNDP, performance is measured according to four different perspectives: learning and growth, client satisfaction, internal efficiency and financial resources. For each perspective a number of strategic objectives has been identified, which correspond to the UNCDF management plan, as well as indicators to measure success and performance targets. For some strategic objectives, indicators are still under development, while for others no 2005 targets were set. As a result, only limited reporting is possible for 2005. In each case, targets will be set and results will be available and utilized in 2006 and 2007.

38. Table 5 provides on overview of 2005 results on organizational performance. The overview contains about half of the strategic objectives and indicators used in the UNCDF balanced scorecard, the balance being used mainly for internal management purposes.

Table 5. Achievement of 2005 targets for organizational performance[1]

Perspective	Strategic objective	Indicator	2005 target	2005 result
Learning and growth	Expand geographically to more LDCs, including post-conflict LDCs	LDCs with UNCDF programmes (> $50,000 investment/year)	28 LDCs	26 LDCs
		Post-conflict LDCs with UNCDF programmes	14 LDCs	13 LDCs
	Increase average investment size	Investment per LDC per year	$ 1 million	$ 0.72 m
Client satisfaction	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with overall quality of partnership with UNCDF	75%	73%
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	No target	63%
	Strengthen United Nations coordination	Integration of UNCDF in United Nations country-level programming framework	No target	26 LDCs
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	26%	32%
		UNDP country office satisfaction with timeliness of operational support	No target	64 %
	Strengthen ‘people management’	Staff perception	No target	65%
Financial resources	Achieve resource mobilization targets	Core resources mobilized	$13 million	$10.7 m*
		Non-core resources mobilized	$12 million	$10.1 million
	Ensure delivery against plan	Delivery against approved annual spending limits	No target	74%

** Includes a 2005 core contribution of $1.2 million, which was paid in December 2005 but only recorded as income in January 2006.*

39. In 2005, UNCDF had ongoing programmes with investments of $50,000 or more in 26 LDCs, half of which were post-conflict LDCs. The average expenditures per LDC reached only $0.72 million, mainly due to a lower-than-planned overall programme delivery in the local development and microfinance practice areas. Delivery was especially low in the first half of the year, when UNCDF was deeply involved in its change management process. That process required that staff time be taken away from normal programme formulation, implementation and monitoring tasks. Programme delivery picked up significantly towards the last quarter, when the broad outlines of the new business model were clear, the business plan was approved, a new Executive Secretary was appointed and the new organizational structure became operational.

40. Overall client satisfaction was good, with a record number of 62 UNDP country offices reporting through the headquarters products and services survey on the overall partnership with UNCDF. Nearly 75 per cent of these offices rated the partnership as good or very good. Additional information on client satisfaction will become available in 2006, when several UNCDF-related questions will be included in the UNDP partnership survey.

[1] Tables 5, 6 and 7 have been adjusted to reflect more accurately actual programme expenditures in 2004 and 2005. This adjustment relates to accounting adjustments between 2004 and 2005 for one country in which UNCDF operates.

Country office satisfaction with the timeliness of UNCDF operational support was somewhat lower than in 2004, at 64 per cent.

41. In the area of internal efficiency, the indicators showed a rapid decentralization of professional staff to be closer to our LDC clients, with almost two-thirds of UNCDF professional staff being posted tot the country or regional level by the end of 2005. Staff perception, an indicator used by both UNDP and UNCDF to measure overall staff satisfaction through the global staff survey, stood at 65 per cent, which is about the same as for UNDP headquarters staff (65.75 per cent). This was evidence of the continued commitment of UNCDF staff to its mission and activities, especially taking into account the difficult change management process of 2005.

42. Organizational performance was least satisfactory in the area of financial resources. Despite the continued excellent performance record of UNCDF documented in the yearly ROAR, the 2004 independent impact assessment and other evaluation reports, total core and non-core income reached a level of only about $21 million in 2005, with non-core income approximately equal to core income. With vigorous combined resource mobilization efforts from UNDP and UNCDF, it is hoped that that total income will almost double in 2006 to permit the planned growth in UNCDF investments in more LDCs. Overall delivery against core resources stood at 74 per cent. As indicated previously, programme delivery and the ratio of administrative to programmatic expenses were affected negatively by the impact of change management process. That process took time and resources away from our important work in the field and increased our administrative expenses. Another reason for low programmatic delivery was that most UNCDF-supported projects were either at the end of their implementation cycle or in the early implementation stage.

IV. Financial analysis

43. As indicated above, total core income in 2005 was $10.7 million. This was substantially down from $17.6 million in 2004, and $26.9 million in 2003. This amount was also below actual core expenditures for the year (see table 6), with the gap being funded from cash reserves. If UNCDF is able to mobilize resources as set forth in its business plan, core income and core programme expenditure will again be in balance in 2006 and 2007, both reaching a level of around $18 million.

44. On the expenditure side, there was an upward trend in both core and non-core programme expenditures compared to 2004, with non-core expenditures making up 39 per cent of total programme expenditures. The administrative budget had an exceptionally high level of expenditures in 2005 due to costs associated with the change management process and the fact that all payments for United Nations and UNDP services for the 2004-2005 biennium were made in 2005.

Table 6. Expenditure trends, 2001-2005 [2]

Expenditures	2001	2002	2003	2004	2005
Programme expenditures	$36.5	$23.7	$16.7	$18.1	$22.1
- of which core	34.9	21.5	10.8	12.5	13.5
- of which non-core	1.6	2.2	5.9	5.6	8.6
Headquarters expenditures	6.0	5.5	6.2	5.3	6.7
Total	**$42.5**	**$29.2**	**$22.9**	**$23.4**	**$28.8**

45. Table 7 shows that in 2005 the Africa region again accounted for more than 80 per cent of total UNCDF expenditures at the field level, thus continuing the programme expenditure pattern of previous years. Further, the table shows that UNCDF spent $2.5 million of mainly non-core resources on activities related to the International Year of Microcredit.

Table 7. Programme expenditures per region and per practice area (in millions of dollars)[3]

Regions/specific purposes	Local development	Microfinance	Total
Africa	$14.9	$1.8	$16.7
Asia	0.8	0.0	0.8
Arab States	0.2	0.2	0.4
Latin America	1.0	0.0	1.0
R&D/Evaluation	0.6	0.1	0.7
Year of Microcredit	0.0	2.5	2.5
Total	**$17.5**	**$4.6**	**$22.1**

[2] See note 1.
[3] See note 1.

Annex. Investment plan, 2006-2007

Africa	2006 (in dollars)	2007 (in dollars)
Angola	333,000	798,000
Benin	830,000	1,700,000
Burkina Faso	1,187,033	2,222,967
Burundi	500,000	750,000
Central African Republic	367,000	501,000
Chad	366,000	498,000
Comoros	50,000	350,000
DRC	1,200,000	1,500,000
Eritrea	650,000	400,000
Ethiopia	400,000	400,000
Gambia	40,000	830,000
Guinea	1,100,000	1,130,000
Guinea Bissau	375,000	972,500
Lesotho	150,000	300,000
Liberia	750,000	1,732,000
Madagascar	655,000	1,030,000
Malawi	500,000	1,300,000
Mali	1,500,000	1,500,000
Mauritania	640,000	800,000
Mozambique	3,050,000	3,900,000
Niger	630,000	1,000,000
Rwanda	1,100,000	1,100,000
Senegal	2,125,000	1,800,000
Sierra Leone	696,000	956,491
Togo	861,910	600,909
Uganda	550,000	450,000
Tanzania	400,000	1,550,000
West African States	250,000	200,000
Zambia	250,000	650,000
Total Africa (28 LDCs)	21,505,943	30,921,867

Asia	2006 (in dollars)	2007 (in dollars)
Afghanistan	150,000	700,000
Bangladesh	1,800,000	2,500,000
Bhutan	650,000	700,000
Cambodia	45,000	250,000
Kiribati	-	150,000
Lao PDR	450,000	1,700,000
Maldives	350,000	950,000
Nepal	2,145,000	2,500,000
Samoa	-	150,000
Solomon Islands	400,000	500,000
Timor-Leste	670,000	830,000
Tuvalu	-	150,000
Vanuatu	-	150,000
Total Asia (13 LDCs)	6,660,000	11,230,000

Arab States	2006 (in dollars)	2007 (in dollars)
Somalia	245,000	800,000
Sudan	635,000	1,450,000
Yemen	1,500,000	800,000
Total Arab States (3 LDCs)	2,380,000	3,050,000

Latin America and the Caribbean	2006 (in dollars)	2007 (in dollars)
Haiti	1,000,000	1,000,000
Total LAC (One LDC)	1,000,000	1,000,000

	2006 (in dollars)	2007 (in dollars))
UNCDF investments	**2006 (in dollars))**	**2007 (in dollars))**
Total for all regions (45 LDCs)	**35,801,566**	**49,689,958**