DP/2013/33

United Nations

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
19 March 2013

Original: English

Annual session 2013
3 - 14 June 2013, New York
Item 8 of the provisional agenda
United Nations Capital Development Fund

Report on results achieved by the United Nations Capital Development Fund in 2012

Summary

In 2012, development partners confirmed a strong demand for the products and services of UNCDF. In addition, the stakeholder consultation process decided by the Executive Board in its decision 2012/12 made apparent that the know-how and expertise of UNCDF are relevant in the post-2015 discussion.

Over the year, both the UNCDF practice areas – inclusive finance and local development finance – produced significant efforts to improve the quality and impact of their interventions in terms of poverty alleviation in the least developed countries (LDCs).

From the management perspective, 2012 has been marked by important changes in human resources, first and foremost by the seven-month transition period between the departure of the former Executive Secretary in April and the arrival of his successor in November.

The financial situation of UNCDF is characterized by a significant imbalance between its stagnating core budget and its increasing non-core contributions. While the latter are an encouraging confirmation of the relevance of the work of UNCDF, the systematic use of the core budget to cover approximately 50 per cent of the administrative costs of implementing projects financed by non-core contributions will prevent UNCDF, over the short term, from fulfilling its core mandate of providing capital investment to the LDCs. Addressing the unsustainable nature of this situation is management's top priority and deserves the full attention of the Executive Board.

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I. Introduction

1. Analysis of progress towards the Millennium Development Goals shows that despite achievements at an aggregate level, progress is highly uneven and stark disparities persist – and in several countries have increased – between the rich and the poor, between leading and lagging regions and among different social and ethnic groups. The Istanbul Programme of Action for the Least Developed Countries (LDCs) for the Decade 2011-2020 charts the international community's vision and strategy for the sustainable development of the LDCs for the next decade with a strong focus on developing their productive capacities. The overarching goal is to overcome the structural challenges faced by the LDCs in order to eradicate poverty and achieve internationally agreed development goals, through sustained, equitable and inclusive economic growth.

2. Inclusiveness and sustainability are also central to the ongoing global discussions shaping the post-2015 agenda.

3. Against this background, UNCDF offers concrete approaches to contribute to the eradication of poverty through the promotion of inclusive and sustainable growth. Present in 37 LDCs, UNCDF works through pilot interventions for proof of concept leading to national reforms and scalability. The organization has a flexible capital investment mandate unique in the United Nations system with the ability to use an array of flexible financial instruments such as loans, grants, financial blending tools and credit enhancement instruments directly to the benefit of the private sector and sub-sovereign beneficiaries.

4. In recent years, UNCDF has refocused its technical expertise, which is concentrated in two practice areas – local development finance and inclusive finance – to pilot and scale up innovative finance mechanisms to increase investments and exploit the unused potential of developing countries. The ultimate objective is to eliminate barriers of access by the poor to key services and unleash productive capacities.

5. Increasingly, the organization is partnering with United Nations and other agencies, as well as with the private sector, to serve key development objectives such as climate change adaptation, food security, gender equality, cross-border cooperation and local economic development through its portfolio. The objective is to introduce these cross-cutting themes at the local level, prove concept and thereby allow for replication and scaling up, reaching large numbers in the poor and underserved populations. The strategic and complementary partnership with UNDP is paramount and UNCDF is fully integrated in the UNDP strategic planning process.

6. The year 2012 marked the end of a programming cycle for UNCDF, with many programmes having reached full scale-up. This resulted in a decrease in the number of local governments and financial service providers (FSPs) receiving support.

7. Based on weaknesses highlighted by 2011 evaluations, UNCDF focused on improving programme and organizational performance. At the programmatic level, result chains in both practices were reviewed and strengthened, clarifying the correlation between the organization's interventions and the development results it seeks to influence. A gender strategy was developed and implemented in line with the United Nations System-wide Action Plan (UN SWAP). For the first time, UNCDF released its aid information to the International Aid Transparency Initiative (IATI).

8. In keeping with its culture of performance and accountability, UNCDF completed two major evaluations in 2012: (a) a comprehensive review of its financial services portfolio; and (b) a review of its flagship MicroLead programme.

9. Total UNCDF revenue grew to a record level of $55 million, up from $53 million in 2011. Diversification of the donor base continued to improve, including with regard to major foundations and the private sector. The 2012 revenue was entirely due to the growth in non-core resources, which increased by 12 per cent over 2011 levels. Core resources decreased by 11 per cent to $16.9 million in 2012 (including a $2.3 million allocation by UNDP).

10. Stakeholder consultations on a range of future possibilities for UNCDF were launched in late 2012, addressing among other things the imbalance between core and non-core resources. The consultations, which are continuing in 2013, will shape the UNCDF strategic framework for the period 2014-2017 as an integral part of the UNDP strategic plan.

II. Programme results, 2012

A. Public finance for local development

11. In 2012, UNCDF worked in 30 countries: 22 in Africa, 7 in Asia and in Haiti. It supported 455 local governments, compared to more than 800 in 2011. This indicates that the organization is at the end of a programming cycle and that many of the programmes have reached full scale-up. In these countries, local communities and governments faced different challenges during 2012, compounding their difficulties in accelerating local development and reducing poverty. In West Africa, the increasing trend towards conflict has led to outward migration and greater instability. The effects of a changing climate are more keenly felt in places where communities are already pushing the boundaries of adaptation to the natural environment, including in the Himalayas and the Sahel.

12. A further challenge is the increasing gap between growing economies (some LDCs are among the fastest growing economies) and the lack of investment at the local level. This means that public services and urban planning are lacking in rapidly growing rural towns and that capital is not re-invested locally. The pipeline of public and private opportunities to translate wider economic growth into local development must be strengthened.

13. UNCDF continued to engage in practical contributions to fiscal decentralization solutions that provide Governments with flexible and effective public financial systems to meet their development objectives.

14. There are three phases of UNCDF engagement in local development finance. In the first phase, innovative financial instruments are applied in a limited number of local jurisdictions to prove concept and demonstrate effectiveness. Indicators 1 to 6 in table 1 below largely capture this first phase of work, which is reflected in the 455 local governments covered in 2012, over half of which are in Africa. In the second phase, UNCDF works with national Governments and development partners to scale up these experiences. In the third phase, the innovation is now national, including a much larger number of local governments, and UNCDF provides technical support to the performance assessment, audit and other public financial management tools. In 2012, over 8,000 local governments were covered. Indicators 7 and 8 capture the scale-up of UNCDF interventions at the national level. The baseline for indicators 1 to 6 will periodically reduce in number, indicating that countries or systems have successfully migrated to phases 2 or 3.

15. This progression through the phases of engagement is what attracts further resources to the local level following the original seed capital invested. During 2012 in the Solomon Islands, the Government increased by 400 per cent its disbursements to local governments, reflecting a shift in expenditure policy. Another example is in Guinea, where resources from the World Bank and from an extractive industry actor are being reinvested for local government through a system designed by UNCDF.

16. During the past few years, a large proportion of UNCDF programmes were based on promoting fiscal decentralization and the transfer of development capital to local communities through participatory planning processes and transparent procurement procedures. UNCDF will continue to programme in this core area of expertise during the next programming cycle (2014-2017).

17. In addition, UNCDF is building on its established knowledge and investment mandate to develop new financing instruments. These include the local finance initiative, funded by "One UN" funds, Switzerland and the Swedish International Development Cooperation Agency (Sida), which aims to unblock latent domestic capital for investments in bankable smaller-scale economic and industrial infrastructures, for example linked to value-chain constraints in the agri-business sector. This initiative is being implemented in Uganda and the United Republic of Tanzania.

18. Another instrument tested in 2012 was government-to-person payments. These are public sector microgrants that can be channelled through a variety of payment service providers or agents (such as post offices, mobile phones or local shops). The grants are used for forms of social protection, with local governments responsible for identifying beneficiaries and monitoring the system. In Nepal, 2012 saw the first disbursement of girls' scholarship microgrants to mothers with the objective of promoting school attendance for the very poor.

19. The Local Adaptive Living Facility (LoCAL) is a newly designed mechanism that provides a robust and verifiable system to enable local governments to access new sources of climate finance. LoCAL works with partner governments to channel climate resources through intergovernmental transfer systems, thus mainstreaming climate finance in national accounts and planning procedures. It also provides a monitoring system for measuring and tracking the resilience built. During 2012, additional resources were received for this programme and scoping missions were conducted in Bangladesh, Ghana and Nepal.

20. These investment instruments complement existing UNCDF local development funds and fiscal grants to increase the options at the disposal of programme countries. They will be applied to support not only fiscal decentralization but also new challenges facing developing countries such as building resilience to climate change, providing solutions to food security and promoting local economic development.

Results

Local government capacity to plan, allocate and manage resources

Table 1.

Outcome indicators	Plan	Actual	Performance*
1. Number of local governments supported that are consulting local communities in finalizing investment plans and budgets	403	389	+
2. Number of local governments supported where budgets are disbursed in line with the priorities of the plans	354	329	+
3. Number of local governments supported that use national public procurement standards and regular external audits while managing resources (accountability)	430	411	+
4. Number of local governments supported that publicize their expenditure against their budget (transparency)	450	407	+
5. Number of local governments supported that apply a gender perspective to planning and budgeting	379	385	+
6. Number of local governments supported where ‘genderized’ budgets and investments are implemented	127	120	+

*Performance assessment scores: Achieved (+) = 75-100%; Partially achieved (+/-) = 50-75%; Not satisfactory (-) = < 50%

Participatory planning and budgeting

21. In 2012, 93 per cent of UNCDF-supported local governments adopted consultative, participatory mechanisms that better engage local communities in decision-making processes, particularly planning and budgeting (indicator 1). Participatory processes have also been used to foster local economic development in countries such as Benin, Malawi, Sierra Leone and Uganda where local governments are applying UNCDF-designed tools to understand their economies, value chains and competitive opportunities, convene and coordinate different local economic actors and track performance.

Disbursements and budget execution

22. The disbursement capacities of local governments improved as a result of UNCDF support in 2012 (indicator 2). Eighty-three per cent of local governments supported by UNCDF executed their budgets in line with the priorities established in their own plans.

23. The security situation in some West African countries has prevented continuation of activities of supported local governments. For example, in Mali, only 3 of the 20 local governments targeted were able to start the execution of their action plans. It is interesting to note that the three local governments are situated in a region where the UNCDF Local Authorities Financial and Institutional Assessment System, a diagnostic tool to assess local government capacities, has been applied. Bangladesh has adopted a public financial management performance system with similar indicators for all rural local

governments. In Bhutan, a community contracting protocol was used to demonstrate how communities can efficiently and effectively implement small-scale public investments in a transparent and accountable manner.

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Transparency and accountability

24. Over 92 per cent of UNCDF-supported local governments adopted national procurement standards and/or conducted financial audits (indicator 3) and published their expenditure reports against budgetary allocations (indicator 4). The development of locally appropriate, efficient and transparent procurement is a hallmark of UNCDF local development interventions. In January 2013, UNCDF published “Procurement for Local Development: A Guide To Best Practice In Local Government Procurement In Least Developed Countries".

25. In 2012, particular success against these indicators was registered in several countries such as Senegal where the “local development houses” supported 56 local governments and three communal groups to elaborate and publish their procurement plans. In Nepal, a UNCDF-supported computerized accrual accounting system was pilot tested successfully in six municipalities and 200 villages. In Ethiopia, the 22 local governments which were supported published the resources received and the activities planned within the programme and as part of a government-led regular monitoring mechanism.

26. In Timor-Leste, all 13 local governments use procurement standards that are more accountable than the national public procurement standards but do not yet include external audits. In Somalia, there is limited evidence of publicity for public expenditures, but there are efforts towards budget planning and transparency of execution through public hearings and community consultation meetings.

Gender-sensitized budgets and investments

27. UNCDF intensified its efforts in 2012 to incorporate the gender dimension into all its interventions. In addition to the indicators introduced in 2011 (indicators 5 and 6), a gender strategy developed in 2012 provides a clear roadmap for making the gender dimension an essential element of corporate policies and development programmes and results.

28. Results registered in 2012 are extremely encouraging. The targets set for the year have been largely surpassed. In Africa, more local governments than originally planned have applied gender-sensitive planning and budgeting instruments in countries as diverse as Burkina Faso, Djibouti, Malawi and Niger. There is less evidence that the gender dimension is taken into account when it comes to implementation and investments.

29. In Asia, in Timor Leste, the gender-based approach to planning and budgeting has been incorporated in the manuals for Integrated District Development Planning (PDID) and the District Strategic Development Plan. The latter is being piloted in one district (out of 13 local governments).

Local government access to investment capital

30. UNCDF is developing innovative financing instruments to demonstrate new ways of attracting the necessary resources to the local level. As a seed capital organization, it aims to prove concept and thereby attract additional financial contributions for local development finance.

31. In 2012, as in 2011, UNCDF programmes directly leveraged three to eight times the volume of original UNCDF resources: for every $1 that UNCDF invested in a particular project, other development partners and/or national Governments

invested $3-$8. When parallel and follow-on capital flows were added ('indirect leverage'), the ratio rose substantially. In 2012 in Bangladesh, UNCDF concluded two Memoranda of Understanding (MoUs) with the Government's Local Government Division, leveraging seven times the UNCDF investment of $2 million. In Cambodia, Sida provided an additional 35 per cent to the local development funding in two provinces for climate adaptation through the LoCAL programme. In the Lao People's Democratic Republic, the UNCDF programme attracted $1 million from the Government of Luxembourg and $2 million from the Global Environment Facility for the local level. In Timor Leste, $600,000 of UNCDF core funding leveraged technical assistance into a programme that spent around $50 million in 2012.

Policy and institutional environment

Table 2.

Outcome indicators	Plan	Actual	Performance
7. Number of countries where changes in policy, regulations and legislation can be attributed directly to UNCDF work	16	16	+
8. Number of countries in which UNCDF approaches, models or tools are adopted by national governments and development partners	16	18	+

32. Drawing on lessons learned from previous evaluations which showed that in some cases, excessive emphasis was placed on managing processes around investment schemes rather than managing for results at the level of national systems and procedures, particular emphasis was given in 2012 to bringing about changes in national policies, regulations and legislation (indicator 7).

33. In 2012, UNCDF met its goal in targeted countries. For instance, in Uganda, UNCDF helped in the formulation of the national Local Economic Development Policy, providing inputs into the guidelines for implementation of the Public Private Partnership Policy. In Niger, the Decentralization National Policy Framework and Action Plan was adopted on 30 March, with diffusion of new texts about decentralization and deconcentration, elaboration of the legal norms for cooperation between local governments, the digitalization of budget, financial and accountability procedures and training of focal points in ministries about decentralization. In Sierra Leone, the Government has officially launched the local economic development approach introduced by UNCDF at the national level and has requested UNCDF to extend its programmes to cover the entire country.

34. In Asia, considerable success was also registered. In Bangladesh, UNCDF led the drafting of a four-party instrument of cooperation between the Local Government Division of the Government, UNCDF, UNDP and the World Bank, with UNCDF responsible for technical assistance on performance assessment of all lower level-local governments. In Timor Leste, the UNCDF-supported PDID program is now the public expenditure management framework for the Government. The PDID decree law approved in January 2012 reflects a policy that is directly attributable to UNCDF support.

35. In all target countries, partners adopted UNCDF-developed approaches, models and tools in their own programmes and interventions (indicator 8). In Sierra Leone, the German Agency for International Cooperation and the Japan International Cooperation Agency are implementing UNCDF-inspired local economic development programmes in targeted local councils and a UNCDF-facilitated multi-partner platform supports the Ministry of Local Government in implementing the approach. In Guinea, the UNCDF local development approach has been replicated in two mining areas (Siguiri and Koroussa) and an agreement between UNCDF and the World Bank has been extended to work on local development in the 23 local governments nationwide.

B. Financial services for the poor

36. Key developments in UNCDF support to financial inclusion in 2012 include the expansion and revitalization of programme activities through the design and testing of the Making Access to Finance Possible (MAP) diagnostics and programming approach, and the continued growth of funding from non-core resources for global thematic initiatives, e.g., MicroLead, YouthStart, CleanStart and Mobile Money for the Poor. UNCDF also migrated its FSP reporting to the MIX Gold[1] services, increasing the quality of data available for analysis.

37. Increased levels of financial inclusion – through improved access by poor people to savings, credit, insurance and payment services – contributes to sustainable economic growth. A positive correlation has also been found between increased financial inclusion and reduced inequality, demonstrating that financial inclusion promotes ‘pro-poor’ growth.[2]

38. At the household level, access to financial services helps poor families and small businesses better manage irregular income, overcome shocks and take advantage of economic opportunities. It also offers an alternative to costly and often more risky informal financial schemes. When provided responsibly, microfinance can be a powerful catalyst for entrepreneurship and for women's economic and social empowerment. Although access to credit is important, access to secure and flexible saving services can also transform the economic lives of poor people by helping them build assets over time.

39. UNCDF defines ‘inclusive finance’ as ensuring that a variety of quality financial products (e.g., savings, credit, insurance, payment, remittances) is provided by a wide range of FSPs[3] to all segments of society at a reasonable cost and on a sustainable basis.

40. UNCDF delivers support through country sector development programmes, global programmes and advocacy. Country programmes are tailored to the needs of individual countries and include support at the macro level (policy, legal and regulatory framework), the financial infrastructure level (e.g., associations of retail

[1] The MIX (Microfinance Information Exchange) is a web-based platform that enables microfinance institutions to report their performance data (financial and social) and share key information publicly. The MIX also offers a wide range of analytical tools (benchmarking).

[2] See *Finance for All? Policies and Pitfalls in Expanding Access*, World Bank, 2007, http://www.worldbank.org/financeforall ; and *Finance, Inequality and Poverty: Cross-Country Evidence*, June 2004, http://www.microfinancegateway.org/gm/document-1.9.26326/22082_Finance_Inequality.pdf

[3] Microfinance institutions, commercial banks, financial cooperatives, non-governmental organizations, money transfer companies.

providers, training institutes) and the retail level (FSPs). UNCDF is paying particular attention to the new drivers of financial inclusion, especially innovative distribution channels (agent banking) and technology (mobile money). Global programmes are designed to complement country programmes by promoting innovations that expand the frontiers of financial inclusion (e.g., youth, renewable energy or mobile money). Promising synergies are emerging between country programmes and global thematic initiatives (i.e., youth finance being promoted on national platforms).

41. In 2012, UNCDF supported inclusive finance programming in 31 LDCs (20 in sub-Saharan Africa and 11 in Asia). UNCDF supported nine of the 31 countries through global or regional initiatives. Eight countries currently being supported are in post-conflict situations. The number of countries supported via country sector programmes decreased by two, as the lack of core resources constrained the ability to expand country programmes.

Improved access to financial services (number of active clients)

Table 3.

Year	2004	2005	2006	2007	2008	2009
Number of clients	379,018	438,272	616,035	1,171,306	1,768,931	2,550,565

Year	2010	2011	2012
Number of clients	3,511,723	4,062,161	8,439,905

42. In 2012, UNCDF achieved its goal of serving 6 million active clients by 2013 through the FSPs in which it invests. As households comprise five persons on average, this represents an impact on the lives of some 42 million people. The 8,439,905 active clients include the number of savers (7,911,376) and mobile money clients (528,529); the number of borrowers is much lower at 2,248,058. Since 2009, UNCDF has focused on supporting savings-led FSPs, given the dual benefit of FSPs using local sources to fund growth and positive findings from client impact studies on the benefits of savings.

43. Sixty-five per cent of borrowers are women (above the UNCDF threshold of 50 per cent). The percentage of female borrowers (2008 -2012) stayed roughly the same (64.6 to 65 per cent), from a global perspective. However, it does appear that the UNCDF policy of requiring FSPs to serve at least 50 per cent women was effective in improving performance in West Africa, where the percentage increased from 45.3 to 59.8 per cent. The increase in female borrowers in West Africa coincides with a broader improvement during 2010–11 in West African FSPs in the percentage of female loan officers (increase from 38 to 42 per cent), managers (increase from 20 to 37 per cent), but still with no change in board representation. It is possible that the discussions UNCDF held with FSPs in setting targets for performance-based agreements (PBAs) for female clients led to broader discussions about female representation throughout the management. Regardless of the source, UNCDF is broadening its PBA targets to include not only the percentage of female clients, but also of staff and management (loan officers, managers, board members).

Table 4.

Outcome indicators	Plan	Actual	Performance
1. Extent to which FSPs are improving their client outreach	4,862,968	8,439,905	+
2. Net change in value of loan portfolio of the financial service provider versus total UNCDF core contributions	20 to 1	22 to 1	+
3. Net change in value of savings portfolio of the financial service provider versus total UNCDF core contributions	10 to 1	25 to 1	+

44. Substantial growth in outreach in 2012 (indicator 1) came largely as several country programmes reached full implementation (Madagascar, Malawi, Nepal, Senegal, Togo), via new thematic initiatives (e.g., MicroLead and YouthStart) and the continued rapid expansion (to 528,529) in 'branchless banking' clients from the Pacific financial inclusion programme, which is pioneering government-to-people payments, mobile-phone banking and financial capability in the Pacific.

45. UNCDF provided support to 91 FSPs in 2012. The net decrease from 93 in 2011 was due to terminating support to FSPs that missed performance targets or completion of funding agreements. The support allowed FSPs to increase the value of their loan and savings portfolios significantly more than anticipated (indicators 2 and 3). This is attributable to YouthStart and MicroLead. Future results will likely be in line with established global targets, as some FSPs fail to fully meet targets established in their PBAs.

46. The sustainability of the FSPs in which UNCDF invests is captured in indicators focusing on profitability, portfolio quality and transparency (indicators 4 through 6).

Sustainability of FSPs

Table 5.

Outcome indicators	Plan	Actual	Performance
4. Extent to which FSPs are improving their sustainability (profitability)	80%	83%	+
5. Extent to which FSPs are improving their portfolio quality	80%	65%	±
6. FSPs have audited financial statements (transparency)	>95%	87%	+

47. In 2012, 83 per cent of the FSPs supported by UNCDF improved profitability and 65 per cent met portfolio quality targets. This will be key to the ability of FSPs to continue to scale up their services when UNCDF support ends.

48. Portfolio quality is measured against the standard (less than 5 per cent of portfolio at risk). Performance against this indicator improved slightly from 58 per cent of FSPs in 2011 meeting targets to 65 per cent in 2012. While performance

against portfolio quality was strong in Asia, with 95 per cent of providers meeting targets, it improved marginally overall. Poor portfolio quality was concentrated in Africa (62 per cent of target in East Africa, only 45 per cent of target in West Africa). External factors included recently introduced regulations in the West African Economic and Monetary Union that now allow FSPs to keep non-performing loans in their portfolio for a maximum of two years, as opposed to one year in the past, before the required write-off.

49. Eighty-seven per cent of UNCDF-supported FSPs had external audits in 2012, with funding suspended for those failing to comply. UNCDF will continue to suspend non-performing FSPs, and to terminate funding for FSPs not redressing performance.

Policy and institutional environment

Table 6.

Outcome indicators	Plan	Actual	Performance*
7. Extent to which national policy environment is improved for client protection	75%	82%	+
8. Ability of networks and associations to provide advocacy on client protection to FSPs	70%	95%	+
9. Extent to which FSPs are engaged in client protection	60%	45%	+/-
10. Extent to which donors support UNCDF financial systems approach	65%	47%	–

*Performance assessment scores: Achieved (+)=75-100%; Partially achieved (+/-)=50-75%; Not satisfactory (-)=< 50%

50. In 2012, UNCDF expanded its contribution to disseminating the client protection principles (CPP) of the Smart Campaign. In 2010, UNCDF began to implement the CPPs in an effort to achieve more than 80-per-cent coverage by 2013. In three years, UNCDF has made significant progress and is on track to reach this target.

51. At the policy level (indicator 7) in 2012, 82 per cent of the countries where UNCDF operates undertook sector-wide CPP initiatives. That was above the 75-per-cent target for 2012, and twice as high as in 2011 (42 per cent). The initiatives included engaging policymakers and regulators to raise awareness about client protection and to highlight priority issues such as market-conduct regulation and pricing disclosure. An example of this work comes from Lesotho, where UNCDF supported the Central Bank in the development of a national strategy on financial education, a critical component for protecting clients.

52. At the financial infrastructure level, in 2012 UNCDF increased the number of activities led by networks for their FSP members, reaching 95 per cent of its target (indicator 8). These activities improved the ability of industry-level players to advocate with regulators regarding standards and best practices and to build the

capacity of FSPs to consistently deliver responsible financial services to their clients. UNCDF supported regional trainings on CPPs and their dissemination at the national level. In Madagascar, for example, the association of FSPs organized a training of loan officers on financial and social performance as well as a training of trainers on financial literacy of clients, and spearheaded the adoption of a code of ethics by its FSP members.

53. At the retail level, beginning in late 2010, UNCDF revised its standard PBA to strongly encourage all FSPs to endorse the CPPs, with the goal of achieving more than 80-per-cent coverage by 2013.

54. As a result, 45 per cent (up from 23 per cent in 2011) of all UNCDF FSPs have endorsed the principles (indicator 9), nearly double from the previous year though still short of the target of 60 per cent. The combination of country-level activities and direct engagement with FSPs is beginning to show results, though more must be done. While it will continue to engage FSPs and associations to endorse and adopt the CPPs, UNCDF will also work to turn these commitments into real changes in practice. UNCDF is developing a funding mechanism that will support the next stage of implementation of the CPPs.

55. UNCDF works with development partners to align support and programming with national priorities. Country-level investment committees review new initiatives and coordinate, and in some instances pool, country-level funding. These initiatives provided $224 million in funding for UNCDF-designed programmes to complement and leverage (5.3 times) the UNCDF core resources, and thus contributed significantly to the results highlighted in this report. However, only 47 per cent of donors active in inclusive finance at the country level participated in UNCDF-organized investment committees in 2012 (indicator 10), a slight decrease compared to the previous year. A key finding and recommendation from the portfolio review was that this decline in funder participation in UNCDF-designed country programmes was due to the lack of a formal status of these programmes. The portfolio review notes that UNCDF would not be able to maintain its leadership role in inclusive finance if it were unable to initiate the design and creation of local, legally registered ‘funds for inclusive finance’ and also take an active role in their governance, as these have become the preferred modality for many funders at country level.

III. Management results, 2012

56. The year 2012 was characterized by an increasing imbalance between core and non-core resources and the departure of the Executive Secretary. Several managerial positions were left vacant during this period to allow the new Executive Secretary to build his team. Both the financial situation and the management transition may have led to erosion of certain staff perceptions, as highlighted by the indicator of staff perception in the table below. The drop of 13 percentage points compared to 2010 is an element to which management will pay particular attention in 2013.

Table 7.

Perspective	Strategic objective	Indicator	2011 Result	2012 results
Client satisfaction	Relevant programming on least developed countries, including post-conflict*	Least developed countries with UNCDF programmes	37 least developed countries	37
Internal efficiency	Strengthen United Nations coordination	Percentage of least developed countries where UNCDF is active in which contributions are integrated into the United Nations country-level programming framework	85%	85%
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	10,3%	9,1%
	Staff perception**	Percentage of staff that feels inspired to work at their best	75%	62%
	Implementation of the audit recommendations of the Office of Audit and Investigation		21/25	24/25
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$19.0 million	$16.9 million
	Ensure delivery against plan	Other resources mobilized	$33.9 million	$37.9 million
		Delivery against approved annual spending limits	84%	81%

* Three additional LDCs are benefitting from global programmes only
** Staff perception results compare 2012 results with 2010 as no global staff survey was performed in 2011

57. UNCDF continued to strengthen its systems and procedures and the new International Public Sector Accounting Standards (IPSAS) were introduced without major disruptions. The introduction of IPSAS was accompanied by training of all staff in the last quarter of 2012, which ensured a smooth end-of-year process in the closing of accounts.

58. The last outstanding recommendation of the 2009 comprehensive audit by the Office of Audit and Investigations will be implemented in April 2013. UNCDF strengthened its audit policy to ensure a representative number of UNCDF projects is audited each year, in coordination with the UNDP audit policy. In 2012, UNCDF released its aid information to IATI for the first time.

59. The apparently improved efficiency ratio of 9.1 per cent in 2012 is merely due to a drop in the biennial support budget allocated by UNDP. UNCDF is now working on a revised cost classification for a better attribution of its costs. The slight decrease in the delivery rate reflects a careful monitoring of expenditures to take into account the decrease in core resources.

IV. Partnerships and advocacy

60. Increasingly, UNCDF relies on multi-stakeholder initiatives to increase the impact of its interventions. In 2012, partnerships were developed or strengthened on several fronts and with diverse partners including the private sector and foundations.

61. At the request of its major sponsors, UNCDF now hosts the secretariat of the Better Than Cash Alliance, which was launched in September 2012 together with the United States Agency for International Development, Visa, Citi, the Omidyar Network, the Ford Foundation, the Bill & Melinda Gates Foundation and UNDP. The Alliance is open to Governments, the private sector and development organizations to promote the transition from cash to electronic payments.

62. The partnership with Finmark Trust (South Africa) and the Centre for Financial Regulation and Inclusion (South Africa) for the development of the MAP diagnostics and programming framework has grown stronger with initial pilots in Côte d'Ivoire, Myanmar and Thailand.

63. UNCDF and Sida signed a new, innovative $16 million dollar multi-programme partnership that will support seven UNCDF global programmes through one cost-sharing agreement, providing maximum flexibility for UNCDF to deepen its comparative advantage. The Governments of Austria and Norway joined the framework agreement by partnering with UNCDF on the CleanStart global programme.

64. Partnerships for knowledge and capacity-building were strengthened with the Swedish International Centre for Local Democracy and the Hague Academy. A new MoU was signed with the latter, reinforcing the role of UNCDF in the development of curricula related to local development and local economic development.

65. In term of advocacy, UNCDF actively participated in the ‘Rio +20’ United Nations Conference on Sustainable Development, and with some of its closest partners conducted a side event on financing access to clean energy for the poor. In 2012, UNCDF also had the opportunity to co-organize two events at the European Development Days, on financing clean energy for the poor and on financial inclusion and disabilities.

66. UNCDF also played a prominent role at the Africities Summit in Dakar. UNCDF sponsored the participation of 70 local and government officials from 16 countries who had a unique opportunity to exchange ideas on topics related to local development with various stakeholders including the private sector. During the summit, UNCDF signed a milestone convention with the United Cities and Local Governments of Africa which consecrated its tools and approaches as critical contributions for local development. UNCDF actively supported the creation of an innovative council representing local governments in the West African Economic and Monetary Union; this platform, the "Conseil des Collectivités Territoriales", was launched in May 2012.

67. In partnership with the Commonwealth Local Government Forum and UNDP, UNCDF published two policy briefs presenting the state of local government in Southern and Eastern Africa.

68. Last but not least, UNCDF continued to host the secretariat of the Secretary-General's Special Advocate for Inclusive Finance for Development, H.R.H. Princess Máxima of the Netherlands, who was very active in fulfilling her advocacy mandate in 2012.

V. Quality assurance

69. In 2012, UNCDF reworked the results chain of its two practices to clarify the correlation between the organization's interventions and the development results it seeks to influence. During this process, accountability for results was better defined.

70. A review of the UNCDF inclusive finance portfolio judged the portfolio to be well aligned with its LDC mandate and the UNCDF strategic objective to work in so-called 'difficult' environments. Country programmes and global thematic initiatives were also judged to be highly relevant. Going forward, it was recommended that UNCDF better distinguish its programming in higher-risk LDCs, where the organization can capitalize on its advantage as 'first mover', from more mature markets where the UNCDF approach could focus more on specific markets such as savings or youth. The UNCDF management systems for supervising, monitoring and reporting on investments were judged to be generally strong, but it was recommended that better information be provided to external stakeholders on implementation progress and lessons learned. The review also recommended that UNCDF redesign the financing model for its country sector programmes to improve funding leverage and to enable better participation in the setting-up and governance of more viable investment fund structures.

71. In terms of portfolio performance at the aggregate level, the inclusive finance portfolio was judged to be performing well. The UNCDF contribution was particularly praised where programmes targeted rural expansion, the development of new products directed at women and new delivery mechanisms (e.g., electronic banking). In its work on supporting macro-level reform, and in countries where national inclusive finance strategies and legislation are already in place, the portfolio review recommended more direct targeting of a number of policy topics for support by UNCDF, building, for example, on recent work by the organization on client protection or financial education/literacy. It also recommended the improved integration of the UNCDF country programme and global thematic approaches.

72. Regarding program scaling-up and replication, evaluations have highlighted the need for better mechanisms to publicize and disseminate the results of work that are innovative with a view to better supporting the broader UNCDF objectives of supporting policy reform and leveraging additional amounts of investment capital into public and inclusive finance systems in LDCs.

73. UNCDF finalized its gender equality and empowerment of women strategy in 2012. This strategy will allow UNCDF to fully incorporate the gender dimension in all aspects of its work by 2017 in line with the UN SWAP guidelines. Training sessions have been conducted to increase staff capacity for including gender in all UNCDF projects. Key corporate and programmatic indicators have been modified to embed gender in the strategic planning of the organization.

VI. Financial analysis

74. In 2012, UNCDF total revenue continued to grow to a record level of $55 million (up from $53 million in 2011 and $22 million in 2007). The UNCDF donor base continued to diversify, with 36 donors (up from 33 in 2011 and 20 in 2007), of which six where major private sector foundations which contributed in total $10 million to UNCDF (17 per cent of total revenue). Although the record revenue is a sign of strong demand for UNCDF services, it was due entirely to continued growth in non-core resources, which increased by 12 per cent over 2011 levels.

Core resources decreased by 11 per cent to $16.9 million in 2012 (including a $2.3 million allocation by UNDP) due to fiscal constraints of donor Governments and exchange rate fluctuations. Core contributions remained well short of the $25 million per year required at a minimum to sustain UNCDF operations in 37 of the 49 LDCs, as envisaged in the UNCDF investment plan. Among the top five donors to UNCDF in 2012, the largest was Sweden, which contributed $11 million, followed by Norway, the MasterCard Foundation, Luxembourg and the European Commission.

75. As discussed during the stakeholder consultations on scenarios for the future of UNCDF launched in late 2012, the shortage in core resources represents a severe constraint for UNCDF to cover its costs and deploy its investment mandate in the LDCs. As reserves are close to being depleted, there is a risk that already in 2013, UNCDF would have to freeze its programming in some LDCs, unless more adequate levels of core resources can be secured. During the stakeholder consultations, a number of key donors indicated their interest in exploring opportunities to increase or start contributing to UNCDF core resources as applicable. Hence, UNCDF remains optimistic that it will be able to continue its operations in at least 37 LDCs, while continuing to leverage substantive amounts of non-core resources from private and public sources for the benefit of the LDCs.

76. Total expenditures in 2012 were $53.6 million, 11 per cent lower than in 2011 ($59.9 million). Expenditures against regular resources decreased by 25 per cent to $23.6 million while expenditures against other resources remain constant at $24 million. The UNDP contributions through the biennial support budget diminished by 18 per cent. The decrease of expenditures against regular resources was anticipated to reflect this contraction in income. This trend was expected after the strong investments made in 2010 and 2011. UNCDF continues to monitor its long-term financial stability very carefully, investing its limited core resources strategically in initiatives that will maximize development results and attract significant non-core resources.

77. Fund balances at the end of 2012 were $60.7 million. UNCDF also has an operational reserve of approximately $24.6 million for core and extrabudgetary accounts. The reserve will be reduced to $10 million in order to make provision for the After-Service Health Insurance in accordance with the requirements introduced with the adoption of IPSAS.

Expenditure trends, 2005-2012

Table 8 (*in millions of United States dollars*)

Expenditures	2005	2006	2007	2008	2009	2010	2011	2012
Programme expenditures	19.2	25.2	28.7	37.0	41.5	43.9	53.7	48.6
- of which regular resources*	11.6	16.8	19.0	22.6	22.2	25.0	29.4	23.6
- of which other resources	7.6	8.4	9.7	14.4	19.3	18.2	24.4	25.0
UNCDF support**	6.7	4.6	5.4	6.8	7.6	5.5	6.2	5.0
Total	25.9	29.8	34.1	43.8	49.1	49.3	59.9	53.6

* Figures include UNCDF expenditures against UNDP programme contributions ($1.4 million in 2012)
**Figures include UNCDF expenditures against the UNDP biennial support budget ($3.3 million in 2012).

78. In 2012, 69 per cent per cent of country expenditures were in Africa (see table 9), followed by Asia and the Pacific at 28 per cent. Seventy-five per cent of programme expenditures are delivered through country programmes and UNCDF global thematic initiatives accounted for the remaining 25 per cent, which represents a 7-per-cent increase from 2011 to 2012.

Table 9.

2012 programme expenditures, by region and practice *

(In millions of United States dollars)

Regions/themes	Local development	Microfinance	Total
Africa	17.5	15.9	33.4
Asia and Pacific	7.0	6.8	13.8
Arab States	0.8		0.8
Latin America	0.6		0.6
Total	25.9	22.7	48.6

Source: Financial statements for UNCDF as of 31 December 2012 before final closing of accounts.

*The distribution of global programme expenditures between regions are estimations based on the size of country programmes.

VII. UNCDF looking forward

79. 2013 is an important year for UNCDF. The new programming cycle which begins in 2014 must be prepared, and the strategic framework for the period 2014-2017 will be adopted.

80. In 2013, UNCDF must effectively address the imbalance between its core budget and its non-core contributions, if programming and project implementation in the LDCs are to remain at least at 2012 levels. In order to face that challenge, and among other measures, the outreach to traditional donors and new financial partners must be stepped up. Adequate financial instruments must be put in place.

81. The stakeholder consultations process on possible future directions for UNCDF, decided by the Executive Board in decision 2012/12, has been helpful in addressing the above-mentioned issues. The first and second rounds of these consultations were held in December 2012 and in January 2013, during the Executive Board's first regular session.

82. The consultations reconfirmed the unique positioning of UNCDF as the capital investment agency in the United Nations system, and encouraged UNCDF to make more extensive use of its financial mandate, which allows it to work with the public and the private sector through grants, loans, financial blending tools and credit enhancement instruments, at the sovereign and sub-sovereign levels. Within the wider framework of financing for development, it is management's intention to use these financial tools to reach out to donors and new financial partners, including to the impact investing industry. In doing so, leveraging UNCDF core resources is not an end in itself, but a way to gain access to genuinely alternative sources of financing for development, on top of official development assistance, philanthropy, venture philanthropy, corporate social responsibility and social business. Ongoing discussions with the UNDP Bureau of Management should

allow the definition of a more adequate operational and legal framework in this respect.

83. The stakeholder consultations also allowed for discussions of the increasing pressure on the UNCDF core budget in an informal setting. On previous occasions, UNCDF has had the opportunity to attract the Executive Board's attention to the documented fact that only an annual core budget of $25 million will allow the agency to maintain the current level of its interventions in 37 of the 49 LDCs. However, the UNCDF annual core budget (excluding occasional contributions by UNDP) has stagnated year after year at between $15 million and $17 million. Over the same period, due to very effective fund-raising with important philanthropic foundations, the annual non-core contributions to UNCDF have more than tripled. The combination of these two funding trends leaves the agency in the unsustainable situation in which the core budget is being used increasingly, and soon in its entirety, to help cover the administrative costs linked to the implementation of projects and programmes financed by non-core funding. A cost-recovery level of 7 per cent does not allow UNCDF to cover these administrative costs fully.

84. During the stakeholder consultations, UNDCF was encouraged to engage with foundations and private sector non-core contributors to negotiate a higher percentage of cost recovery, notably on the basis of the Executive Board's recent endorsement of a harmonized cost-recovery rate of 8 per cent for non-core contributions that will be reviewed in 2016, with the possibility of increasing the rate if it is not consistent with the principle of full cost recovery.

85. Inclusion of UNCDF into UNDP programming arrangements (as agreed to in principle during the Executive Board's first regular session in January 2013), direct project costing for development effectiveness and increasing core contributions by some traditional and some new donor Governments have been identified as complementary ways of easing the pressure on the UNCDF core budget. All of the above-mentioned tracks will be proactively pursued by UNCDF management so that the success in non-core fund-raising and the subsequent administrative costs do not starve UNCDF of its investment capital and, as a direct consequence, result in reduced interventions to the benefit of the poorest populations in the LCDs.

86. In the same spirit and with the objective of creating new opportunities for poor populations in LDCs, UNCDF intends to strengthen its interventions in the fields of financial inclusion and local development finance through more deliberate use of information and communication technology (hardware and software) as the new enabling infrastructure for development of the twenty-first century.