2017 Annual Report

Moving Markets to Make Finance Work for Inclusion
UNCDF makes public and private finance work for the poor in the world’s 47 least developed countries (LDCs).

With its capital mandate and instruments, UNCDF offers ‘last-mile’ finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest, where market failures are most pronounced, and where benefits from national growth tend to leave people excluded.

UNCDF’s financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments—through fiscal decentralization, innovative municipal finance and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different Sustainable Development Goals (SDGs).
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FOREWORD
To achieve the Sustainable Development Goals (SDGs), we need to renew our focus on the countries that are most in need, and on investment areas that are critical to ensuring that no one is left behind. Least Developed Countries (LDCs) face significant financing gaps as they seek to graduate with inclusion. Many are very reliant on Official Development Assistance to complement scarce domestic public resources. As important as these are, they are not enough to bridge financing gaps to achieve the SDGs.

This reinforces the importance of using development finance to accelerate economic growth, build local capacities, and mobilize additional public and private resources for sustainable development. This is why UNCDF works to innovate financing approaches where few others are present; to create demonstration effects that, replicated and taken to scale, help transform markets, build inclusive financial markets and local development finance systems; and leverage funding from domestic and international actors into catalytic investments in local economies.

This work takes place in a broad context that is creating exciting opportunities to make finance work for poor people. Many private sector actors are playing an increasingly active role in development, with a growing number focusing on double or triple bottom lines or looking for other ways to support the SDGs. New financing models and tools are being developed or are ripe for adaptation in LDC contexts. The expansion of digital and mobile technologies and fintech firms is extending the reach of services and finance in LDCs, while bringing down costs and empowering women and girls. Local governments are increasingly being recognized for their essential role in meeting global challenges, such as adapting to climate change and responding effectively to urbanization and migration.

Expanding the frontiers of finance requires a healthy risk appetite; programmes may not always be successful at the first attempt. Getting the right mix of international and domestic, public and private capital instruments lined up to make finance work for inclusion at the local level can take time. Yet taking those risks—focusing where households are underserved and excluded, and where few others see viable markets or business propositions—is important to show what can be achieved when resources are targeted to reduce inequalities between and within countries.

That is why UNCDF is collaborating with a range of private and public partners to create and apply new financing approaches, digital and clean energy technologies, and creative solutions that work for poor men and women, small and medium-sized enterprises (SMEs) and local governments that are otherwise at risk of being left even further behind. Many examples of this work are captured in this report, which I hope you will find enlightening. I also hope this report will inspire you to reach out to us to share your lessons and ideas; we actively seek to engage with our partners to build on what works and learn from what does not.

Getting the finance piece of the SDGs right is critically important as development finance adapts to the new demands of a new era. We need to build on this opportunity to create a new generation of solutions that work for inclusion, for poor families, and for the last mile. I thank all our funding and implementing partners for supporting us to make that happen, and look forward to working with all of you to get finance flowing to where it is needed most.

Judith Karl
Executive Secretary
WHERE WE WORK
UNCDF Country Presence 2017

FINANCIAL INCLUSION

Bangladesh
Benin
Burkina Faso
Cambodia
Cameroon
DR Congo
Ethiopia
Fiji
Ghana
Guinea
Lao PDR
Lesotho
Liberia
Madagascar
Malawi
Myanmar
Nepal
Niger
Papua New Guinea
Rwanda
Senegal
Sierra Leone
Solomon Islands
Tonga
Vanuatu
Viet Nam
Zambia

LOCAL DEVELOPMENT FINANCE

Bangladesh
Benin
Bhutan
Burkina Faso
Burundi
Cambodia
Cameroon
Ghana
Guinea
Jordan
Lao PDR
Lesotho
Mali
Mozambique
Myanmar
Nepal
Niger
Papua New Guinea
Solomon Islands
Somalia
Tanzania
Tuvalu
Uganda

DISCLAIMER

The designations employed and the presentation of material on the maps and graphs contained in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations or UNCDF concerning the legal status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers or boundaries.
WHAT DID WE ACCOMPLISH?
LOCAL DEVELOPMENT FINANCE

Local governments in intermediary cities play an essential role in delivering the SDGs, and face pressures from growing urbanization, yet continue to face serious shortfalls in their financing.

Even when government transfers are predictable and generous, they rarely fully cover major infrastructure improvements. Perceived risks and market failures may keep private capital away. This is a problem for all of us. We need empowered local governments to meet the SDGs and the Paris Agreement.

UNCDF designs, pilots and tests innovative financing mechanisms that encourage domestic fiscal resources and capital markets to invest in local governments and local economies to drive economic growth, empower women and build resilience.

UNCDF has evolved its approach over the course of the strategic framework. In line with the New Urban Agenda, it is now working with municipalities to leverage funding through public–private partnerships, own-source revenues, and new financial instruments.

UNCDF has introduced innovative structured project finance, SME finance and blended finance approaches to support local public- and private-sector actors to de-risk, build and unlock private finance for pipelines of investable projects with strong development impact.

We are building on our years of work in fiscal decentralization. A longitudinal study of 10 countries recently completed by an independent consultant found that the investments into mechanisms we introduced—typically in close collaboration with UNDP—were leveraged more than 60 times through follow-on funds from donor partners and adopted by national governments for scale up. For instance, a local development fund initiated in Nepal in 1999 covering eight districts with a budget of $5 million has grown to a programme of $128 million in block grants to local governments, 80 percent of which comes from government resources.

Increasingly we will be helping governments adapt these fiscal decentralization models to new challenges, such as addressing root causes of migration or tackling climate change.

On climate finance, this means supporting ministries of finance and ministries of local government to secure accreditation to climate funds, such as the Green Climate Fund, and channelling performance-based grants to local governments through intergovernmental fiscal transfer mechanisms. We are expanding this work to 20 countries with a greater focus on urban areas and private sector resilience finance, in line with findings from a midterm evaluation.

Finally, UNCDF unlocks domestic capital for gender-sensitive investments that emerge from local government strategies for women’s economic empowerment.

In a joint initiative with UN-WOMEN and UNDP, we have developed a women’s economic empowerment index, to assess viability of small scale investment projects including businesses and infrastructure projects from a women’s economic empowerment perspective. The tool allows gender equality priorities to be incorporated in local economic development projects. This is the first UN standard for evaluating and vetting project pipeline through a gender lens in LDCs.
Between 2014 and 2017, UNCDF completed 4,673 localized investments across 23 countries.

In 2017, UNCDF supported 833 local governments, completing 410 investments, benefiting 1.2 million people, of whom around 1/2 were women.

Between 2014 and 2017, UNCDF invested $40 million in local governments, contributing to an average 76% increase in local fiscal space.

In 2017, UNCDF worked in 13 countries to transfer resources to local governments for building verifiable climate adaptation and resilience.

UNCDF worked with 68 local governments representing 5.5 million people, 79% of whom integrated resilience in their planning and budgeting.

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In FOCUS:
UNLOCKING FINANCING FOR LOCAL DEVELOPMENT

IN GUINEA,
UNCDF investments have been helping to influence broader local development financing decisions. For example, the construction of a public market and bus terminal in Boffa district increased the revenues of the local government by 200 percent between 2014 and 2017. This has supported follow-on investments, enabling the local government to better absorb an influx of migrants attracted by a mining investment. The demonstration effect of this project led to an agreement in 2017 between the government and the Chamber of Mines to channel 0.5 percent of mining royalties to a local government fund for similar types of investments. In 2018, UNCDF is planning to co-finance similar revenue-generating local infrastructure in Guinea with the local government, local banks, local developers and other development partners.

IN BANGLADESH,
bank credit disbursals doubled in districts implementing the local development fund which UNCDF helped set up, while local fiscal space expanded by 27 percent between 2013 and 2017. The lessons learned from the UNCDF programme informed a government decision to scale up the programme to all subdistrict governments across Bangladesh. In 2017, UNCDF also facilitated and financed the establishment of a credit guarantee facility by the Bangladesh Bank, which will aim to unlock nearly $1 million of local bank financing for women entrepreneurs in sectors selected for their catalytic impact on the local economy. This is expected to increase the collective turnover of the targeted entrepreneurs over the next five years. Furthermore, on the back of the UNCDF involvement, the International Finance Corporation has injected an additional $750,000 to support the credit guarantee facility.
FINANCIAL INCLUSION

UNCDF’s focus remains on progress toward expanding usage of an ever wider and more tailored range of financial services for poor and excluded populations. About 1.7 billion adults are still unbanked. Women in developing economies persistently remain nine percent less likely than men to have a bank account.

Many public and private investors are wary of expanding the frontiers of finance without demonstration examples to pave the way.

UNCDF incentivizes financial service providers to design and deliver client-centric product innovations using alternative delivery channels to reach underserved populations, especially women, youth, smallholder farmers and agriculture value chain actors.

UNCDF also uses data-driven diagnostics to help governments develop financial inclusion strategies. This work is laying the foundation for us to support the creation of inclusive financial markets.

Digital innovations are a core feature across the work. UNCDF is increasingly working with new actors, such as fintech, mobile network operators and new technologies, especially digital financial services. We will be using these experiences to help regulators shape regulation around digital financial services, and to inform peers and investors about how digital tools can work for underserved markets.

On clean energy finance, UNCDF works with energy service companies to expand access to efficient cook stoves and solar home systems through ‘pay-as-you-go’ models. By 2020, we aim to set 500,000 people on a clean energy pathway.

UNCDF is also working with governments and service providers to formalize remittance channels, leveraging digital and fintech solutions to lower costs and link remittances to a wider range of financial services.

In addition, we are expanding financial inclusion for forcibly displaced people and host communities in Africa, and have begun a partnership with UNHCR to that end.

UNCDF hosts the secretariat of the Better Than Cash Alliance.

62 MEMBERS

The advocacy of the Better Than Cash Alliance has led to growing international recognition of the importance of digitizing payments. The Alliance has secured the membership of governments, development organizations and private companies. It has advocated for the inclusion of digitizing payments in major policymaking forums such as the G20, Asia-Pacific Economic Cooperation, the Global Partnership for Effective Development Co-operation, the World Economic Forum and the Pacific Alliance.
Between 2014 and 2017, UNCDF supported financial service providers in reaching $18M active clients to use.

In 2017, UNCDF supported 138 financial service providers and achieved a net increase in deposits of $6.5B mobilized since 2013.

- 161 new financial products piloted
- 49% of UNCDF’s financial products integrate gender
- 4.3M clients reached by UNCDF-supported products, 53% of which were women
- 56,000 products financed, 59% of which were sold to women
- $543,000 of UNCDF’s investment in energy lending in Nepal leveraged
- $22M of which $17M was credit from four local FSPs
- 830K young people gained access to savings accounts, accumulating (since 2010)
- 210K of these young entrepreneurs accessed loans totalling $29M, 43% of which were sold to women
- 29 financial inclusion roadmaps or national strategies adopted by governments with UNCDF support, 82% of which address gender issues
- Since 2008, UNCDF has reached +2.2M new customers, 70% in 11 countries through savings products linking savings groups with formal financial institutions

Better Than Cash Alliance has 62 members.

364 knowledge products.
In FOCUS:
THE ENORMOUS POSITIVE IMPACT OF DIGITAL FINANCIAL SERVICES

By building digital ecosystems, UNCDF has contributed to an increase of 6.7 million adults with an active digital financial services account in eight countries.

IN ZAMBIA, for instance, UNCDF has contributed to a sharp increase in the number of active users of digital financial services, from 2 percent of the adult population in 2014 to 18 percent in 2017. In 2017, the roll-out of an e-wallet called ‘Sungä’, developed with UNCDF support, has gained traction, with active account usage reaching 136,000. UNCDF also focused on expanding access to the most vulnerable and excluded populations, including families in rural areas and refugees. Working with the Office of the United Nations High Commissioner for Refugees (UNHCR), UNCDF has been instrumental in requesting the Zambian government to allow the use of refugee identification when opening a mobile money account. Currently, research is being conducted to identify how digital financial services can help women address their specific challenges and to develop the business case for service providers to deliver products that meet their needs.

Together with UNDP, UNCDF has made a significant contribution to increasing access to finance in the SOUTH PACIFIC, supporting the enrolment of 1.7 million people for savings, loans, mobile wallets, micro-insurance or remittances using primarily digital channels. This represents 29 percent of the total adult population in that market. UNCDF has contributed significantly to the financial inclusion of women, resulting in some 800,000 women becoming formally banked since 2008. In 2017 alone, some 170,000 women were reached through the various financial products and services supported by UNCDF.
IN NEPAL,
UNCDF helped financial service providers reach 48,000 new clients by establishing 11 rural branches, setting up 405 mobile and agent banking points, and designing 7 new financial products specifically catering to the large agribusiness value chains. Under a challenge fund mechanism, UNCDF supported the LienVietPostBank ‘Vi Viet’ e-wallet to reach 1.5 million clients in Viet Nam.
LDC INVESTMENT PLATFORM

UNCDF is playing an increasingly active role in mobilizing investments in local economies through the application of loans, guarantees and reimbursable grants that mitigate the risks for public and private investors. The home for this third pillar of work is the LDC investment platform, which is creating new opportunities for UNCDF to expand its support for local infrastructure and businesses in the last mile.

It rests on the UNCDF loans and guarantees policies and a strengthened due diligence process including financial modelling, credit scoring and structuring. UNCDF has dedicated capacity to manage and oversee non-grant capital investments as a portfolio and ensure robust accountability.

The LDC investment platform seeks to use financial instruments such as loans and guarantees for direct investment and to absorb risks to mobilize more commercial investments into a growing pipeline of projects in LDCs (e.g. local infrastructure, SMEs, agriculture value chains, financial service providers, fintechs).

In 2017

UNCDF APPROVED 4 LOANS

FINANCIAL INSTITUTIONS

in Myanmar

SME

in Tanzania

BANK

in Benin

IN TANZANIA

UNCDF PROVIDED A new-generation loan of $250,000 to an AGRIBUSINESS COMPANY

The loan with technical assistance & a guarantee scheme from the PRIVATE AGRICULTURAL SECTOR SUPPORT TRUST

This will enable the project developer to enhance productivity and build a regional value chain THAT WILL BENEFIT 7,500 SMALLHOLDER FARMERS working with the company

$765,000 UNLOCKED

IN LOANS FROM A LOCAL PRIVATE BANK

Moving Markets to Make Finance Work for Inclusion
In FOCUS:  
THE DIVERSIFICATION OF THE UNCDF GRANT PORTFOLIO

Compared to its focus on promoting microfinance and local public finance in 2010–2013, UNCDF has evolved its focus, tools and approaches over the last four years to target more clearly last-mile populations, SMEs and local governments. The figure below compares the change in UNCDF investments between 2012-2013 and 2016-2017. The figures show a gradual evolution in the composition of UNCDF investee partners that follows the changes in its programmatic approach. In 2012 and 2013, over 98 percent of UNCDF investments were made to financial service providers, mainly microfinance institutions and commercial banks, and to local governments. While these two sectors remain vital partners, UNCDF investments have expanded significantly to include mobile network operators, fintech firms, energy service providers and SMEs in both sectors. These figures illustrate UNCDF’s willingness to accompany countries into new areas of finance when markets shift.

### Diversification of UNCDF grant portfolio (millions of US dollars)

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<th>2012-2013</th>
<th>2016-2017</th>
<th>TOTAL</th>
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<tbody>
<tr>
<td>FSPs</td>
<td>53%</td>
<td>41%</td>
<td>45%</td>
</tr>
<tr>
<td>MNOs, FinTechs</td>
<td>1%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Energy/Envt</td>
<td>1%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Govs</td>
<td>45%</td>
<td>45%</td>
<td>3%</td>
</tr>
<tr>
<td>SMEs</td>
<td>≈ 0%</td>
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**Legend**

- **FSPs**: Financial service providers
- **MNOs, FinTechs**: Mobile network operators and financial technology companies
- **Energy/Envt**: Energy & environmental service providers
- **Govs**: Local & national governments
- **SMEs**: Small & medium-sized enterprises
WHAT DID WE LEARN?

Over the period of the strategic framework, UNCDF has captured important lessons from external evaluations.

Overall, UNCDF was judged to be doing a good job in designing and implementing programmes that improved the lives of poor people in LDCs. UNCDF designed interventions relevant to LDC priorities, building good cooperation with other development stakeholders and responding to the needs of the national implementing partners. In terms of impact and sustainability, the review found that UNCDF interventions typically reach last-mile populations.

UNCDF-supported partners were found generally to be making progress in reaching underserved populations in financial inclusion and local development finance. Innovations in digital finance services were helping reach increased numbers of low-income clients, expanding, for example, their access to affordable clean energy or formal savings products. UNCDF support to improve public financial management by local governments typically yielded increased investments in productive infrastructure as well as, where relevant, improved household food security and nutrition.

Reviews have also identified areas for improvement, including the need for UNCDF to more systematically articulate and/or report on expected results beyond those achieved by direct implementing partners alone, so as to capture broader market development results that can drive inclusion at scale. These priorities are now reflected in UNCDF’s new four-year strategic framework (2018-2021).

All UNCDF evaluations can be found at the UNDP Evaluation Resource Center through the following link: https://erc.undp.org/evaluation/units/255
Finally, all UNCDF programmes prioritized gender equality and women’s empowerment. External evaluations have found UNCDF programmes to have robust programme design features and strong results in areas of women’s empowerment.

Change in selected gender indicators, 2016-2017

- % of women clients in UNCDF-supported financial service providers: 43% in 2016, 45% in 2017
- % of new financial products integrating gender elements: 18% in 2016, 49% in 2017
- % of local development finance strategies incorporating gender: 43% in 2016, 50% in 2017
- % of women in local development finance trainings: 26% in 2016, 54% in 2017

Legend
- ● 2016
- ● 2017
LOOKING AHEAD
In the year ahead, UNCDF is prioritizing three issues:

1st

UNCDF will focus on scaling up programmes that unlock public and private finance and that enhance inclusive financial markets and local development finance systems.

In local development finance, this means prioritizing work with municipalities, especially in urban areas, to mobilize funding so they can better serve local populations and meet their infrastructure needs; expanding work on local resilience finance, which brings together work on climate adaptation, food security and land restoration; attracting finance for projects that empower women; and mobilizing financing for pipelines of investable projects with clear development impact.

In financial inclusion, this means prioritizing the expansion of financial services to reach underserved populations, especially women, girls and youth; using data-driven diagnostics to help governments develop financial inclusion strategies; helping to formalize remittance channels; and expanding work in crisis contexts, including in support of refugees and forcibly displaced populations. Digital innovations will remain a core feature of this work and are also integral to efforts to expand access to clean energy and to support the integration of smallholder farmers into agriculture value chains.
UNCDF will continue to use its capital mandate to expand the frontiers of finance in LDCs

Through its LDC investment platform, UNCDF is playing an increasingly active role in making investments in local economies more attractive to private finance. UNCDF is also investing in a thought leadership role on the application of blended finance in LDCs, the findings of which it intends to use to build a community of practice and to inform better the actions of development actors and investors.

UNCDF will continue to deepen its collaboration with international development organizations to maximize its development impact and help mobilize additional financing for developing countries

In addition, UNCDF is building new and exciting partnerships with UN agencies, where the combination of UNCDF financial innovations and their sector expertise can tackle last-mile exclusions; with businesses, as innovators, implementing partners and funders; and with existing and new contributors to regular and other UNCDF resources.
RESOURCES & FUNDING
RESOURCES and FUNDING

UNCDF is entirely funded by voluntary contributions from UN Member States, multilateral organizations, foundations and other sources.

These contributions are provided as regular (core) resources, or other resources earmarked for specific purposes.

Core resources remain the foundation for UNCDF’s business model, providing the risk capital for innovation and leverage, the technical expertise to remain at the frontiers of innovation in ‘last-mile’ finance, and the robust country-level presence needed to be a strategic partner to governments and UN country teams.

In 2017, UNCDF received total contributions of $60.3 million (including $3.4 million from UNDP as biennial budget support and programme support).

Core resources amounted to a total of $9.2 million (compared with $9.4 million in 2016) from 13 Member States.

Other resources earmarked to specific themes, programmes or activities were $47.7 million in 2017, of which $20.4 million came from donor country governments (bilateral), $3.6 from the European Union, $11.2 million from the private sector, foundations and NGOs, $1 million from UN Agencies and $11.4 million from the UN Pooled Funds.

UNCDF works in partnership with a range of UN agencies to achieve our results. As UNCDF is an associated fund of UNDP, UNDP is a preferred programme partner at country level. Other UN partners include UN Women, WFP, UNHCR, IFAD, ILO, FAO and UN HABITAT.
## 2017 DONORS

Total contributions, 2017
(in United States dollars)

<table>
<thead>
<tr>
<th>DONOR NAME</th>
<th>CORE</th>
<th>NON-CORE</th>
<th>JPO RESOURCES</th>
<th>TOTAL</th>
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</thead>
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<td>3,382,187</td>
<td>8,956,195</td>
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<td>2 Multi-Partner Trust Fund</td>
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<td>11,386,423</td>
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<td>3 Mastercard Foundation</td>
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<td>4,947,455</td>
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<td>4,947,455</td>
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<tr>
<td>4 Switzerland</td>
<td>2,982,107</td>
<td>1,907,661</td>
<td></td>
<td>4,889,768</td>
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<tr>
<td>5 United Nations Development Programme (*)</td>
<td>3,410,387</td>
<td>326,544</td>
<td></td>
<td>3,736,931</td>
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<td>6 United States</td>
<td>500,000</td>
<td>3,190,000</td>
<td></td>
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(*) UNDP Core Resources:
- Biennial support budget: $2,699,354
- Programme support: $711,033
- **Total:** $3,410,387
### DONORS TO REGULAR RESOURCES, 2017
(in United States dollars)

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UNCDF makes public and private finance work for the poor in the world’s 47 least developed countries (LDCs).

With its capital mandate and instruments, UNCDF offers ‘last-mile’ finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest, where market failures are most pronounced, and where benefits from national growth tend to leave people excluded.

UNCDF’s financing models work through two channels: **savings-led financial inclusion** that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how **localized investments**—through fiscal decentralization, innovative municipal finance and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different Sustainable Development Goals (SDGs).