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**United Nations Capital Development Fund**

## **Report on results achieved by the United Nations Capital Development Fund in 2018**

### *Summary*

This report presents the annual review of results achieved in 2018 by the United Nations Capital Development Fund (UNCDF). As the first report under the Strategic Framework, 2018-2021, it examines progress made in achieving its two outcome areas: enhancing inclusive financial markets and local development finance systems; and unlocking public and private finance for the poor.

### *Elements of a decision*

The Executive Board may wish to take note of the annual report; commend UNCDF efforts to implement its Strategic Framework, 2018-2021; welcome its commitment to innovate financing solutions and approaches to make finance work for poor people; commend its efforts to track and evaluate its contributions to financial market and local systems change and unlocking finance for the poor, and to share lessons with the wider development community; and recommit to supporting UNCDF, including through fully funding regular resource requirements of \$25 million per year.



**Contents**

<i>Chapter</i>	<i>Page</i>
I. Introduction . . . . .	3
II. UNCDF and the changing context . . . . .	3
A. Contextual analysis . . . . .	3
B. Highlights of results . . . . .	3
C. Understanding performance against the Strategic Framework . . . . .	11
D. Analysis of institutional effectiveness . . . . .	14
III. UNCDF looking forward . . . . .	15
Annex. Integrated results and resources matrix (available on the Executive Board website)	

## I. Introduction

1. The annual report presents the development and organizational results achieved by the United Nations Capital Development Fund (UNCDF) in 2018. The report is based on analyses of programme results reported against the integrated results and resources matrix (IRRM). It incorporates findings from external evaluations, audit reports, financial data, internal case studies and reports and external research and data on relevant development challenges and country contexts.

## II. UNCDF and the changing context

### A. Contextual analysis

2. Many least developed countries (LDCs) continue to make important development progress, with a number on track to graduate to middle-income country status. Gross domestic product growth in LDCs, estimated to reach 5.4 per cent in 2018<sup>1</sup>, is higher than projected global growth, but still below the 7 per cent annual rate called for by the Sustainable Development Goals. Long-term growth projections point to 35 per cent of the population in LDCs remaining in extreme poverty by 2030.<sup>2</sup>

3. LDCs typically face significant financing gaps in their efforts to achieve the Sustainable Development Goals. Many Governments have limited fiscal space and a heightened reliance on external funding. While there was an increase in official development assistance to LDCs in 2016 of less than 1 per cent in real terms, the medium-term trend is one of stagnation.

4. Foreign direct investment, which has been on an upward trajectory in LDCs since 2002, remains concentrated in a small number of economies and sectors and can be volatile; foreign direct investment inflows in 2017 decreased for the second consecutive year. Approximately one third of the LDCs are at high risk of debt distress or already in that situation. Financing shortfalls can be especially large at the subnational level.

5. All these factors underscore that LDCs need access to significant additional resources – both private and public – to achieve their goals; that business-as-usual approaches are no longer sufficient; and that there is a need for new partnerships, innovation and risk-taking to get more resources flowing to LDCs. There is also a need to focus not just on the quantity of financing, but also on the quality and geographic allocation, so that those being left behind are included.

### B. Highlights of results

6. UNCDF continues to operate in the last mile, where few others are present, and to design, test and help scale up financing solutions targeted at underserved households, micro, small- and medium-size enterprises (MSMEs) and local governments. Through its demonstration effects, UNCDF builds inclusive financial markets and local development finance systems that leverage additional public and private sector funding from domestic and international actors into local economies to support growth that is inclusive and empowers women.

7. In financial inclusion, UNCDF adopts a market development approach to enable unbanked and vulnerable populations, especially women, youth and refugees, as well as MSMEs, to access, use and benefit from appropriate and affordable financial services. Based on robust demand- and supply-side data analysis, UNCDF, in partnership with Governments, develops and implements national financial inclusion strategies. It engages with diverse stakeholders in both the public and private sectors to help Governments create the right enabling policy and regulatory ecosystems for responsible digital financial solutions to flourish.

8. UNCDF increasingly leveraged financial technology (fintech) innovations to target previously hard-to-reach populations with well-designed financial services, to provide poor households with access to off-grid energy solutions, to empower women and young people and to strengthen sustainable

<sup>1</sup> [https://unctad.org/en/PublicationsLibrary/aldc2018d1\\_en.pdf](https://unctad.org/en/PublicationsLibrary/aldc2018d1_en.pdf)

<sup>2</sup> [https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP\\_2018\\_Mid-year\\_Update.pdf](https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP_2018_Mid-year_Update.pdf)

value chains. For instance, paying smallholder farmers through digital wallets better connected them to global supply chains. In this way, digital financial inclusion contributes to the emergence of the wider digital economy and leverages technology to reach the last mile.

9. In local development finance, UNCDF recognizes that local governments and local economies are the key to accelerating sustainable and inclusive development in developing countries, primarily LDCs. This includes a focus on ensuring that fiscal resources are invested in local economies to promote sustainable growth and structural transformation; that finance is available, primarily from domestic capital markets, for local catalytic investments with high development impact in priority thematic areas of women's empowerment, climate resilience and food security; and that local fiscal space and fixed capital formation are sustainably increased to achieve sustainable local development.

10. Adopting a structural change approach to local development finance, UNCDF strengthened national systems for local government finance, introducing performance-based intergovernmental transfer systems in 18 countries in 2018 and enhancing capacities of local governments to better plan, invest and monitor their investments in essential services and infrastructure. It also draws on its work with local public and private stakeholders to help Governments create an investment-friendly regulatory environment for local development finance. UNCDF has expanded its approach to supporting local market development by introducing structured project finance, small- and medium-size enterprise (SME) finance and blended finance approaches to unlock public and private finance, principally from domestic banks, for revenue-generating projects with strong development impact.

11. UNCDF ramped up its blended finance and investment work in 2018. The LDC investment platform has matured over the last 12 months into the third pillar of UNCDF work and is proving central to its ability to crowd-in greater amounts of public and private finance where it would not otherwise go without UNCDF sharing risks and creating demonstration effects. There was a concerted effort in 2018 to roll out a new generation of concessional loans, guarantees and reimbursable grants that mitigate the risks for public and private investors investing in the last mile. With its robust due diligence and focus on ensuring strong financial and development additionality, UNCDF approved 11 investments in three countries in 2018. These covered local infrastructure, women's economic empowerment, clean energy and financial inclusion.

12. In addition, UNCDF expanded its engagement with an assortment of development partners, investors and businesses to help drive more finance towards the Sustainable Development Goals. In September, UNCDF launched the first ever United Nations-affiliated exchange-traded fund on the New York Stock Exchange. UNCDF established a partnership with a third-party fund manager to mobilize and expand new resources for impact investments in the LDCs. UNCDF also engaged with the United Nations Development Programme (UNDP) and other United Nations entities to explore ways through which its financing tools and investment expertise can be made available to them in support of a wider range of Sustainable Development Goals. It launched a flagship report on blended finance in LDCs, which is helping to position UNCDF as a thought leader in this space. This publication shows that only 7 per cent of private finance mobilized by official development finance goes to LDCs. It also shows that where blended finance approaches are appropriate, there is a need for much more innovation and experimentation in order to make them work for the missing middle and local economies in LDCs.

13. Throughout, UNCDF continues to work closely with UNDP to bring maximum benefit to LDCs, drawing on complementary areas of expertise. UNCDF is committed to working with UNDP on its country support platforms and has partnered in implementing UNDP country investment facilities in three countries. UNCDF also actively partners with UNDP in joint programmes and initiatives in 26 countries.

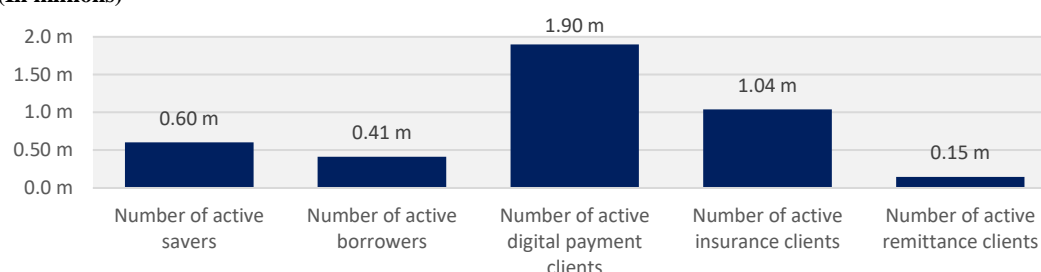
### **Results against outcome 1: Enhanced inclusive financial markets and local development finance systems that benefit poor and vulnerable populations**

#### *Inclusive financial markets*

14. The UNCDF approach recognizes financial inclusion as a critical enabler for the 2030 Agenda for Sustainable Development, drawing on strong evidence of the positive impacts of financial inclusion, especially digital financial services, to accelerate poverty reduction, women's economic empowerment and overall economic growth.

15. Digital finance is driving the expansion of financial access and usage in LDCs; mobile money account ownership more than doubled from 7 per cent in 2014 to 17 per cent in 2017. UNCDF has contributed to this digital finance revolution by promoting innovation, inclusion and regulatory reforms. In 2018, UNCDF, through its support to financial service providers, mobile network operators and local institutions, helped reach over 1.9 million digital payment clients. Digital financial services have become the primary UNCDF channel of delivery in financial inclusion (see figure 1). Since 2012, UNCDF has contributed to over 13 million adults accessing financial services through digital accounts in 12 countries.

**Figure 1. Active clients reached by UNCDF-supported financial products and services in 2018 (In millions)**



16. The Better Than Cash Alliance, for which UNCDF hosts the secretariat, has led global advocacy on payment digitization, while continuing to expand its membership to 30 national Governments, 23 international organizations and six private businesses in 2018. The Alliance prepared a guidance note on inclusive digital payment infrastructures that was endorsed by the Group of 20 (G20) finance ministers and engaged with the G20 Anti-Corruption Working Group on public sector transparency in digital payments. It partnered with four leading multinational companies to publish a report on how digitizing supply chain payments has had a positive impact on global businesses and its workers. The Alliance also carried out country-level diagnostics and advisory services for selected accelerator countries to demonstrate the impact of digital payments. In Ghana, for instance, the Alliance completed a digital payment diagnostic that has been adopted by the Government and is being incorporated into its inclusive finance road map.

17. UNCDF also serves as secretariat for the Secretary-General's Task Force on Digital Financing for the Sustainable Development Goals, co-chaired by the UNDP Administrator and Maria Ramos, former Chief Executive Officer of Absa Group Limited, that was launched in 2018. The Task Force will conduct consultation and research into recommend strategies to harness the potential of financial technology to advance the Sustainable Development Goals.

18. UNCDF provides policy and regulatory support to build an enabling environment for digital finance services at the country level. In Sierra Leone, UNCDF facilitated the introduction of a regulatory "sandbox" which is a testing ground for new business models under supervision of the regulators, to help the central bank better understand the regulatory implications of financial innovations. Within this safe space for innovation, UNCDF supported the piloting of a mobile money-based savings scheme for smallholder farmers.

19. To bring digital finance to the last mile, UNCDF recognizes the need to link digital finance to the real economy. In Nepal, UNCDF supported some 380,000 smallholder farmers and micro-entrepreneurs to enhance their use of financial services through a challenge fund that promoted alternative delivery channels including branchless banking and mobile banking services. In Uganda, UNCDF rolled out a digitized school-fee payment system, which 20 schools now accept and has been used by some 7,200 parents to pay school fees. UNCDF also partnered with the private sector businesses working along Uganda's coffee, dairy, maize and seed-oil value chains to register some 175,000 mobile money customers and digitize the payments of 40,000 smallholder farmers. The digitization of payments in the agricultural value chains is enhancing the efficiency of the agribusinesses and expanding access to and use of inclusive digital finance in rural regions.

20. UNCDF has used its work on financial inclusion to expand access to clean energy in LDCs. Since 2014, UNCDF has supported 21 energy and financial service providers, which have sold over 230,000

clean energy products benefiting over 1 million people in Ethiopia, Myanmar, Nepal and Uganda. This is estimated to have offset some 350,000 tons of carbon dioxide emissions in the targeted countries. In 2018 alone, some 66,000 clean energy products were sold by UNCDF partners; 82 per cent of the sales were financed through loans or pay-as-you-go instalments and 60 per cent of the clients were women. UNCDF also supported its partners to diversify their offer of clean energy products to include solar-powered irrigation pumps, clean cooking solutions and solar-powered mini-grids. This has helped to expand their customer base beyond households to include schools and agribusinesses. UNCDF also sees access to energy finance as an entry point to expand the access to finance of unbanked populations. In Uganda, UNCDF piloted the use of repayment rates of a pay-as-you-go scheme for a solar energy product to serve as the credit history which microfinance institutions can use to provide microloans and savings products to target customers.

21. UNCDF continues to deploy a range of data-driven diagnostic tools to identify underserved population segments, understand transaction history, provide geospatial mapping of service points and uncover policy and regulatory gaps inhibiting market growth. One of the UNCDF diagnostic tools designed to help Governments develop holistic road maps for financial inclusion has been implemented in 18 countries since 2014, with new assessments launched in Benin, Burkina Faso and Togo in 2018. UNCDF partners with national Governments, UNDP, the World Bank and local stakeholders for the design and implementation of the road maps and to leverage the diagnostic findings to devise new tools and ways of reaching the underserved population. In Lesotho, the Government and UNDP have supported the implementation of a mobile money platform and piloted a digital financial identity to increase financial inclusion. In the Democratic Republic of the Congo, UNCDF carried out a review of the remittance market assessing the values, volumes and pain-points of remittances into and out of the country. This resulted in a financial service provider developing a new retail cross-border product to be launched in 2019. The aim of all these projects is to help broadcast opportunities to financial service providers and investors in this space so that more products and investments support increased financial inclusion.

22. Making finance work for women is essential to deepening financial markets, empowering female entrepreneurs and making growth more sustainable. UNCDF therefore seeks to expand the supply of responsible financial products that respond to the specific needs of women and girls, and to support policies and regulations that enhance women's access and agency in regard to financial services. In Malawi, UNCDF worked with financial service providers to improve the gender balance of their agent networks, based on findings that women agents not only increased enrolment of women but generally outperformed men in registering new clients and in the value of their transactions. As a result, a financial service provider introduced commission-based payments to incentivize agent performance, enforced mandatory sex-disaggregated client data collection and developed a career development path allowing women to progress from tellers to agents to corporate employees based on their performance. The policies are designed to serve as a demonstration and to build a business case for engaging women in financial service delivery for other service providers to follow suit.

23. In Asia, UNCDF works on changing the behaviours of market actors to stimulate innovations, investments and regulatory reform so that finance can help to overcome real economic challenges relevant to the poor, women and underbanked populations. UNCDF partnered with the United Nations Economic and Social Commission for Asia and the Pacific to implement an innovation fund to support women's entrepreneurship and financial inclusion in the region. In Myanmar, UNCDF carried out gender assessments of 11 financial institutions to review the gender responsiveness of their governance, products and human resource management, which in turn led to changes in their policies and products. UNCDF also partners with fintech firms in Indonesia to promote access to finance for microentrepreneurs, especially women, and partners with regulators and services providers to ease access to international remittances at the last mile.

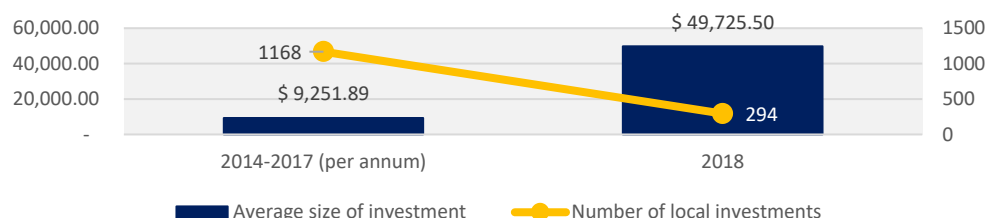
24. In the Pacific, a joint programme with UNDP has increased financial access and usage to over 2 million people since its launch in 2008. The programme in 2018 focused particularly on expanding access to micro-insurance for low-income populations as a social protection to mitigate welfare losses from the sudden death of a family member, loss of income or illness. In Fiji, the joint programme supported a bundled micro-insurance product that provided both life and non-life insurance coverage. The micro-insurance scheme has been scaled up by the Government to cover over 100,000 people, significantly increasing the insurance coverage rate in the country. In the Solomon Islands, a micro-

pension account supported by the joint programme targeting people working in the informal sector was rolled out nationwide by the Government, allowing informal sector workers to save for retirement. Drawing on the Solomon Islands success, the national pension fund in Vanuatu has requested a feasibility study to explore the roll-out of a similar micro-pension product in Vanuatu.

### *Local development finance systems*

25. UNCDF has decades of experience in designing and supporting fiscal decentralization mechanisms to get finance flowing to secondary cities, peri-urban localities and rural areas. In 2018, UNCDF directly supported 368 local governments in 23 LDCs and low-income countries, completing 294 public and private investments. While the number of local investments has decreased compared to the annual average between 2014 and 2017, the size of the investments has significantly increased; this reflects a strategic decision to make investments in larger projects with potential to generate revenue (see figure 2). This change in investment priorities has resulted in an increase in the total value of localized investments completed, despite the decrease in number, from an average of \$10.8 million per annum in 2014-2017 to \$14.6 million in 2018. The estimated number of beneficiaries per investment has also increased more than threefold with the investments serving more people in terms of scale in the last mile.

**Figure 2. Change in number and average size of localized investments completed, 2014-2017 and 2018.**



26. Local authorities are central to global efforts to take appropriate climate action. Building on its work on fiscal decentralization, UNCDF channels performance-based, climate-resilient grants through intergovernmental fiscal transfer systems using the Local Climate Adaptive Living Facility mechanism. With the addition of the Gambia, UNCDF expanded its local climate mechanism to 14 countries in 2018. As a result, the programme now works in 107 local governments, representing over 6 million people. Building on UNCDF demonstrations, the national Governments in Bhutan and Cambodia have started to scale up the local climate mechanism to all local governments.

27. Through this mechanism, UNCDF supports local governments to tailor investments and services to meet the needs of their citizens and prioritize their responses to emerging climate-related risk areas. In Niger, for instance, UNCDF conducted a climate risk and vulnerability assessment that highlighted increased risks of malaria and agricultural land degradation in local communities, which were previously not given proper attention. This resulted in mitigation actions and investments by the local governments. When selecting investments, the local governments gave priority to climate adaptation projects benefiting women.

28. During the twenty-fourth Conference of the Parties to the United Nations Framework Convention on Climate Change, UNCDF signed a strategic partnership with the African, Caribbean and Pacific Group of States (ACP) to enhance support for implementation of nationally determined contributions in the LDCs, small island developing States and some 79 ACP member countries. The partnership aims to help increase climate finance for local action.

29. Recognizing the climate impacts on food security, UNCDF helped local governments in five African countries to establish new financing mechanisms that carried out 18 food security and local development investments in 2018, benefiting over 200,000 people in rural communities. In Burkina Faso and Niger, UNCDF is partnering with the secretariat of the United Nations Convention to Combat Desertification and the Food and Agriculture Organization of the United Nations to scale up the use of intergovernmental transfer mechanisms to tackle land degradation and enhance forest and landscape management at the local level.

30. UNCDF helps local governments to access and allocate resources for initiatives that empower women and works to attract financing for MSMEs that are women-led and promote gender equality. To this end, UNCDF partnered with UNDP and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) on a joint programme focused on promoting local financing for women's economic empowerment. UNCDF investments in women's empowerment projects in Bangladesh and the United Republic of Tanzania are expected to directly benefit over 6,000 women farmers and suppliers. UNCDF also collaborated with the Bangladesh Bank to develop a national strategy on gender-responsive investments and set up a credit guarantee scheme to help make investable women-led SMEs lacking collateral to access loans from local commercial banks. UNCDF provided capacity-building to over 230 officials in Bangladesh and the United Republic of Tanzania to strengthen gender-responsive public finance management and planning at the local government level.

31. While only about one tenth of the world's largest urban areas are in LDCs, 30 of the 35 most rapidly growing cities are in LDCs. Urban growth is not limited to capital cities but is having a profound impact on secondary cities and towns as well. The future development of the LDCs, and their ability to meet the Sustainable Development Goals, now depends significantly on how well urbanization is managed in LDC cities and towns. UNCDF, therefore, is increasingly working with municipal governments to leverage funding through public-private partnerships, bonds and own-source revenue. In Nepal, UNCDF supported the Government to allow its financial intermediary entity, the Town Development Fund, to borrow independently from the market to finance social investments in newly created municipalities. Based on this regulatory change, UNCDF is structuring a new loan for the Town Development Fund to finance a commercial marketplace development project in Hariwon municipality, which is expected to employ over 850 traders and increase the revenue of the local government. In the United Republic of Tanzania, UNCDF supported the Government to change its policies to allow local governments to issue revenue bonds through special-purpose vehicles, which, when appropriate and well structured, can augment the local governments' own resources to invest in local development projects.

32. UNCDF partnered with the Global Fund for Cities Development and the Public-Private Infrastructure Advisory Facility, which is a multi-donor assistance facility managed by the World Bank, to strengthen the capacities of the Network of African Finance Institutions for Local Authorities to provide support to municipal development funds in LDCs. The joint initiative supported the development of road maps in Cameroon, Madagascar and Niger for local government financing institutions to strengthen their capacities in resource mobilization, planning and public communications.

33. To move from innovation to scale, UNCDF also works with local governments and stakeholders to build the enabling environments, strengthen capacities and diversify the financial base for local sustainable investments. UNCDF partnered with the Uganda Development Bank and Private Sector Foundation of Uganda to establish a blended finance facility that will offer concessional loans, grants and tailored business development services to agribusinesses, especially targeting companies led by women and youth, in the northern provinces. It also established a local governance excellence fund to incentivize the performance of local governments in the region to promote effective and efficient service delivery. In Guinea, UNCDF, together with UNDP, partnered with the Chamber of Mines to mobilize funds from the mining companies to invest in projects contributing to local sustainable development. In 2018, 17 investments were made in areas of women's empowerment, food security, health and education in three municipalities with funds mobilized from the local mining sector. In Lao People's Democratic Republic, UNCDF set up a performance-based capital investment grant for local governments to ensure transparency and accountability in public finance management and to track progress towards local investments in the Sustainable Development Goals. In 2018, 12 investments were financed through the grant mechanism, with 25 per cent of the resources coming from a mixture of public sector budgetary support and contributions from the local community and civil society.

34. At the global policy level, UNCDF continues to highlight the importance of local governments and local finance systems in responding to development challenges. UNCDF partnered with United Cities and Local Governments (UCLG) to launch a global coalition for financial ecosystems that works for cities and local governments. UNCDF, together with UCLG, is developing an investment vehicle to attract resources from domestic banks and investors to contribute to the Sustainable Development Goals at the local level. UNCDF contributes to relevant policy forums in and beyond the United Nations and



continues to strengthen partnerships with local government associations, peer networks and financing agencies. Of note, for example, is the UNCDF support for the World Observatory of Subnational Government Finance and Investment, in partnership with the Organisation for Economic Co-operation and Development (OECD) and UCLG, which aims to collect comparable data and information on subnational government structures and finance and support improved decision-making by development stakeholders.

**Table 1. Progress against IRRM indicators**

Indicators	Milestone (2018)	Actual (2018)	Rate*
Outcome 1.1. New or improved financial products (a) piloted and (b) scaled up by UNCDF-supported financial service providers	(a) 47 (b) 37 (cumulative)	(a) 64 (b) 45 (cumulative)	●
Outcome 1.3. Clients served by financial products developed with UNCDF support	3.65 million	4 million	●
Outcome 1.7. Number of UNCDF-supported localized investments completed and in use	300	294	●

\* Performance rate: ●, achieved (>75%); ●, partially achieved (50-75%); ●, not satisfactory (<50%);

## Results against outcome 2: Unlocked public and private finance for the poor

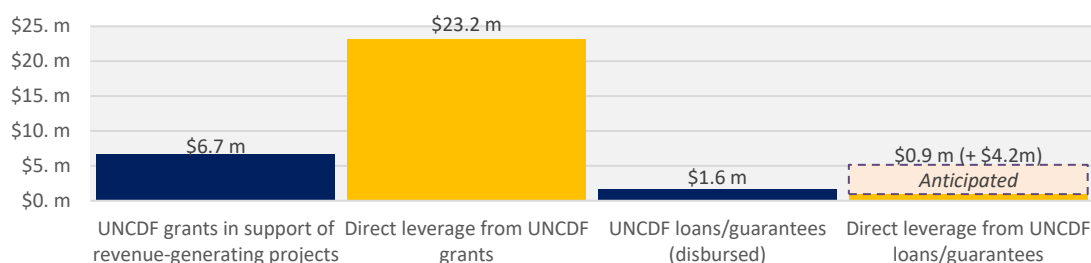
35. Unlocking public and private finance for inclusion is central to the work of UNCDF work to assist LDCs to leverage official development assistance for financing the Sustainable Development Goals. UNCDF seed capital invested in supporting financial service providers is leveraged by their own equity or that of other investors to expand and scale up its services. With financial and technical support from UNCDF, financial service provider partners mobilized some \$400 million in savings in 2018 that enhanced household resilience and also generated catalytic impact in putting domestic resources into productive circulation.

36. Similarly, in local development finance, UNCDF collaborates with governments and other partners first to create viable models and then to help them scale approaches to fiscal decentralization, project finance and municipal finance. This work can lead to increased local revenue through taxes, fees and capital transfers, while also helping to grow local economies.

37. Increasingly, UNCDF work to generate financial leverage also involves its support for revenue-generating projects. To demonstrate to public and private investors the economic viability of funding social enterprises with transformative impact, UNCDF partners with local governments and the private sector to source projects with development impact that cannot access affordable financing, provides support to bring those projects to bankability and then helps those projects access additional investments, often through the deployment of concessional resources in the form of blended finance transactions.

38. UNCDF carefully deploys its financing instruments – concessional loans, guarantees and performance-based grants, in addition to technical assistance – to absorb the risks of projects with strong development impact in order to make them investable. A big effort is also made to ensure that UNCDF does not unduly distort local markets and to match projects with appropriate sources of domestic finance, notably from commercial banks, although UNCDF also engages with impact and other investors and bilateral and multilateral development finance institutions. The investments are designed as demonstrations to showcase to the wider pools of investors the feasibility of investing in Sustainable Development Goal-positive investments, to narrow the gap between real and perceived risks of investing in the missing middle in LDCs, and to help develop and deepen domestic financial markets.

**Figure 3. UNCDF private sector and public-private partnership investments and leverage in 2018\***  
(In millions of United States dollars)



\* Note: Grants only include UNCDF investments in “revenue-generating projects”. Loan and guarantee figures are based on disbursement. The loans and guarantees have immediately leveraged \$0.9 million and are expected to unlock an additional \$4.2 million based on ongoing negotiations.

39. When it comes to issuing grants through its programme work, UNCDF has strengthened its capacity to identify and vet a pipeline of investable projects that show potential for transforming local economies. It has standardized its approach to investment pipeline identification, strengthened its assessment of financial and development additionality and provided technical assistance in structuring investments. UNCDF disbursed \$6.7 million in grants to revenue-generating investments in 2018 in areas of financial inclusion and local development to provide demonstration of its market development. The investments unlocked \$23.2 million in public and private finance (see figure 3) through the partners’ own equity investments and additional commitments from third-party investors, including domestic banks, local governments and development partners.

40. In the United Republic of Tanzania, UNCDF has provided grants for building two cross-border market places in Kakonko and Kibondo districts, located in the region bordering Burundi. UNCDF invested \$265,000, which was matched by \$112,000 from the district councils and local villagers, for the construction of two permanent market facilities that will serve some 6,000 traders and farmers. The market places will be operated as independent special-purpose vehicles owned by the district councils, local villages and women’s groups as equity holders. The private business operators will enter into a leasing contract to build the full stalls under a build-operate-transfer public-private partnership model, which will be financed by a local commercial bank. Over 60 per cent of the stalls are planned to be allocated to women entrepreneurs and the markets will provide additional revenues for the district councils in terms of fees and levies.

41. In the same regions, UNCDF, in partnership with UNDP and UN-Women, provided business development and entrepreneurship training to 136 women entrepreneurs and capacity-building for 50 local officials on gender-responsive planning and budgeting. This combination of investments coupled with technical assistance is designed to provide the demonstration effects for investing in priority projects in local economies.

42. In Myanmar, UNCDF provided a grant of \$140,000 to BRAC Myanmar to develop a tailored financial loan product for women entrepreneurs. BRAC invested \$205,000 of its own resources in the project and designed two new loan products that catered to the needs of the women entrepreneurs. In this way, BRAC was able to leverage the UNCDF investment with an additional \$2.5 million in debt financing from the Netherlands Development Finance Company and \$5 million from the Overseas Private Investment Cooperation to roll out the lending products.

43. Diversifying its financing tools beyond grants, UNCDF has fully rolled out its new generation of concessional loans and guarantees in 2018 with a strengthened process for due diligence, financial modelling and credit scoring. UNCDF is also piloting an innovative methodology for combining assessments of development impact returns and risks alongside its financial return and credit risk analysis. Based on this new process, UNCDF approved and started disbursements of 11 new concessional loans and guarantees totalling \$2.8 million, of which \$1.6 million were disbursed in 2018. The investments were made in the areas of agribusiness, financial inclusion, women’s empowerment and clean energy in Myanmar, Uganda and United Republic of Tanzania. The loans and guarantees have resulted in an immediate leverage of \$948,000 along with additional expectations to unlock \$4.2 million through ongoing agreements with local commercial banks.

44. In all these cases, the UNCDF approach is characterized by a sharp focus on the missing middle; a willingness to take risks and invest in early stage enterprises, new technologies and new business models showing promise; efforts not to crowd out the private sector and to crowd-in domestic investors and banks; and a commitment to capture and share lessons with public and private partners to shape market development and to inform national policies and programmes that can be scaled up.

45. Beyond this work, UNCDF continues to develop new partnerships as a way of attracting catalytic leverage for the missing middle in LDCs. UNCDF launched a partnership in 2018 with Bamboo Capital Partners, a social impact investing platform, to establish an investment vehicle that can attract commercial finance to the UNCDF pipeline of MSMEs, financial service providers and local infrastructure projects. The partnership, which aims to raise \$20 million in capital in its initial phase, looks to bundle small, but promising Sustainable Development Goal-positive investments into a single blended finance vehicle, attracting new investors from both the public and private sectors.

46. If the funding and demand are there, the UNCDF investment platform could eventually be expanded to consider last-mile finance pipelines from UNDP and the wider United Nations development system across a range of Sustainable Development Goals. To this end, UNCDF is engaging with UNDP and other United Nations entities such as the United Nations Children's Fund to explore ways to work together to finance the missing middle-sized project pipelines.

47. In September 2018, UNCDF launched the United Nations first-ever exchange-traded fund (ETF) on the New York Stock Exchange. The new ETF, developed in partnership with a non-profit called Impact Shares and with the ticker symbol "SDGA," screens companies against a set of rigorous selection criteria reflecting customized environmental, social and corporate governance indicators in alignment with the Sustainable Development Goals. The fund, which is still in the early stage of its market capitalization, is envisioned to reward companies that invest responsibly in LDCs and to drive more investments into the LDC markets.

48. As part of its thought leadership role in innovative financing for development, in 2018 UNCDF launched its flagship report, *Blended Finance in the Least Developed Countries*, published in collaboration with the OECD, Convergence, the United Nations Foundation and Southern Voice. The report examined the opportunities and challenges for deploying blended strategies in LDCs and how to pursue them effectively. For the first time, it provided detailed analysis, case studies and data on where, how, in which sectors and through which instruments blended transactions are taking place in LDCs. The report also included an action agenda for improving how blended finance can help LDCs achieve the Sustainable Development Goals. UNCDF is using this report, and the wide attention it generated, to support the calls – where blended finance is appropriate – for development finance advocates and professionals to track how successfully their blended finance strategies are supporting LDCs and leaving no one behind.

**Table 2. Progress against IRRM indicators**

Indicators	Milestone (2018)	Actual (2018)	Rate
Outcome 2.3. United States dollar volume of non-UNCDF funds channelled through local, decentralized public and private financing systems supported by UNCDF	\$12 million	\$9.12 million	●
Outcome 2.4. United States dollar value of non-UNCDF investments mobilized using UNCDF finance mechanisms	\$14.5 million	\$24.1 million	●

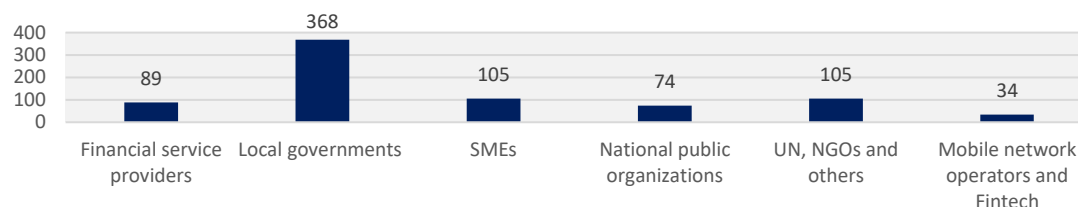
### C. Understanding performance against the Strategic Framework

49. Of the 18 development effectiveness indicators reported in 2018, all are assessed to be on track or exceeding their 2018 milestone targets. There has been notable progress in areas of promoting innovation, reaching underserved clients using tailored products and technologies, and expanding partnerships beyond the traditional financial service providers and local governments.

50. The 2018 results reflect the UNCDF commitment to its strategic objective of making finance work for the poor and its contribution to bring additional finance to accelerate achievement of the Sustainable Development Goals in LDCs. UNCDF recognizes the importance of engaging with the private sector

and utilizing the innovations in new technologies to make positive changes in the financial markets and local economies, which is reflected in the evolving UNCDF partnership structure (see figure 4). The diversifying partnership map shows the strong engagement of UNCDF with mobile network operators, fintech firms and SMEs.

**Figure 4. Number of partners directly supported by UNCDF finance and technical assistance in 2018**



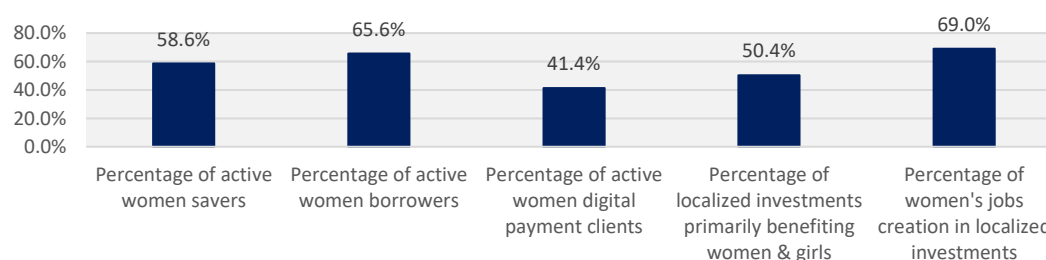
51. UNCDF expanded its presence in LDCs from 29 countries in 2017 to 31 LDCs in 2018, with the addition of programmatic activities in the Gambia and Kiribati and a reintroduction to Timor-Leste. The expansion was a result of continued demand for UNCDF expertise from national Governments, United Nations country teams and donor partners. While the programme in Rwanda was closed in 2018, UNCDF plans to re-engage in the country with a new programme focused on promoting inclusive finance for refugees starting in 2019. Furthermore, UNCDF continues to work in a small number of non-LDCs, including Ghana, Papua New Guinea and Viet Nam, based on specific demand and where there is potential to support South-South cooperation and learning for LDCs.

52. UNCDF requires annually a resource envelope of \$25 million in regular resources, \$75 million in other resources and a \$50 million LDC investment fund to enable a robust presence in 40 LDCs. This will also allow UNCDF to be a more catalytic and strategic partner to Governments, to UNDP, including in support to its country platform approach, and to the wider United Nations development system. The overall shortfall in regular resources has negatively affected this goal. Of the 31 LDCs, UNCDF maintains a “thin presence” with only project funding and no staff in four of them. UNCDF also maintains its ambition to be present in up to 40 LDCs if funding allows.

53. UNCDF continues to expand its partnership with UNDP and other United Nations agencies in terms of joint programme implementation, knowledge-sharing and collaboration on innovations and programmatic scale-up. UNCDF partnered with UNDP country offices in Cambodia, Guinea and Senegal to develop joint proposals that were funded through the UNDP country investment facility. UNCDF has finalized new partnerships with the United Nations Office for South-South Cooperation in Sierra Leone and expanded its partnership with UNDP for a clean energy finance programme supported by the fund for reducing emissions from deforestation and forest degradation (REDD+) in the Democratic Republic of the Congo.

54. Beyond its programmatic collaborations, UNCDF continues to contribute actively within its areas of expertise to the work of the United Nations Sustainable Development Group and its strategic results groups and their task teams. As issues of strategic financing continue to command greater attention, UNCDF financing and technical expertise are increasingly called upon at the global and country levels to help develop effective responses. UNCDF is committed to continuing this support; here too its regular resource base will impact its ability to respond robustly to the requests for assistance from United Nations country teams.

**Figure 5. Percentage of women beneficiaries in UNCDF-supported investments and services in 2018.**



55. Promoting gender equality and women's empowerment is central to UNCDF programmes and operations. In financial inclusion, UNCDF promoted increased access, usage and control of financial services by women and girls, especially through the expansion of savings and credit schemes that targeted women's needs and behaviours. However, there continue to be gaps in promoting women's empowerment in terms of digital financial services, where private sector partners are not always interested in reaching women, especially in early stage markets, as reflected in figure 5. UNCDF is working to bridge this gap by focusing on investments and technical support to increase awareness and making the business case to financial service providers for specifically targeting the needs of women and girls in digital financial services. There have been some successes in Zambia, for example, where UNCDF is making the case for targeting the needs and behaviours of mothers to digital financial service providers.

56. In local development finance, 50 per cent of UNCDF localized investments primarily target women and girls. The remaining 50 per cent, while not primarily targeting women, supported investments that provide overall equal benefits to men and women in terms of road, agricultural and climate-resilient infrastructure constructions. Moreover, the majority of the jobs created by investments in MSMEs and construction of marketplaces have primarily benefited women entrepreneurs through direct investments and technical assistance. The due diligence mechanisms developed by UNCDF with support from UNDP and UN-Women to vet and identify localized investments promoting gender equality and women's empowerment are being adopted and applied by national and local governments, as well as domestic financial institutions, to mainstream gender-responsive local investments in the targeted LDCs.

### **Select lessons and findings from implementation of the strategic framework**

57. UNCDF continues to support an active evaluation function, spending more than the policy target of 1 per cent of programmatic expenditures on evaluations. It generates lessons and recommendations to support innovation and adaptive management in the assessed programmes.

58. A midterm evaluation of the mobile money for the poor ("MM4P") programme active in 10 LDCs found that UNCDF is playing a unique role in developing digital finance markets for the poor at the micro, meso and macro levels, combining a convener role with strong technical knowledge and digital finance experience. Adopting a market development approach, working simultaneously with regulators, mobile phone companies, fintech companies and financial services providers, the programme contributes directly to building the capacities of a wide array of private sector partners who attributed specific changes in organizational processes, strategy and increased managerial buy-in and investment to UNCDF support. The programme also contributes to positive changes in policy environments from its support to regulators. Going forward, the evaluators recommended that the programme continue to incorporate innovation into its work as digital financial markets develop and new types of providers emerge, and that it should better articulate and measure the impact of its programme beyond financial inclusion, including evidence not only of project successes but also failures, which can help stakeholders learn from the experience of others.

59. A midterm evaluation of the shaping inclusive finance transformations ("SHIFT") programme in Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam praised the programme for its strong and flexible design with a strong gender focus intervening in four areas of market development. The programme's challenge fund activities were judged to be well set up to incentivize financial sector actors to develop new services intended to reach underbanked populations, especially women. The fund was adaptively managed, incorporating lessons from previous investments into later phases, enhancing its potential to go to scale. Challenges in meeting original resource targets have meant that capacity-building and policy and advocacy activities across the four countries were judged to be still at a preliminary stage, leading to an increased awareness of the programme's work by stakeholders but not yet to the systemic use of data for decision-making by the stakeholders. A very successful investment in e-wallets in Viet Nam combined with financial education did ensure, however, that the programme more than met direct outreach targets with 2 million clients reached compared to the 2020 target of 1 million. In view of resource constraints, the evaluators recommended a more targeted focus going forward in support to regulators and service providers, with a view to creating an appropriate environment for pro-poor private capital, as well as changes to the challenge fund mechanism to increase the likelihood of successful and sustainable investments. They also recommended more

targeted focus on the poor and vulnerable, including those with disabilities, in future challenge fund activities and in interactions with national regulators.

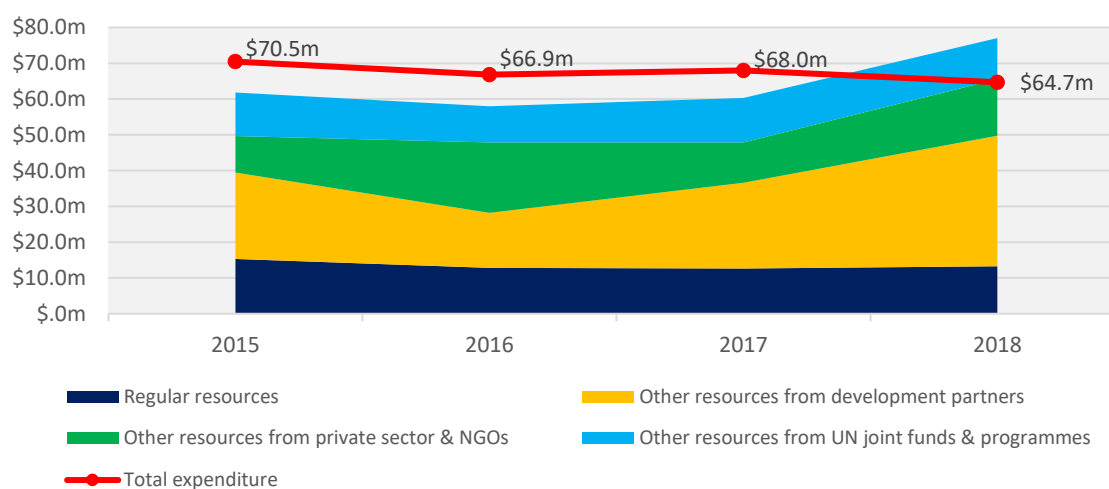
60. In 2019, UNCDF plans to carry out five evaluations. It will undertake evaluations of its financial inclusion programmes in South Asia and Myanmar and its support to Governments to develop and implement inclusive financial diagnostics. UNCDF will also conduct evaluations of joint programmes including a joint local finance programme with UNDP and UN-Women focused on women's economic empowerment and a joint UNCDF-UNDP programme supporting increased financial inclusion in the Pacific.

## D. Analysis of institutional effectiveness

61. Among the 26 institutional effectiveness indicators, 24 are on track or exceeding the targets set for 2018. UNCDF fell short of the targets for regular resource mobilization and proportion of expenditures committed to capital investments. The latter shortfall is due to several factors, including a shift towards more technical and policy assistance in the digital finance arena, and intensive pre-investment in the UNCDF capacity for loans and guarantees to prepare for scaling up in 2019.

62. UNCDF regular resources increased slightly from \$12.6 million in 2017 to \$13.3 million in 2018, reversing a downward trend dating back to 2011. Yet regular resources remained well below the \$25 million per annum target. In terms of other resources, UNCDF mobilized a total of \$63.7 million in 2018, up 34 per cent from \$47.4 million in 2017. Resource mobilization from development partners – bilateral and multilateral – increased the most, from \$24 million in 2017 to \$36.4 million in 2018. UNCDF also saw an increase in funds from private sector and non-governmental organization partners, from \$11.3 million in 2017 to \$15.8 million in 2018. While there was a slight reduction in resources from United Nations inter-agency pooled funds, from \$12.5 million in 2017 to \$11.5 million in 2018, this is expected to increase with the signing of major joint programmes in Somalia and the Pacific starting in 2019.

**Figure 6. UNCDF revenue and expenditures, 2015-2017**  
(In millions of United States dollars)



63. UNCDF expenditures decreased from \$68 million in 2017 to \$64.7 million in 2018, due to transitions in its programmatic approaches with the launch of the new Strategic Framework and the closure of major programmes such as phase 2 of the joint programme on local development in Somalia. However, in line with the increase in resource mobilization in 2018 with signed commitments of over \$165 million for the next three years and the launch of new programmes in Somalia, Uganda and West Africa, UNCDF is expected to increase its expenditures in 2019.

64. UNCDF continues to make better use of its programme finance data to inform programme decision-making and grants management and strengthen its transparency and accountability in data and information management. UNCDF has rolled out a new system for grants management that incorporates

risk and impact assessments and tracks the grants' performance over time. It is also in the process of converting to a new financial information management system for its loans and guarantees to facilitate the screening and decision-making processes and automate engagement with investees on repayments and performance monitoring.

65. In 2018, UNCDF placed a strong emphasis on strategic communications, particularly its online presence, resulting in an 87 per cent increase in the number of annual visitors to the corporate and programme websites. New visitors accounted for 92 per cent of this increase. UNCDF conducted targeted social media campaigns across its online platforms, resulting in a 23 per cent increase in social media engagements – public shares, likes and comments – and a 28 per cent increase in its total followers. These communication activities have accompanied strong outreach to private sector, impact investor and capital market players that individually and collectively express strong interest in better understanding the roles they can play to provide value to achievement of the Sustainable Development Goals in the LDCs.

66. UNCDF developed and approved a new gender strategy, 2018-2021 to provide a framework for implementing and enhancing accountability of its work on gender equality and women's empowerment. The new strategy incorporates lessons from implementation of the previous strategy, including reinforcing capacity and strengthening knowledge exchange. The new gender strategy reflects the UNCDF commitment to achieving the goals of the second generation of the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women, which focuses more on results and alignment with the 2030 Agenda. In terms of staffing, UNCDF continues to work on achieving gender parity at the more senior professional levels where attrition rates are lower, and recognizes good progress at other levels.

67. UNCDF promotes accountability for results through its evaluations. Ten evaluation reports have been quality assessed by the UNDP Independent Evaluation Office since 2016, of which nine were rated "highly satisfactory" or "satisfactory" and one was rated "moderately satisfactory".

68. UNCDF has made considerable progress in implementing audit recommendations. All recommendations of the United Nations Board of Auditors for 2015 and 2016 have been fully implemented. Of the 2017 audit recommendations, four have been completed and three are in progress and on track to be implemented by the assessment deadlines.

### **III. UNCDF looking forward**

69. Meeting the Sustainable Development Goals in LDCs will require investments of all kinds: public and private, domestic and international. That is why UNCDF will continue to work with public and private development partners to shift the dynamics of how resources are allocated and to come up with better ways of making finance work for poor people.

70. In the year ahead, UNCDF will focus on three sets of issues. First, UNCDF will be scaling up solutions that work for LDCs. In local development finance, UNCDF will launch a third party-managed municipal fund to help crowd-in additional resources so that local governments can provide essential infrastructure and services. In financial inclusion, there will be a stronger emphasis on digital technologies to help LDCs reap positive benefits from digital transition, drive down costs, reach more households, build value chains, expand access to goods and services and empower women.

71. Second, UNCDF will continue to use its capital mandate to demonstrate how finance can work for the missing middle in LDCs. Through its LDC investment platform, UNCDF will increasingly deploy loans and guarantees to support missing middle projects and by doing so create demonstration effects that can help shape capital market development over the long term. If requested to do so and with appropriate funding, this platform could be expanded to provide support to project pipelines emanating from other United Nations agencies. Through its advocacy and its newly launched partnership with third-party fund managers, UNCDF will also be working to attract more commercial finance to impactful local investments in LDCs.

72. Finally, UNCDF will continue to build its partnerships. This means deepening its collaboration with United Nations agencies and UNDP in particular where the mixture of UNCDF financial innovations and another entity's sectoral expertise can accelerate progress towards the Sustainable

Development Goals. It also means seeking new partnerships with traditional and new development partners, as well as the private sector and foundations, to find new and innovative solutions that benefit a wider number of LDCs and localities. UNCDF will also continue to seek to influence how capital markets can support LDCs, such as through ongoing interactions with institutional and impact investors. UNCDF will continue to engage with development finance institutions and international financial institutions about blended finance and other solutions that can effectively help LDCs address their Sustainable Development Goal financing gaps.

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