Remarks of

Judith Karl, UNCDF Executive Secretary
on the occasion of the

Executive Board Annual session

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CHECK AGAINST DELIVERY

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Madam Chair,
Distinguished Members of the Executive Board,
Colleagues,

Thank you Ambassador Flores for chairing this session. And thank you to the UNDP Acting Administrator for those introductory remarks. Let me stress at the outset that the strong synergies between UNDP and UNCDF at the country and headquarters levels are designed to bring maximum benefit to country partners. The continued investment by both UNDP and UNCDF into this win-win relationship brings enormous benefits to LDCs.

Before I begin, we have a video to show you capturing UNCDF's work to make finance work for poor women. Please start the video.

[Video plays.]

That video shows in practical terms how we use our capital mandate to empower women.

More broadly, we use our capital mandate to unlock public and private finance for the poor. The last few years have seen the articulation of new development agendas that are shaping and reinforcing the importance of this work.

The Addis Ababa Action Agenda, the 2030 Agenda, the Paris Agreement, the Istanbul Programme of Action, the New Urban Agenda, and the QCPR -- all emphasize the need to catalyse additional funding to meet the SDGs.

At the local level within LDCs, UNCDF fills a critical gap, getting finance flowing to poor populations, small and medium enterprises, and local governments so that they can benefit from and contribute to inclusive and resilient growth.

We have spent quite a bit of time interacting with impact investors, corporations, banks and development finance organisations. Many are driven by a double or even triple bottom line. But the risk/return ratio reigns supreme, and getting finance flowing to most last mile investments in LDCs will simply not take place on its own.

That's where UNCDF, and the public resources entrusted to us, can make a difference.

We de-risk investments where few others see viability, because if we operate only where results are guaranteed, millions of people will be left behind. Our

demonstration effect can lead the way to creating new markets and sustainable systems that shift the dynamic of how resources are allocated.

In **Local development finance, f**iscal resources and domestic capital markets are not investing in local governments and local economies in a way that promotes sustainable and equitable growth. In too many LDCs, the benefits of growth bypass many populations.

Under the current Strategic Framework, UNCDF has promoted fiscal decentralisation to get finance flowing to secondary cities as well as to peri-urban and rural areas so they can build priority infrastructure and services.

In Somalia, UNCDF works through a UN joint programme to design the basic financial architecture in sub-national governments. This has shown how empowering local authorities with discretionary budget allocations in a crisis-affected setting can reinforce the legitimacy of the state, especially in rural and remote areas. The model has since become the official mechanism for local government finance in Somaliland and Puntland.

Over the last three years we've also helped hundreds of local governments as well as SMEs mobilize, allocate, and invest resources that have measurable impact in areas such as job creation, women's economic empowerment, clean energy, resilience to climate change, and strengthened food security.

We've developed local capacities and supported some 4,300 local infrastructure projects that, through their demonstration effect, have led to policy change and sustainable local government financing systems. Importantly, these projects are built by the local private sector, thereby also stimulating the local economy and creating jobs.

We've also been building on past investments in fiscal decentralization to help local governments adapt to climate change. We have helped increase the financing available to 64 local governments in 12 countries so that they can build verifiable climate-resilient infrastructure. Benin, Cambodia, and Mali have now applied for enhanced direct access to the Green Climate Fund to scale this nationwide. The LDC governments that make up the Board of that programme have decided to expand to 20 countries in a strong endorsement of its relevance, and its effectiveness as a vehicle for South-South cooperation that can be further replicated and scaled up.

The local development finance practice has also used this Strategic Framework period to pilot the use of new financial tools – including structured project finance and Public Private Partnerships - for unlocking domestic private sector finance,

recognizing the untapped potential of domestic banks and possibly pension funds to invest in local economic development. These approaches are at the frontier of blended finance approaches in the last mile, and are yielding important mid-term lessons that will feed into the next Strategic Framework. We believe this type of innovation is precisely what UNCDF exists to demonstrate, and we appreciate our donors for investing and learning with us as we build and adjust along the way. In some cases we have seen the successful financial closure of projects with domestic banks and are now facing the challenges in meeting the Bank conditions for disbursement and build phases. In others we are exploring new mixes of guarantees, concessional and other finance, and TA to create the leverage. Overall, we are learning how well-targeted ODA can build bankable pipelines of projects that can attract commercial finance in the last mile.

We're also responding to new opportunities and challenges. The ability to meet the SDGs requires that urbanization is well-managed in LDC cities and towns. Local governments, especially outside major cities, often lack the capacities, fiscal and financial resources, and bankable projects to lock in opportunities as they grow.

We're therefore helping secondary cities to access more long-term sources of capital finance. In Bangladesh, for example, UNCDF is helping develop a municipal credit rating methodology. It has been applied so far in 6 local governments. We have also engaged with local authorities in Senegal, Uganda, and Tanzania, where several municipalities want our support to tap into capital markets. This is a lengthy process, but we believe it holds promise to be transformative.

In **financial inclusion**, UNCDF builds financial systems that reach un-banked populations and micro, small and medium enterprises.

Under the current Strategic Framework, we've incentivized financial service providers to reach over 14 million savings clients. We helped pilot 100 new financial products that have expanded the reach of formal financial services to nearly 5 million people. This is helping more men, women, and young people access the financial products they need to invest in a better future, to withstand shocks, and to improve their lives and livelihoods.

Based on what we've learned in recent years, we're now adopting a stronger market development approach through data-driven diagnostics and eco-system building approaches.

We've been generating data on the opportunities and challenges in expanding access to financial services for individuals and small businesses. This has led to the development of 20 national financial inclusion roadmaps and strategies. These in turn are helping the private sector make investment decisions that expand the financial inclusion frontiers.

We've also been driving eco-system approaches that make it possible for digital financial services to be tested and scaled up. UNCDF-created innovation hubs, as in Uganda and the Pacific, engage large mobile network operators or commercial banks to roll-out client-focused products and alternative delivery channels to reach un-banked men and women.

Last year, with UNCDF support, MTN and the Commercial Bank of Africa launched a mobile-based micro-saving and micro-lending service in Uganda. One million customers joined in three months.

Our flagship financial inclusion programme in the Pacific, jointly administered with UNDP, helps financial service providers to increase usage of financial products, especially micro-insurance, across geographically dispersed islands. It has assisted financial service providers to reach some 1.1 million clients.
These examples show there's no one 'right' way when it comes to digital financial services; the enabling environment is key. They also illustrate that there's strong demand among poor people for responsibly-provided and customized financial services.

This lesson is reinforced by our use of challenge funds which have led to financial product innovations tailored to the needs of hard-to-reach populations, especially women and youth. Here, we are shifting the way financial services providers view the viability of serving poor clients.

We helped NBS Bank Malawi, for example, develop a digital savings account to remove barriers to formal savings for poor people in rural areas, especially women. As of December, it had reached 76,000 depositors by bringing client-centred banking services to their doorstep. Now, customers nationwide are asking other banks to offer similar services.

Our financial intermediation work is also bringing essential services to poor households. UNCDF supports businesses that use pay-as-you-go systems to expand access to clean and renewable energy systems. The goal is to facilitate access to commercial financing to bring proven business models to scale. This gets more families and small businesses on a clean energy pathway. We're now exploring how digital financial service innovations can be applied to other goods and services.

Remittances is an area of growing work. UNCDF recently launched a challenge fund to provide matching reimbursable grants to projects that offer smart business models for international remittances and linked financial products for women in Cambodia, Lao PDR, Myanmar, and Viet Nam.

We joined forces with UNHCR to develop a technical assistance fund to provide affordable access to remittances and broader financial services to refugees. We aim to implement the project initially in 10 of UNHCR's focus countries. Finally, advocacy by the Better Than Cash Alliance continues to drive international recognition of the importance of digitizing payments. Housed by UNCDF, this partnership now boasts over 55 members, including 26 governments – 11 of them LDCs -as well as international organizations and global companies. The Alliance is an official implementing partner of the G20's Global Partnership for Financial Inclusion. Crucially, it's also providing support to its member governments to achieve the SDGs by moving away from cash to digital payments which have been shown to result in cost-reductions, increased transparency, and expanded financial inclusion, particularly for women.

Evaluation and evidence

UNCDF remains strongly committed to learning with our funding and implementing partners and LDCs.

Evaluations have assessed the performance of many of UNCDF's most innovative approaches. These include programmes to improve food security at the local level in Niger and the development of a nascent inclusive finance system in Lao PDR, both of which we presented at yesterday's informal.

We have three ongoing evaluations looking at our work on structured project finance approaches to last mile infrastructure; on promoting the development of clean energy markets for low-income households; and on using fiscal decentralization tools to support local climate adaptation.

We've also commissioned an external review of our results-based measurement system which is due at the end of June, as well as an internal exercise synthesizing the results of the eight evaluations completed to date. We will look forward to discussing these with you in September.

These are all informing our next Strategic Framework, elements of which we touched on already at yesterday's informal.

Among the 30 IRRM indicators that capture UNCDF's **institutional effectiveness**, 25 are 'on-track' or 'above track'.

We've recently launched a new website that we invite all of you to visit. Importantly, it also supports our ongoing efforts to increase transparency by providing financial and other data, as well as programme results and concrete stories of success.

We've streamlined our operations. We've seen a gradual decrease in our management costs ratio, from 14% in 2014 to 10% in 2016.

We continue to strengthen our capacity to identify, monitor, and mitigate risks associated with our capital investment mandate, in close cooperation with UNDP. We have introduced a new Loan policy, Enterprise Risk management policy, Atlas grants module, and we continually fine-tune our operational guidelines.

We have had unqualified audits for the last four years in a row, and have significantly improved our implementation rate of audit recommendations.

Based on the recommendations of the UN Board of Auditors, an external firm has reassessed the methodology of calculating our operational reserve. We will make appropriate adjustments against the reserve balances once a revised methodology is approved by the Board in September.

We have improved our performance under the UN System-Wide Action Plan on Gender Equality: we met or exceeded 73% of indicators in 2016, up from 40% in 2014. Female staff constitute 45 percent of our work force, up from 27 percent in 2013. We must do more to reach parity in the P-5 and higher categories, while at the same time the last two senior level recruitments in HQ were women.

Total expenditure in 2016 was $66.6 million, $3.6 million lower than in 2015. Because of the down-turn in core, 2016 was the first year when we fell short of the 40% capital target against total programme resources. This down-turn seriously constrains our ability to invest in new innovations for the future, and puts continued downward pressure on the number of LDCs we can serve.

Our biggest challenge remains funding. Our potential to innovate and bring pilots to scale is constrained by the worrying reduction in core resources. It has dropped from $18.2 million in 2014 – including the UNDP BSB and programme

support contributions – to $12.9 million last year. It is projected to come in at a little under $12.5 million this year.

I thank those donors who provide us with our core resources, including notably those who provide multi-year funding. We are also grateful to our many non-core donors; that funding is essential to allow us to implement our programmes and take them to scale.

We are working hard to diversify our donor base, including with programme countries, traditional and emerging donors, foundations and other private sector actors.

Between 2014 and 2016, we were able to deliver on our development outcomes in part because we made significant progress in mobilizing non-core resources from private sector and non-governmental partners. This is evident in the 249% overachievement against that resource target for the Strategic Framework period.

It is important to note, though, that many of these partnerships arise out of a shared desire to address a particular challenge – such as developing a new business model to address youth finance – and they come to a close with a satisfactory completion of that challenge. These funds cannot, therefore, substitute for core or for flexible non-core programme resources.

The decrease in core has meant that UNCDF's country presence in LDCs has decreased from 32 countries in 2014 to 30 countries today, and many in UNCDF feel this still leaves us spread too thinly. As I said in the informal yesterday, pulling out of a country is a wrenching decision for UNCDF, because without presence we cannot leverage a programme. We calculate we need annually a minimum $500,000 in core and $1.5 million in non-core to ensure a robust presence in an LDC.

This places before the Board an important question: what kind of UNCDF country presence do you want? Do you wish for a robust presence that can engage with governments, the UNCT, and other development partners across the full suite of our work? Or a UNCDF that may be in more LDCs but with a shallower and more projectized presence?

More broadly, we look forward to working with you on the kind of deal we could reach under our next Strategic Framework to ensure our annual funding targets across our four-window funding architecture are fully met.

We've carefully prepared different results-to-resources scenarios, and have projected the kinds of impacts our programmes could potentially have on an annual basis under pessimistic, status quo, necessary, and ideal scenarios. These were shared with the Board yesterday and at our April workshop.

Under our ideal scenario we have annually $25 million core, $75 million in non core, and a $50 million LDC Investment Fund. We could then be present in 40 LDCs, reach some 50 million people, and fund some 4,500 infrastructure projects per year, resulting in much bigger leverage and demonstration effects. That's significant value for money.

Next Strategic Framework

We thank the Board for your constructive engagement during our various Strategic Framework consultations to date.

As we have underscored, we will build on our comparative advantages, and maintain our laser-sharp focus. We believe, and our consultations to date confirm, that our last mile emphasis and risk appetite to work where others are not present, remain critical to helping LDCs use blended finance models effectively to pursue the SDGs and graduation.

We are also examining what we should be strengthening. Specifically, we are looking

- To put our financial toolkit to better work by more fully utilizing our available instruments – block grants, loans and guarantees – and seeking more joined up approaches around those instruments with the rest of the UN system;

- To help LDCs ensure smooth transitions and graduation with inclusion, in line with GA resolutions on this topic; and

- To work with LDCs and the UN system more systematically, and where funding permits, to ensure our proven models can support efforts in crisis-affected settings, building on our work on fiscal decentralization approaches, as in Somalia, and that on digital payments, as in the case of the Ebola response.

We believe the UN, and UNCDF in particular, has a critical role to play in strengthening the understanding, lessons, and the enabling environment related to the application of blended finance models so they address exclusion

rather than deepen it; and so they positively influence SDG achievement while leaving no one behind. We aim to continue to be a "go to" partner to test the frontiers of these approaches, so as to facilitate, demonstrate, and crowd in other actors, with the aim to help LDCs transform their local economies.

We welcome the Board's views on these reflections and proposals, and I thank member states for your strong support for and engagement with UNCDF.

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