Marc Bichler, UNCDF Executive Secretary

Statement to the Annual Meeting of the UNDP/UNFPA/UNOPS Executive Board on *Report on results achieved by UNCDF in 2012* and *Report on the Stakeholders Consultations on Scenarios for UNCDF's Future (Decision 2012/12)*

United Nations, New York

10 am, Thursday 13 June 2013

CHECK AGAINST DELIVERY

Mr. President,

Ms. Associate Administrator,

Excellencies,

Distinguished Delegates,

Ladies and Gentlemen,

In January of this year, after having been on the job for exactly three months, I stood before you to share my initial impressions of UNCDF and to outline some of the priorities for the future.

My task this morning is to brief you on the results achieved by UNCDF in 2012 and to inform you of the outcome of the Stakeholders Consultations process that took place during the past six months in response to the Executive Board Decision 2012/12.

Before doing so, let me take the opportunity to thank you, members of the Board, for the very open and constructive exchanges we have had these past few months. I would also like to acknowledge the support we have received from the UNDP's Administrator Helen Clark and the Associate Administrator Rebeca Grynspan while charting UNCDF's course for the period 2014-2017, as an integral part of the UNDP Strategic Plan for the same period.

In acknowledgement that some of you are new to the Board and perhaps to UNCDF, let me start with a brief summary of UNCDF and its work. Created by a General Assembly resolution in 1966, UNCDF has a unique financial mandate within the UN system. We provide investment capital and technical support to both the public and the private sector. Our ability to provide capital financing – in the forms of grants, soft loans and credit enhancement – and our technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes our mandate a very useful complement to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF has proven its ability to deliver true leverage on smaller and more risky investments and interventions within its sectorial practice areas of Inclusive Finance and Local Development Finance. Our concept proven pilot projects and programmes are replicated and brought to scale with the help and the add-on financing of other development partners with different and complementary mandates.

It is also important to remember that UNCDF is the only UN agency mandated to focus primarily on the least developed countries (LDCs), currently supporting 37 out of the 49

LDCs, with country level programmes, as well as regional and global programmes. We have also worked in 6 non LDCs.

With this brief introduction, let me now highlight UNCDF's results for the year 2012. Development partners have continued to confirm a strong demand for the products and services of UNCDF, and after almost eight months on the job, I am even more convinced that UNCDF is fundamentally sound and pointed in the right direction, with strong growth both in terms of non-core income and programme delivery. Total revenue grew to a record level of USD 55 million and the diversification of the donor base continued to improve, including major philanthropic foundations and the private sector. One particularity with regards to the resource base in 2012 is the increasing imbalance between the growth of non-core resources and the level of regular resources. I will come back to this point in the second part of my address related to the Stakeholders Consultations on Scenarios for UNCDF's Future. At this stage, let me only mention that an immediate consequence of this imbalance in 2012 has been a deliberate slow- down of expenditure against the core to respect fiscal prudency. Another defining feature of 2012 is that it marks the end of a programming cycle for UNCDF with many programmes having reached full scale-up. This has resulted in a decrease in the number of local governments and financial service providers (FSPs) receiving support from UNCDF. A new programme pipeline is now being developed to take effect over the period 2014-2017.

RESULTS

Allow me to comment on some of the most significant results achieved in 2012.

In the area of <u>Local Development Finance,</u> we worked in 30 countries, 22 in Africa, 7 in Asia, and in Haiti. In these countries, local communities and governments are facing different challenges, acknowledging their difficulties in accelerating local development and reducing poverty.

In order to respond to these challenges, UNCDF has built on its established know-how and investment mandate to develop new financing instruments. These include the Local Finance Initiative, which aims at unblocking latent domestic capital for investments in bankable small scale economic opportunities and industrial infrastructure. Started in 2011, this initiative is now building a pipeline of potentially bankable projects that are at various stages of development in two pilot countries, Uganda and Tanzania.

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

The Local Climate Adaptive Living Facility (LoCAL) -- the newly designed mechanism that provides a robust and verifiable system to enable local governments to access sources of climate finance -- received additional resources in 2012 and scoping missions were conducted in Bangladesh, Ghana and Nepal to expand the programme currently implemented in Bhutan and Cambodia.

Here are some figures that give a sense of the kind of impact our programmes managed to achieve.

- In 2012, 93% of UNCDF-supported local governments adopted consultative, participatory mechanisms that better engage local communities in decision-making processes, particularly planning and budgeting;

- Over 92% of UNCDF-supported local governments adopted national procurement standards and/or conducted financial audits and published their expenditure reports, increasing accountability and transparency;
- In terms of local government access to investment capital, in 2012 as in 2011, UNCDF programmes directly leveraged 3 to 8 times the volume of original UNCDF resources. When parallel and follow-on capital flows were added, the ratio rose substantially. For example, in Cambodia, the Swedish International Development Cooperation Agency (Sida) provided an additional 35% to the local development funding in 2 provinces for climate adaptation through the LoCAL programme.
- Particular emphasis was given in 2012 to bring about changes in national policies, regulations and legislations, drawing lessons from previous evaluations that showed that in some cases, excessive emphasis had been placed on managing processes around investment schemes rather than managing at the level of national systems and procedures. In 2012, UNCDF met its goal in targeted countries.

In our practice area of Inclusive Finance, UNCDF worked in 31 countries in 2012 – 20 in Sub-Saharan Africa and 11 in Asia. Key developments in 2012 include the expansion and revitalization of programme activities through the design and testing of the Making Access to Finance Possible (MAP) diagnostics and programming approach, and the continued growth of funding from non-core resources for global thematic initiatives such as MicroLead, a USD 58.6 million initiative that brings leading microfinance institutions from the South to help jumpstart the sector in the LDCs; CleanStart, which addresses access to clean energy at household and microenterprise level; YouthStart, focusing on youth employment and financial literacy; and MM4P (Mobile Money for the Poor) promoting the use of mobile phone technology for payments and social protection schemes.

In the same context, I would like to highlight the launch in 2012 of the "Better Than Cash Alliance" (BTCA) together with USAID, Visa, Citi, the Omidyar Network, the Ford Foundation and the Bill & Melinda Gates Foundation. With UNCDF hosting the alliance, BTCA provides expertise and resources needed to make the transition from cash payments to digital payments by governments, UN agencies and corporations focusing on developing countries, to achieve the shared goals of empowering people and growing emerging economies.

Furthermore, in 2012, UNCDF reached 8 million active microfinance clients through the Financial Service Providers in who we invest. With an average household of five, this represents an impact on the lives of over 40 million people. Savers and mobile money clients outnumber by four the number of borrowers, which testifies to the diversity and the quality of the financial products available to all segments of society, at a reasonable cost and on a sustainable basis. UNCDF also migrated the reporting of its Financial Service Providers to the professional services of the MIX Market, increasing the quality of data available for analysis.

I am happy to report that in 2012, 65% of borrowers were women, demonstrating that the UNCDF policy requiring FSPs in its portfolio to serve at least 50% of women has improved performance, particularly in West Africa where the percentage increased from 45.3% to 59.8%.

UNCDF also continued to focus on the sustainability of the FSPs in which it invests, and statistics show that 83% of these FSPs improved profitability, and 65% met portfolio quality targets. These are key indicators that help us ensure the ability of FSPs to continue to scale-up their services, even after UNCDF stops its financial support.

Finally, in 2012, we expanded our contribution to disseminating the client protection principles (CPP) of the CGAP Smart Campaign. As a result of sustained efforts, 45% of all FSPs supported had endorsed the principles in 2012, nearly doubling the number of the previous year, though still short of the 60% target. UNCDF is developing a funding mechanism that will support the next stage of implementation of the CPPs.

PARTNERSHIPS and ADVOCACY

Our results in 2012 continued to build on our partnerships with diverse partners, including the private sector and foundations. As a matter of fact, UNCDF is increasingly relying on multi-stakeholder initiatives to face complex challenges and to increase the impact of its initiatives.

As I mentioned earlier, at the request of its major sponsors, UNCDF now hosts the secretariat of the BTCA, a multi-partner initiative designed to empower people and grow economies through transition from cash to electronic payments.

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

UNCDF and the Swedish International Development Cooperation Agency, , have signed a new, innovative $16 million multi-programme partnership that will support seven UNCDF global programmes providing maximum flexibility for UNCDF to sustain its comparative advantage as a capital investment agency. The governments of Austria and Norway joined the framework agreement by partnering with UNCDF on the CleanStart global programme.

Furthermore, a new Memorandum of Understanding (MoU) was signed with the Hague Academy, reinforcing the role of UNCDF in the development of training courses related to local development and local economic development.

In term of advocacy, UNCDF participated in the "Rio+20" Conference and conducted a well-attended side event on financing clean energy for the poor with some of its closest partners, including UNDP.

We also played a prominent role at the Africities Summit in Dakar where we supported the participation of 70 local government officials from 16 different countries to exchange ideas on topics related to local development with various stakeholders, including the private sector. UNCDF also signed a milestone convention on its cooperation with the United Cities and Local Governments of Africa.

Last but not least, UNCDF continued to host the Secretariat of the Secretary General's Special Advocate for Inclusive Finance for Development, Her Majesty Queen Máxima of the Netherlands.

QUALITY ASSURANCE

UNCDF remained committed to regular independent evaluation of its work, completing two major thematic evaluations and 3 project evaluations in 2012.

A review of the UNCDF inclusive finance portfolio assessed the portfolio as being well aligned with its LDC mandate and the UNCDF strategic objective to work in so-called "difficult environments." Country programmes and global thematic initiatives were also appreciated as highly relevant. Going forward, it was recommended that UNCDF better distinguish its programming in higher-risk LDCs where the organization can capitalize on its advantage as a "first mover" from more mature markets.

Regarding programme scaling up and replication, evaluations have highlighted the need for better mechanisms to publicize and disseminate the results of work that is innovative with a view to better supporting the broader objective of policy reform and leveraging additional amounts of investment capital for the public and inclusive financial systems in the LDCs.

We have also worked hard to improve the design of our programmes and projects in order to increase "evaluability" and accountability of our interventions. To this end, we have reworked the results chain in our two practices to help clarify the correlation between our interventions and the development results they seek to influence. This work will be further refined in 2013.

In 2012, UNCDF also launched its strategy for gender equality and empowerment of women. This strategy will allow UNCDF to fully incorporate the gender dimension in all aspects of its work by 2017, in line with the UN System Wide Action Plan guidelines.

Mr. President, Distinguished Delegates, let me know turn to the second part of my address:

At its Annual Session in June 2012, the Executive Board decided "to hold a stakeholder consultation process in late 2012 on possible future directions for UNCDF." While the widening gap between UNCDF's regular resources and its increasing non-core resources were meant to be at the center of the consultation process, the Board's decision to reflect "on possible future directions for UNCDF", opened the field of discussion beyond the pressing funding issues. Upon my assumption of the functions of the Executive Secretary, the preparation of the "Stakeholders Consultations" became a top management priority, and an informal written report of the subjects covered and recommendations made following these consultations has been transmitted to the Executive Board. Today it is my privilege to comment on that work.

The Stakeholders Consultations were organized over three working sessions: the first in December last year, the second in late January and the third in May this year. The sessions were convened at my initiative and set up by the UNCDF Headquarters' team. Annotated agendas were sent in preparation for the sessions to our stakeholders from UN sister organizations – first and foremost UNDP – to Board members, to member states with longstanding ties to UNCDF and to partners from the private sector. Feedback from participants, as much as our own internal evaluation of the process have shown that this multi-stakeholder format is indeed very useful to explain and address UNCDF's funding challenges, but also for exchanges of views on topics like UNCDF's value proposition and the positioning of UNDCF in the post-2015 development framework. Allow me to briefly come back to these three topics.

First, on the imbalance between our regular resources and our non-core contributions, it was extremely important to explain how UNCDF, over the last six years, has gradually become the victim of its own success. While the fund-raising in non-core resources – including to an ever larger extent with partners from the private and philanthropic world – must be acknowledged as a success in itself, the combination with the former cost recovery policy, capped at seven per cent, has led UNCDF to tap increasingly into its reserves and into its regular resources to help cover the administrative cost of projects and programmes financed by non-core contributions. Over the same period of time regular resources stagnated between 13 and 15 million dollars per year. Furthermore, our accrued reserve will be depleted by the end of this year, due to reallocations according to the new IPSAS rules and to the otherwise uncovered cost-recovery needs for non-core implementation. When we launched the Stakeholders Consultations, UNCDF was already suffering the effects of a vicious circle threatening the sustainability of its funding and business model.

Over the past six months this delicate problem has been at the very top of our agenda. In order to solve it, we have left no option unexplored in order to ease the pressure on our core budget. Internal reflection processes have led us to operate a rigorous cost reclassification between management cost, development effectiveness and programming.

We are recalculating both our operational reserve and our extra-budgetary reserve and we are renegotiating with Treasury the terms of investment of UNCDF's assets.

Furthermore, important decisions taken by this Board during its first regular session in January will allow us as of next year to charge eight per cent or more cost recovery on implementing non-core contributions from the private sector. We will also pursue a proactive policy of direct programme costing, and UNCDF will in principle be part of UNDP's programming arrangements for the period 2014 to 2017. All of these measures will help to ease the pressure on our core budget, as they will kick in and produce their beneficial effects over time.

But in order to have UNCDF fulfill its investment mandate and to guarantee its presence and operations in at least 40 LDCs, an increase of our investment capital through stepped-up core contributions remains the crucial element of the equation that will allow us to turn the vicious circle into a virtuous one. In bilateral talks with some donors, we felt interest, sympathy and sometimes positive, concrete financial support for the way forward that we plan. We are very thankful for these encouraging reactions, and I would like to be abundantly clear, before all Board members assembled today: we have done our homework; we master our management costs and we do not seek increased core contributions to cover such management costs, but to step up our investment capital.

We ask your support to allow us to live up to the promise in our name. We are the United Nations Capital Development Fund and, with your help, we are proud to develop capital in order to promote and to bring about inclusive sustainable development in LDCs. We have a unique financial mandate to do so, allowing a level of risk-friendliness necessary to prepare the ground for others to come on board and help with scaling up. Over the past six years, every dollar entrusted to us through core funding has been leveraged with an additional three dollars from third party financial partners, many of them from the private sector. Parallel and add-on financing in programmes like LoCaL and MicroLead document leverage levels of up to 1:25 and beyond.

We have a sound business model of making seed money available to design, implement and concept-proof pilot projects that third party financial partners help us to replicate and bring to scale. That is how UNCDF becomes an actor of change for the better at the national level. Additional core funding from traditional and new donors will increase our investment capacity, leading to higher leverage through non-core contributions that in turn will generate higher cost recovery. According to our financial perspectives, an additional 10 million dollars in investment capital per year will allow us to sustain our operations in 40 LDCs. Anything less will force us over time to reduce our activities in LDCs. Anything beyond will allow us to expand. I am confident that especially in times of fiscal constraint, the perspective of leveraging ODA with other sources of financing for development, including new sources from the private sector, should be an appealing one.

Mr. President,

UNCDF's financial mandate and the financial leverage flowing from it are of course not the only elements of our value proposition. Allow me to comment in more detail on that second part of the informal report of the Stakeholders Consultations.

First of all, we have a clear thematic focus. The primary objective in our value proposition is of course to contribute to poverty eradication and sustainable development. We do so through our two mutually reinforcing areas of expertise: inclusive finance, on the one side, and local development finance, on the other side. The longstanding experience and technical expertise of UNCDF and its staff are duly acknowledged in UNDP's draft Strategic Plan 2014-2017 of which we choose to be a part. That experience and that expertise will be put to use in a well understood division of labor. For years, joint UNDP-UNCDF programmes have been the *modus operandi* in local development, and UNCDF will step up its efforts in leading the UN Inter-agencies Working Group on Inclusive Finance.

Furthermore, we have the clear geographical mandate to work first and foremost in the LDCs. In that regard, we are organized in a way to bring the right kind of technical expertise to our interventions at the local level and to avoid any duplication with other development partners. We highly value the representation by UNDP at the political level and its logistical support to our country officers. In turn, the UNCDF regional and country staff stand ready to make themselves available to UN Country Teams on issues pertaining to UNCDF's mandate. The work of our colleagues at the local level, with partners from the public and the private sector, and our upstream policy advice that helps structuring and implementing decentralization policies and feeds into host governments' efforts to create inclusive financial sectors, has become a trademark in many LDCs.

On the basis of our comparative advantages and with a view to strengthen our value proposition, at UNCDF, we would like to seize two promising opportunities, one of which plunges its roots in the recognition that in the 21st century broadband internet access is to be considered as an essential infrastructure, with the same – if not a higher – potential to enable and accelerate development than access roads, ports or mobile phone networks. One can easily imagine the benefit of broadband internet access – via satellite where necessary – for the reporting work of a credit officer of a microfinance institution assessing the reimbursement rates of his or her clients in the most remote villages, or for the small scale farmer to get a trustworthy weather forecast, or for a local government to have a reliable tool of communication with its central authority. Together with UNDP and other partners, we would like to actively explore the potential of broadband internet access in support of our well established areas of expertise, as well as in post-conflict and transition situations and for communication purposes and safety concerns for the overall UN system.

The other opportunity to enhance our value proposition is building squarely on our financial mandate and the positive experience of successful partnerships with major philanthropic foundations over the past six years, as well as on the recognition that there will be no sustainable development without sustainable financing for development. In order to do so, UNCDF will reach out over the weeks and months to come to institutional and private investors and explore the ways and means to structure potentially powerful new partnerships in a meaningful and effective way. To that end, the option of an investment vehicle will be examined in more detail and the capacity to build a steady project pipeline will be put in place.

A 2010 study by JP Morgan estimated the scope of the impact investing industry between 400 billion and 1 trillion dollars over the next ten years. Ever since the 2002 Monterrey Consensus on Financing for Development, engaging the private sector in win-win scenarios has been seen as a worthwhile endeavor. Therefore we will explore contacts with new potential financial partners from the private sector, including the impact investors who share with all of us the concern for sustainable development and who build it right into their business plans. Their equal concern for reasonable financial return, on the one side, and real impact on the social and environmental fronts, on the other side, is carrying the promise of a more steady flow of private financing for development, as a complement to the traditional sources.

Mr. President,

All of the above is meant to find its way, in one or form or another, into UNCDF's Strategic Framework 2014-2017, that we will draft, on the basis of the final version of UNDP's Strategic Plan for the same period, and that we will submit to the Board's approval at its first regular session in January 2014.

In the meantime, with the results achieved so far and the perspectives and plans for the months and years to come, it seems essential to me to underline that UNCDF is not evolving in a vacuum. We are pleased to be able to rely on a strong international and UN wide reference framework. The MDGs, the Financing for Development Process, the Aid Effectiveness Agenda, the Istanbul Programme of Action for LDCs, the QCPR and this

Board's decisions are the milestones that are guiding our strategic choices. They are also the yardstick of the coherence of our work and the credibility of our commitment.

The third and final part of the report on our Stakeholders Consultations is reflecting the discussion on the post-2015 period. As the international community is gearing up to define the new development framework, UNCDF shares with many the view that the implementation of the MDGs, while relatively successful, has left us with many instances of rising inequalities and an unsatisfactory level of growth redistribution. During a multi-stakeholder workshop organized in early April, it became clear that UNCDF's expertise in that regard is in high demand. Our two areas of expertise, inclusive finance and local development finance, do not pretend to become development goals *per se*; but they are potent vectors and enablers to generate development results in education, health, energy, water and sanitation, women and youth empowerment, food security etc. In that, UNCDF will be a reliable ally for those who fight inequality and promote inclusive growth.

Mr. President,

Let me close my remarks in thanking the participants from the public and the private sectors in our Stakeholders Consultations for their invaluable input. Let me thank this Board for having launched that process and for its continued support to UNCDF. I would also like to thank the governance of UNDP, with Helen Clark as the Administrator and our Managing Director at the helm, for the effective cooperation with UNCDF, as well as our donors from the public and the private sector. Last but not least, my heartfelt thanks go to the staff of UNCDF, at headquarters and in the field, for their professionalism, their strong motivation and their hard work.

I thank you for your kind attention.