



LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Affaires étrangères
et européennes

Direction de la coopération
au développement et
de l'action humanitaire



Unlocking Public and Private
Finance for the Poor



LUXEMBOURG AND THE UN CAPITAL DEVELOPMENT FUND

PARTNERSHIP FOR DEVELOPMENT RESULTS IN THE LEAST DEVELOPED COUNTRIES



BACKGROUND

The Government of the Grand Duchy of Luxembourg and the United Nations Capital Development Fund entered into a framework agreement in 2008. The agreement recognized the important role UNCDF plays in the international development system through its mandate to help the Least Developed Countries (LDCs) achieve their development goals and the Programme of Action for the LDCs. The agreement was also an acknowledgement of the essential advisory and support UNCDF offers in the elaboration of public policies in developing countries to enable decentralization and local development, as well as to build inclusive financial sectors to support LDCs to achieve their sustainable development goals.

In 2011, Luxembourg and UNCDF renewed the framework agreement, aiming to deepen the partnership and provide a coherent, predictable, flexible, and structured framework for collaboration and support to UNCDF's mandate and activities. The framework was amended in 2016 with an eye towards elevating the visibility of the partnership, which continues to evolve and strengthen.

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF pursues innovative financing solutions through: (1) financial inclusion, which expands the opportunities for individuals, households, and small and medium-sized enterprises to participate in the local economy, while also providing differentiated products for women and men so they can climb out of poverty and manage their financial lives; (2) local development finance, which shows how fiscal decentralization, innovative municipal finance, and structured project finance can drive public and private funding that underpins local economic expansion, women's economic empowerment, climate adaptation, and sustainable development; and (3) a least developed countries investment platform that provides a tailored set of financial instruments to a growing pipeline of impactful projects in the "missing middle."

VALUE OF LUXEMBOURG

CORE CONTRIBUTION

With a core contribution of EUR 550,000 (USD 636, 574), Luxembourg was UNCDF's fourth largest core donor in 2018.

Core resources, including from Luxembourg, remain the bedrock of UNCDF funding. They allow UNCDF to plan for a strategic and integrated country presence in LDCs and to bring a range of tools to help governments achieve their 2030 Agenda goals.

They allow UNCDF to pilot and test innovative new models. UNCDF's current core funding seeds the innovations that will be the flagship programs of the future.

They fund the organizational backbone of UNCDF, helping ensure the highest standards of transparency and accountability, enabling rigorous monitoring and evaluation, assuring retention of high-quality staff with deep technical expertise, and providing seed capital for our programs.

EARMARKED CONTRIBUTIONS

Luxembourg has also consistently supported UNCDF. A history of examples include:

Projects

REGIONAL PROJECT: Building Inclusive Financial Sectors in Africa - Phase II

SENEGAL: Projet d'Appui au Développement Économique Local en ancrage au Programme National de Développement Local (PADEL/PNDL)

NIGER: Programme d'Appui au Développement de la Microfinance (PADMIF)

LAO PDR: Strengthening Capacity and Service Delivery of Local Administrations (GPAR SCSD)

REGIONAL PROJECT: Local Cross-Border Initiative (LOBI)

They also enable UNCDF to maintain an on-going country level presence for the required duration of our maturity model. Our experience has shown that we need, on average, 12 to 18 months to develop a new programme, secure government and other stakeholder support, and establish the multi-stakeholder partnerships needed to keep the programme running.

UNCDF's Strategic Framework 2018-2021 sets a target of \$25 million in regular resources. UNCDF's current core resource envelope falls short of that target. Despite this constraint, long-time funders and trusted partners like Luxembourg support UNCDF's ability to take programmes along the innovation-to-scale journey; to address emerging development opportunities to craft new innovations and flagships; and to respond to new demand for UNCDF support in line with the Agenda, the Addis Ababa Action Agenda, and the Istanbul Programme of Action.

with earmarked resources.

Duration
2008-2012
2008-2017
2010-2015
2011-2015
2012-2014

THEMATIC CONTRIBUTIONS TO FINANCIAL INCLUSION AND LOCAL DEVELOPMENT

Thematic contributions from Luxembourg, which are flexible in nature, have enabled UNCDF to innovate new finance models consistent with LDC graduation ambitions, the Addis Ababa Action Agenda and Agenda 2030. This enables Luxembourg and UNCDF to:

- + Learn lessons together about what works around cutting-edge last mile finance solutions, managed risk-taking, innovation, consolidation and scale up;
- + Provide opportunities for leverage by identifying new markets, de-risking the local investment space, and building viable and investable project pipelines;
- + Replicate and scale up models with proven impact, for example on women and youth economic empowerment, local resilience and municipal finance;
- + Engage across a focused range of themes and/or countries, including in "frontier" areas where finance can support sustainable development, by unlocking domestic capital markets through the productive use of existing domestic resources, investing in public and private infrastructure with proven fiscal sustainability, or connecting new technologies to localities and households.

Given the integrated and interlinked nature of the Sustainable Development Goals (SDGs), thematic contributions from Luxembourg enable UNCDF to leverage its experience and expertise in local development finance, financial inclusion, and innovative finance to address a range of development challenges in a holistic fashion. These thematic approaches were operationalized through UNCDF's global, regional, and country programmes in LDCs including in some crisis and conflict-affected settings.

PERFORMANCE OVERVIEW (2018)

Financial Inclusion

Since 2012, UNCDF has contributed to over 13M adults accessing financial services through digital accounts in 12 countries.

Supported

1.9M ACTIVE
DIGITAL
PAYMENT
CLIENTS in 2018



IN NEPAL

380,000 smallholder farmers & micro-entrepreneurs using financial services

IN UGANDA

175,000 mobile money customers
40,000 digitized payments



66,000
Clean Energy
products sold



82% were financed through loans or pay-as-you-go instalments

60% of clients were women



In Malawi

women agent networks outperformed men

In Myanmar

11 financial institutions reviewed for gender responsiveness

Policy Support



29

Financial Inclusion Roadmaps have been adopted by Governments.



3 New assessments in Burkina Faso, Benin & Togo

BETTER THAN CASH ALLIANCE



now has over 70 MEMEBERS

RESULTS)

Local Development Finance

Since 2014, UNCDF has completed 1462 localized investments, while also designing and supporting fiscal decentralization mechanisms.



In 2018, UNCDF supported

368 local governments

294 public and private investments were confirmed, averaging **\$49,725.50**



LOCAL GOVERNMENTS



Expanded Local Climate Mechanisms

in **14** COUNTRIES



...and supported over

6M PEOPLE



Women's Empowerment



69% of jobs created by localized investments went to **WOMEN**

6,000 women farmers and suppliers, in Bangladesh & Tanzania benefited from



UNCDF's investments

RESULTS IN FINANCIAL INCLUSION

MAKING ACCESS POSSIBLE

Within the Financial Inclusion practice area, the Luxembourg thematic contribution was allocated to enhance research and development, develop innovative programmes and provide seed funding for proof of concept and programme expansion.

There is growing evidence that financial sector development contributes to a reduction in poverty and inequality. However, many governments face a lack of reliable data to support decisions on financial inclusion. Making Access Possible (MAP) is a multi-country financial inclusion programme that offers a powerful platform to encourage private sector investments in expanding financial inclusion by supporting critical market data-driven investment decisions and setting up an enabling environment that will incentivize those investments. The primary focus of MAP is to help governments create an environment that promotes accelerated market development for financial inclusion, contributing to sustainable financing for development through the provision of reliable data that helps to bring all stakeholders to the table.

MAP is a powerful engine for South-South cooperation and fosters peer-to-peer

learning among countries by leveraging global and regional platforms like the West African Economic and Monetary Union.

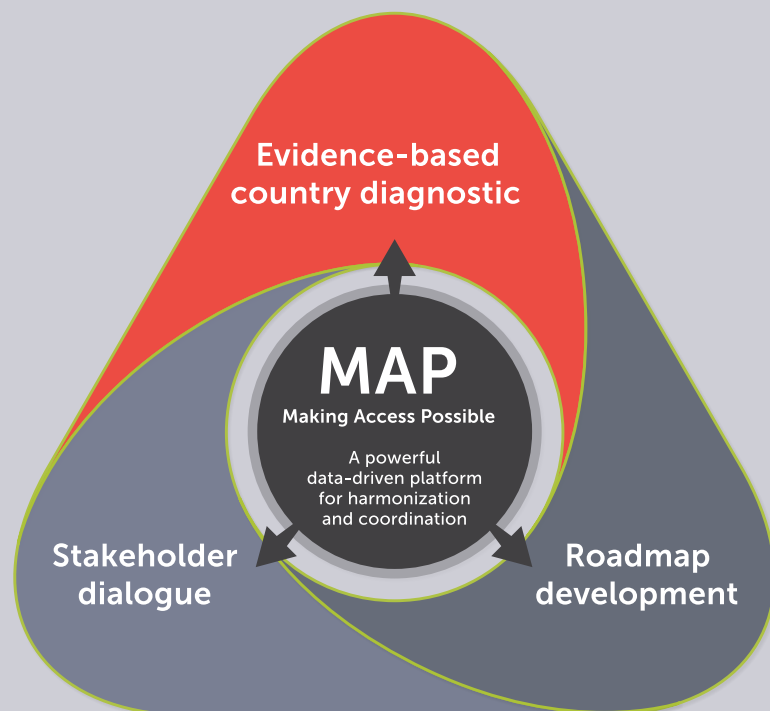
With support from Luxembourg dating back to 2012 (in addition to other partners), MAP has been implemented in 15¹ countries, with national financial inclusion roadmaps developed in five countries.

MAP creates impact in terms of (i) the number of clients reached (adults, women and small businesses), with a framework that enables government and donors to invest in the areas most likely to have impact on financial inclusion, (ii) its demonstration effect where successful MAP countries will encourage other countries and development partners to follow suit, tailoring the approach to their own unique circumstances, and (iii) supporting private sector investments in expanding financial inclusion by providing critical market data and setting up an enabling environment to incentivize those investments.

¹ Swaziland, Lesotho, Malawi, Botswana, Zimbabwe, DRC, Mozambique, Madagascar, Myanmar, Laos, Nepal, Cambodia, Vietnam, Togo, Burkina Faso

IN FOCUS: MAKING ACCESS POSSIBLE, MYANMAR FINANCIAL INCLUSION ROADMAP

Using the data collected in a 2013 MAP diagnostic on rates of financial inclusion in Myanmar, a Financial Inclusion Roadmap was developed, and officially adopted and launched by the government in April 2015. UNCDF is working with the government to achieve the Roadmap's goal of connecting 40 percent of the population to formal financial products by 2020, with a special emphasis on women-owned and women-led businesses, SMEs, young people, and the rural poor.



FINANCIAL SERVICES FOR YOUTH

From 2010 to 2015, UNCDF piloted approaches to offer youth (ages 12 – 24) affordable, relevant and accessible financial products coupled with complementary non-financial services in eight Least Developed Countries (LDCs) in Africa.¹ YouthStart more than tripled the pilot's original target of providing access to finance to 200,000 youth. In 2015, the programme's final evaluation found that YouthStart performed effectively by increasing both youth's access to appropriate financial and non-financial services, and the institutional capacity of its partner financial service providers.

UNCDF is now expanding the programme to other LDCs in Africa and Asia² and deepening its programmatic intervention in the countries of the regional pilot. The objective of the newly formulated YouthStart Global is to reduce the proportion of youth (ages 15-24) in LDCs who are not experiencing decent employment,³ education or training to support SDGs 4 and 8.

¹ Burkina Faso, Democratic Republic of Congo, Ethiopia, Malawi, Rwanda, Senegal, Togo, and Uganda.

² Benin, Cambodia, Fiji, Madagascar, Malawi, Mozambique, Niger, Tanzania and Zambia.

³ To the degree possible, the program will be consistent with the ILO's decent work agenda.

Luxembourg's support enabled assessments of youth economic opportunities ecosystems in Cambodia, Democratic Republic of Congo (DRC), Senegal, Madagascar, Malawi, and Uganda.



TECHNICAL ASSISTANCE FUND TO SUPPORT REFUGEES & OTHER FORCIBLY DISPLACED PERSONS

The world is facing an unprecedented refugee crisis. At the end of 2018, more than 70 million people worldwide were forcibly displaced. Financial services have a critical role to play in mitigating the crisis to ensure resilience and greater self-reliance of forcibly displaced people in protracted situations. Emerging evidence shows that affordable access to financial services can help forcibly displaced people cope with negative shocks, reduce exposure to risk, and stimulate economic activity at community levels.

To encourage financial service providers to reach this market segment, UNCDF and the United Nations High Commissioner for Refugees (UNHCR) launched a technical assistance (TA) facility hosted at UNCDF that will support providers operating in developing countries to enhance their efforts and strengthen their capacity to reach refugee and other displaced populations, as well as host communities.

The TA facility will extend grants, loans, and technical assistance to a range of providers – spanning digital identification services, financial services, remittance services, mobile money operators, mobile network operators, and aggregators – via requests for support issued by the Facility. **Luxembourg's support through its thematic allocation in 2017 was instrumental in helping to launch this technical facility.**

RESULTS IN LOCAL DEVELOPMENT FINANCE

LOCAL ECONOMIC DEVELOPMENT

In 2011, UNCDF started to enhance and expand its approaches to local economic development to ensure that people in all regions and locations benefit from development. This meant dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations. It meant re-investing international and domestic resources back into local economies and local services through fiscal decentralization, climate finance and project finance. It also meant focusing on efforts to strengthen public financial management and local revenue collection, improving the quality and sustainability of public and private investments, and promoting accountability at the local level.

The contribution from Luxembourg was instrumental in supporting these efforts as UNCDF carried out a series of focused studies and research activities, capitalized on the different approaches and experiences across its portfolio and regions of operation, and introduced new financing mechanisms that can respond more effectively to the needs of local communities in the LDCs.

UNCDF invests its seed capital and technical assistance to promote increased capital flows to the local level, reducing inequalities, improving services, and increasing opportunities for sustainable economic development. UNCDF innovates and tests new public and private financial systems that mobilize, allocate, and invest additional resources while promoting transparency and accountability in their use.

INCLUSIVE AND EQUITABLE LOCAL DEVELOPMENT (IELD)

Women worldwide are more likely than men to become and remain unemployed, have fewer chances to participate in the labour force, and often must accept lower quality jobs. An important determinant of gender equality is the unequal distribution of unpaid care and household work between women and men. At the local level, structural barriers including lack of adequate infrastructure and access to services and markets exacerbate gender gaps and prevent women from participating fully and equally in the economy.

The Inclusive and Equitable Local Development Programme (IELD), a joint global programme partly funded by Luxembourg and implemented by UNCDF, UNDP and UN Women, addresses these impediments through local public and private investments, with an emphasis on unlocking domestic capital for women's

MUNICIPAL INVESTMENT FINANCE

Urbanization has become one of the most pressing development challenges of the 21st century. 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. Almost half of the world's urban dwellers reside in settlements of fewer than 500,000 inhabitants. The future development of the LDCs, and their ability to meet the SDGs, now depends significantly on how well urbanization is managed in LDC cities and towns.

The goal of the Municipal Investment Financing (MIF) Programme—which Luxembourg supports through its thematic allocation—is to increase local government capacity through access to sustainable sources of capital financing to address key urbanization challenges. MIF aims to leverage the resources of governments to mobilize public and private capital investment, while transitioning local government finances from traditional pure grant funding to a broadened mix of financial sources to address local challenges. The programme recently launched its International Municipal Investment Fund (IMIF) that aims to raise USD 250 million.

economic empowerment and entrepreneurship.

IELD combines UNDP's country presence and technical support, UN Women's mandate to promote the status of women, and UNCDF's investment mandate and LDC focus. IELD carries out local economic assessments with a gender lens to identify the impediments to women's economic empowerment in local economies.

These could be related to transport, labour market access, training, child care, water and sanitation, security, access to investment capital for clusters in the supply chain, or a range of other issues.

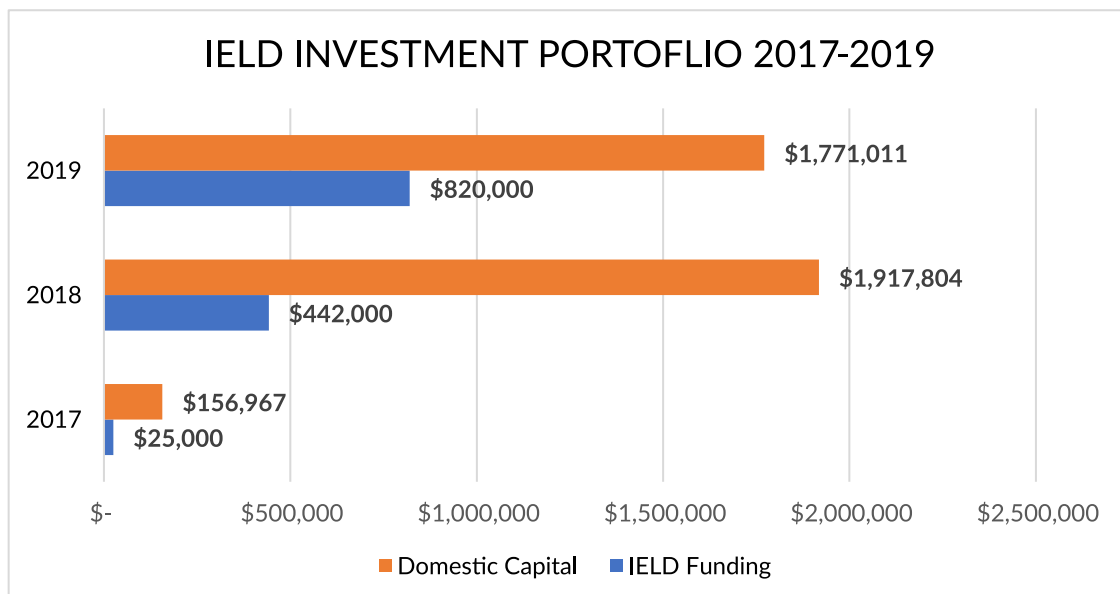
Each local economy is different and each solution will be a specific blended finance intervention that may include local government investments and revenue-generating investments financed by domestic capital. Performance will be measured by the set of women's economic empowerment indicators developed by the three UN agencies and linked to the high-level panel on women's economic empowerment emerging from the World Economic Forum.

The thematic contribution from Luxembourg enabled UNCDF to formally roll out the IELD programme implementation, as well as develop appropriate tools and knowledge to understand the local economy and entry points for enhancing women's economic empowerment.

IELD's catalytic investments have been critical in creating income earning opportunities for women. In Tanzania, the projects have created 574 full-time jobs, 60% of which are occupied by women. Sales centers established by IELD from the two grants in Bangladesh are expected to benefit more than 400 women entrepreneurs per year and help them expand their business through enhanced technical capacity, improved access to information, and better market linkages. In addition, over 9,000 women farmers and female suppliers in Bangladesh and Tanzania directly benefit from IELD projects through better equipped agri-processing facilities, apparel machinery, and well-structured markets.

IN FOCUS: CATALYTIC INVESTMENTS FOR WOMEN'S ECONOMIC EMPOWERMENT

IELD has supported expansion of fiscal space at the local level for women's economic empowerment in Tanzania and Bangladesh. The programme has disbursed over \$900,000 in grants and loans, which is expected to unlock an additional \$3.2 million in local resources from domestic banks and governments.



LOOKING TO THE FUTURE

BURKINA FASO: CLEAN ENERGY FOR PEOPLE RESILIENCE (CE4PR)

Access to clean, safe and, affordable energy is a fundamental prerequisite for social and economic development, as enshrined in SDG 7. It is also a pathway to eradicate poverty (SDG 1) through the creation of economic activity and employment, and it contributes to climate change mitigation and adaptation (SDG 13) through the reduction of greenhouse gas emissions by using renewable energy sources and supporting the transition towards a low-carbon economy.

In Burkina Faso, however, energy access is still at a very low level, especially in rural areas. According to International Energy Agency data, only 58.1% of the urban population and only 1.5% of the rural population have access to electricity. Lack of access to energy also exacerbates the country's other economic challenges: low agricultural productivity, an underdeveloped agri-industry with an underdeveloped SME sector and high unemployment, especially among youth.

Through Luxembourg's commitment to support Burkina Faso, under its Programme Indicatif de Cooperation (PIC III; 2017-2021), UNCDF and Luxembourg will partner on the Clean Energy for People Resilience programme (CE4PR). The programme will focus on new business models in digital finance with the potential to scale up innovative clean energy access solutions.



Selected key performance indicators (KPIs) under CE4PR outcomes:

6 ESCOs supported; **3,000** customers served;

75 direct jobs and **250** indirect jobs created;

1,500 persons educated;

6 entrepreneurs receiving seed capital;

4 MSEs created (50% women/50% youth)

750 additional agents available and active in target regions;

3,000 persons receiving financial education (60% women, 20% youth);

10,000 transactions (accessing information through digitally-enabled information modules and services)

8 working groups of key stakeholders in the clean energy sector;

BURKINA FASO: ECONOMIC AND CLIMATIC RESILIENCE THROUGH DIGITAL AND FINANCIAL INNOVATIONS

Formal financial inclusion remains a significant challenge in Burkina Faso. Less than 20% of adults in Burkina Faso are banked, with wide disparities on the basis of gender. Nevertheless, digital finance has great potential to accelerate financial inclusion within the country.

Through the Economic and Climatic Resilience Through Digital and Financial Innovations project—which is the beneficiary of Luxembourg’s critical support—UNCDF is working to accelerate financial inclusion of vulnerable populations in Burkina Faso by leveraging financial and digital innovation, specifically youth populations, farmers and MSMEs in both urban and rural areas.

The components of the programme include:

- Enlarging the use of digital financial services and digital innovations to drive sustainable improvement in the economic resilience for women, youth, and farmers.
- Promoting the development of MSMEs in specific growth sectors of the economy in order to drive job creation, with a view to transitioning to a green economy.



LOOKING TO THE FUTURE

THE BUILD FUND

According to UNCDF's recently launched report, "Blended Finance in the Least Developed Countries 2019," only 6% of private finance mobilised by official development finance benefits LDCs. With the recent downturn in official development assistance to LDCs, too little international public finance is being invested in these markets as well. If current trends persist, development finance will entrench exclusions and inequalities between and within countries, rather than help overcome them.

To address this trend, UNCDF has partnered with Bamboo Capital Partners to set up a pioneering investment vehicle—known as the BUILD Fund—designed to attract concessional and commercial growth finance to UNCDF's pipeline of small and medium-sized enterprises (SMEs), financial service providers, and local infrastructure projects. The partnership will provide innovative blended finance solutions and ensure that the full spectrum of capital is available to SMEs and other ventures in the LDCs. Through the investment vehicle, UNCDF and Bamboo will aim to address the "missing middle" financing gap that affects entrepreneurs in frontier markets, where growth is constrained by a lack of access to follow-on financing.

Luxembourg is the first government to support this innovative financing vehicle specifically targeting LDCs, with an anchor gift of \$2 million in concessional capital in December 2018.



“Luxembourg has been a critical supporter of UNCDF. Their flexibility and ability to provide funds for innovation is allowing UNCDF to pilot new ways of making finance work for the poor. We are grateful for Luxembourg’s generous support and look forward to continue building on our strong and productive relationship to support the Least Developed Countries in achieving their sustainable development goals.”

---Judith Karl

Executive Secretary of the UN
Capital Development Fund



“Luxembourg’s collaboration with UNCDF has been fruitful over many years and our multiannual Partnership Framework Agreement illustrates this close relationship. Last year, we have started a new substantial programme with UNCDF in Burkina Faso. Moreover, with the creation of a new impact investment fund for small and medium enterprises from LDCs, Luxembourg and UNCDF are currently working on establishing new ways of working together.”

---Manuel Tonnar

Director for Development Cooperation and Humanitarian Aid
in the Ministry of Foreign and European Affairs

UNCDF & SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY



17 PARTNERSHIPS FOR THE GOALS



WITH IMPACT ON





ABOUT UNCDF

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