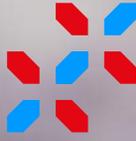


LUXEMBOURG
AID & DEVELOPMENT



Unlocking Public and Private
Finance for the Poor



LUXEMBOURG AND THE UN CAPITAL DEVELOPMENT FUND

**PARTNERSHIP FOR DEVELOPMENT RESULTS IN THE
LEAST DEVELOPMENT 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 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.

The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

VALUE OF LUXEMBOURG CORE, THEMATIC AND NON-CORE CONTRIBUTIONS

CORE CONTRIBUTION

With a core contribution of EUR 800,000 (USD 895,000), Luxembourg was UNCDF's fifth-largest core donor in 2019.

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 focus on piloting new solutions and creating demonstration effects, in order to change entire financial and economic systems.

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.

They also enable UNCDF to maintain an ongoing country-level presence for the required duration of its maturity model. Experience has shown that UNCDF needs, 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 per year 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 develop markets for digital technologies that reach the poor; build ecosystems to support social entrepreneurs; and create transformative change for governments and the private sector to build stable, dynamic, and resilient economies in LDCs.

Regular resources from Luxembourg will continue to support UNCDF to engage closely with its partners in preparation for the Fifth United Nations Conference on the LDCs (LDC-V), which will produce the last 10-year programme of action for LDCs before the 2030 deadline for the SDGs. UNCDF will help ensure that the next Programme includes an effective framework for last-mile SDG financing in LDCs.

EARMARKED CONTRIBUTIONS

Last year, Luxembourg announced that it was pledging EUR 400,000 in non-core resources to be split between the Financial Inclusion Practice Area and the Local Development Finance Practice.



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 conflicted settings.

PERFORMANCE OVERVIEW (2019 RESULTS)

Financial Inclusion

Supported **2.3M CLIENTS SERVED USING DIGITAL PAYMENTS**



Primary delivery channel for **3M clients**

62% of piloted projects were digital.

Supported mobilization of USD **3.3 billion** in digital payment transactions."




342,000 Clean Energy products sold



Bringing benefits of clean energy products to **6 M** people

In Africa



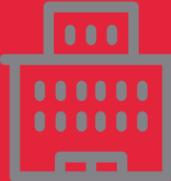
UNCDF launched the Africa Policy Accelerator initiative to support inclusive digital financial solutions.



13 countries implementing or arranging financial inclusion initiatives with UNCDF support



BETTER THAN CASH ALLIANCE



now has over **72 MEMBERS**

Local Development Finance

In 2019, UNCDF supported **443** local governments



363 localized investments carried out in **22 LDCs**



LOCAL GOVERNMENTS

Expanded Local Climate Mechanisms in **14 COUNTRIES**



...representing over **10M PEOPLE**




22 gender-responsive investments made since 2018 in partnership with UN Women and UNDP

\$4m in additional unlocked financing from public and private sector partners to support gender responsive investments.

27,000 women in 4 LDCs directly benefited from gender responsive instruments.



RESULTS IN FINANCIAL INCLUSION

Digital financial services such as mobile money and agent banking have reached scale in many LDCs. But meaningful digital financial inclusion has to provide outlets for low-income account holders to engage in the economy in order to meet their daily needs and to improve their skills, productivity and marketability in the digital-economy age. By building inclusive digital economies through a market development approach, last mile communities will be able to use digital services in their daily lives and contribute to the SDGs.

BURKINA FASO: CLEAN ENERGY 4 PEOPLE RESILIENCE (CE4PR)

Energy access has been and remains an incredible challenge in Burkina Faso, directly impacting the country's ability to support its SME sector and reduce unemployment, notably for youth. Less than 20% of the total population has access to electricity according to 2018 data from the International Energy Agency. In rural areas, only 1.6% of the population has access to electricity.

Addressing this challenge is what brought UNCDF and Luxembourg together in partnership through the Clean Energy for People Resilience programme (CE4PR)—a programme that relies on the support of Luxembourg through its Programme Indicatif de Cooperation (PIC II: 2017-2021) to support Burkina Faso. The results achieved in 2019 and 2020 reflect the programme's focus on new business models in digital finance with the potential to scale up innovative clean energy access solutions.

In early 2020, a challenge fund was launched with the aim of promoting energy access at the last mile, as well as encouraging the use of energy for productive use. This was based on a scoping exercise that was carried out in Q4 2019.

- + Market Scoping Completed: Included interviews with government, associations, development partners and, notably, over 15 clean energy enterprises.
- + Challenge Fund Designed: Technical experts designed ESCO Challenge Fund, FSP/DFS and PSP/Incubator RFP based on UNCDF expertise in Burkina Faso. The fund includes financing through grants, guarantees and loans.
- + Fund Launched/Proposals Received: Launch of the fund included: (I) Virtual launch and RFP call and targeted communication strategy through March and April; (II) Receipt of applications: 53 proposals received.

Additionally, a cohort of staffing is in place to provide the capacity to move CE4PR forward. A local investment committee is being formalized and partner selection is foreseen by August 2020.

CE4PR is embedded within the overall Inclusive Digital Economies country strategy, where digital enablers, such as Pay As You Go (PAYGO), are seen as essential to enabling the successful deployment of energy service business models.



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

Fewer than 20% of adults in Burkina Faso are banked, with wide disparities on the basis of gender. Accelerating financial inclusion for the country's vulnerable populations calls for both financial and digital innovation.

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

2019 represented the effective start of the program, which included a number of outputs and activities:

Government Engagement and Support:

UNCDF held a series of meetings with ministerial departments, including to support the deployment of a digitization strategy and capacity building on digital innovations to accelerate the achievement of the national development: Plan national de développement Economique et Social (PNDES).

UNCDF secured a commitment with the Directorate General for Women and Gender, which resulted in two workshops (in Ouagadougou and Bobo Dioulasso) to introduce 300 women entrepreneurs to digital financial education, and two training sessions on the culture of using digital innovations for the benefit of 1,500 women entrepreneurs.

UNCDF supported the national Fund for Remunerative Activities for Women (FAARF) with technical assistance with the following deliverables: A new manual of credit management procedures including flow charts; A description of the current processes including an analysis of the inherent risks and inefficiencies; Technical sheets for products and services; A capacity building plan; A final mission report including the final recommendations of the project.

Private Sector Engagement and Support:

UNCDF secured a partnership agreement with two microfinance institutions: FCPB and Ecobank Panafri-can Microfinance; as well as the signing of a partnership to provide financial education training to 66,000 women and young people, reaching 20,000 active electronic wallets and mobilizing \$700,000 in small balance deposits.

UNCDF launched a call for proposals for the selection of financial service providers for agency banking, and organized two workshops with 10 financial service providers and seven banks.

UNCDF developed a toolkit for the digitization of savings groups for FSPs that are either providing or intend to provide financial services to savings groups. UNCDF also developed a mobile application for financial education. 10 modules are already available on the APP with 6 themes (Savings - 4 modules, Debt - 1 module, Entrepreneurship - 1 module, Forest resource management - 1 module, Improved household - 1 module, Sexual reproductive health - 2 modules).

Following the signing of the partnership agreements with the 2 MFIs (FCPB and Panafrican Microfinance - ex SOFIPE) in 2019, community workers have started the creation and set up of savings groups in some of the areas of intervention.

UNCDF released an analysis on digitization opportunities in the Shea Value Chain that are offered by the implementation of digital services.

Events:

UNCDF contributed to the co-organization of the African Microfinance Week with ADA Microfinance from October 21 to 25, as well as the co-organization of the digital week with the Ministry of Digital Economy and Postal Development (MENDP). Another major event was UNCDF's participation in the "Tour du Faso Numérique," where 1,550 young entrepreneurs were trained on digital opportunities and entrepreneurship.

On the sidelines of the African Microfinance Week (SAM), UNCDF organized a capacity-building session for incubators in the sub-region, and particularly in Burkina Faso, in collaboration with ADA. The main theme was "Economic models for the sustainability of incubators" for accelerating the economic and social inclusion of populations through innovations, especially young people and women.

RESULTS IN LOCAL DEVELOPMENT FINANCE

Local governments and subnational authorities in developing countries and LDCs are crucial for SDG achievement, but lack access to capital and expertise. Strengthening municipal finance can enable improved service delivery and investments that increase resilience and sustainability of cities. UNCDF has launched, with United Cities and Local Governments (UCLG), the International Municipal Investment Fund (IMIF) to expand access to capital for municipalities in developing countries to finance projects that can achieve the “Dual Key” of development impact as well as financial sustainability.

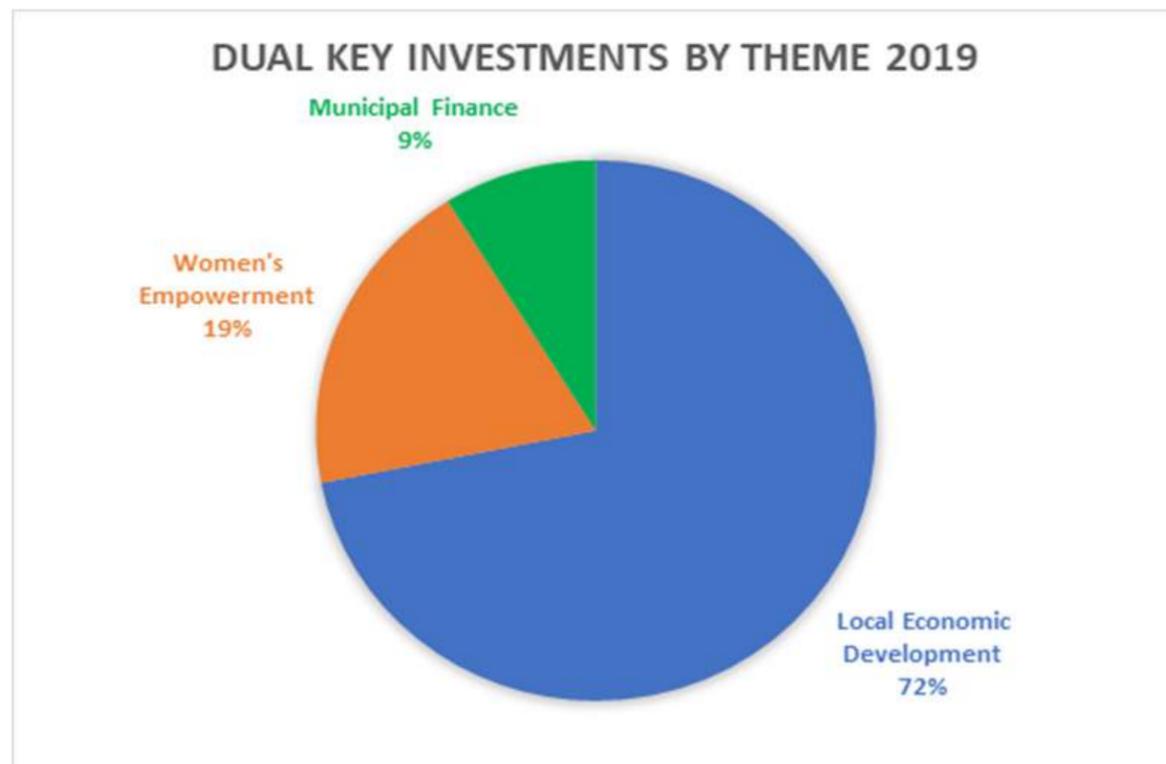
THE DUAL KEY SYSTEM

According to UCLG, approximately 65% of SDG targets cannot be achieved without local governments. This speaks to the transformational potential of local investments that can deliver both financial and development impact.

The Dual Key pipeline development process is an innovative eight stage process, which utilizes UNCDF’s unique technical expertise in local economic development and financing solutions. The Dual Key supports local partners to source investments, undertake full due diligence, structure the investments, assess the development impact and the financial impact additionality and sustainability (Dual Key), unlock additional financial flows to each investment, support the investments in the implementation phases, and advise on performance and impact measurement and impact reporting.

17 Local Economic Development Investments were approved and processed through the Dual Key in 2019 with the potential to unlock \$4,479,272 in domestic commercial financing and other resources. Of these investments, approximately 20% had an additional focus on Women’s Economic Empowerment.

The funding provided by Luxembourg supported investment projects in the Dual Key investment pipeline involving the thematic area of municipal investment finance.



The “Dual Key” received an honorable mention by the IFC during the Global SME Finance Forum in 2019, for the best product innovation of the year.

INTERNATIONAL MUNICIPAL INVESTMENT FUND (IMIF)

UNCDF and UCLG have created a coalition for a global financial ecosystem that works for cities and local governments. This coalition is advocating for the necessary policy reform, regulatory changes, fiscal architecture and financial mechanisms and products, at both the global and national levels. The coalition is also collaborating on practical actions to drive the message home. In 2019, the Coalition announced their desire to establish the IMIF.

The IMIF is initiated by UNCDF and UCLG as an instrument of the coalition. In November 2019, following a transparent selection process, Meridiam (a global asset manager, with headquarters in Paris) was chosen to manage the IMIF. The fund will invest in local government projects that demonstrate solutions to the challenge outlined above.

Each investment will not only be valuable in itself; it will also showcase how policy and regulatory reform to expand local fiscal space can accelerate these solutions at scale - thereby unlocking further investment flows.

Meridiam is currently raising capital from development banks and commercial investors for the IMIF. The target capitalization is 350 million EUR at first closing. This will be deployed to city projects together with domestic banks and other investors, leveraging its contribution to domestic capital market development for local infrastructure finance.

IMIF TECHNICAL ASSISTANCE FACILITY AND DUAL KEY

UNCDF will manage the technical assistance facility for the fund (IMIF-TAF) which will ensure that the pipeline of investments reaching the IMIF truly serves the purpose of the coalition. To do this, the IMIF-TAF requires an initial injection of US\$50 million over the next five years.

The IMIF-TAF applies the Local Development Finance Dual Key pipeline development process to assess both the impact and financial sustainability of each project to provide the IMIF with investment-ready opportunities. Over 15 municipal investments are in the Dual Key Hard Pipeline for 2020/2021, with financing needs of approximately \$100 million.



With a growing loan and guarantee portfolio, UNCDF seeks to demonstrate to the domestic and international financial architecture, that investing in last mile settings can not only support SDG achievement, but be financially viable. The capital needs in last mile settings are tremendous, and UNCDF's goal is to transform the way markets work to fill the finance gap for small and medium enterprises.

THE BUILD FUND

In 2019, UNCDF prepared the launch of a third-party managed blended finance fund, the BUILD Fund, to bring growth finance to missing middle SMEs, in LDCs, with Luxembourg-registered fund manager Bamboo Capital Partners. In preparation for the launch, UNCDF has screened over 200 companies and built a pipeline of 42 interesting SMEs operating in the LDCs and with a strong development impact as well as financial return potential. UNCDF made progress in raising donor awareness of the blended finance mechanism, which needs a substantial first loss tranche to attract commercial investors. UNCDF is also launching a business advisory facility to provide pre- and post-investment support to the pipeline of investable enterprises and BUILD investees.

Luxembourg was the first government to support this innovative financial vehicle with an anchor gift of USD 2 million of concessional capital.



LUXEMBOURG AND UNCDF: SUPPORTING RESPONSES TO COVID-19

On March 25, United Nations Secretary-General Antonio Guterres launched the UN Coordinated Appeal for COVID-19. The Secretary-General's top priorities for the crisis are: coordination and cooperation to suppress the virus; minimizing the social and economic impact of COVID-19 for everyone and stimulating a faster recovery everywhere, including by providing immediate liquidity relief to the private and financial sectors in developing countries; and helping poor countries to "recover better" with more inclusive and sustainable models of development.

The COVID-19 pandemic risks impacting LDCs with particular ferocity. UNCDF is supporting LDCs and other countries in need through its mandate to build stable and resilient local economies, and by leveraging a range of technical expertise and investment instruments to reduce and limit economic and social hardship for poor communities.

Luxembourg's funding of UNCDF's FIPA West Africa Programme will support our COVID-19 response in the region. UNCDF has launched a regional RFA involving digital solutions that will support MSMEs in Senegal, Benin, Ghana and Togo. Funding will also be used to target MSMEs in Senegal that need support as a result of COVID-19.



UNCDF &  SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY 

17 PARTNERSHIPS FOR THE GOALS 

WITH IMPACT ON

5 GENDER EQUALITY 

7 AFFORDABLE AND CLEAN ENERGY 

8 DECENT WORK AND ECONOMIC GROWTH 

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 

10 REDUCED INEQUALITIES 

11 SUSTAINABLE CITIES AND COMMUNITIES 

13 CLIMATE ACTION 

ABOUT UNCDF

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