

**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 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 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.

Luxembourg and UNCDF entered into a new framework agreement in 2021 that will encompass the duration of UNCDF's Strategic Framework 2022-2025, and operate in accordance with Luxembourg's General Development Cooperation Strategy "The Road to 2030", an innovative multi-stakeholder partnership approach in the framework of the 2030 Agenda, including academia, research centres, civil society as well as the private sector. UNCDF and Luxembourg will focus in particular on the thematic areas of strategies around women's economic empowerment and gender, climate, and commitment to financial innovation to support the LDCs.

The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 46 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

With a core contribution of EUR 800,000 (USD 873,362), Luxembourg was UNCDF's fifth largest core donor in 2020.

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 financial and economic systems to better serve the poor.

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.

Trusted partners like Luxembourg that give multi-year donations 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.

Core resources from Luxembourg allow 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 and provides pragmatic solutions to support LDC goals for graduation and SDG achievement.

## 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.

In 2020, Luxembourg gave EUR 400,000 in non-core resources to be divided between the Digital Economies Practice and the Local Development Finance Practice.

Government of Luxembourg -  
Total Contributions, CASH, as of June 29, 2021

	2018		2019		2020		2021	
	Local Currency	US dollars	Local Currency	US dollars	Local Currency	US dollars	Local Currency	US dollars
<b>CORE</b>	550,000	636,574	800,000	894,855	800,000	873,362	500,000	605,327
<b>THEMATIC</b>	250,000	289,352	400,000	454,545	400,000	436,681	0	0
<b>NON-CORE</b>	3,100,000	3,347,588	960,000	2,185,919	1,600,000	1,911,589	600,000	734,394
<b>TOTAL</b>	<b>3,900,000</b>	<b>4,273,514</b>	<b>2,160,000</b>	<b>3,535,319</b>	<b>2,800,000</b>	<b>3,221,633</b>	<b>1,100,000</b>	<b>1,339,721</b>

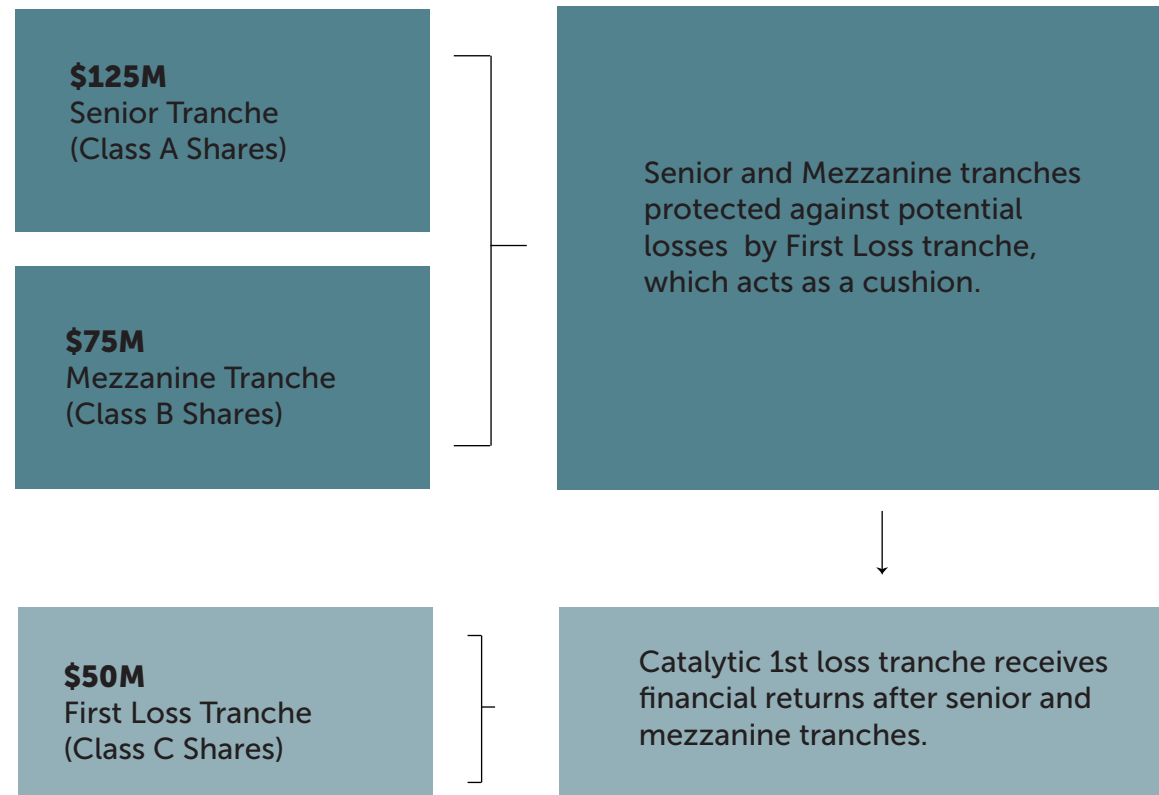
# The BUILD Fund

UNCDF has partnered with an impact investment firm based in Geneva, Bamboo Capital Partners, to establish a blended finance investment vehicle called the BUILD Fund. The BUILD Fund is designed to attract commercial capital to finance small and medium enterprises (SMEs) in LDC markets that have the potential for both SDG impact and financial viability. Its structure features first loss funding donated by governments to de-risk commercial capital.

The projects for the BUILD Fund are identified, supported and nurtured by UNCDF's LDC Investment Platform (LDC-IP), which mobilizes capital for small and medium-sized enterprises (SMEs), financial service providers and local infrastructure projects.

In 2020, the Fund was formally incorporated and registered with the Luxembourg Companies Register as a reserved alternative investment fund with bilateral donors already committing to financing. Backed by a € 2 million commitment from the Government of the Grand Duchy of Luxembourg, UNCDF delivered the maiden investment into the BUILD Fund in December 2020. The Norwegian Agency for Development Cooperation (NORAD) has also committed US\$ 3 million to the BUILD Fund.

## BUILD FUND (OFF BALANCE SHEET)



# Supporting Inclusive Digital Economies in Burkina Faso

After launching its global strategy "Leaving No One Behind in the Digital Era" in 2019, UNCDF now uses digital finance as the main channel to support financial inclusion. In 2020, UNCDF promoted the use and expansion of digital financial services to sectors such as agriculture, education, entrepreneurship and health as a way to improve access, and affordability to accelerate achievement of the SDGs.

## The Inclusive Digital Economies Scorecard (IDES)

UNCDF developed the IDES - a policy tool for governments to measure the development of, and help set priorities for, their country's digital transformation. In 2020, UNCDF piloted the scorecard in four countries, including Burkina Faso with the support of Luxembourg. As a decision-making tool, IDES focuses on 4 components to provide a comprehensive overview of the state of the country's digital economy: Policy and Regulation, Infrastructure, Innovation and Skills.

## Support for ESCOs and incubators through the CE4PR program

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 Coopération (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.

For the implementation of the project on the ground, strategic partnerships have been established with 3 incubators, 11 Renewable Energy Service Providers, 1 Payment Service Provider and 1 Financial Service Provider; in order to facilitate access to productive renewable energy for women, youth and MSMEs.



Source: UNCDF, 2020: meeting of a savings group in Kampala in the southwest of Burkina Faso.

## Structuration des Groupes d'épargne dans le cadre du PARI

UNCDF is currently implementing the Resilience Building and Innovation Support Program (PARI). Officially launched in November 2018 and scheduled to run until September 2021, the programme PARI is an initiative of the Government of Burkina Faso with technical and financial support from UNCDF and the Luxembourg Cooperation.

Under the programme, approximately 100,000 women and girls organized into micro-savings services in 4,542 savings groups, supporting the following results:

329,656,105 XOF of informal savings mobilized to strengthen the income-generating activities of women and girls.

More than 23,500 women and girls gaining access to formal financial services and become financially literate through digital means.

More than 5500 women and girls actively using their electronic wallet.

## Support to the Permanent Secretariat for the Promotion of Microfinance for the Realization of the Global Money Week.

UNCDF supported the Permanent Secretariat for the Promotion of Inclusive Finance (SP/PIF) in the organization of the Global Money Week.

The 2021 edition took place from March 22 to 26, 2021 in Ouahigouya under the theme "Take care of yourself, take care of your money".

A total of 2,309 young people, 54% of whom were women, received training in financial education. In total, 37 sessions were conducted for 12 schools and the University of Ouahigouya.



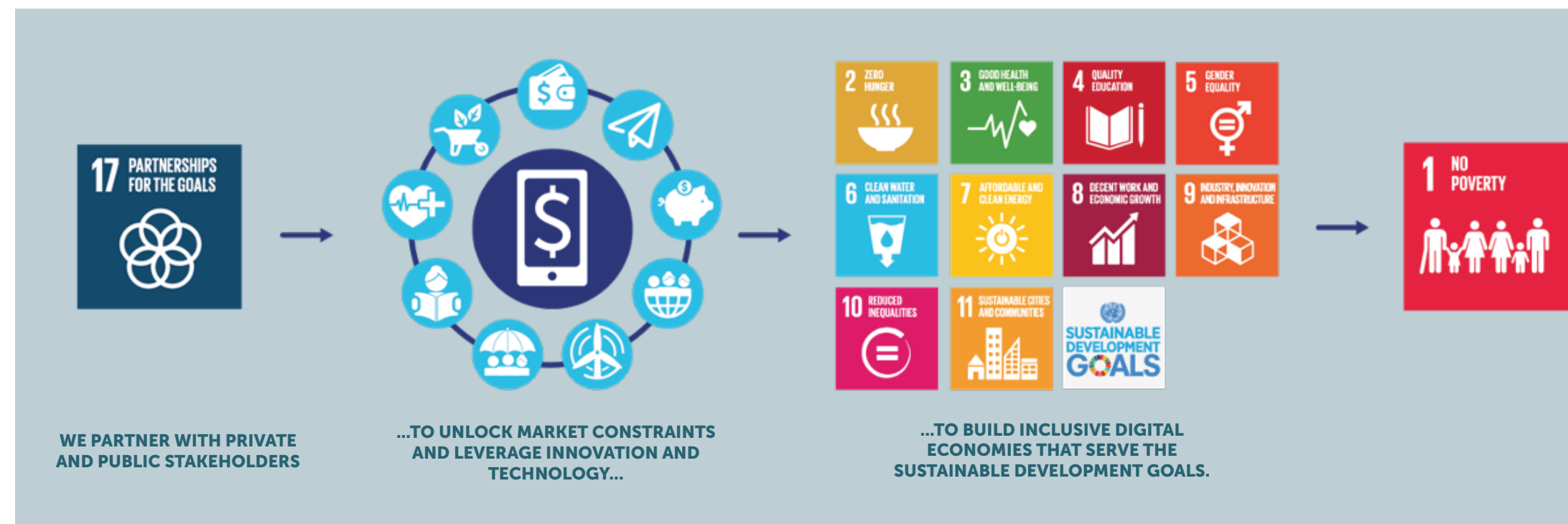
## Leaving No One Behind in the Digital Era

UNCDF recognizes that digital and financial access does not automatically translate into inclusion and resilience; therefore, it incentivizes partners and facilitates development of policies to promote financial resilience and inclusion.

Based on its global digital inclusion strategy, UNCDF adopts an inclusive market development approach to advance digital economies, focusing on supporting inclusive digital financial innovations, empowered customers, enabling policies and regulations, and open digital payments ecosystems.

Under the global digital strategy, UNCDF alongside its partners provided financial access and usage to some 2 million people in 43 countries. These efforts were driven by partnering with financial technology ('fintech') and other private sector actors to incentivize innovations in last mile markets.

By partnering with 94 financial service providers, 87 mobile network operators and fintech firms, 178 SMEs, and 61 public organizations, UNCDF supported the piloting of over 180 financial products and services, of which over 80 per cent were digital solutions.



# Transforming Local Government Finance and Local Economic Development Finance

UNCDF serves as a centre of excellence of local government finance and local economic development finance in LDCs. This has been achieved by providing localized investment tools and tailored technical assistance to public and private partners, as well as serving as a thought leader in subnational financing and local economic development.

UNCDF has developed expertise and a track record in supporting development of domestic capital markets to enable longer term sustainable transformation and green investments. UNCDF also designs and supports the establishment of local public and private financial systems for local sustainable development and municipal growth.

In 2020, UNCDF supported 536 local governments, 131 SMEs, and 88 public organizations in 42 countries; and completed 674 localized strategic investments to demonstrate the effectiveness of decentralized financing for climate adaptation, women’s empowerment, food security, health, and local economic development.



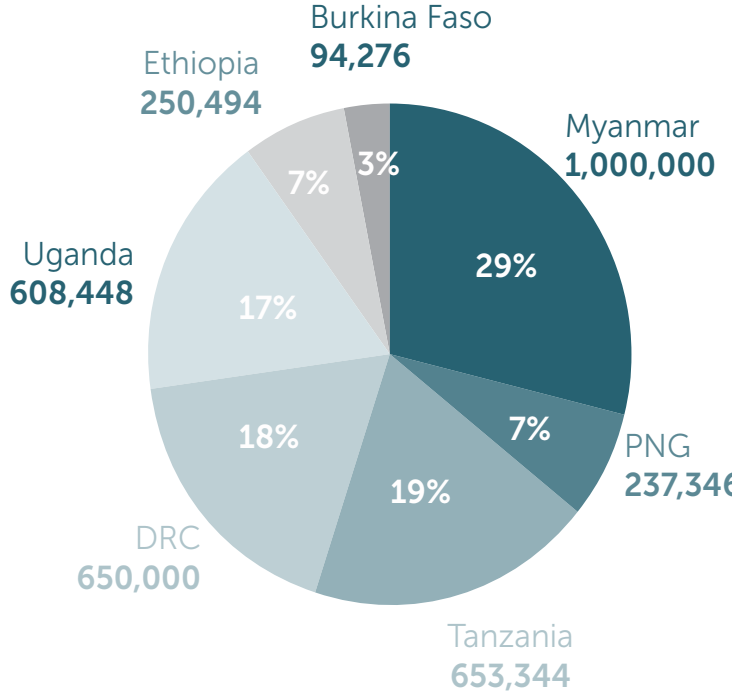
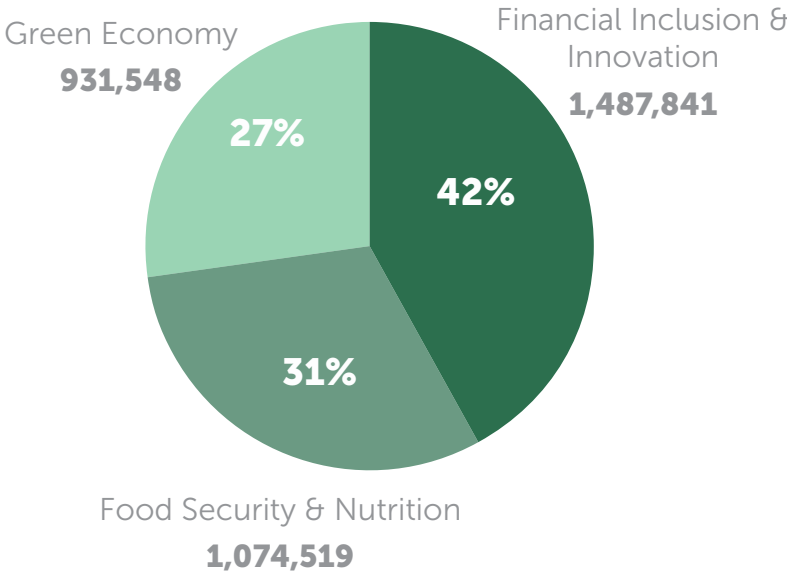
# Mobilizing Capital for SMEs, Financial Service Providers and Local Infrastructure Projects

UNCDF recognizes the need to provide innovative financial instruments, mechanisms and partnerships to help shift capital flows towards SDG-positive investments in the last mile of LDCs.

Unlocking the development potential of the local private sector means improving their access to capital from both domestic and international financial institutions.

By leveraging its ability to deploy concessional loans and guarantees to both public and private entities-- a unique mandate in the United Nations Development System (UNDS)- UNCDF seeks to demonstrate that investing in last mile settings can produce both SDG-positive development impact and financial returns. UNCDF expanded its portfolio in 2020 with five new loans and one new guarantee to support SMEs, financial service providers, and local infrastructure projects in LDC markets.

Since the launch of its loan and guarantee policy in 2017, UNCDF has disbursed a total of 18 loans and three guarantees in seven countries in the areas of financial inclusion, food security, and green energy. The portfolio increased 45 per cent from 2019 to 2020, totalling \$4.1 million in disbursements and guarantee coverage.



# UNCDF Overall Performance at a Glance 2020 Results

## Inclusive Digital Economies

**2M people** in **43 countries** received financial access and usage



**180+** financial products and services piloted, of which **80 per cent** were digital solutions.

**75+** regulators were trained in the development of policies and regulations to expand financial and digital inclusion.

**15 countries** received focused technical assistance.

Piloted the **Inclusive Digital Economies Scorecard (IDES)** in four countries, and subsequently introduced in another nine countries.

The **Better Than Cash Alliance** expanded membership to **75 public and private sector entities**.



## Local Development Finance



**536 local governments** supported in 2020.



**674 localized strategic investments** were made.

**64 investments** and over **\$5 million** was disbursed by UNCDF through its **Dual Key system**.



Six municipal projects in seven countries approved for the **International Municipal Investment Fund (IMIF)**



**Launched Freetown-Blue Peace Initiative** to support innovative finance for WASH facilities in Sierra Leone; worked to pilot Blue Peace with the **Gambia River Basin Development Organization**.

## LDC-Investment Platform



**18 loans and three guarantees** in the UNCDF on-balance sheet portfolio, spanning areas **of financial inclusion, food security and green energy** spanning 2017-2020.

**45% increase in portfolio value** compared to 2019, totaling **4.1 million** is disbursements and guarantee coverages,

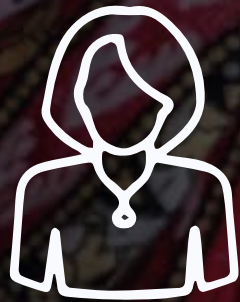
Backed by **EUR 2 million** commitment from the Government of the Grand Duchy of Luxembourg, UNCDF delivered the maiden investment.



Deployed investment specialists in **Benin, Ethiopia, Rwanda** and **Senegal** to support the UN Development System (UNDS)



## Key Thematic Focus Area: Women's Economic Empowerment

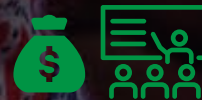


Launched MSME fintech innovation fund to develop digital solutions for women-led MSMEs, funding 10 solutions that will provide business/financial advisory services to 5,000 women.

Provided training with partners on digital and financial literacy to for over 120,000 rural women, opening 35,000 new accounts.



Since 2018, UNCDF has initiated 25 localized investments on women's empowerment unlocking an additional \$3.5 million from local partners and directly benefiting over 32,000 women in the targeted countries.



In Senegal, UNCDF continued to support the country's Strategic Sovereign Investment Fund (FONSIS) through a dedicated women's economic empowerment fund launched in 2019 to support gender-sensitive SMEs and public-private partnerships (PPPs).

UNCDF in 2020 was chosen as global leader of the Generation Equality Action Coalition on Women's Economic Justice and Rights. The vision of the Generation Equality Action Coalition is to deliver concrete and transformative change for women and girls around the world by addressing critical constraints.

## Key Thematic Focus Area: Confronting Climate Change and Supporting Biodiversity Conservation



**451,000+** clean energy products sold, bringing benefits of clean energy to 2 million people



Clean energy products sold from launch of programme are projected to offset 1 million metric tonnes in carbon emissions.



LoCAL (Local Climate Adaptive Living Facility) operational in 14 countries with scoping underway in another 13 countries.



**1680** localized investments since 2014, contributing to local climate resilience for some 11 million people.

# 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

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 46 least developed countries (LDCs). 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. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded.

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.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.

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