



UNITED NATIONS CAPITAL DEVELOPMENT FUND



2007

Results-oriented
Annual Report



The United Nations Capital Development Fund

INVESTING IN PEOPLE, INSTITUTIONS AND INFRASTRUCTURE IN THE LEAST DEVELOPED COUNTRIES

Established by the UN General Assembly in 1966, **The United Nations Capital Development Fund (UNCDF)** offers a unique combination of investment capital, capacity building and technical advisory services to promote (i) decentralization and local development and (ii) inclusive financial sectors in the Least Developed Countries (LDCs). Through its programmes, UNCDF strives to contribute to the attainment of the Millennium Development Goals (MDGs) and to the implementation of the Brussels Programme of Action for LDCs in a direct, concrete and measurable way.

- UNCDF's local development programmes support national decentralization strategies in the LDCs and seek to improve access to social services, governance and pro-poor economic infrastructure at the local level by providing technical assistance and investment capital directly to local authorities.
- UNCDF's microfinance programmes provide poor households and enterprises with enhanced access to a wide range of financial services by promoting inclusive financial sectors and providing investment capital for emerging microfinance institutions (MFIs) and other financial service providers (FSPs) in the LDCs.

UNCDF's investment capital is flexible, high-risk and innovative. It is channeled primarily to poor rural areas in the LDCs where poverty reduction, capacity and governance challenges are typically the greatest.

UNCDF currently invests in 39 LDCs with a total programme portfolio amounting to approximately US\$125 million and strives to support 45 LDCs by the end of the 2008-2011 period. UNCDF's interventions in the LDCs strive to be risk-taking, innovative, scalable and results-based. UNCDF is part of the UNDP-Group and actively promotes UN reform through joint programmes with UNDP and other UN agencies.

- **Risk taking:** UNCDF has the technical capacity, local presence and flexible funding instruments necessary to take risks and move quickly to adapt to changing environments and lessons learned. Hence, UNCDF successfully provides capacity and investment support directly to local governments in rural areas of LDCs, including post-conflict LDCs, and thereby strives to assist in improving the local government system. Similarly, UNCDF prioritizes investments in the most risky segment of MFIs, namely emerging MFIs that serve poor rural areas in LDCs.
- **Innovative:** In all its work UNCDF puts a strong emphasis on innovations, such as the Local Authorities Financial and Institutional Analysis System (LAFIAS) – a decision-making tool that fosters improved operations of local authorities at the organizational, institutional, financial and economic levels. UNCDF is also taking the forefront among development partners in promoting the principles of the Paris Declaration on Aid Effectiveness within the local development and inclusive finance sectors.
- **Scalable:** All UNCDF programmes are designed for scaling-up and replication, including the shift to national local government and inclusive finance strategies and programmes. UNCDF programmes have been upscaled by governments supported by development partners, for example, in Bangladesh, Nepal, Mozambique, Timor-Leste, Yemen, Benin and Senegal.
- **Results-based:** As part of its results-based management approach, UNCDF has a rigorous system of planning for, monitoring and reporting on results. All UNCDF programmes are subjected to independent evaluations, the lessons from which are integrated into ongoing and new programmes, and shared with other development partners.
- **UN Reform:** The majority of UNCDF programmes are joint programmes with UNDP and other UN-Agencies, including IFAD, ILO and UNIFEM.

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FROM the Executive Secretary a.i.

We are pleased to present UNCDF's 2007 Results-oriented Annual Report (ROAR). The ROAR is produced each year as part of UNCDF's strong commitment to results-based management and accountability, and our ongoing efforts to improve the way we do business, with a view to meeting the needs and aspirations of the governments and people we serve in the Least Developed Countries (LDCs). The ROAR assesses UNCDF's performance, both in terms of development results in its two practice areas, local development and inclusive finance, as well as its management results. This 2007

ROAR will be presented to the Executive Board in June 2008 and will be made available in all six official UN languages.

Highlights 2007

2007 was another excellent year for UNCDF with regards to its programme, management and financial results. In line with its ambitious vision of expanding its geographical coverage to 45 LDCs by 2011, UNCDF provided investment and technical support to 31 LDCs in 2007 and formulated new programmes that would extend its interventions to 39 LDCs by the end of 2008.

Reflecting its risk-taking nature, UNCDF formulated new Local Development and Inclusive Finance Programmes in a number of post-crisis countries in 2007, including the Central African Republic, the Democratic Republic of Congo, Liberia, Nepal, Sierra Leone, Solomon Islands and Somalia. Within its new Inclusive Finance programmes, UNCDF continued to invest primarily in emerging Microfinance Institutions (MFIs) - a high risk niche where UNCDF has delivered strong results for a number of years.

Through innovative approaches in countries as different as Yemen, Bangladesh and Benin, UNCDF took the forefront among development partners in promoting the principles of the Paris Declaration on Aid Effectiveness in the decentralization and local development "sector". UNCDF's sector development approach to inclusive finance has also facilitated the alignment and harmonization of donor support towards building inclusive financial sectors, that subsequently gain access to commercial sources of funding.

UNCDF's approaches and programmes also continued to be successfully upscaled and replicated by development partners, including the shift to national decentralization programmes, in – among others – Bangladesh, Nepal, Mozambique, Timor-Leste, Yemen, Benin and Senegal and the adoption of national microfinance strategies in, for example, Sierra Leone and Madagascar.

Furthermore, during 2007, evaluations of UNCDF local development programmes underscored UNCDF's focus on managing for results and its notable successes in piloting and upscaling of UNCDF's approach to local development through local authorities. Similarly, UNCDF volunteered to participate in the 2007 microfinance donor agency rating (SmartAid for Microfinance Index) conducted by the Consultative Group to Assist the Poor; the Fund was rated as one of the top performers among participating microfinance donor agencies.

In line with the new Strategic Partnership with UNDP and with a view to promoting UN reform, all new 2007 UNCDF local development initiatives are formulated as joint programmes with UNDP and other UN-Agencies, including UNIFEM on Gender Equitable Local Development. UNCDF has also entered into joint programmes with ILO on micro-insurance and with IFAD on remittances and technical support in West-Africa, representing new models of UN agencies working together at regional and global levels.

While expenditures continued their upward trend, largely due to the launch of many new programmes, donor contributions to UNCDF's regular and other resources increased as well by almost 30% in 2007 compared to 2006 levels.

Strategic Partnership with UNDP

2007 saw the finalization of the Strategic Partnership between UNDP and UNCDF, bringing the two organizations closer strategically, operationally, and financially and thereby allowing each institution to focus on its respective mandate and comparative advantages. Expected outcomes of the partnership are greater coherence, simplicity, and harmonization within the UN system and improved efficiency and effectiveness of both organizations leading to enhanced development results. The Guidance Note signed by the UNDP Associate Administrator and UNCDF Executive Secretary a.i. in late 2007 detailed the modalities for how the two organizations will work together at country, regional and headquarters level.

Outlook for 2008-2011

Moving forward, UNCDF is committed to continue the delivery of strong development results on the ground in a growing number of LDCs. The implementation of the UNCDF 2008-2011 Investment Plan, which envisages an extension of UNCDF's services and investments to 45 LDCs by 2011 and a growth in the average size of UNCDF investment per LDC, will, however, require a continued increase in donor contributions to UNCDF regular and other resources. Based on the excellent 2007 development and operational results, UNCDF is confident that these ambitious yet realistic growth objectives can be achieved. We look forward to working closely with the Executive Board and a variety of development partners, including foundations, to achieve our mission: Investing in the LDCs to achieve the Millennium Development Goals.



Henriette Keijzers
Executive Secretary, a.i.
United Nations Capital Development Fund



INTRODUCTION

1. The United Nations Capital Development Fund (UNCDF) makes investments in the LDCs to support them to achieve the Millennium Development Goals and the objectives of the Brussels Programme of Action for the LDCs. Its long-term goal is to reduce poverty in the LDCs through its two practice areas – local development and microfinance. The Fund strives to be innovative, risk-taking, scalable and results-based. In line with UNCDF support for United Nations reform and increased United Nations coherence, almost all of its programmes are joint programmes with other United Nations organizations.
2. The 2007 results oriented annual report provides an overview of UNCDF performance in 2007, within a continuously changing internal and external environment. The format of the report has remained constant during the three year period covered by the UNCDF business plan for 2005-2007, “Investing in the LDCs”.
3. In 2007, UNCDF expanded its activities into many new LDCs. The geographical expansion was a direct result of the vision set forward in the 2005-2007 business plan to reach 40 LDCs by 2010. By the end of 2007, UNCDF had programmes in 31 LDCs. New programmes, covering eight more LDCs, were formulated in 2007 and ready for approval in the first half of 2008, bringing the total number of LDCs covered to 39.
4. A second major achievement in 2007 was the strengthening of the strategic partnership between UNDP and UNCDF. The efforts made in bringing the two organizations strategically and operationally closer together resulted in a guidance note signed in November 2007 by UNDP and UNCDF, and sent officially to all UNDP country and regional offices. The Executive Board, at its first regular session 2008, expressed satisfaction with the progress made in finalizing the details of this strategic partnership.
5. The present report outlines the programme, management, and financial results achieved against established targets in 2007. In a follow-up to decision 2008/04, the report also includes – under the heading financial results – information on the implementation of the UNCDF cost-recovery policy.





I. Programme results

A. Performance analysis for sub-goal 1: local development

6. The UNCDF decentralization and local development practice focuses on building the capacity of local governments and other local stakeholders to foster participatory local development and thereby support the achievement of the Millennium Development Goals. Block grants (a form of grant-based, inter-governmental fiscal transfer) are provided to local governments with a dual purpose: first, they are an incentive to local governments to improve their local planning and implementation capacity; second, they enable the local governments to invest in local infrastructure and service delivery, local economic development and natural resource management, and thus respond to the priorities of rural communities. On the basis of lessons learned through piloting at the local government level, UNCDF also assists national governments in preparing national decentralization strategies and programmes that are essential for local governments to enable delivery of development results at the local level.

7. By the end of 2007, UNCDF had local development programmes in 29 LDCs – an increase of six LDCs over the 23 supported in 2006. The new programmes formulated in 2007 reflected a qualitative and conceptual shift in programme design: UNCDF is increasingly supporting existing or emerging national programmes for decentralization and local development, and working with other development partners through joint programme modalities to bring about decentralization and local development sector-wide approaches. This shift in design is visible in the second generation local development programmes in countries like Bangladesh, Nepal, and Senegal. Begun as pilots, those programmes have seen their innovations being scaled up to the national level. The same shift can be seen in new UNCDF-supported pro-

grammes in post-conflict countries such as the Democratic Republic of the Congo, Liberia, the Solomon Islands, and Somalia. These programmes have been designed to assume a national character from the beginning. In response to government demand, local development programmes address the broader policy and institutional issues for decentralized national systems as an integral part of the post-conflict challenges, while simultaneously carrying out local-level ‘piloting’ activities.

8. The results presented below highlight the performance in the ongoing local development portfolio. The information used in assessing outcome achievements was derived from self-reporting through internal monitoring systems. As a large number of new programmes were in the start-up phase, the following tables refer to performance data of 19 LDCs, which had a total of 20 programmes in ‘full implementation mode’ in 2007. The data reflect programme results achieved in two-thirds of all targeted LDCs, which represented 77 per cent of the total local development expenditures. Key findings of eight independent external evaluations conducted in 2007 (posted at www.uncdf.org) were systematically used to complement the interpretation of the monitoring results.

9. Both monitoring and evaluation sources confirm the innovative character of the UNCDF local development approach and the successful institutional strengthening of local partners in UNCDF-supported pilots. The evaluations demonstrate the strong comparative advantage of UNCDF in the promotion of local development through local governments, at and just above the local level. In particular, two aspects of the UNCDF approach have been identified as examples of this comparative advantage. First, UNCDF has demonstrated that devolution of funds and decision-making powers to people at the local level is a powerful approach to ensuring the delivery of services relevant to people’s

Box 1: Ensuring Gender-Equitable Access to Local Development

As part of the worldwide effort to meet the Millennium Development Goals, there is increasing emphasis on the need for local government reforms to be associated with improving service delivery through local governments. What is often left out of the dialogue, however, is a major cross-cutting concern that merits more attention: the gender dimension of local development and in particular women's effective participation in local government to help meet their specific needs and address gender-based inequalities.

To address this gender gap, in 2007 UNCDF joined forces with UNDP and UNIFEM in a new programme designed to ensure gender equitable local development and improved access to resources and services for women. With a total programme budget of US \$6.2 million, the Gender Equitable Local Development (GELD) programme is being piloted in five countries: Mozambique, Rwanda, Senegal, Sierra Leone and Tanzania. The GELD programme will construct a model that establishes linkages between planning intentions and policy outcomes in relation to achieving gender equality through equitable interventions at the local level.

The joint programme, developed within the "One UN" context, prioritizes gender responsive planning, budgeting, implementation, monitoring and evaluation. The central intended output will be a model that establishes linkages between the public expenditure management cycle and the application of the gender lens to achieve equitable outcomes towards the MDGs. In addition, lessons learned from the pilots in the form of empirical evidence will be integrated into ongoing local development initiatives in the three organizations, and shared with governments and development agencies for replication elsewhere.

The country level activities of this programme will be managed as an integral part of the UN support to national development priorities in each of the countries concerned, technically supported through a gender adviser based in the UNDP regional centre in Johannesburg, and overseen by a focal point in both UNCDF and UNIFEM.



needs. Second, the insistence of UNCDF on linking development activities to mainstream government structures and institutions has contributed to better prospects for sustainability and ownership of the programmes at the local level. The evaluations also highlight the potential for replication on a national scale of results achieved on a pilot basis at the sub-national level.

10. The evaluators clearly point out that UNCDF programmes are implementing key principles of the Paris Declaration, such as national ownership, alignment behind national systems – particularly systems for public expenditure management – harmonization of development programmes with other partners, and establishment of an accountability

framework for results. However, the sustainability of results achieved in strengthening management capacities at local and national level is constrained by the limited life span (five years) of UNCDF programmes and the levels of resources invested, compared to the long-term challenges of effective decentralization and local development.

11. Evaluations also revealed concerns about the extent to which UNCDF programmes – with their limited investment resources – can contribute significantly to poverty reduction. Further efforts are required to establish pragmatic baseline data for measuring changes in poverty levels attributable to UNCDF programme achievements (Malawi, Senegal, Uganda) and to mobilize additional internal

Box 2: UNCDF Local Development Programme Upscaled by Government in Post-Conflict Timor Leste

An example of how UNCDF supports the next stage of scaling-up and replication can be seen in Timor-Leste, where, in late 2007, the Government doubled the number of districts participating in a UNCDF local governance pilot programme from four to eight (out of a total of 13) and increased its funding allocation by a factor of five, from US\$388,000 in 2006/7 to the new total of US\$2,085,000 in 2008. The Funds are allocated to the elected local assemblies and are used to fund local development plans that include clinics, schools, irrigation systems and markets. In 2008, the Government plans to develop, with UNCDF support, a new proposal to the National Parliament establishing a legal framework for a national local government system while further expanding the decentralization process.

Working closely with the UN Development Programme (UNDP) and with support from Irish Aid and the Government of Norway, UNCDF's Local Governance Support Programme in Timor-Leste is supporting the Government's constitutional and political commitment to decentralization and local government reform. The programme has provided technical support in two critical areas: 1) piloting a decentralized model of local governance; and 2) drafting policy and legal mechanisms for a decentralization reform.

At little more than 15,000 square kilometers, Timor-Leste is roughly half the size of the Netherlands. Its small size, however, is misleading – it can take a full day to travel across the country because of its rugged landscape and poor infrastructure. As a result, Timor-Leste's public administration has been highly centralized, with most policy decisions coming from the capital. This has resulted, through inefficient allocations, in an over-concentration of public expenditure on goods and services in the capital and a greater likelihood of rural needs being neglected.

With this in mind, the UNCDF programme introduced a Local Development Fund within the Ministry of State Administration to help finance development projects identified by local authorities through the local planning process. While these funds are provided by the central government, decisions on fund allocations are made at the local level. The UNCDF programme has supported the extensive training of local authorities to build local capacities in planning, budgeting, financing and delivering locally-determined economic and social infrastructure that is needed to improve the living conditions of the rural poor.

Central to the programme is the establishment of assemblies at the district and sub-district levels to represent and respond to the needs of the people. The assemblies are composed of representatives from the Suco (village) Councils who are elected as permanent members with voting powers, and executive members from the sub-district or district administration and local sector departments.

Filomena Diana Do Rego, assemblywoman from the sub-district of Cailaco, said the introduction of local democracy through the assemblies has changed the way the country does business. "Before the decisions would come from the top, and we had to accept them whether we wanted to or not," she said. "Now, we make the decisions because we know more about what we need to do in our villages."

Arcângelo Leite, Minister for State Administration, said development can only come through local and central governments working together, and for people to be involved in the process. In this, he added, decentralization is critical. "It is the only instrument that can ensure community participation in the development process," he said. "In this effort, we very much need and appreciate UNCDF's technical and budget support. Without it – especially the technical support – we would not have been able to come as far as we have."



and external resources to augment per capita investment levels. This is particularly important for local governments that have proved their capacity to manage larger resource flows. In making these recommendations, the evaluations caution that establishing a causal connection between UNCDF interventions and poverty alleviation is fraught with attribution problems common in many evaluations of development activities.

12. The overall outcome achievements shown in Table 1 refer to the results of UNCDF in piloting institutional reforms at the local government level, using modest capital funding as an incentive for change, and improving national policy frameworks by mainstreaming those results. Overall, UNCDF achieved a per-

formance rate of 85 per cent in 2007, thus achieving its targets in the decentralization and local development practice area. This is a significant achievement given the pressures encountered in simultaneously expanding geographical coverage of UNCDF interventions.

13. Overall, the targets for participatory local planning (outcome 1.1) were fully achieved, but performance dropped from 92 to 77 per cent. This can partly be explained by the start-up of a number of new programmes that appear to have set overambitious targets for the year. However, evaluations point to another, longer-term concern that may affect performance; namely, the sustainability of tested planning systems in terms of the

Table 1. Achievements of 2007 Targets for the Local Development Practice Area

Core results and outcomes	Overall target achievement in 2006 (%)	Overall target achievement in 2007 (%)	Performance achieved
Core result 1. Pilots for public expenditure management infrastructure and service delivery successfully implemented.			
Outcome 1.1: Effective, participatory assessment of demand for infrastructure and service delivery by local governments in UNCDF pilots.	92	77	Fully achieved
Outcome 1.2: Increased expenditure on infrastructure and service delivery effectively, equitably and transparently managed by local governments in UNCDF pilots.	78	81	Fully achieved
Outcome 1.3: Increased more effective supply and maintenance of basic socio-economic infrastructure and services by local governments, service providers and local communities in UNCDF pilots.	90	85	Fully achieved
Outcome 1.4: Sustained management of the local natural-resource base ensured by local governments in UNCDF pilots.	67	77	Fully achieved
Outcome 1.5: Enabling environment for local economic development established by local governments in UNCDF pilots.	*	95	Fully achieved
Core result 2. Pilot models and lessons leveraged for policy impact and replication.			
Outcome 1.6: Government amendments to policy, legal and regulatory frameworks reflect lessons from UNCDF pilots.	75	88	Fully achieved
Outcome 1.7: UNCDF pilots scaled up through replication by other funding entities and/or government budgetary resources.	92	90	Fully achieved
TOTAL	82	85	Fully achieved

Data source: UNCDF management information system data from 20 programmes, 2007

*Outcomes for which no targets were set in 2006, but for which targets were presented for 2007.

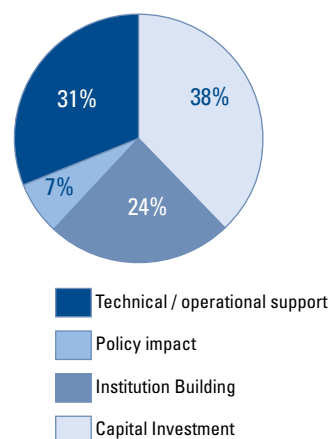
length and cost of the planning process. There is also evidence that the needs of local communities and women could be met more effectively through enhanced implementation of plans (Uganda). On the positive side, evaluations indicated that the needs and priorities of the rural poor were in fact taken into account in the planning processes of local governments, and that more transparent processes were promoted and are taking root (Rwanda, Senegal).

14. Performance was fully satisfactory in the area of transparent public expenditure management (outcome 1.2). Evaluations underscored the successful testing of innovations in public expenditure management systems in countries across different regions. In West Africa, the financial performance of local governments improved significantly through a growth in local tax revenues (Benin, Guinea, Senegal). In Asia, public expenditure management tools successfully tested at the local level were adopted officially for application at the national (Bangladesh) and district levels (Laos, Timor-Leste). The evaluation in Ethiopia indicated increased awareness on the part of local residents of the twin need for accountability by government officials and elected representatives, and transparency in the political and policy processes – both crucial elements to improved local governance.

15. The high level of target achievement with respect to investments in infrastructure and service delivery (outcome 1.3) indicates that local development programmes succeeded in improving the access of rural communities to pro-poor infrastructure and social services. Similarly, the ‘fully achieved’ target of outcome 1.4 indicates that UNCDF interventions have led to an enhanced capacity by local governments in managing natural resources. Local economic development (outcome 1.5) emerged as a new area of emphasis within the local development portfolio, with activities being pursued in Guinea, Senegal, Tanzania, Uganda, Mozambique, and other countries.

16. UNCDF performed well in terms of the linkages between targeted results at the programme level and their contribution to policy impact and replication at the national level (outcomes 1.6 and 1.7). The Ministry of Finance in Nepal, for example, adopted nationally the performance-based funding of District Development Committees and associated assessment methodologies as piloted, with a formal request to support the Government of Nepal in developing a sector-wide approach for local government funding. Another example is the Local Authorities Financial and Institutional Analysis System (LAFIAS). After several years of tests, the system was successfully introduced in six countries in West

	Capital Investment	Institution Building	Policy impact	Technical / operational support	Total
West Africa	51	20	4	25	100
Eastern/Southern Africa	33	27	5	35	100
Asia (includes Yemen)	30	25	12	33	100
Average	38	24	7	31	100



Source: UNCDF data from 20 programme, 2007

Table 3. Outreach of UNCDF Local Development Investments During 2007

	No. of countries	Local gov'ts supported	Avg. local gov'ts per country	No. of projects	Beneficiaries (millions)
West Africa	8	251	31	877	0.7
Eastern/Southern Africa	5	73	14	165	1.3
Asia (includes Yemen)	5	147	29	764	1.0
Latin America	2	47	23	57	0.1
Total	20	518	26	1,863	3.1

Source: UNCDF data from 20 programmes (countries without capital investments in 2006 excluded; accurate user rates available from eight programmes; other programmes estimated).

Box 3: Developing Innovative Tools to Improve Local Development in Africa

Throughout its programmes in West Africa, UNCDF and its partners have developed a number of important innovations that local authorities are using to improve both the quality and the efficiency of local planning, infrastructure development and public service provision in poor rural areas.



One of the tools that has been developed in the region is the Local Authorities Financial and Institutional Analysis System (LAFIAS, known in French as Le Système d'Analyse Financière et Institutionnelle des Collectivités - SAFIC). This decision-making tool was produced to manage the development process within the context of decentralization, and makes it possible to analyze the operations of local authorities at the organizational, institutional, financial and economic levels. LAFIAS thus provides policy-makers and those to whom they are accountable with the information they need to make informed decisions. Independent evaluations conducted in 2007 have shown that through the use of LAFIAS, local authorities, governments and partners throughout UNCDF's programmes in West Africa have been able to improve the efficiency, effectiveness and accountability of their activities in support of local development.

LAFIAS was developed and tested in Benin, Guinea and Mali and then officially launched in the West Africa region in early 2007. In 2008, UNCDF plans to further refine the model and introduce versions of the system across the continent in East and Southern Africa. Beyond UNCDF, several development partners, including the Africa Development Bank, have included LAFIAS in their programmes.

Another tool now used widely throughout Benin is a software system for managing local government budgets. The program, known as Gestion Budgétaire des Communes Ordinaires facilitates the timely preparation of budget documents (administrative accounts, supplementary estimates, annual budgets, etc.) and the provision of reliable financial data and payroll management. Local authorities that use this system are able to ensure complete transparency in the management of their budgets, thereby building confidence in local government, reducing the perception of corruption, and making them more accountable to their constituents. UNCDF now plans to introduce this software to other local governments throughout the region.

Table 4. Expenditure and Types of Local Development Investments During 2007

Type of investment	No. of projects	Investment (in \$ millions)	Average unit cost (in dollars)	Percentage of projects (% investment)
Education	450	0.85	2,013	12 %
Health	135	0.38	3,553	5 %
Water supply	428	2.02	4,754	30 %
Local governments, community facilities	46	0.10	2,193	1 %
Markets, agriculture, natural resources management	535	2.70	5,292	43 %
Roads, bridges, culverts	269	0.55	2,457	9 %
Total	1,863	6.60	3,543	100%

Source: UNCDF data from 16 programmes. Accurate user rates available from eight programmes; other programmes estimated.

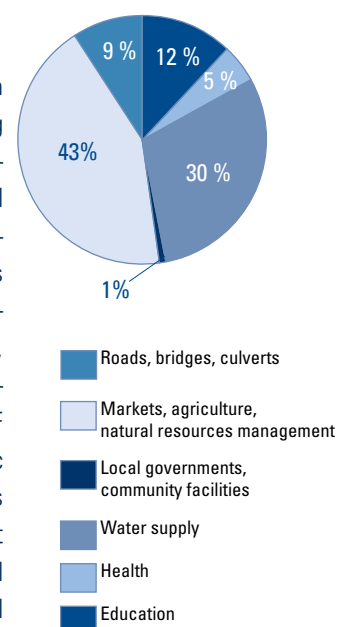
Africa and used by 43 local governments. Financial commitments from the African Development Bank, the Danish International Development Agency and the European Union, will permit expanded use of this system in specific countries of the sub-region.

17. Gender mainstreaming in local development reflects another important area of increased attention in 2007. The evaluation in Uganda found that – even with specific efforts made in the programme to achieve equitable gender participation – there was the persistent problem that women did not speak at the meetings, especially if their views did not coincide with those of men. Much more attention needs to be paid to ensuring that women have a ‘voice’ at such meetings, and that their ideas are translated into gender-equitable investments at the local level. The joint UNIFEM-UNDP-UNCDF programme for gender-equitable local development, approved in 2007, will focus specifically on this issue.

18. Table 2, above, seeks to clarify the allocation of funds to particular features of the decentralization and local development practice within ongoing programmes. The table

illustrates that, while the total expenditure in local level investments and capacity building in 2007 amounts to 62 per cent of total expenditure, only 38 per cent relates to classical capital investments through the local development fund mechanism. 24 per cent was devoted to institution and capacity development connected with the policy framework, planning processes or organizational structures. The policy impact of UNCDF interventions is harder to discern as a specific expenditure category; it is presented here as 7 per cent. Technical and operational support includes all UNCDF technical and managerial staff performance, including project personnel and country office staff, and regional and headquarters technical and programme management missions.

19. The variance between the regions in table 2 with regard to capital investment and technical and operational support underscore regional differences among local development programmes. While funds in West Africa are used up to 51 per cent for the support to local governments to finance their investment decisions, the stronger move towards national programmes and sector-wide approaches in



East Africa and Asia has required a relatively higher level of expenditures for activities related to policy impact and product innovation. In a sector-wide approach environment, block grants previously covered by UNCDF during the pilot phase are more likely to be co-financed either by national resources (Bangladesh, Nepal, Tanzania, Uganda), or other development partners with higher funding capacity such as the World Bank and bilateral donors. The relatively high level of technical and operational support in the Southern and East Africa region can also be explained by the relatively high start-up costs of programmes in post conflict countries such as Somalia, Burundi, and the Democratic Republic of the Congo.

20. Table 3 provides an overview of results achieved during 2007 concerning the outreach of UNCDF local development investments. Approximately 3.1 million people benefitted directly from investments made by local governments using UNCDF-financed local development funds. During the year, UNCDF provided investment resources for 1,863 small-scale infrastructure projects, through 518 local governments. This is an average of 93 investments per country, at an average cost per investment of \$3,543. Taking into account the \$6.6 million used in 2007 (see table 4), the average UNCDF investment per capita decreased from \$2.32 to \$2.13. Fiscal transfers, local revenues and investment resources received through parallel channels (line ministries and other development part-

Box 4: Multi-Donor Initiative Upscales Successful UN Programme in Yemen

In Yemen, UNCDF and UNDP are assisting the Government to define and implement decentralization reforms and to enhance the effectiveness of local governments to promote local development and alleviate poverty. The Decentralization and Local Development Support Programme (DLDSP) is a multi-donor initiative to improve the decentralized government system in Yemen and to strengthen local institutional capacities in public expenditure management. Connected to this programme, several donors have chosen to channel their funding for sector-specific interventions at the local level through the national system of local government established with the assistance of UNCDF.



Since its start-up in early 2004, the programme has been upscaled from eight to 48 districts and has demonstrated the feasibility of fiscal decentralization, while producing a tested basis for a National Decentralization Strategy with a unified methodology and institutional framework. With a total budget of \$12.5 million from nine development partners, the DLDSP has developed an efficient platform through which development partners seeking to support Yemen's national local development agenda can channel their assistance. The programme thereby demonstrates how various UN agencies and other development partners can work together in greater coherence, supporting different sectors through one local government system, to achieve more effective development results at the local level, in line with the objectives of the Paris Declaration on Aid Effectiveness.

The programme has introduced several innovations to strengthen local government capacity. For example, in order to ensure that the required capacity is available at the local level, the programme involves the use of mobile capacity development teams with regionally-based experts seconded from different ministry offices that are mobilized to bring their knowledge to local authorities, and to share best-practices between regions. The mobile teams specialize in a wide range of local development skills and expertise, including participatory data collection, integrated planning, budgeting, procurement, supervision of project implementation, accounting and reporting. The teams can reach remote areas of the country and can leave on a moment's notice. This approach has enabled the DLDSP to build capacity where and when it is needed and in a manner that is responsive to the capacity requirements of an evolving local authority system.

ners) augmented the actual amount of investments available for approved local development plans.

21. Table 4 demonstrates how capital grants were used in response to local decision-making within the annual, local government investment plans. Markets, agriculture and natural resource management dominated 2007, with 43 per cent of investments made by local governments. The other significant area was water supply, at 30 per cent. Thus, 73 per cent of investment was devoted to matters central to the rural economy, and also, increasingly, to the interface between rural and urban in the form of markets. The dominant feature here is providing essential elements for local economic activity to flourish. In addition, edu-

cation and health, emphasizing pro-poor and gender-equitable local development, remain the core of local development support, thus supporting the achievement of the Millennium Development Goals at the local level.

22. The operation and maintenance of investments remains a matter of concern as highlighted by external evaluations carried out in 2007. In Rwanda, for example, while local public infrastructure and social service investments were largely delivered as planned, the recurrent costs related to the maintenance of these investments was not taken into account systematically in local investment decisions. However, there is evidence that programmes in 2007 place greater emphasis on operation and maintenance costs related to investments

Box 5: Advancing Access to Financial Services in the Democratic Republic of the Congo through Improved Donor Coordination

A UNCDF-supported Inclusive Finance Programme in the Democratic Republic of the Congo is serving as an important example of donor coordination, harmonization and synergy in supporting the sector. The initial programme (2005 – 2009) was funded by UNCDF and UNDP (combined contribution of \$2.3 million) to establish a Microfinance Promotion Fund, design and promote a national microfinance strategy and to support the Central Bank in improving the legal and regulatory framework. KfW, a German government-owned development bank has thus far contributed €6.5 million to the fund, which is being used to make targeted investments in microfinance institutions. To date, four MFIs have been funded. The fund is managed by an investment committee with the support of Enterprising Solutions Global, a technical service provider.

Several donors are also partnering to support the improvement of the legal and regulatory environment in the DRC. UNCDF, the French Ministry of Foreign Affairs and the NGO Epargne sans frontières have joined forces and resources to build the capacity of the Government's microfinance department to conduct a thorough inventory of the sector with a view to improve the country's legal and regulatory framework and to streamline its accounting system.

Furthermore, in order to better understand the sector, most microfinance donors in the DRC are sharing knowledge and experience concerning the microfinance sector through regular stakeholders meetings. In order to coordinate the formulation of the national microfinance strategy, the donors have set up a group that regularly meets by conference call coordinated by the Consultative Group to Assist the Poor (CGAP).

A participatory and inclusive process, involving all stakeholders from the 11 provinces, has led to a clear, appropriate and nationally-owned microfinance strategy that can be used as a key tool to promote private entrepreneurship, reduce poverty and achieve the MDGs. The process has been led by three national partners (the Ministry of Finance, the Central Bank and the Ministry of Industry, SMEs, and Artisans) and facilitated by the UNCDF country resident advisor and supported by the UNCDF Regional Unit in Johannesburg. The process has also benefited from experiences and lessons learned from UNCDF programmes in Togo, Senegal and Madagascar, and from constant input and feedback from the above-mentioned donors.

Box 6: Building Inclusive Financial Sectors in Africa

The first phase of UNCDF's signature microfinance programme in Africa drew to a close at the end of 2007, with significant results and lessons learned that are now being carried over into phase II. The goal of the programme, known as "Building Inclusive Financial Sectors in Africa (BIFSA)," was to contribute to the achievement of the Millennium Development Goals, particularly the specific goal of reducing poverty by half by 2015, by increasing sustainable access to financial services in sub-Saharan Africa for poor and low income populations in general, and for small and micro enterprises in particular.

While a full evaluation of the first phase will be conducted in mid-2008, initial assessments indicate that the programme has fully achieved its main targets. By the end of 2007 more than 1.17 million active clients, of whom 68 per cent women, are accessing financial services from financial service providers (commercial banks, financial institutions, credit unions, microfinance institutions, credit unions, community banks, etc.) supported by the BIFSA programme. In addition, through the programme, UNCDF and UNDP have co-funded, in partnership with other donors [including the German Development Bank KfW, the French Ministry of Foreign Affairs, the Dutch development organization Cordaid, the Canadian and Swedish International Development Agencies (CIDA and Sida) and the Consultative Group to Assist the Poor (CGAP)] several initiatives to enhance sustainable access to financial services in 11 African countries: Burkina Faso, Central Africa Republic, Democratic Republic of Congo, Guinea Bissau, Liberia, Malawi, Mozambique, Malawi, Senegal, Sierra Leone and Togo. The total funds mobilized for these 11 programmes amounted to \$61.3 million (of which UNCDF contributed \$16.8 million, UNDP country offices \$16.2 million and the remainder coming from the above-mentioned donors).

In line with UNDP's microfinance policy, BIFSA Technical Advisors have also provided guidance to UNDP microfinance interventions. Through its two regional units in Dakar and Johannesburg, the programme has provided technical support to a 15 other African countries, bringing the total number of countries supported during the first phase of the programme to 26.

UNCDF anticipates a number of specific outputs from the implementation at the end of the second phase, including:

- 3,350,000 microfinance clients, mostly women, provided with sustainable access to financial services;
- the coverage rate for provision of financial services increased by 40 per cent;
- at least 20 microfinance institutions reaching financial self-sufficiency; and
- 15 countries improving their legislative and regulatory policies to support the development of viable microfinance sectors that can then be integrated into competitive financial markets.



(Ethiopia). Final evaluations in Benin, Guinea, Nepal and Senegal showed cumulative positive results, with 80 per cent of investments benefitting from adequate operation and maintenance arrangements.

B. Performance analysis for sub-goal 2: microfinance

23. In its microfinance practice area, UNCDF supports the development of inclusive financial sectors that provide a broad range of affordable financial services to poor and low-income families, and small and micro-enterprises in the LDCs. This is an effective means of contributing on a sustainable basis

Table 5. Achievements of 2007 Targets in the Microfinance Practice Area		
Core results and outcomes	Overall target achievement (%)	Performance achieved
Core result: Established sustainable retail intermediaries providing a range of financial services to low-income households		
Outcome 2.1: Increased outreach of UNCDF-supported financial intermediaries to low-income households	Target: 1,162,722 clients Result: 1,171,306 clients (101 %)	Exceeded expectations
Outcome 2.2: Increased breadth and depth of services provided by UNCDF-supported financial intermediaries to low income households	22 of 29 FSPs or 76% ** (Trend profitability)	Fully achieved
Outcome 2.3: Increased sustainability and efficiency of UNCDF-supported financial intermediaries serving low-income households	11/29 FSPs or 38% (Portfolio quality:)	Below expectations
Core result: Supporting industry infrastructure for delivery of financial services to low-income households established		
Outcome 2.4: Local financial-sector supporting infrastructure in place	12/12 countries or 100%	Fully achieved
Outcome 2.5: Increased visibility and transparency of UNCDF-supported financial institutions	18/29 FSPs or 62%	Partly achieved
Core result: Enabling environment for building inclusive financial sectors fostered		
Outcome 2.6: Increased capacity of government to support conducive policy environment for an inclusive financial sector	13/15 countries or 87%	Fully achieved
Outcome 2.7: Increased capacity of regulatory and supervisory authorities to develop conducive legal framework for an inclusive financial sector	11/13 countries or 85% 29/29 FSPs reporting to Central Bank or 100%	Fully achieved
Outcome 2.8: Nationally-owned government and donor action plans exist in support of building inclusive financial sectors	5/13 countries or 38%	Below expectations
Total	76%	Fully achieved

* Reporting on indicator 2.2 will be captured by the national household surveys that UNCDF will carry out in partnership with the World Bank under the data project. Reporting of results will take place after baseline and follow-up surveys have been completed.

** Indicator used to measure profitability has been changed compared to 2006 in view of data collection issues.

to poverty reduction and to the achievement of the Millennium Development Goals.

24. In 2007, applying its inclusive finance sector development approach, UNCDF expanded its inclusive finance activities to thirteen additional LDCs, in line with the objective for geographical expansion set forth in the UNCDF business plan. With the formulation of eight new inclusive finance programmes, the number of LDCs supported in their national efforts to build an inclusive financial sector increased to 20, out of which 12 are in sub-Saharan Africa, seven in Asia (five LDCs covered via a joint UNDP-UNCDF regional programme for the Pacific Islands), and one in the Arab States region. The next

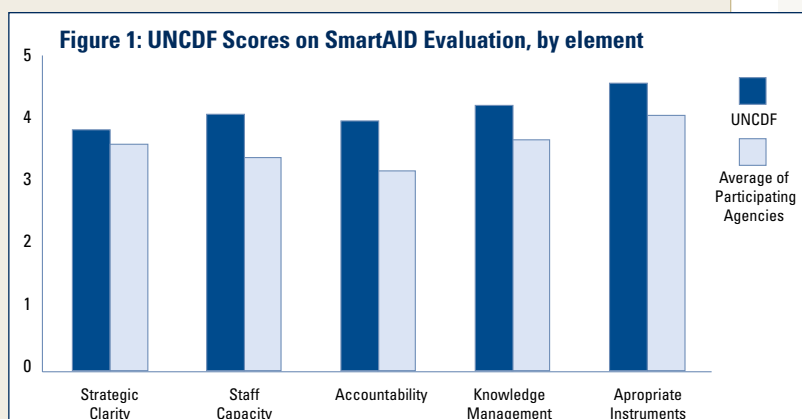
stage – making the new programmes operational and approving investments in financial service providers (FSPs) will require considerable effort in 2008. UNCDF projects that 26 LDCs will be benefiting from UNCDF support in the area of inclusive finance by the end of 2008.

25. In 2007, UNCDF was also among the initial 7 of the 33 members of Consultative Group to Assist the Poor (CGAP), the well-established donor group in microfinance, who participated in the pilot of the CGAP 'Smart-AID Index'. UNCDF received a rating of 83 out of 100 points, placing it among the leading donor agencies in terms of aid effectiveness in microfinance. The Fund received strong

Box 7: UNCDF Scores High in CGAP Multi-Donor Agency Rating

As part of an effort to evaluate how well its internal systems, policies, procedures, and incentives are set up to effectively support microfinance, UNCDF recently submitted itself to an external review coordinated by CGAP – the Consultative Group to Assist the Poor. The result: UNCDF received 83 out of 100 points, ranking consistently high in all five elements necessary to effectively promote inclusive and sustainable financial sectors.

The SmartAid for Microfinance Index (SmartAid) measures whether funding agencies are set up to support microfinance effectively. It scores agencies on a framework of five elements of effectiveness — strategic clarity, staff capacity, accountability for results, knowledge management, and appropriate instruments — that capture the requirements for high quality aid management throughout the programme or investment cycle. As exemplified in the chart below, UNCDF ranked consistently above the average of all participating agencies.



At CGAP's Better Aid for Access to Finance meeting in 2006, 29 development partners representing the leading microfinance funders adopted a commitment to measure the quality of their aid management in microfinance by developing and piloting this Index. Eight agencies — AsDB, CIDA, FMO, GTZ, IFC, KfW, Sida and UNCDF —volunteered to participate in the pilot.

The final report identified UNCDF as a “highly focused, flexible grants-based agency with leaders committed to good practices that have built in-house staff skills.” UNCDF's greatest challenges, according to the report, are aligning its systems to implement its strategy of addressing all levels of financial systems development and managing the performance of its growing portfolio.

The review points out that UNCDF has a history of supporting the next generation of sustainable financial service providers that focus on poor and low-income people. Among UNCDF's strengths, the review highlights its “strong historical focus on retail start-up institutions in least developed and high risk countries in line with UN priorities.” The report also highlighted UNCDF's strong staff capacity, with technical advisors as well as the “budget, procurement flexibility and network to access well-qualified consultants.”

UNCDF's accountability for results framework is another area highlighted in the review, singling out in particular the strong emphasis on partners' transparency by requiring retail partners to report to the Mix Market (the microfinance industry standard database for capturing financial service provider performance). UNCDF's knowledge management systems were likewise highlighted as best practices, and its flexibility to work directly with private sector actors of all types, primarily through grants.

While highlighting UNCDF's strengths, the review also points out some areas for improvement, including a lack of clarity in UNCDF's comparative advantages at the meso and policy levels. It questions whether or not UNCDF currently has the expertise and resources needed to achieve its ambitious new strategy (2008-2011), and suggests the constraints and obstacles may be underestimated. The review points out that existing staff levels may be overstretched to sufficiently manage the organization's rapid geographic expansion and an increasingly complex technical agenda. As part of its results-based management culture, UNCDF is committed to addressing all challenges that were highlighted by the Smart Aid index. In this context, it is worth noting that since UNCDF submitted its data for the Smart Aid Index rating, a considerable amount of new technical staff has been recruited, which should facilitate the achievement of UNCDF's ambitious 2008-2011 growth strategy.

marks on all five elements of the index, which are: strategic clarity, staff capacity, accountability, knowledge management and appropriate instruments. The full report is available on the UNCDF website at www.uncdf.org.

26. As shown in table 5, above, UNCDF achieved a good overall performance of 76 per cent in its ongoing inclusive finance activities. In terms of outreach, that is, the number of people with improved access to financial services (outcome 2.1), performance exceeded expectations. Outreach has shown steady annual increases: from a baseline of 379,018 clients in 2004 to 438,272 in 2005 and 616,035 in 2006, the number of active clients at the end of 2007 amounted to 1,171,306, 68 per cent of whom were women. This represented an increase in outreach of on average 45 per cent per year over the three-year period of the UNCDF 2005-2007 business plan. This high level of annual growth in outreach will need to continue for UNCDF to meet its target of 2.1 million active clients in 2008 (at least 50 per cent women) and 6.3 million by 2011.

27. Results on the sustainability and efficiency of financial service providers showed positive trends with need for additional work on portfolio quality (outcome 2.3). The large majority of the 29 financial service providers reporting had a positive trend toward profitability in 2007 and are on the path to financial sustainability. Only four of these had actually achieved profitability, confirming that UNCDF is taking risks and investing in younger, unproven institutions. Eleven of the 29 financial service providers supported by UNCDF meet the international standard for strong portfolio quality (portfolio-at-risk at 30 days of less than 5 per cent). However, 18 have a portfolio-at-risk of less than 7.5 per cent, an acceptable level. More than half of the financial service providers with a portfolio-at-risk higher than 10 per cent were concentrated in one country (Guinea Bissau), reflecting the difficult conditions under which UNCDF works and the type of institutions it supports. Stronger

portfolio monitoring and developing repayment capacity will be a key focus of UNCDF technical support in 2008, the target being to have at least 50 per cent of financial service providers meet the targeted level of portfolio-at-risk at 30 days below 5 per cent by the end of 2008.

28. Performance remained strong in terms of the local financial sector supporting infrastructure (outcome 2.4). All of the countries assisted have a supporting industry infrastructure primarily in the form of national associations and networks of financial service providers. In addition, 82 per cent of the financial service providers supported by UNCDF belong to a national association or network. These two results clearly show that the providers recognize the importance of collaboration for purposes of advocacy, standard-setting and knowledge management. In eleven LDCs, UNCDF provided direct support to strengthen the institutional capacities of the national associations, either in the form of grants or by ensuring their inclusion in training activities and the formulation of national strategies.

29. Sixty-two per cent of financial service providers are reporting to the Microfinance Information Exchange Market (www.themix.org), the microfinance industry standard database for capturing financial service provider performance. This is up 12 per cent from the previous year. Some of the more isolated or weaker providers have difficulty posting their data and will require initial UNCDF support to do so. Sixty-two per cent of the providers had industry-standard audits or ratings (outcome 2.5), reflecting the niche where UNCDF is working. That niche consists almost exclusively of countries at the start-up or emerging phase of sector development, including post-conflict countries. Many of these countries need to have their audit capacity strengthened, a key element of sector development programmes.

30. With support from UNCDF, almost all the countries have increased the capacity of their governments to support a policy environment

conducive to inclusive finance (outcome 2.6). In addition, 85 per cent (11 of 13) of regulatory and supervisory authorities have increased their capacity to develop a conducive legal and regulatory framework. All financial service providers supported by UNCDF are reporting performance to regulatory authorities, to increase their understanding of the sector and its development (outcome 2.7). This strong achievement at the macro level underlines the impact of UNCDF work at the policy level in all countries where it has promoted the inclusive financial sector approach.

31. Almost all active sector development programs have as targets the development of joint government and donor strategies (outcome 2.8). The percentage of countries with approved action plans has decreased from eighty-three per cent (5 of 6 countries) in 2006 to 38 per cent (5 of 13 targeted countries) in 2007. There are several factors contributing to this. First, in line with the Paris Declaration on Aid Effectiveness, UNCDF seeks to support national ownership and engage all development partners in the design process. Hence, considerable time was devoted to the formulation and approval processes of new programmes for 13 additional LDCs in 2007. Second, for approved programmes the processes of developing the action plans are nationally led, with broad participation among the stakeholders. The combination of staff time required to support the geographical expansion, and the need for consultative processes to approve action plans, meant that the targets set at the beginning of the year proved over-ambitious. UNCDF will limit expansion in this area for 2008 and focus on high-quality support to existing programmes.

32. Two additional initiatives have contributed to the achievement of the above-mentioned core results: the United Nations Advisers Group on Inclusive Financial Sectors and the activities of the steering committee of the Dakar Declaration on Financial Inclusion. The United Nations Advisers Group on Inclusive

Financial Sectors, hosted by UNCDF, was established in June 2006 for a term of two years. In 2007, the Advisers Group was instrumental in developing five country case studies on the engagement of commercial banks in inclusive finance and a draft handbook, *The Road to Financial Inclusion*, outlining ways in which the private sector can be engaged in enhancing access to financial services. Both the case studies and the handbook will be important advocacy tools for securing formal private-sector commitment to inclusive finance. The Advisers Group is expected to deliver a final statement on the results of its activities, including key messages, at the end of June 2008.

33. Following the first United Nations Conference on Financial Inclusion in Africa held in Dakar in June 2006, a high-level, multi-stakeholder steering committee was established to support the implementation of the Dakar Declaration on building inclusive financial sectors in Africa. The steering committee is co-chaired by the New Partnership for Africa's Development (NEPAD), and the Central Bank of West African States. UNCDF organized two regional meetings for the steering committee in 2007, leading to the finalization of its detailed work plan and institutionalization of the steering committee within the African Rural and Agricultural Credit Association, a leading network that will host the secretariat. The steering committee will play a lead role in advocacy on issues related to financial inclusion in Africa.

34. Finally, it is useful to mention the results related to the role of UNCDF as the policy and technical adviser to the UNDP group in general, including in non-LDCs, to ensure consistent application of the best microfinance practices. In 2007, UNCDF supported UNDP inclusive finance activities in 11 countries where UNCDF did not have investment, including two non-LDCs. UNCDF continues to work with UNDP to ensure adherence to the UNDP microfinance policy and thereby the quality of UNDP programming in micro-finance.

Box 8: Sierra Leone, Rebuilding a Country, One Loan at a Time

After more than a decade of civil war, Sierra Leoneans began returning to their country in 2001 in search of lost homes and businesses. That same year, the American Refugee Committee (ARC) started providing loans to returning and host populations to restart their businesses and lives. Clients used the loans to purchase basic equipment or supplies to begin or expand small-scale trading, production, and service businesses, such as carpentry, market gardens, or street-side tabletop retail enterprises. Within the first year of operations, the programme served more than 3,000 clients through three local partners, developed systems for managing its portfolio and built local staff capacity to effectively disburse and monitor loans.

In the fall of 2002, with field operations in place, the America Refugee Committee International and the microfinance staff turned towards making the programme sustainable. To focus energies and increase the chance of success, operations were consolidated under the banner of Finance Salone. In January 2005, Finance Salone became a registered company, and qualified for direct support in the form of funding, training and technical assistance from the Microfinance Investment and Technical Assistance Facility, a five-year programme funded by UNCDF, UNDP, KfW and Cordaid. In addition, Finance Salone received \$700,000 in loans disbursed by UNCDF and thus became the largest single recipient of UNCDF loans in the 2004-2007 period.

Finance Salone has the largest branch network among the microfinance institutions supported under the programme. As of December 2007 it had a total of nine branch offices and seven sub-branch offices, with 16,468 active clients (of which 70 per cent women) and an outstanding loan portfolio of US\$2.5 million. The portfolio at risk more than 30 days was 5.4 per cent and the write off ratio was 0 percent. The operational self-sufficiency rate was 109 per cent, confirming a solid basis for sustainable growth. At the end of 2007, Finance Salone had a total of 80 employees.

Finance Salone offers five loan products including a solidarity group loan to low income entrepreneurs. Loans start at US \$ 100 for seven months and increase to US \$250 for 10 months for clients with on-time repayment. Finance Salone charges up-front fees and a 2.5% monthly flat interest rate. In order to serve clients whose needs have outgrown the group loan product, Finance Salone began to offer individual loans in 2006. These loans begin at US\$350 with terms of up to one year.



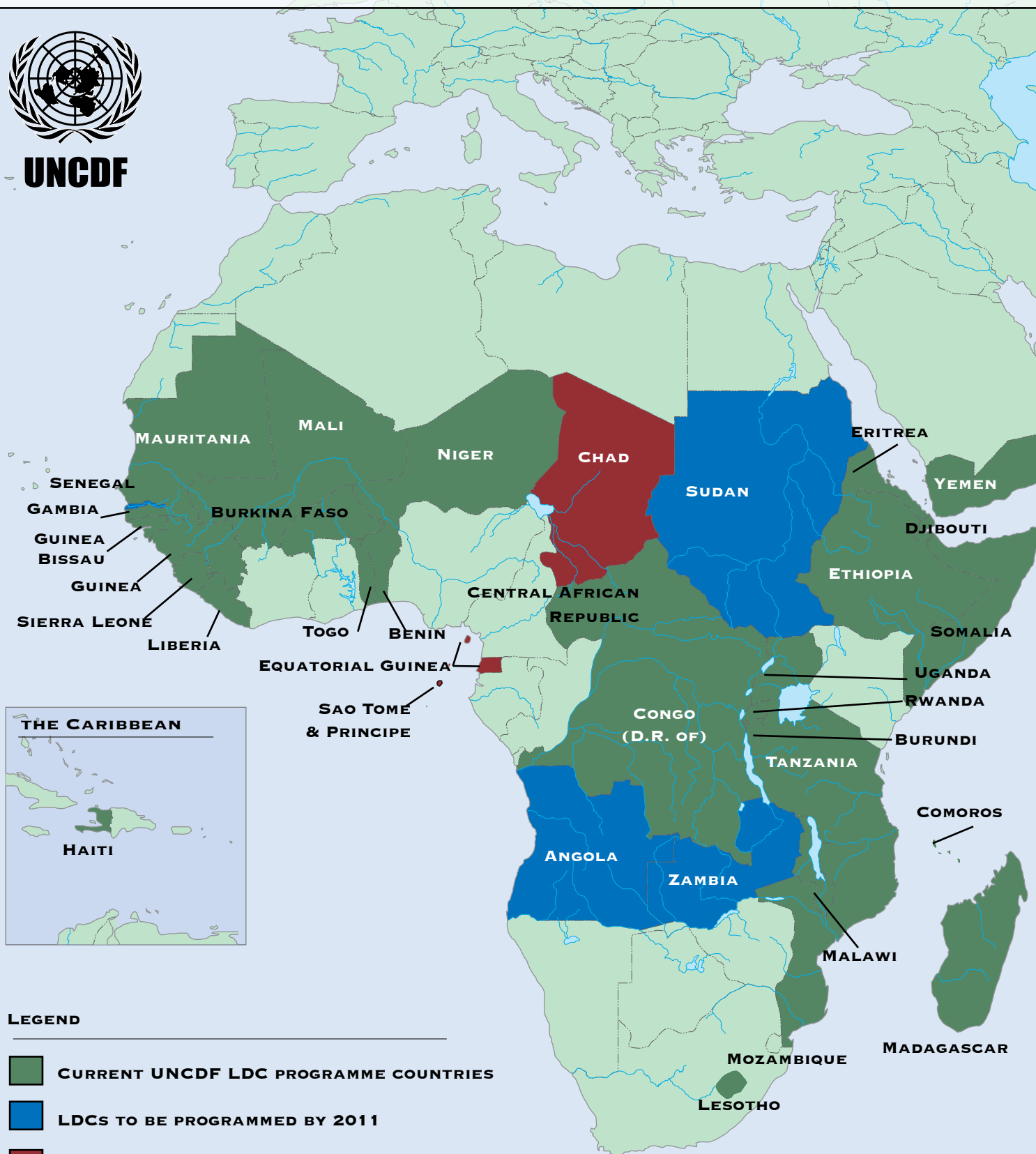
Picture by Abu Vandi

THE UNITED NATIONS CAPITAL DEVELOPMENT

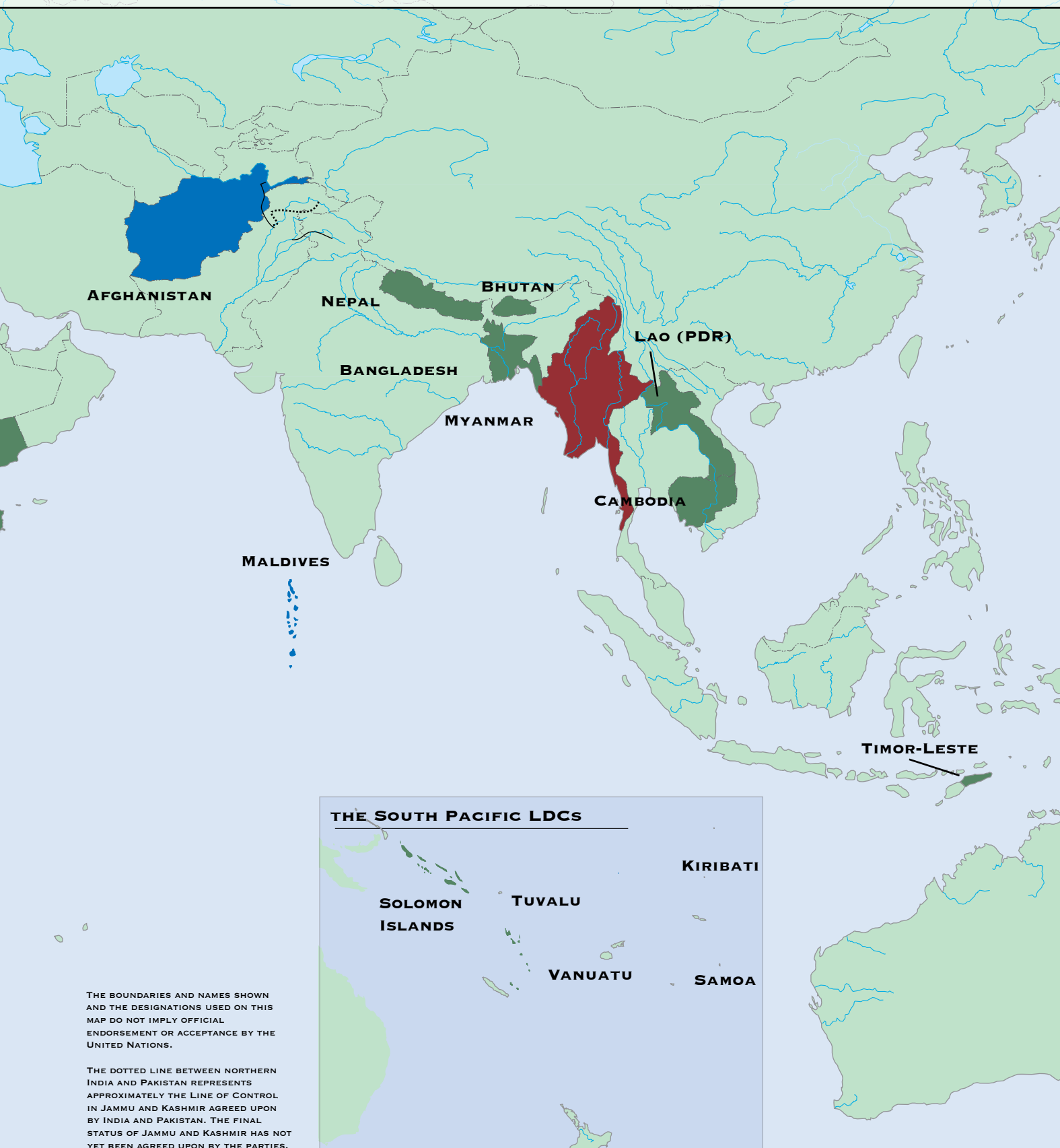
MAP OF INVESTMENTS IN LEAST DEVELOPED



UNCDF



ENT FUND D COUNTRIES





II. Management results

C. Performance analysis for sub-goal 3: organizational performance

35. The UNCDF performance framework for measuring organizational performance was developed in 2005 based on the framework used by UNDP in preparing its balanced scorecard for country offices. Performance is measured according to four different perspectives: learning and growth, client satisfaction, internal efficiency and financial resources. For each perspective a number of strategic objectives were identified that reflect the UNCDF organizational strategy as outlined in its business plan. Each strategic objective is monitored by means of indicators and targets.

36. Table 6 provides an overview of the 2007 results on organizational performance. The overview contains about half of the strategic objectives and indicators used in the UNCDF balanced scorecard, the remainder being used mainly for internal management purposes.

37. In 2007, UNCDF had ongoing programmes with investments of \$50,000 or more in 31 LDCs, an increase of three LDCs compared to 2006. With the approval of new programmes in early 2008, UNCDF was able to reach the target of 35 LDCs with approved UNCDF programmes by the end of March 2008. The total number of approved joint programmes with UNDP grew to about 40 in 2007, reflecting the deliberate choice of UNCDF to programme together with UNDP. Increased availability of core and non-core resources enabled average expenditure per LDC to stay roughly at the same level, but did not permit a substantial increase in expenditure per LDC. With the further increase of total resources foreseen for 2008,

it is expected that the expenditure per LDC will pass the \$1 million mark in 2008.

38. A major corporate achievement in 2007 was the strengthened strategic partnership between UNDP and UNCDF. The efforts made in bringing the two organizations strategically and operationally closer together resulted in a guidance note signed in November 2007 by UNDP and UNCDF and officially sent to all UNDP country and regional offices (see DP/2008/12 for details). The Executive Board, at its first regular session 2008, expressed satisfaction with the progress made in finalizing the details of this strategic partnership.



39. As part of its efforts to increase internal efficiency, UNCDF completed the transition period that had started after the 2005 change management process. This process has encompassed a strengthening of the regional and country-level presence of UNCDF, in line with its strategy of ensuring a more decentralized organization able to provide support closer to its clients. By the end of 2007, 70 per cent of UNCDF professional staff were posted at the country or regional level, co-

Table 6. Achievement of 2007 Targets for Organizational Performance

Perspective	Strategic objective	Indicator	2006 result	2007 target	2007 result
Learning and growth	Expand geographically to more LDCs, including post-conflict LDCs	LDCs with UNCDF programmes (> \$50,000 investment/year)	28 LDCs	35 LDCs	31 LDCs
		Post-conflict LDCs with UNCDF programmes	13 LDCs	17 LDCs	14 LDCs*
	Increase average investment size	Investment per LDC per year	\$0.85 million	\$1.1 million	\$0.86 million
Client satisfaction	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with overall quality of partnership with UNCDF	60 %	80%	TBD**
Internal efficiency	Increase staff at regional and country level to be closer to clients and investments	Ratio of professional staff posted at country and regional levels	71%	75%	71%
	Strengthen United Nations coordination	Integration of UNCDF in United Nations country-level programming framework	28 LDCs	35 LDCs	31 LDCs
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	22%	21%	22%
		UNDP country office satisfaction with timeliness of operational support	44%	80%	TBD*
	Strengthen 'people management'	Staff perception	70 %	75%	75%
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	\$13.9 million	\$18.5 million	\$15.6 million
		Other resources mobilized	\$8.1 million	\$18.5 million	\$12.9 million
	Ensure delivery against plan	Delivery against approved annual spending limits	84%	90%	84%

* Based on a comparison of the 2006 and 2007 LDC lists.

** Results of surveys in these areas had not yet been received by the time this report was finalized.

located with UNDP country offices or regional service centres in Dakar, Johannesburg and Bangkok. UNCDF maintained its level of administrative expenditures at 22 per cent.

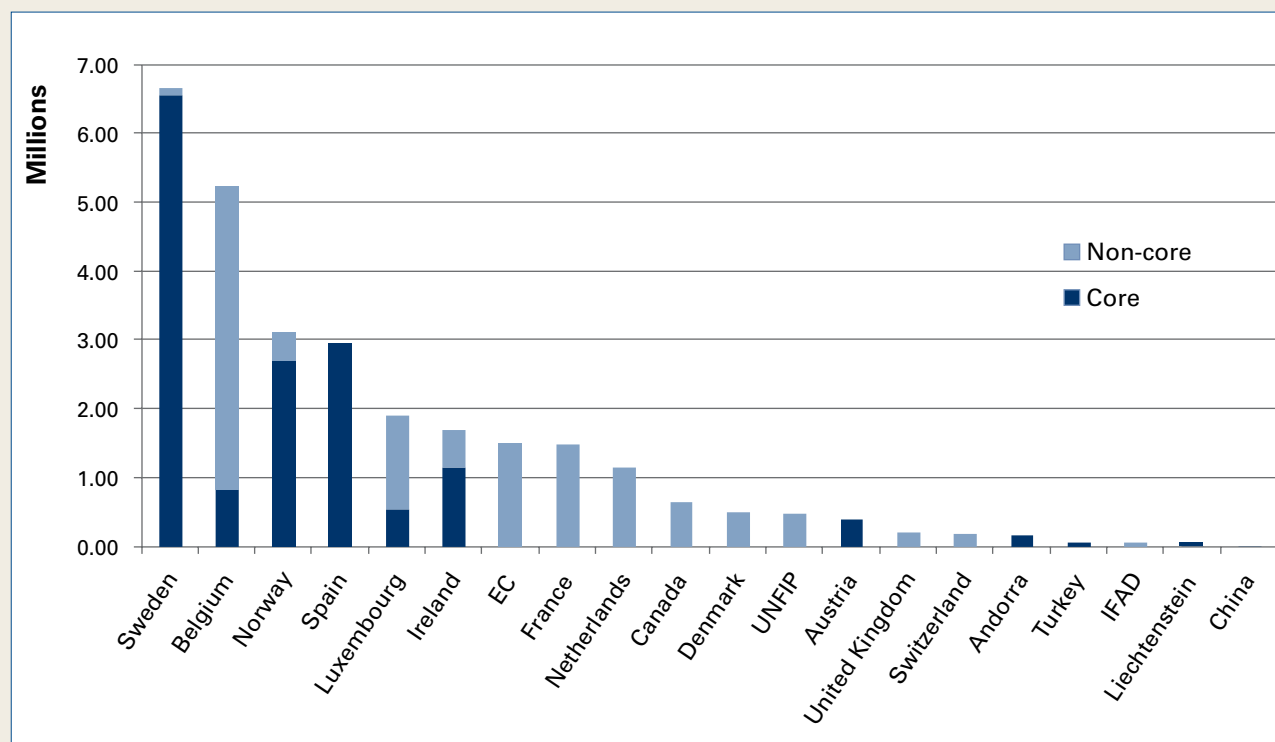
40. The morale and commitment of UNCDF staff were very high, as reflected in the global staff survey. Staff perception, an indicator used by both UNDP and UNCDF to measure overall staff satisfaction, reached its target level of 75 per cent. This is a 5 per cent improvement over the score in 2006, and a 10

per cent improvement compared to 2005. At the same time, it was clear that work pressure was still on the high side, especially for staff at the regional level, given the dual demands of an expanding portfolio and the need to deliver good results.

41. Contributions to UNCDF regular and other resources increased by nearly 30 per cent in 2007 – from \$22.0 million in 2006 to approximately \$28.5 million in 2007. Contributions to regular resources increased

Box 9: 2007 Contributions to UNCDF Regular and Other Resources

Contributions to UNCDF regular and other resources increased by nearly 30 per cent in 2007 – from \$22.0 million in 2006 to \$28.5 million in 2007. Contributions to regular resources increased from \$13.9 million in 2006 to \$15.6 million in 2007, a nominal increase of 12 per cent, as a result of increased contributions from existing donors as well as from donors that previously did not support UNCDF. Contributions to other resources increased in nominal dollar terms by nearly 60 per cent from \$8.1 million to \$12.9 million. Projections for 2008 indicate that these upward trends will continue and total contributions to UNCDF are expected to reach \$39 million in 2008.



from \$13.9 million in 2006 to \$15.6 million in 2007, an increase of 12 per cent, as a result of increased contributions from existing donors as well as from donors that previously did not support UNCDF. Still, given the excellent performance record of UNCDF and enhanced resource mobilization efforts that began in late 2005, it was somewhat disappointing that UNCDF was not able to reach its 2007 regular resources target of \$18.5 million, set in 2005. The appreciation of the Executive Board for the work of UNCDF did, however, contribute to a decision taken by the Board at its second regular session 2007 requesting UNDP, on an exceptional basis, to provide \$6 million out of its regular resources to UNCDF in 2008.

42. The most growth was observed in contributions to other resources, which increased by 59 per cent, from \$8.1 million to \$12.9 million. In line with the guidance note signed with UNDP in November 2007, UNCDF made a major effort to apply the

United Nations Development Group (UNDG) pass-through funding modality for joint programmes in a number of countries. This resulted in \$1.9 million of contributions to other resources for programmes in Timor-Leste and Laos being channelled to UNCDF via UNDP as administrative agent. The sometimes limited knowledge of UNDP country offices and country-based donor representatives of the undg joint programme modality, proved to be a delaying factor in concluding pass-through agreements. Ultimately, the hurdles were overcome in all but one specific country case.

Box 10: Conflict Prevention and Recovery through Decentralization and Local Development

UNCDF's effort to build sustainable systems of good local governance in Upper Guinea has heralded more than effective service delivery and new infrastructure - it has brought a period of peace and stability after social unrest tore the area apart and destroyed most public buildings. During the socio-political crisis of early 2007, most of the public buildings and many buildings funded by other development partners were damaged. It was remarkable that those buildings planned and constructed through the UNCDF-supported programme escaped unharmed, reflecting, perhaps, the benefit of and ownership stake that emerges when local communities are involved in their own development.

UNCDF's local development initiatives implemented by the rural development authorities of Siguiri and Kouroussa in Upper Guinea are promoting the emergence and strengthening of sound political and economic governance, reflected in improved management of local government and an improvement in the culture of taxpayer compliance and in elected officials' accountability to electors. A 2004 UNCDF study on local taxation found that most of these authorities have a weak economic base and are faced with growing poverty among their populations, whose weak financial resources are a source of frustration and of potential social unrest. The study showed that one reason for the low revenue was the narrowness of the tax base due to the difficulties of exploiting local economic potential. The analysis of socio-economic dynamics made in the context of this study also revealed the relative importance of local economic potential, its diversity and its unequal division between the different local governments. The economic potential includes an extensive river system, considerable subsoil resources, wide availability of arable land, and an experienced workforce.

In this context, and in order to strengthen self-management capacities of the local governments and to improve the economic and social situation of the populations concerned, UNCDF introduced its Local Authorities Financial and Institutional Analysis System (LAFIAS) in Kouroussa and Siguiri. The administrative, economic and financial audits conducted within the framework of LAFIAS identified economic, financial and organizational

dysfunctions and proposed measures to improve local management. The UNCDF-supported programme then organized the rural zones into development territories around economic hubs selected on the basis of potential revenue from local taxation. The economic hubs became part of the Local Economic Development Plan, while activities connected with separate Local Government Actions Plans for Economic and Institutional Recovery were used to strengthen the management and planning capacities of the community councils.

A second phase of the UNDP-UNCDF joint Local Development Programme in Guinea was approved early 2008. It builds on the successful experiences of the first phase, incorporating lessons learned and expanding the benefits to other parts of the country.



Box 11: Evaluating for Results and Lessons Learned

Programme evaluation has been a key corporate priority for UNCDF since the 1990s when the organization established a Policy, Planning and Evaluation Unit with multiple responsibilities. In 1999, UNCDF strengthened the function by creating a separate and distinct Evaluation Unit, which reported directly to the Executive Secretary -- thereby signalling the protection of the independence and priority of the function. Since then the Unit has had as its main responsibility the development of an evaluation culture within UNCDF, supporting both accountability and learning. UNCDF is an active

member of UN Evaluation Group (UNEG) and has contributed to the development of the evaluation norms and standards for the United Nations System.

In 2006, the promulgation of an Evaluation Policy endorsed by the UNDP Executive Board, helped sharpen the objectives of the evaluation function as follows : 1) ensuring 'evaluability'; 2) contributing to UNCDF's accountability framework; 3) ensuring sound and relevant evaluation methods are used to assess the relevance, efficiency and effectiveness of UNCDF's interventions in the local development and inclusive finance service areas; and 4) contributing to corporate learning and knowledge development through undertaking strategic and thematic evaluations that seek answers to issues of corporate importance. The Evaluation Policy also established criteria for the

conduct of mandatory evaluations – any project with a total of \$2.5 million dollars and a duration of five years is subject to both mid-term and final evaluation undertaken by independent, external consultants.

Management of Evaluation in UNCDF - Departing from the Norm

While the original unit had a staff of 5 and an annual budget of \$400,000, in 2006 it was decided to reduce the unit to a single evaluation adviser and outsource the conduct of evaluations, drawing on funds available at the project level. These actions helped streamline the conduct of evaluations and also helped reinforce a good practice of ensuring that project budgets include evaluation as a mandatory requirement to help with the assessment of development effectiveness.

Evaluations in 2007 – Innovations in methodology

The outsourcing experiment covered the conduct of eight local development evaluations in Ethiopia, Senegal, Guinea, Rwanda, Benin, Malawi and Uganda. Evaluations were also carried out in Yemen and Cambodia. The 2007 evaluations were conducted using a manual developed by the outsourced company for evaluation team leaders, which contained key evaluation questions that were to be asked in each country exercise. A participatory methodology was developed - described as "evaluation through dialogue" – and experimented with at the central, regional and local levels in-country, with focus groups used to elicit feedback from the community. The methodology also involved conducting an internal hypothesis workshop



with focus groups used to elicit feedback from the community. The methodology also involved conducting an internal hypothesis workshop to ensure a common understanding among evaluation team members of the design and intent of the project. This was then followed by kick-off and feedback workshops at various levels so that the evaluation team could share its insights and get feedback during the actual conduct of the exercise rather than as a one-shot exercise after the preparation of the draft report. The methodology also used a National Debriefing workshop at the conclusion of the field work involving national, UN and donor representative and a Global Debriefing exercise involving stakeholders in UNCDF New York.

Key Lessons Learned

Five key findings emerged from the evaluations:

- 1) The UNCDF model of supporting decentralization by channelling investment through and strengthening local authorities to deliver services to local community can be applied flexibly to suit each country context in which UNCDF operates. While this diversity is a strength, it has also lead, in some cases, to a loss of direction and identity, particularly in circumstances where investment funds are cut due to resource constraints;
- 2) UNCDF's interventions are effective in terms of supporting policy development at the national level (in areas such as fiscal decentralisation) and capacity building (in public expenditure management skills, for example) at the sub-national local government level. This is particularly evident in terms of the first generation of UNCDF pilot projects. In some second generation projects there has been a move into other arenas, such as capacity building of the local courts system;
- 3) While attention to gender concerns and gender participation is a key feature of UNCDF projects, significant challenges remain in terms of ensuring that women have a voice in the decision-making process;
- 4) Operations and maintenance of infrastructure remains a crucial issue affecting sustainability; and
- 5) The evaluations revealed that assessing whether the causes and effects of poverty are influenced by participation in decision-making and control and equitable distribution of resources, remains a major challenge.

In 2008, UNCDF plans to conduct evaluations of local development programmes in Haiti, Burkina Faso and Laos as well as inclusive finance initiatives in Madagascar, Liberia and Togo. It also plans to conduct an external evaluation of the regional inclusive finance project Building Inclusive Financial Sectors in Africa (see Box 6).





III. Financial analysis

43. As indicated above, contributions to UNCDF regular resources amounted to \$15.6 million in 2007. Combined contributions to regular and other resources totalled approximately \$28.5 million, an increase of approximately 30 per cent compared to 2006. Box 9 on page 27 illustrates contributions per donor to UNCDF regular and other resources.

44. Table 7 contains key information concerning UNCDF's expenditure trend for the period 2001-2007. In 2007, there was a continued increase in programme expenditures against regular resources compared to 2006. Regular resources expenditures increased from \$16.8 million in 2006 to \$19.0 million in

2007 (13% increase). Other resources expenditures increased as well and accounted for one-third of total programme expenditures.

45. Overall, headquarters expenditures equalled \$10.0 million during the biennium 2006-2007, out of which \$9.6 million was funded from the UNDP biennial support budget allocation for UNCDF and \$0.4 million against UNCDF core resources. The increase in headquarters expenditure, from \$4.6 million in 2006 to \$5.4 million in 2007, was largely attributable to administrative reasons, namely, (a) the settlement in 2007 of outstanding reimbursements to UNDP for services delivered the year before; and (b) a higher overall level of personnel expenditures as positions that had remained vacant in 2006 were filled.

Table 7. Expenditure Trends, 2001-2007 (in millions of dollars)							
Expenditures	2001	2002	2003	2004	2005	2006	2007
Programme expenditures	\$33.9	\$24.8	\$21.1	\$22.9	\$19.2	\$25.2	\$28.7
- of which regular resources	32.3	22.6	16.3	14.9	11.6	16.8	19.0
- of which other resources	1.6	2.2	4.8	8.0	7.6	8.4	9.7
Headquarters expenditures	6.0	5.5	6.2	5.3	6.7	4.6	5.4
TOTAL	\$39.9	\$30.3	\$27.3	\$28.2	\$25.9	\$29.8	\$34.1

Source: Financial statements for UNCDF

46. Table 8 shows that in 2007 the Africa region accounted for 75 per cent of total UNCDF expenditures at the field level and Asia for 17 per cent. With the start-up of a number of new UNCDF programmes in both local development and inclusive finance, UNCDF spent \$1.3 million on its research and development agenda, focusing on knowledge management and developing new product innovations.

47. Regarding its liquidity and reserve position, UNCDF maintained its operational reserves at \$22.6 million, the same level as 2006. In addition, total unexpended resources increased with three million to approximately \$41.0 million at the end of 2007. Accordingly, UNCDF was able to accomplish the development, management and financial results set forth above while sustaining its liquidity and financial soundness.

Table 8. Programme Expenditures by Region and Practice Area (in millions of dollars)

Regions/specific purposes	Local Development	Microfinance	Total
Africa	\$ 15.9	\$ 4.4	\$ 20.3
Asia	4.5	0.0	4.5
Arab States	1.1	0.0	1.1
Latin America	1.3	0.0	1.3
Research and development	1.0	0.3	1.3
UN ADVISORS GROUP	0.0	0.2	0.2
TOTAL	\$ 23.8	\$ 4.9	\$ 28.7

D. Implementation of the cost-recovery policy

48. The UNCDF cost-recovery policy was adopted by the Executive Board in January 2008. In line with decision 2008/04, this section reports on the implementation of the UNCDF cost-recovery policy, including the impact of applied rates on regular and other resources, as well as the use and allocation of indirect costs recovered.

49. While awaiting the formal adoption of its cost recovery policy, UNCDF applied the general management support rate of 5 to 7 per cent, used by UNDP and other United Nations organizations, in all agreements for contributions to other resources signed in the 2006-2007 period. This alignment of general management support rate also ensured that in joint programmes with UNDP, the same rate would automatically be applied to contributions to other resources received for the UNDP and UNCDF components in joint programmes. Since January 2008, UNCDF has applied the 7 per cent harmonized rate.

50. The actual average general management support rate for contributions received to UNCDF other resources in 2006-2007 stood at 6.7 per cent. With overall contributions to UNCDF other resources amounting to \$21.0 million during the two-year period, \$1.41 mil-

lion in general management support income should have been generated. The actual extra-budgetary income generated from general management support for the biennium 2006-2007 was only \$0.99 million leaving general management support in the amount of \$0.41 million for contributions to UNCDF other resources received in late 2007 to be credited in the first half of 2008.

51. The actual extra-budgetary income generated in the 2006-2007 biennium was used partly to fund a strengthening of the country-level presence of UNCDF. While \$0.36 million was used for this purpose, the remaining \$0.63 million was allocated to permit a growth in extra-budgetary balances. It was planned that this would – over the course of two years – make it possible to recruit additional long-term staff at country, regional and headquarters levels to provide the expanded operational and programme support required for the growing programme portfolio financed out of other resources. At the same time, immediate country-level staffing needs were addressed by a rapid growth in the number of Junior Professional Officers and other donor-funded professional positions at the country level.

52 Based on the extra-budgetary reserves built up during the 2006-2007 period and the general management support income projection for 2008-2009, UNCDF was able, early in 2008, to create additional operational and programme support posts at country, regional and headquarters levels to support the growing portfolio. Overall, total expenditures against other resources generated from income are planned to reach \$2.5 million during the 2008-2009 biennium (see Table 10).

Table 9. Variable Indirect Costs for Regular and Other Resources Based on Actual Expenditures for 2006-2007 Period (in millions of dollars)

Category	Regular resources	Other resources	Total
Programme expenditures, 2006-2007	36,219	18,215	54,434
Biennial support budget expenditure 2006-2007	9,593	361	9,954
Less base structure	(6,603)	—	(6,603)
Variable indirect costs	2,990	361	3,351
Variable indirect costs as % of programme	8%	2%	6%

Table 10. Variable Indirect Costs for Regular and Other Resources Based on Planned Expenditures for 2008-2009 Period (in millions of dollars)

Category	Regular resources	Other resources	Total
Programme expenditures, 2008-2009	50,000	45,000	95,000
Biennial support budget expenditure 2008-2009	10,200	2,500	12,700
Less base structure	(7,020)		(7,020)
Variable indirect costs	3,180	2,500	5,680
Variable indirect costs as % of programme	6%	6%	6%

ANNEX I: UNCDF Global Project Portfolio

UNCDF PROJECT PORTFOLIO 2007 - 2008 / AFRICA					
Country/Project	Practice area	Partners	UNCDF grant size in US\$	Total project cost in US\$ ¹	Duration
BENIN					
Appui au Développement Communal et aux Initiatives Locales dans le Borgou (ADECOI)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund	2,399,165	7,596,055	2003-2008
BURKINA FASO					
Projet de Développement des ressources Agro-Pastorales dans le Namentenga (PAPNA)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund	2,652,708	6,324,097	2000-2008
Appui aux Communes Rurales et aux Initiatives Intercommunautaires (ACRIC)	Decentralization and Local Development	UNDP, Government	1,000,000	3,943,000	2008-2012 (Pending Approval)
Programme de Renforcement du Secteur de la Microfinance	Inclusive Finance	UNDP, Government, Réseau des caisses populaires du Burkina (RCPB), AfDB, World Bank	1,500,000	3,662,143	2007-2009
BURUNDI					
Projet d'Appui à la Reconstruction et au Développement Communal dans la Province de Rutana (PARDC/R)	Decentralization and Local Development	UNDP, Government, Swiss Agency for Development & Cooperation (SDC)	1,500,000	6,200,000	2006-2011
CENTRAL AFRICAN REPUBLIC					
Programme d'Appui à l'Emergence d'un Secteur Financier Inclusif en République Centrafricaine (PAE/SFI)	Inclusive Finance	UNDP, Government, AGFUND	1,200,000	4,000,000	2007-2010
DEMOCRATIC REPUBLIC OF CONGO					
Appui à la Décentralisation et au Développement Local (PADEL)	Decentralization and Local Development	UNDP, Government, DFID, Belgian Technical Cooperation (BTC)	2,000,000	93,775,000 ²	2008-2012
Programme d'Appui au Secteur de la Microfinance (PASMIF)	Inclusive Finance	UNDP, Government, France, KfW	1,453,193	2,673,173	2005-2009
ERITREA					
Anseba Local Development Project (ALDP)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund	2,023,642	5,969,899	2002-2008
ETHIOPIA					
Local Development Project (LDP)	Decentralization and Local Development	UNDP, Government	1,700,000	1,800,000	2005-2008
Emerging Regions Development Programme (ERDP)	Decentralization and Local Development	UNDP, Government, ITU	2,000,000	13,420,000	2007-2011

¹ Funding provided by or through the UN system

² Indicative

Country/Projet	Practice area	Partners	UNCDF grant size in US\$	Total project cost in US\$	Duration
GUINEA BISSAU					
Projet d'Appui au Développement Régional et Local de la Région de Gabu (PADRL)	Decentralization and Local Development	UNDP, Government	1,137,150	5,065,855	2006-2009
Programme D'Appui à L'Emergence et au Développement du Secteur de la Microfinance (PAED/MF)	Inclusive Finance	UNDP, Government	411,500	1,461,500	2005-2008
GUINEA					
Programme de Développement Local dans les régions naturelles de Haute et de Moyenne Guinée (PDLG)	Decentralization and Local Development	UNDP, Government	3,045,296	4,854,750	2001-2007
Programme de Développement Local en Guinée (PDLG II)	Decentralization and Local Development	UNDP, Government, SEMAFO	2,000,000	7,860,000	2008-2012
LESOTHO					
Lesotho Local Development Programme (LLDP)	Decentralization and Local Development	UNDP, Government	1,200,000	8,400,000	2008-2011 (Pending Approval)
LIBERIA					
Liberia Decentralization and Local Development Programme (LDLD)	Decentralization and Local Development	UNDP, Government, European Commission	2,500,000	5,000,000	2007-2011
Launch of an Inclusive Financial Sector in Liberia	Inclusive Finance	UNDP, Government, Cordaid	891,107	2,886,450	2005-2008
MADAGASCAR					
Projet d'Appui à la Stratégie Nationale de Microfinance (PASN/MF)	Inclusive Finance	UNDP, Government	1,625,800	4,080,800	2005-2009
MALAWI					
Malawi Decentralised Governance Programme (MDGP)	Decentralization and Local Development	UNDP, Government	1,500,000	7,500,000	2002-2007
Financial Inclusion in Malawi (FIMA)	Inclusive Finance	UNDP, Government, USAID, Cordaid	2,000,000	6,233,827	2007-2011
MALI					
Collectivités Territoriales et Développement Local (CTDL)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund, European Commission, GEF, Luxembourg, UNV	1,484,386	10,210,970	2006-2010
Projet d'appui aux communes rurales de la Région de Mopti (PACR)	Decentralization and Local Development	UNDP, Government, Luxembourg	4,344,571	12,100,572	2000-2007
Projet d'appui à la décentralisation et au développement économique (PADDER) *	Decentralization and Local Development	UNDP, Government, AfDB	0	1,500,000	2008-2012

Country/Project	Practice area	Partners	UNCDF grant size in US\$	Total project cost in US\$	Duration
MAURITANIA					
Programme d'Appui aux Communes de l'Assaba (PACA)	Decentralization and Local Development	UNDP, Government, France	450,000	3,420,505	2005-2009
MOZAMBIQUE					
Programa de Planificação e Financiamento Distrital (PPFD) / Decentralized Planning and Financing Programme	Decentralization and Local Development	UNDP, Government, Irish Aid, Netherlands, Norway, SDC	3,500,000	20,818,617	2002-2008
Construir Sector de Finanças Inclusivo / Building an Inclusive Financial Sector in Mozambique (BIFSMO)	Inclusive Finance	UNDP, Government	1,342,379	3,142,379	2007-2009
NIGER					
Projet d'Appui à la Commune Urbaine de Diffa (PACURD)	Decentralization and Local Development	UNDP, Government, France	609,015	2,410,574	2005-2008
Projet d'Appui au Développement Local dans la région de Mayahi (PADL/M)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund, WFP	2,625,310	7,858,268	2000-2008
Projet d'Appui au Développement Local dans la région de Nguigmi (PADL/N)	Decentralization and Local Development	UNDP, Government, Belgian Survival Fund, Danida, WFP	2,661,200	7,040,287	2000-2007
RWANDA					
Projet d'Appui au Développement Communautaire de Gicumbi et Rulindo (PADC/GR)	Decentralization and Local Development	UNDP, UNIFEM, Government, Belgian Survival Fund	2,000,000	7,250,000	2004-2009
SENEGAL					
Programme d'Appui à la Décentralisation en Milieu Rural (PADMIR)	Decentralization and Local Development	UNDP, Government, European Commission, Luxembourg	3,612,298	6,948,298	2000-2007
Projet d'Appui au Développement Économique Local en ancrage au Programme National de Développement Local (PADEL/PNDL)	Decentralization and Local Development	UNDP, UNIFEM, Government, Luxembourg	2,000,000	10,000,000	2008-2013
Programme d'Appui à la Lettre de Politique Sectorielle (PA/LPS)	Inclusive Finance	UNDP, Government, CIDA, BTC	2,500,000	9,489,500	2007-2011
SIERRA LEONE					
Kenema District Economic Recovery Programme (KDERP)	Decentralization and Local Development	UNDP, UNIFEM, Government, Belgium, ITU	3,250,000	6,920,000	2007-2011
Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (DSPFS)	Inclusive Finance	UNDP, Government, KfW	3,564,989	12,500,000	2004-2009
TANZANIA					
Support to Local Economy in Mwanza Programme (SLEM)	Decentralization and Local Development	UNDP, Government	1,500,000	7,800,000	2006-2010

Country/Project	Practice area	Partners	UNCDF grant size in US\$	Total project cost in US\$	Duration
TOGO					
Programme d'Appui à la Stratégie Nationale de Microfinance (PASNAM)	Inclusive Finance	UNDP, Government	1,461,860	2,702,194	2005-2008
UGANDA					
District Development Programme 2 (DDP2)	Decentralization and Local Development	UNDP, Government, Austria, Danida, DFID, Japan Women Trust Fund	3,000,000	4,010,000	2002-2007
UNCDF PROJECT PORTFOLIO 2007 - 2008 / ASIA					
BANGLADESH					
Siraganj Local Governance and Development Project (SLGDP)	Decentralization and Local Development	UNDP, Government	2,152,571	5,082,714	2000-2007
Local Governance Support Programme: Learning & Innovation component (LGSP-LIC)	Decentralization and Local Development	UNDP, Government, Danida, European Commission, SDC, World Bank	2,500,000	18,118,000	2007-2011
BHUTAN					
Decentralized Support Programme (DSP)	Decentralization and Local Development	UNDP, Government, Danida, SNV	1,000,000	3,500,000	2002-2007
Local Governance Support Programme	Decentralization and Local Development	UNDP, Government, Danida, SNV, JICA	750,000	7,500,000	2008-2010 (Pending Approval)
CAMBODIA					
Decentralized Support Programme - Fiscal Decentralization Component (FDSP)	Decentralization and Local Development	UNDP, Government	650,000	1,550,000	2002-2007
Innovations for Decentralization and Local Development (IDLID)	Decentralization and Local Development	UNDP, Government, Danida	1,500,000	2,100,515	2008-2010
LAO PDR					
Saravane Governance & Public Administration Reform & Decentralised Service Delivery Project (GPAR-SP)	Decentralization and Local Development	UNDP, Government, European Commission	1,999,410	2,860,523	2005-2010
Governance & Public Administration Reform for Strengthening Basic Service Delivery: District Development Fund component (GPAR/SBSD: DDF)	Decentralization and Local Development	UNDP, Government, European Commission, Luxembourg, SDC, World Bank	700,000	10,343,083	2007-2010
NEPAL					
Decentralised Financing and Development Programme (DFDP)	Decentralization and Local Development	UNDP, Government, DFID	5,000,000	10,200,000	2000-2008
Local Governance & Development Programme (LGDP)	Decentralization and Local Development	UNDP, Government, Dfid, Canadian CIDA, SDC, Danida, GTZ, NORAD, ADB, WB, UNFPA, UNICEF, UNV	2,000,000	25,500,000	2008-2010 (Pending Approval)

Country/Project	Practice area	Partners	UNCDF grant size in US\$	Total project cost in US\$	Duration
Building Inclusive Financial Sectors in Nepal	Inclusive Finance	UNDP, Government, World Bank	1,500,000	7,000,000	2008-2012 (Pending Approval)
SOLOMON ISLANDS					
Provincial Governance Strengthening Program (PGSP) - Preparatory Assistance Phase	Decentralization and Local Development	UNDP, Government, Australia Aid	250,000	906,000	2007-2008
Provincial Governance Strengthening Program (PGSP)	Decentralization and Local Development	UNDP, Government, Australia Aid, European Commission	1,250,000	14,790,000	2008-2012
TIMOR LESTE					
Local Government Support Programme (LGSP)	Decentralization and Local Development	UNDP, Government, Irish Aid	647,005	3,147,005	2007-2011
Inclusive Finance for the Under-Served Economy (INFUSE)	Inclusive Finance	UNDP, Government	1,050,000	5,000,000	2008-2012
VIETNAM					
Strengthening Local Government Project (SLGP)	Decentralization and Local Development	UNDP, Government, France, Irish Aid, DFID	750,000	3,450,000	2005-2011
UNCDF PROJECT PORTFOLIO 2007 - 2008 / LATIN AMERICA					
HAITI					
Appui à la Gouvernance Locale dans le Département du Nord Est	Decentralization and Local Development	UNDP, Government, CIDA	2,500,000	5,461,250	2005-2010
NICARAGUA					
Apoyo al Programa de Fortalecimiento Municipal del Instituto Nicaraguense de Fomento Municipal (INIFOM)	Decentralization and Local Development	UNDP, Government, GTZ	3,276,865	3,276,865	2001-2007
Proyecto de Apoyo a la Descentralización y a la Territorialización de los Objetivos del Milenio (PADETOM)	Decentralization and Local Development	UNDP, Government	1,609,125	2,909,125	2007-2009
UNCDF PROJECT PORTFOLIO 2007 - 2008 / ARAB STATES					
DJIBOUTI					
Programme d'Appui à la Décentralisation et aux Collectivités Locales (PADCL)	Decentralization and Local Development	UNDP, Government, European Commission	526,316	2,226,316	2008-2011 (Pending Approval)
SOMALIA					
UN Joint Programme on Local Governance and Decentralised Service Delivery (LG/DSD) ¹	Decentralization and Local Development	UNDP, Government, UNICEF, ILO, UN-Habitat	2,000,000	88,000,000*	2008-2012

¹ Indicative

Country/Project	Practice area	Partners	UNCDF grant size in US\$	Total project cost in US\$	Duration
Launch of an Inclusive Financial Sector in Somalia	Inclusive Finance	UNDP	2,000,000	8,500,000	2008-2012
YEMEN					
Decentralization and Local Development Support Programme (DLDSP)	Decentralization and Local Development	UNDP, Government, Danida, France, Italy, USAID	1,562,500	12,980,627	2004-2008
UNCDF REGIONAL AND GLOBAL PROJECT PORTFOLIO 2007 - 2008					
Gender Equitable Local Development (GELD)	Decentralization and Local Development	UNDP, UNIFEM, Governments of Senegal, Sierra Leone, Rwanda, Tanzania and Mozambique	200,000	6,155,000	2007-2010
Promoting Local Infrastructure & Service Delivery Capacities for the MDGs in Asia and the Pacific	Decentralization and Local Development	UNDP, UNICEF	50,000	250,250	2008
Regional Technical Consultation on the Role of Local Governments in Promoting Local Economic Development	Decentralization and Local Development	UNDP, Austria		340,000	2006-2008
Building Inclusive Financial Sectors in Africa (BIFSA) - Phase I	Inclusive Finance	UNDP, SDC, IFAD	1,943,784	3,347,878	2004-2007
Building Inclusive Financial Sectors in Africa (BIFSA) - Phase II	Inclusive Finance	UNDP, Government of Luxembourg, IFAD	4,214,255	13,683,740	2008-2011
Pacific Financial Inclusion Programme	Inclusive Finance	UNDP, Governments of Solomon Islands, Samoa, Vanuatu, Kiribati, Tuvalu, European Commission	1,250,000	5,000,000	2008-2011
Promoting Access to Microinsurance for Financial Inclusion and Decent Work	Inclusive Finance	ILO, Luxembourg	792,816	1,317,816	2007-2010
Promoting Access to Remittances for Financial Inclusion	Inclusive Finance	IFAD, EC, IADB, Government of Spain, CGAP, DFID	622,222	9,832,222	2008-2010
LCD Fund to Develop Savings-led Market Leaders for Inclusive Finance	Inclusive Finance	TBD	6,559,875	25,870,635	2008-2013

ANNEX II: Financial Statements

UNCDF Income and Expenditures 2007 <i>(Thousands of United States dollars)</i>		
INCOME	2007	2006
Voluntary Contributions	15,552	13,906
Cost Sharing Contributions	6,043	2,441
Sub-trust funds contributions Schedule 7.1	6,902	5,635
Sub Total	28,497	21,982
Interest Income	2,558	2,913
Reimbursable Support Services	1,924	1,172
Other Income	382	1,120
TOTAL INCOME	33,361	27,187
EXPENDITURE		
Programme		
Regular Resources	18,982	17,235
Cost Sharing	4,184	3,992
Sub-trust funds Schedule 7.1	5,574	4,464
Sub Total	28,740	25,691
Biennial Support Budget - Net		
Management and Administrative Costs	0	0
Technical Support Costs	0	0
Reimbursable Support Services Costs	1,292	880
Sub Total	1,292	880
Other Expenditure	3	6
TOTAL EXPENDITURE	30,035	26,577
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	3,326	610
Savings on prior biennium's obligations	0	0
Transfer to/from Reserves	0	0
Refunds to donors and transfers to/from Other Funds	0	(\$150)
Fund balances, 1 January	37,961	37,503
FUND BALANCES, 31 December	41,287	37,963

UNCDF Balance Sheet 2007 *(Thousands of United States dollars)*

ASSETS	2007	2006
Cash	3,402	2,784
Investments Schedule 8	60,946	53,282
Loans to Governments	0	0
Operating funds provided to Governments	0	0
Operating funds provided to Executing agents	71	397
Due from UNDP - Regular Resources	3,191	5,634
Other accounts receivable and deferred charges	514	731
Accrued interest	801	1,117
TOTAL ASSETS	68,925	63,945
LIABILITIES		
Operating Funds payable to Governments	0	0
Operating Funds payable to Executing agents	718	1,313
Unliquidated Obligations	1,349	873
Accounts Payable	2,974	1,198
Due to UNDP - Regular Resources	0	0
Deferred Income	0	0
TOTAL LIABILITIES	5,041	3,384
RESERVES AND FUND BALANCES		
Operational Reserve	22,600	22,600
Unexpended Resources		
Regular Resources	25,226	25,750
Cost Sharing	5,587	3,697
Sub-trust funds	7,961	6,637
Sub Total	38,774	36,084
Reimbursable Support Services	2,512	1,880
Total Unexpended Resources	41,286	37,964
TOTAL RESERVES AND FUND BALANCES, 31 DECEMBER	63,886	60,564
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	68,927	63,948

The accompanying notes are an integral part of the financial statements

NOTES to the Financial Statements

United Nations Capital Development Fund

(a) Mandate and goals

The United Nations Capital Development Fund (UNCDF) is a multilateral donor organization under the administration of UNDP. It works to reduce poverty in least developed countries by strengthening local government and community institutions, enhancing the private sector, creating mechanisms for the provision of credit to the poor and swapping capital investments for the environmentally sound use of natural resources.

The General Assembly established UNCDF as an autonomous organization within the United Nations system by its resolution 2186 (XXI) of 13 December 1966. The Assembly further decided, by its resolution 2321 (XXII) of 15 December 1967, that the UNDP Administrator would administer the Fund and serve, as its Managing Director while the UNDP Governing Council would act as the Fund's Executive Board.

(b) Cash

The amounts shown in schedule 7 consist of the following (in thousands of United States dollars):

	2007	2005
Accumulating non-convertible currencies	480	480
TOTAL	480	480

(c) Investments

The carrying value of investments for bonds and notes of \$2.5 million is disclosed in schedule 8. The decrease of \$16,349,992 in the bond value is detailed below:

<i>Beginning Value 1 January 2006</i>	<i>Purchases</i>	<i>Maturities</i>	<i>Net Amortization</i>	<i>Carrying Value 31/12/2007</i>	<i>Movement (Decrease)</i>	<i>Market Value</i>	<i>Par Value</i>
18 849 434	-	(16 240 000)	(109 992)	2 499 442	(16 349 992)	2 499 146	2 500 000

(d) Unliquidated obligations (ULOs)

The balance of unliquidated obligations shown in schedule 7 consists of the following (in thousands of United States dollars):

	2007	2005
UNCDF – controlled funds	1 254	405
Biennial support budget and others	95	619
TOTAL	1 349	1 024

(e) Operational reserve

At its twenty-sixth session in 1979, the Governing Council approved the establishment of an operational reserve at the level of at least 20 per cent of project commitments and contingent liabilities for guarantees entered into by the Fund in respect of bank loans to Governments (excluding sub-trust fund and cost-sharing arrangements). In line with this decision, the operational reserve originally established in 1979, remained unchanged \$22.6 million as at 31 December 2007 as shown in schedule 7.



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