



2014 Annual Report

**PAVING THE WAY FOR POST-2015:**  
Unlocking Public and Private Finance Solutions



UNCDF's CleanStart Programme, in cooperation with the Austrian Development Cooperation, the Norwegian Agency for Development Cooperation (NORAD), the Government of Liechtenstein and the Swedish International Development Agency (Sida), aims to dramatically expand financing for low-income consumers who want to transition to renewable, clean energy. In Nepal, the programme is partnering with four financial service providers to provide rural households access to the credit they need to make this switch.

Here, farmers in the Kavre district of Nepal grind corn using an improved watermill.

# UNCDF Programmes

 **INCLUSIVE FINANCE**

- Bhutan
- Burkina Faso
- Burundi
- Cameroon
- Dem. Rep. of Congo
- Ethiopia
- Fiji
- Ghana
- Ivory Coast
- Lao PDR
- Lesotho
- Liberia
- Madagascar
- Malawi
- Mozambique
- Myanmar
- Nepal
- Niger
- Papua New Guinea
- Rwanda
- Samoa
- Senegal
- Sierra Leone
- Solomon Islands
- South Sudan
- Swaziland
- Tanzania
- Timor-Leste
- Togo
- Uganda
- Vanuatu
- Zambia

 **LOCAL DEVELOPMENT FINANCE**

- Bangladesh
- Benin
- Bhutan
- Burkina Faso
- Burundi
- Cambodia
- Ethiopia
- Ghana
- Guinea Conakry
- Ivory Coast
- Lao PDR
- Lesotho
- Mali
- Mozambique
- Nepal
- Niger
- Senegal
- Sierra Leone
- Somalia
- Tanzania
- Timor-Leste
- Uganda





# CONTENTS

<b>Foreword by the Executive Secretary</b>	02
<b>A Value Proposition for the post-2015 Development Agenda</b>	06
Who We Are – What We Do	
5 Reasons Why Inclusive Finance is Key for the post-2015 Development Agenda	
5 Reasons Why Local Development Finance is Key for the post-2015 Development Agenda	
<b>2014 Results: Gearing up to Deliver on Fresh Goals</b>	16
Climate Finance	
Women’s Economic Empowerment	
Food Security	
Youth Empowerment	
Clean Energy	
Digital Finance	
South-South Cooperation	
<b>Assessing our Work</b>	34
<b>Partners and Resources</b>	36

# FOREWORD

by the Executive Secretary

2014 was a transitional year for development. As countries make a final push toward the Millennium Development Goals while negotiating a new development framework, UNCDF has been an active participant on both fronts.

The negotiations around the new development agenda are showing us that countries are becoming more targeted and ambitious in their aspirations. Countries want to ensure that growth is not only robust and sustainable, but also inclusive, leaving no one behind. They want their citizens to not only benefit from overall upward trends in growth and human development, but also to enjoy greater capacity to access and deploy those gains at the local level – through ways ranging from better delivery of public services to the more effective use of the capital that lies untapped in their communities. And they want to

take maximum advantage of the promise of digital technology to create pathways to empower those previously excluded from the formal sphere.

2014 has shown us that progress towards achieving the goals of the Istanbul Programme of Action for the Least Developed Countries (LDCs) is mixed. There have been some positive movements, such as in increasing access to the Internet and mobile telephone networks, expanding the stock of transport infrastructure and improving the regulatory environment for the private sector. Many LDCs have recorded improvements in human and social development – in particular in education, health and youth development – but these strides have not been sufficient to lift them entirely out of poverty and social deprivation. Access to modern, sustainable and affordable sources of

energy is still very limited, as is the ability to generate, use, service and maintain technology and innovation. Much needs to be done to build the LDCs' productive capacity in agriculture, manufacturing and services.

In this context, UNCDF has – and will continue to – advocate for the need to act locally, not just nationally. It is at the local level that empowerment happens, that economic acceleration happens, that participation happens, and where stepped-up capital investment in financial inclusion, local infrastructure, and entrepreneurship can drive real and lasting change.

2014, the first year of implementation of the UNCDF Strategic Framework 2014-2017, saw UNCDF building on its capital mandate to support the LDCs in their pursuit of inclusive growth.

On her first official visit to Africa, UNCDF Executive Secretary Judith Karl visited the School of Women and Gender Studies at Makerere University, Kampala. The university runs a post-graduate course in Gender and Local Economic Development designed and financed with UNCDF support. Close to 100 local officials have completed the course. Here Judith Karl meets Dr. Consolata Kabonesa and Dr. May Sengondo.



It worked with its partners to support governments in scaling up innovative finance mechanisms that increase investment and leverage untapped potential. It made important steps to prove concept in new areas, and applied its approaches and instruments to support national development plans for making finance more local, accessible and inclusive.

This annual report showcases the progress and potential of UNCDF. It spotlights the results of what – based on our experience – are three powerful and effective ways to maximize resources for the post-2015 agenda: using ‘smart’ ODA as a critical ingredient for domestic resource mobilization; investing in financial inclusion, facilitated by digital finance, as a key driver for individual and household engagement in the local economy; and localizing the flows of public and private

finance and investment in infrastructure, which has proven acceleration, empowerment, and de-risking effects for local economic development.

I thank all the development partners and governments who work in collaboration with us to support countries to meet their ambitious development goals. Together, we can make

a lasting contribution toward the achievement of inclusive growth, and ensure that the new development era will be one of real transformation.

  
**Judith Karl**  
Executive Secretary

# A VALUE PROPOSITION

for the post-2015  
Development Agenda

## Who We Are – What We Do

The United Nations Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 Least Developed Countries (LDCs).

UNCDF uses its capital mandate to help LDCs pursue inclusive growth. This is done in three ways.

The local population benefits from small to medium adaptation investments, including roads and bridges, financed through the LoCAL mechanism. This UNCDF facility channels global adaptation finance to local governments to help them invest in building community resilience. LoCAL is supported by the European Union, Sida and the Government of Liechtenstein.

# 1

First, using 'smart' Official Development Assistance (ODA) to leverage and unlock public and private domestic resources for local development.

In UNCDF's experience, 'smartly' directed ODA

for local economic development can be a catalyst to leverage domestic resource mobilization at ratios of 1:10 or more.

UNCDF helps to mobilize savings 'out of the mattresses' and into the real economy, and domestic investment dollars out of the capital

cities and into local economic spaces. It does this through programmes that promote fiscal decentralization, innovative municipal finance and structured project finance at the local level.

# 2

Second, promoting financial inclusion, including through digital finance, as a key enabler of poverty reduction and inclusive growth.

Financial inclusion supports the achievement of several development

goals, not only by providing financial planning, services and safety nets for the unbanked poor, but also by strengthening the reliability and stability of national financial systems. By making poor clients attractive to investors, UNCDF is using ODA to unlock domestic capital.

Third, demonstrating how localizing finance outside the capital cities can accelerate growth in local economies, promote sustainable and climate-resilient infrastructure development and empower local communities.

UNCDF believes that a blend of public and private investment is required to meet the needs of local development. Investment in small infrastructure projects at the

local level, such as feeder roads, bridges, micro hydro, climate adaptation – projects that fall below the radar of the International Financial Institutions (IFIs) or impact investors' 'triple bottom line' – can create substantial development dividends for food security, women's economic empowerment, renewable clean energy, climate resilience and local economic development. And when properly supported, such investment

can also serve as a magnet for domestic investment.

UNCDF supports this approach through a variety of investment modalities, including structured project finance, public-private partnerships, last mile financing and credit enhancements.

# 3

## The Multiplier Effect of Using ODA 'Smartly'



LFI exemplifies UNCDF's **CAPACITY FOR LEVERAGING**: UNCDF invested \$300,000 of its core resources for technical assistance to this project, representing a leverage of 1:8 in terms of domestic resources mobilized.

To test ways of unlocking private finance for potentially transformative infrastructure projects, UNCDF developed the **Local Finance Initiative (LFI)**, a global programme supported by the Swedish International Development Cooperation Agency (Sida) and the Tanzania One UN Fund. As of 2014, LFI was being implemented in Tanzania and Uganda, with expansion plans for Senegal, Benin and Bangladesh.

LFI identifies small and medium-sized infrastructure projects with significant local transformation potential (such as feeder roads, bridges, transport hubs, agro-processing plants and small hydro power) that fall below the radar of impact investors, and development and domestic banks. LFI structures public/private partnerships, supplements these with targeted credit enhancements, risk mitigation strategies and capacity-building interventions, and helps ready them for private investment. This helps increase investor confidence by reducing perceived risk of investing in the local economy, and attracts domestic and other private capital. It stimulates new relationships between local public and private actors, and builds durable capacities in the public, private and banking spheres to achieve multiplier effects for local economic investment.

In 2014, LFI closed its first deal by mobilizing \$2.6 million from a private investor for a much-needed customs depot, warehouse and lorry park in a cross-border community in Uganda. In Tanzania, a \$250,000 seed investment and technical assistance support for last-mile transaction costs for three hydropower projects will leverage \$15 million of domestic resources from local banks in 2015, resulting in benefits to thousands of families.

UNCDF also used adapted financial services to show how ODA can help unlock public and private finance for inclusive growth.

Savings-led microfinance services have a strong impact on improving the resilience and livelihoods of poor households. UNCDF supports over 100 private financial service providers globally to mobilize domestic savings 'out of the mattresses' into the formal financial system, providing greater protection to households and turning 'sleeping capital' into dynamic resources for re-investment in the real economy.

As of 2014, financial service providers supported by UNCDF doubled their deposits from \$823 million to more than \$1.6 billion in 2014, giving poor people a safe

place to save and providing new credit sources for local small businesses.

UNCDF's **MicroLead** programme provides another excellent example of how UNCDF leverages its funding to catalyse private capital and domestic savings: starting with its own initial contribution of \$6.8 million, UNCDF mobilized another \$20 million for MicroLead from the Bill & Melinda Gates Foundation.

These funds were then invested in local financial service providers, which put a further \$100 million of their own capital into the project. Within five years, MicroLead had attracted more than \$645 million from a million local depositors, creating a major new source of local investment capital.

Based on the outcome and remarkable leverage of Phase I, the MicroLead Expansion programme, funded by The MasterCard Foundation, is now working with its public and private sector partners to reach an additional 1.3 million account holders and mobilize \$190 million in deposits while providing responsibly priced financial services in rural areas leveraging through technological advances like agency banking and mobile money.



[www.uncdf.org/lfi](http://www.uncdf.org/lfi)



[www.uncdf.org/microlead](http://www.uncdf.org/microlead)

# 5

## REASONS WHY INCLUSIVE FINANCE IS KEY for the post-2015 development agenda

Five years ago, at the 2010 G20 Summit in Seoul, the international community recognized **financial inclusion** as one of the main pillars of the global development agenda. That summit produced a concrete Financial Inclusion Action Plan, and established the Global Partnership for Financial Inclusion (GPFI) to implement it. Since then, more than 50 countries have made formal commitments or set targets for financial inclusion.

Much has happened in the years since. The number of people worldwide having a bank account grew by 700 million between 2011 and 2014. Today, 62 percent of the world's adult population has an account, up from 51 percent in 2011.<sup>1</sup>

But much work remains. Worldwide, **two billion people are still 'unbanked'**,

excluded from the formal financial system, and **women make up 1.1 billion of that figure.**<sup>2</sup>

UNCDF supports microfinance institutions, banks, cooperatives, and money transfer companies to **ensure that suitable financial products** (savings, credit, insurance, payments, and remittances) **are available to individuals** – notably the 'unbanked' – **and micro-enterprises** as well as small and medium enterprises, **at a reasonable cost**, and on a sustainable basis, to overcome economic shocks, smooth consumption, and make educational and entrepreneurial investments to help people transition out of poverty.

The UNCDF model yields five main benefits that support the priorities of the post-2015 development agenda:

### 1

#### The 'pathway out of poverty' effect

Access to and use of regulated financial services increases incomes of low-income people, helping them to move out of poverty and stay out. Individuals and micro-entrepreneurs have opportunities to build equity, invest in businesses and in themselves (for example better health and education), better manage their small and/or irregular incomes that would otherwise cause vulnerability, and more easily pay for merchants or send money to relatives and friends.

<sup>1</sup> Global Findex Database 2014, World Bank.  
<sup>2</sup> Ibid.

### 2

#### Stronger reliability and stability of national financial systems

Expanding financial inclusion and greater formalization create opportunities for national economies to grow as more savings are captured for investment, while greater business activity and transactions through the formal system widen the base for taxation. Additionally, there is growing evidence of financial inclusion creating more stable financial systems and economies,<sup>3</sup> which in turn help economies grow more quickly and in ways more favourable to poor people.

<sup>3</sup> ADBI Financial stability and financial inclusion (2014).

### 3

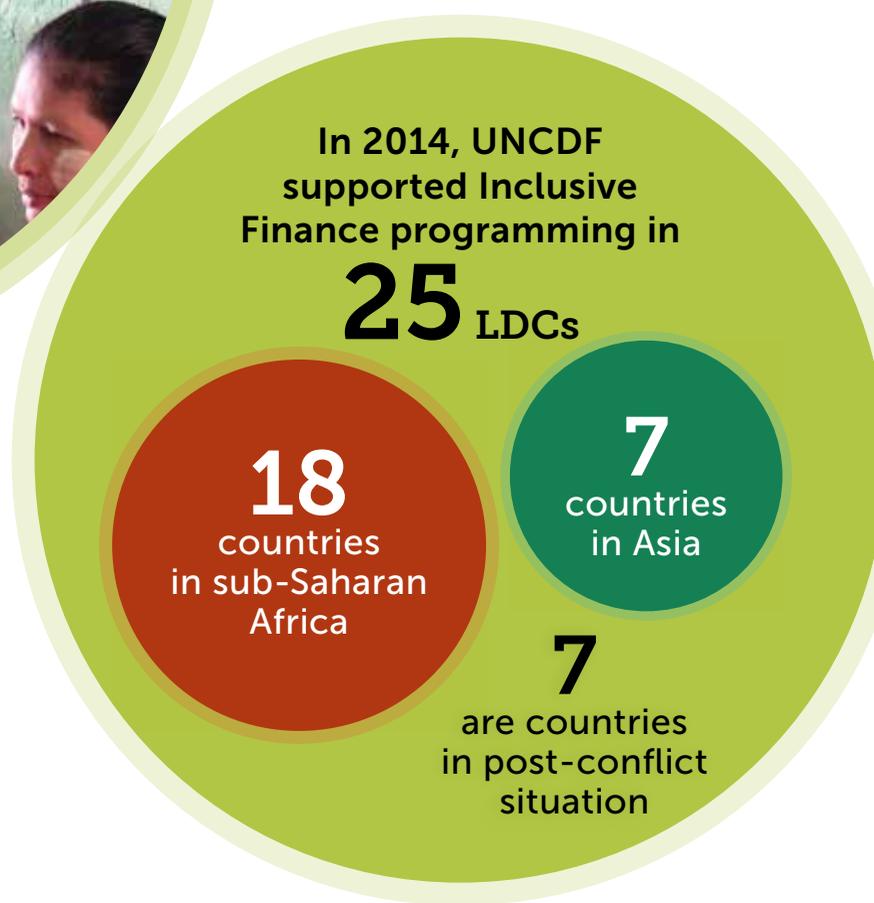
#### Access to new markets and business-building services for entrepreneurs

Micro, small and medium enterprises (SMEs) are crucial to employment and equitable economic growth. Yet about 200 million small businesses in developing and emerging markets lack adequate financing.<sup>4</sup> Enabling small and medium businesses to use regulated financial services and products designed to meet their needs creates opportunities for these to grow and contribute to creating jobs and growth, which are among the surest ways to stay out of poverty for individuals and households.

<sup>4</sup> Closing the Credit Gap for Formal and Informal MSMEs, IFC, 2013.



**MicroLead** is a global initiative to support the development and rollout of deposit services by regulated financial service providers aiming to reach rural markets. Demand-driven products are offered via alternative delivery channels in combination with financial education, so that customers like these women in Myanmar can access quality services to develop and expand their businesses. MicroLead is supported by the Bill & Melinda Gates Foundation, The MasterCard Foundation and the LIFT Fund in Myanmar.



**4**

**The multiplier effect on other development challenges**

Financial services can have powerful impacts when used to support specific development priorities such as gender equality, health and education. For example, financial services improve food security by enabling farmers – including the approximately 500 million smallholder farmers, many of whom are women – and agro-businesses to devote more resources to their crops and businesses. Similarly, women particularly benefit as regulated financial services to individual women and businesses expand women’s role as consumers, employees and entrepreneurs, increasing women’s earnings and consumption. These also help to transform society by fostering greater investments in child well-being, reducing household poverty, and enhancing aspirations for the next generation of girls and women.<sup>5</sup>

<sup>5</sup> World Bank. 2012. World Development Report 2012: Gender Equality and Development. World Bank, Washington, DC.

**5**

**More possibilities through new technologies**

There are now more than 255 mobile money services around the world,<sup>6</sup> and they are doing more than sending and receiving payments with appropriate regulation and safeguards. Mobile technology can offer access to insurance, credit and savings, clean water, solar energy – all through the ubiquitous handset. Financial inclusion also means that as more governments move benefits such as pensions, social programmes and financial aid to electronic payments, more people can enjoy unfettered access to government benefits without the risks, costs or inconveniences of traditional vouchers or other payment methods.

<sup>6</sup> State of the Industry Mobile Financial Services for the Unbanked', GSMA, 2014.

# The Journey of Financial Inclusion in the Solomon Islands

In 2010, an estimated 80 percent of the population of Solomon Islands lacked access to basic financial services.

Since the **Pacific Financial Inclusion Programme (PFIP)** began supporting the efforts of the Central Bank of Solomon Islands (CBSI) to build a more inclusive financial sector, large numbers of Solomon Islanders have gained access to banking and payment services.

New bank accounts have more than doubled from 2010 to 2014 and the latest quarterly financial inclusion data indicates that over 50 percent of the adult population is now 'banked'.

PFIP is a UNCDF/UNDP Pacific-wide programme supported by the Australian Government, the European Union and the New Zealand Government, which aims to help low-income households gain access to quality and affordable financial services and financial education.

PFIP currently works in **Fiji, Papua New Guinea, Samoa, Solomon**

**Islands, Tonga and Vanuatu.**

These six countries account for 90 percent of the region's population.

Since its inception, PFIP has played a catalytic role in the introduction and roll out of electronic banking services, including mobile phone and card-accessed bank accounts. In 2012 – together with UNCDF's programme MicroLead – PFIP supported Westpac Bank to launch its in-store banking services. This intervention proved to be transformative, and Westpac Bank now counts 24 in-store banking outlets across eight 'underbanked' provinces.

In 2014, PFIP launched its second phase with a target of making appropriate/affordable financial services accessible for an additional 500,000 low-income people, at least half of them women.

During the Third International **Conference on Small Island Developing States**, held in **Samoa**

in September 2014, PFIP also launched its **Financial Inclusion Support Facility**. With an initial capital of \$5 million, the PFIP Support Facility seeks partners, in particular from the private sector, to increase the financial security of low-income and rural households.

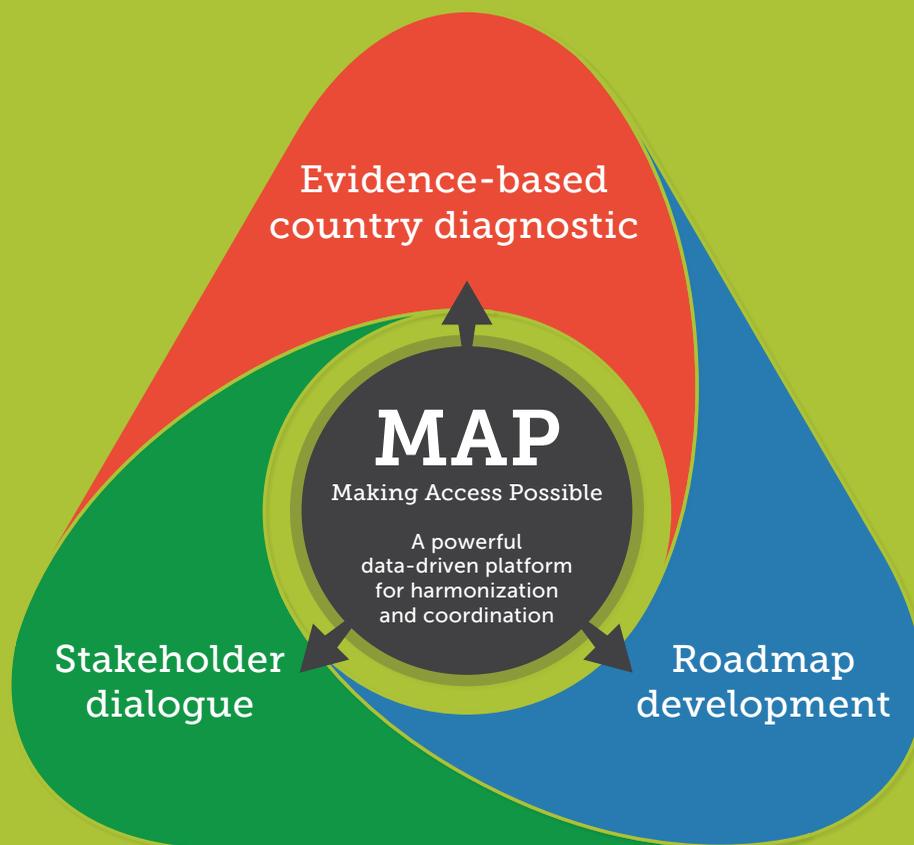
The Support Facility is meant to encourage the development, introduction, and scaling of innovative financial products and services like flexible deposit accounts, inclusive insurance, and cost-effective money transfer services that will allow clients to accumulate or access useful lump sums of money to mitigate risks. It will be used to prove the feasibility or 'concept' of new products, delivery mechanisms and models, as well as catalyse the mobilization of funds from other sources.



[www.uncdf.org/pfip](http://www.uncdf.org/pfip)

**PFIP exceeded expectations in the development of **REPLICABLE** and **SCALABLE** financial products and service innovations. As of December 2014, PFIP reported reaching a cumulative total of almost **556,000 MOBILE MONEY SUBSCRIBERS AND 390,000 DEPOSITORS.****

# MAP: Sharper Diagnosis for Better Solutions



and other stakeholders to better understand the financial inclusion context in their country, by providing data and insights on demand for and supply of financial services as well as the policy, legal and regulatory framework.

Reflecting the high priority placed by governments on financial inclusion, some 38 countries have made a commitment to expand financial inclusion. Many of these commitments include the adoption of national strategies for financial inclusion – and MAP can help in the development of these.

In **Myanmar**, based on the MAP diagnostic, the cabinet recently approved a National Financial Inclusion Roadmap that development partners have agreed to use to align their support.

Based on an initial pilot in several countries, UNCDF is now ready to scale up its **Making Access Possible (MAP)** programme, a multi-country initiative to support financial inclusion through evidence-based country diagnostic, stakeholder dialogue and roadmap development. MAP provides a powerful data-driven platform for harmonization and coordination of those working on financial inclusion

at the country level, and is led by national authorities.

The pilot phase of MAP has gained a great deal of visibility and support as a key enabler for public and private investment in financial inclusion, and the programme is now gearing up to expand to 20 countries.

The MAP diagnostic and planning framework enables governments

Market development frameworks like MAP, through the in-depth diagnostic and stakeholder engagement, help open market development opportunities for impact investors and the private sector in general around financial inclusion.



[www.uncdf.org/map](http://www.uncdf.org/map)

# 5

## REASONS WHY LOCAL DEVELOPMENT FINANCE IS KEY

for the post-2015  
Development Agenda

If the eradication of poverty through sustainable development is the ultimate destination of the post-2015 development journey, then **local development finance** paves the way. Local development finance looks beyond the macro statistics and indicators of development, and examines how socio-economic progress at the country level is distributed throughout different levels of society.

The UNCDF approach to local development finance is pragmatic: it ensures that people in all regions and localities can access investment resources, whether public or private, in order to benefit from growth.

This means dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations and mobilizing domestic resources to support local economies and service delivery through, inter-alia, **fiscal decentralization, climate finance, women's economic empowerment** and the **financing of infrastructure projects**. The focus is on strengthening public financial management and local revenue, improving the quality of public and private investments and promoting innovations at the local level.

The UNCDF model yields five main benefits that reflect the priorities of the post-2015 development agenda:

### 1

#### **The acceleration effect**

Investing locally in regions that are lagging behind accelerates overall growth more effectively than continuing to invest where capital is already accumulated.

### 2

#### **The integration effect**

Local investments that take into account local endowments create more integrated economies in which value chains are connected, local value added, local jobs created, growth stimulated and the economy diversified.

### 3

#### **The resilience effect**

Investments made in local public and private infrastructure build the resilience to environmental and climatic shocks that reduce risk, and create and enable economic growth and public welfare.



Government officials meet in Pantang Zhemgang, Bhutan to prioritize climate adaptation activities. UNCDF's LoCAL facility channels global adaptation finance to local governments to help them invest in building community resilience. In this context, LoCAL has helped constructing a Bailey bridge, enabling kids to go to school and upholding economic activity throughout the rainy season.

In 2014,  
UNCDF supported Local  
Development Finance  
programming in

**20** LDCs

**14**  
countries  
in sub-Saharan  
Africa

**6**  
countries  
in Asia

**4**

### **Empowerment**

Local investments empower local communities, institutions and businesses. A policy for local development ensures that the institutional environment is developed across the territory and that all areas have, for example, the legal, governance and service industries – the accountants, lawyers, engineers and more – that are necessary for sustainable growth.

**5**

### **Domestic resource mobilization**

Local investments provide a route for domestic resource mobilization. Fiscal decentralization, capital investment programmes by local governments, and investments in local productive infrastructure in the public and private sectors are all mechanisms that mobilize domestic capital resources and recycle them back into local economies. This unlocks capital that might otherwise sit unproductive (in real estate, pension funds, etc.) and also provides a route for local reinvestment for tax receipts, including from industries like commodity mining and production.

## Bangladesh: Innovating and Paving the Way for Partners



UNCDF has been a development partner of Bangladesh for decades, focusing on supporting efforts to upgrade the local government system that delivers public services in remote rural areas.

In the late 1990s, UNCDF and the Government of Bangladesh designed and tested a performance-based investment model in the district of Sirajgani in central Bangladesh. Robust results have subsequently convinced the World Bank to scale up the approach and roll it out nationally. Meanwhile, UNCDF and its partners continued to innovate and test new incentives to further support efforts to enhance local governments' performance and responsiveness to local needs.

2011 saw the launch of the third generation of performance-based local government grants in partnerships with UNDP, the European Union, Danida and the Swiss Agency for Development and Cooperation (SDC). The aim of the two ongoing initiatives

– the **Upazila Governance project** and the **Union Parishad Governance project** – is to continue enhancing local government investment and performance, while deepening local democracy.

In 2014, rural local governments supported by these two projects reported an increase of 25 percent over the previous fiscal year, despite transfers from central government growing at a slower pace of only 4 percent

over the same time period. The UNCDF-designed performance-based grant system played a key role in helping mobilize local domestic resources and strengthen the fiscal capacity of local government.

A 2014 evaluation recognized that transparency, accountability and participation in local-level decision-making had all improved. Elements of the performance-based grants system have been scaled up into national policy through the regulatory framework for local government, to be replicated elsewhere.

**When local governments function well, citizens' voices are heard, investment responds to real needs, and economies begin to grow.**

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## Supporting Initiatives that are Scalable

UNCDF programmes are designed to support governments' initiatives to scale up initiatives of proven development impact, often working in partnership with international financial institutions such as the World Bank and International Monetary Fund.

For example, in **Bangladesh**, the World Bank has helped to scale

up a programme in which local government aimed to strengthen its capacity to improve service delivery. The World Bank is also supporting a UNCDF initiative in **Nepal** to strengthen the capacity and role of central and local governments in delivering social protection cash transfers through branchless banking.

In Bhutan, 13 local governments are preparing to roll out the UNCDF **Local Adaptive Living Facility (LoCAL)** programme on a national basis. This scale-up is based on the LoCAL performance-based climate change resilient grant system tested in eight governments.



[www.uncdf.org/local](http://www.uncdf.org/local)

With its high level of **TECHNICAL EXPERTISE**, the Fund is able to adopt an approach involving more risk-taking and can implement small-scale projects, often as pilots, at local level that local organization and development banks have difficulty in setting up. UNCDF should therefore be seen as a **DEVELOPMENT ACTOR** that paves the way for others.

Government of Sweden  
2008 Assessment of Multilateral Organizations





UNCDF, together with UNDP, DFAT, the Government of New Zealand and the EU, has created the Pacific Financial Inclusion Programme (PFIP), which aims at building branchless banking platforms that can reach low income and rural households. Through the use of mobile phones, point of sale devices, smart cards and other technologies for the ease of payments, as well as third party agents, the delivery of financial services are made more cost-effective, extending the reach to previously underserved and unbanked populations.

## 2014 RESULTS: Gearing up to Deliver on Fresh Goals

2014 saw the first year of implementation of the new UNCDF Strategic Framework on the platform of prior achievements in local development finance and financial inclusion. UNCDF made significant strides to prove concept in new areas, such as the Local Finance Initiative and Making Access Possible, and worked to maximize leverage and impact.

Following are highlights from UNCDF's work in 2014, reflecting the ways in which the organization has been responding to the emerging development challenges crucial of the post-2015 development agenda.

### CLIMATE FINANCE

Climate change is a major threat to development and affects particularly the poorest and most vulnerable communities in LDCs. The success of the post-2015 development agenda will largely depend on the success of global efforts to tackle climate change.

The Lima Call for Climate Action agreed in December 2014 lays the foundation for a global deal on climate change. It is critical that countries make ambitious national commitments and tackle the greatest challenges, including the inadequacy of current pools of public climate finance.

Building the capacity for countries to access, leverage and deploy climate finance is an urgent priority – particularly for those countries and communities facing the greatest climate impacts.

Local governments seeking to strengthen climate change resilience need adequate resources and effective integration of climate change considerations into their local planning, budgetary and investment cycles. Directing climate finance to the local level can empower local administrations to build climate-resilient infrastructure where it is needed most.

UNCDF's **Local Climate Adaptive Living initiative (LoCAL)**, for example, is designed to help governments channel global climate adaptation finance to local governments that are on the frontlines of dealing with the effects of climate change. This financing enables them to invest in building local resilience.

The LoCAL Facility – supported by UNCDF, the EU Global Climate Change Alliance, the Swedish International Development Cooperation Agency (Sida), the Belgian Development Cooperation, and the Governments of

Cambodia, Lichtenstein and Benin – connects to existing national intergovernmental fiscal transfer systems and supplements capital grants to local governments with performance-based climate adaptation funding, while at the same time ensuring ownership, accountability and results.

By joining LoCAL, LDCs can help local governments cope with the increased cost of building resilience to climate change and natural disasters. This includes support for adaptive land use planning, drainage and water management, implementing resilient building

regulations, retrofitting existing infrastructure, strengthening roads and bridges and adapting agricultural systems.

LoCAL unfolds in three phases. Phases I and II introduce a performance-based climate resilience grant system to test climate-resilient investments. This is scaled up to all local governments during Phase III, which involves the mobilization of domestic and international resources for local climate resilience.

As of today, LoCAL has provided \$1.2 million grants to 29 local

governments, reaching a population of over four million across seven LDCs in Asia (Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic and Nepal) and Africa (Benin and Mali). The ultimate objective of this support is to reach over 230 million people across these countries.

The LoCAL investments are part of a wider initiative for local climate resilience in the LDCs, in which UNCDF is supporting national efforts to secure Green Climate Fund financing for verifiable local resilience-building.

## LoCAL unfolds in three phases

### Phase 3: Scaling-up

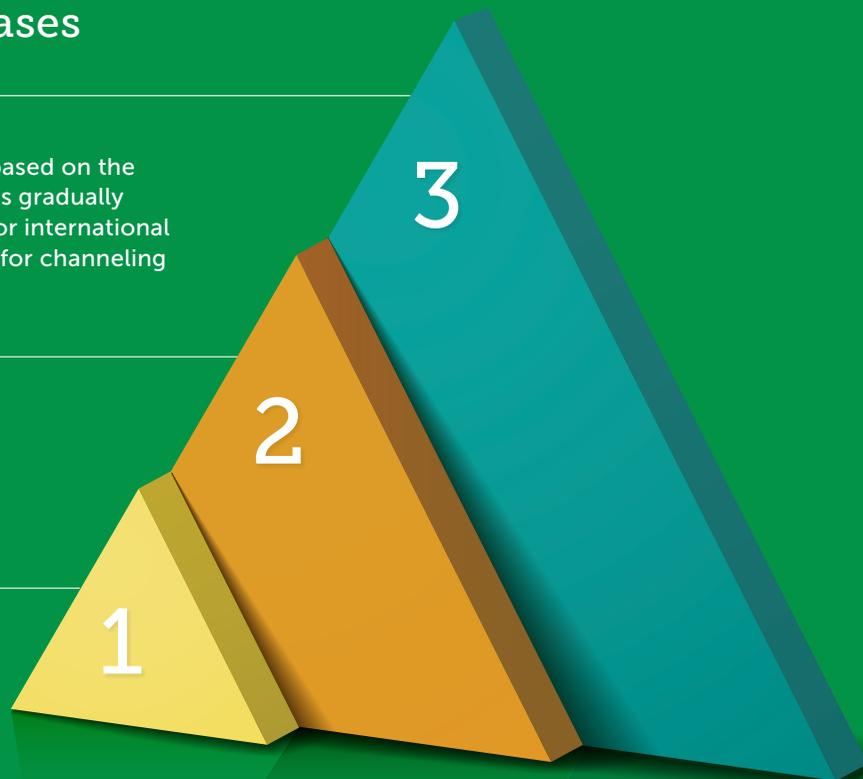
The third phase is a full national rollout of LoCAL based on the results and lessons of the previous phases. LoCAL is gradually extended to all local governments, with domestic or international climate finance, and becomes the national system for channeling adaptation finance to the local level.

### Phase 2: Learning

The second phase takes place in 5 to 10 percent of local governments of a country. This involves collecting lessons and demonstrating the effectiveness of the mechanism at larger scale.

### Phase 1: Piloting

The first phase involves initial scoping, followed by testing in two to four local governments.



Since its start in 2011, LoCAL has been introduced and piloted in nine countries in Asia and Africa. In 2014, design work for Phase I was carried out in Ghana, Mozambique, Niger and Solomon Islands; PHASE I OPERATIONS began in Benin, Mali and Nepal; PHASE II PREPARATIONS began in Bangladesh and the Lao People's Democratic Republic; and PHASE III began in Bhutan and Cambodia.

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## Financing Local Responses to Climate Change in Cambodia: the Bridge that Saves Lives

In the Cambodian province of Battambang, most people are farmers and labourers. They stay in the village during planting season, and in the off-season they migrate to other places to find work as laborers.

O'Chamnap is a small village located near the main road. It is a passing point for many families that go to the fields. The location is strategic but is exposed to flash, strong and unpredictable floods, often happening during the night. Few people know how to swim, making fast-flowing waters a real threat to human life.

Thanks to LoCAL, which in Cambodia entered its third phase, the O'Chamnap community was finally able to build a climate-resilient bridge. The bridge is one of the first clear examples of the achievements of LoCAL in its scaling up in Cambodia.

The strength of the approach pioneered by LoCAL comes from the participation and input of local communities and local governments: with the support of central and provincial authorities, local governments learn how to mainstream climate change in their existing development plans.

In this process, each community is asked to enhance its development plans by considering 'the climate change factor'. This helps to better communicate the complexities of climate change and to highlight the risks it could represent for each community. As a result, climate change adaptation becomes a natural part of local planning processes.



[www.uncdf.org/local](http://www.uncdf.org/local)

# WOMEN'S ECONOMIC EMPOWERMENT

In the 20 years since representatives of the Fourth World Conference on Women in Beijing crafted the unprecedented Platform for Action, much progress has been made, and many lessons have been learned.

For instance, financial inclusion for women has resulted in increased household welfare and more vibrant local economies. At the same time, data on access and use of financial services shows that women are still less financially included than men, even in countries with relatively high levels of overall financial inclusion.

Although between 2011 and 2014 the number of adults without a formal bank account – the unbanked – dropped by 20 percent to 2 billion, the gender gap in account ownership is not narrowing. In 2011, 47 percent of women had an account, while 54 percent of men did. Today, 58 percent of women have an account,

and 65 percent of men do. This reflects a persistent gender gap of 7 percentage points globally. In developing economies the gender gap remains a steady 9 percentage points.<sup>7</sup>

If achieving financial inclusion is key for women to be able to engage with their local economies, investment in appropriate, and transformative, local infrastructure is critical to accelerate progress for gender equality and women's economic empowerment.

Providing access to financial resources and capital for women and making gender-sensitive investments not only increase inclusive growth but also help to reduce income gaps.

Recognizing that a blend of gender-sensitive public and private investment will be required to meet the needs of local development,

in 2014, UNCDF, UNDP and UN Women designed the **Inclusive and Equitable Local Development (IELD)** programme, to test ways of unlocking private finance for potentially transformative infrastructure projects that benefit women.

Through the Transformative Impact Financing (TIF) approach, UNCDF puts its local development finance instruments to work to unlock domestic capital for local economic development and entrepreneurship, with a special emphasis on the development impact as a measure for success. IELD will look particularly at the infrastructure investments that confront and address critical barriers to women's economic inclusion, notably those that produce goods and services that respond to the needs and demands of women.



[www.uncdf.org/ield](http://www.uncdf.org/ield)

<sup>7</sup> Global Findex Database 2014, World Bank.

IELD focuses on **GENDER-SENSITIVE INFRASTRUCTURE PROJECTS** at the local level such as feeder roads, bridges, and micro hydro that have potential to be significant drivers of women's economic empowerment. The programme uses a variety of investment forms, including structured project finance, public-private partnerships, and cluster financing for small and medium enterprises.

Through **POLICY, ADVOCACY, DATA** and **RESEARCH, CAPITAL INCENTIVES,** and **CAPACITY DEVELOPMENT,** the SHIFT programme aims to identify barriers stemming from shortcomings in capacity, connections, resources and perceptions, and transform these into pathways for women to access market opportunities that lead to the growth of economies as a whole.

UNCDF also seeks to advance women's economic empowerment by integrating women-centric strategies and initiatives in growing inclusive enterprises through innovative financing mechanisms, through collaborations with financial services providers across markets in the developing world.

At the conclusion of the ASEAN Financial Inclusion Conference in October 2014, the 'Yangon Outcomes for Financial Inclusion' recommended that special measures be taken to assist women to access and use financial services in the region as a part of a major drive for equitable growth and enhanced stability within the ASEAN region, particularly in light of the upcoming ASEAN financial integration.

Noting this commitment and interest from the ASEAN nations, UNCDF, under its flagship **Shaping Inclusive Finance Transformations (SHIFT)** programme, started providing a space for further discussions and work on women's

economic empowerment in Southeast Asia.

SHIFT is a regional programme launched in 2014 with support from the Australian Government and the Netherlands Development Finance Company (FMO) to accelerate financial inclusion in four countries in the ASEAN region to help women and men to move out of and remain out of poverty while actively contributing to economic growth.

Increasing access to capital can help small and medium businesses grow and create more jobs, while making economies more stable and less reliant on very large businesses. An increased access to a range of affordable and well regulated financial services can help individuals and micro-entrepreneurs better plan and manage their money so that they can ride the peaks and troughs in their local economy.

SHIFT's policy research and advocacy work has led to the

ASEAN governments' adopting new policy measures to accelerate financial inclusion as a complement to the region's financial integration efforts, including explicitly adopting financial inclusion as a priority for all governments and establishing an official regional architecture to support national plans.

Similarly, SHIFT's promotion of Women's Economic Empowerment has led to new insights and incipient partnerships to expand economic opportunities for women through strategic investments in micro, small and medium enterprises that are owned by women, significantly employ women, or produce goods and services for which women are key consumers. The programme has also contributed to partners' other initiatives in the region, including support to the Investing in Women initiative and a programme on migration.



[www.uncdf.org/shift](http://www.uncdf.org/shift)





UNCDF global programme on Food Security aims to increase food security in least developed countries by enabling increased public and public-private investments to fill 'the missing intersectoral linkages' in Local Food Systems (LFS).

## FOOD SECURITY

Almost 900 million people around the world suffer from food insecurity. Although food insecurity is decreasing in general terms, it remains very high, particularly in Asia and Africa. Poverty, gender disparities, environmental degradation and low institutional capacity are among the underlying causes.

For UNCDF, household food insecurity is about more than the absence of food; it is the result of a complex system of vulnerability factors in relation to shocks that destabilize local livelihoods.

Because UNCDF has traditionally operated in rural areas, and given its expertise in working with local authorities – the tier of government most likely to understand local conditions affecting food security (weather and crop planting patterns, local trade flows, and causes of chronic and transitory food insecurity) – food security has become an essential element in its approach over time.

In 2014, several UNCDF country programmes in sub-Saharan Africa included a thematic focus on food security, including those in [Mali](#), [Niger](#), [Mozambique](#), [Burundi](#) and [Ethiopia](#).

Using intergovernmental fiscal transfers, UNCDF's Local Development Fund earmarks funds for food security to be channelled from national to local level. The funds are invested in production enterprises and local infrastructure to help improve local resilience to food shocks. These include investments in micro-dams, production facilities, roads, storage facilities and irrigation infrastructure.

In Mali, for example, the [Programme de Lutte Contre l'Insécurité Alimentaire et la Malnutrition dans les Cercles de Nara et Nioro du Sahel \(P2N\)](#) aims at improving local authorities' capacity to mainstream food security concerns into the local planning and budgeting process.

**By STRENGTHENING LOCAL CAPACITIES for integrating food security concerns into planning and budgeting, and by PROVIDING THE FINANCIAL INSTRUMENTS needed to make investments that strengthen local resilience to food shocks, UNCDF creates a more sustainable environment for dealing with food security issues at the local level.**

## For the majority of farmers in developing countries, LACK OF ACCESS TO FINANCE is a key impediment to improving production efficiency and adopting better technologies.

In 2014, more than \$1.7 million was invested in local infrastructure to strengthen resilience to food shocks and to promote basic services delivery in Nara and Niuro using UNCDF's Local Development Fund. These investments include the construction of a health care centre, four schools, seven micro-dams for irrigation and three cereal banks.

A similar programme in Niger has seen the rate of non-vulnerable households increase from 14 percent in 2010 to 32.8 percent in 2014. Simultaneously, the rate of malnourished children under age 5 has been reduced significantly, from

43 percent to 16.12 percent in the Mayahi region in Southern Niger.

Agriculture is a major source of livelihood throughout the world, especially for the majority of poor people living in rural areas in developing countries. For the majority of poor rural farmers in developing countries, lack of access to finance is a key impediment to improving production efficiency and adopting better technologies.

Building on its work promoting financial inclusion as a key enabler of poverty reduction

and inclusive growth, in 2014 UNCDF explored opportunities to support governments' efforts to develop the enabling environment, create more inclusive and effective policies, and better disseminate information across sparsely populated areas.

In particular, through its **Making Access Possible (MAP)** diagnostic and planning framework, UNCDF undertook diagnostics in Lesotho, Mozambique, Myanmar and Swaziland to determine how agriculture and agriculture-based activities drive household livelihoods in low-income countries.

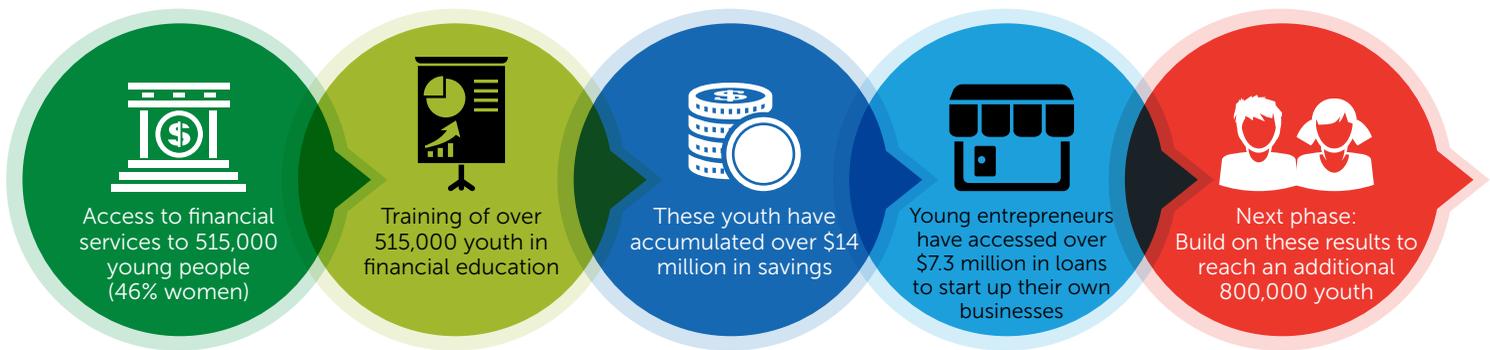


[www.uncdf.org/map](http://www.uncdf.org/map)

In Côte d'Ivoire, Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Myanmar, Swaziland and Thailand, UNCDF is piloting its newest diagnostic and programmatic tool. **Making Access Possible (MAP)** supports expanded access to financial services. MAP brings together a wide range of players to develop national financial inclusion roadmaps from evidence-based country diagnostics and dialogues.



# YOUTH EMPOWERMENT



Some 78 percent of the 200 million young people in sub-Saharan Africa live on less than \$2 a day and only 5 percent have access to financial services. With statistics like these, there is no question that youth have become a core concern in many African economies – yet most financial institutions are not equipped to address them as real potential customers.

In the developing world, 62 percent of youth remain outside the formal financial system, while 700 million remain unbanked. Worldwide, those aged 15-24 are 33 percent less likely to have an account and 40 percent less likely to have saved formally compared to those aged 25 and older.<sup>8</sup>

Lack of access to financial resources is a major constraint for youth transitioning from school to work. It becomes difficult to access the credit needed to start a business, and to find secure places to accumulate assets, insurance and

other relevant financial services that could support livelihoods.

In 2010, UNCDF in partnership with The MasterCard Foundation launched **YouthStart**, 'Building Youth Inclusive Financial Sectors in sub-Saharan Africa'. After working four years with 10 leading financial services providers (FSPs), in eight countries in sub-Saharan Africa, 2014 marked the final year of the YouthStart Regional Pilot.

The YouthStart original mandate of providing access to finance to 200,000 youth aged 12-24 has almost tripled, while the scope of products offered to youth has expanded to 17 new youth demand-driven products.

As of December 2014, YouthStart FSP partners granted access to savings accounts to almost 515,000 young people (of which 46 percent are young women), trained over 500,000 youth in financial education (54 percent young women), and

provided loans to almost 72,000 young entrepreneurs. These young clients have accumulated \$14.2 million in savings, while the young entrepreneurs accessed \$7.3 million in loans to either start up or expand their own businesses.

2014 was also an important year for YouthStart's learning and knowledge sharing agenda. In partnership with the Frankfurt Business School, MicroSave and The MasterCard Foundation, YouthStart has led the production of case studies in Burkina Faso, Malawi, Rwanda, Togo and Ethiopia to analyse and better understand the business case for youth financial services,

YouthStart is planning to build on these results, and is currently mobilizing partners to reach an additional 800,000 youth in the next phase.



[www.uncdf.org/youthstart](http://www.uncdf.org/youthstart)

<sup>8</sup> Global Findex Database 2012, World Bank.



Through financial-literacy sessions supported by the **Youthstart** Programme, young women are empowered to be financially capable and equipped to become entrepreneurs or suitably employed.

## Banking on a Brighter Future for the Next Generation

Before Gashaw Belaye learned about the Amhara Credit and Saving Institution (ACSI), he was unsure about the services it offered, as he mistrusted banks in general. A good friend convinced him to sit in on an ACSI training session, just to find out what these bankers wanted. "I did not know what to expect. But I am so glad I went because my life has changed since that very first session."

Gashaw was 21 years old then and worked for a barber. He had no savings at the time yet dreamed of owning his own barbershop. Through the financial-literacy sessions offered by ACSI, Gashaw made his business goals a reality.

"Through the training, I learned how to calculate the amount of money I spend on items such as sweet snacks, extra airtime and

other things, and to make and follow a saving plan to achieve my goal of opening my own shop. I saved money every day for a year from not buying these items and instead used these savings to open my own shop."

Gashaw enjoyed the courses so much that he signed up to become a youth ambassador for ACSI. After three years, not only is he one of the lead youth ambassadors in the Bahir Dar region, but he also has saved enough money to open his own barbershop and to hire four young employees – each of whom has a savings account with ACSI.

YouthStart believes access to finance coupled with financial-literacy training is critical for young people's overall development. YouthStart's 10 partners have trained over half

a million youth across eight countries in sub-Saharan Africa, providing them with training designed to complement their entrepreneurial endeavours while mastering the financial skills needed to create sustainable businesses.

Gashaw's ability to create his own business and employment opportunities for others is an indication of the importance of access to financial and non-financial services in helping youth, particularly in areas where the formal sector is unable to absorb millions of new job entrants each year.

# CLEAN ENERGY



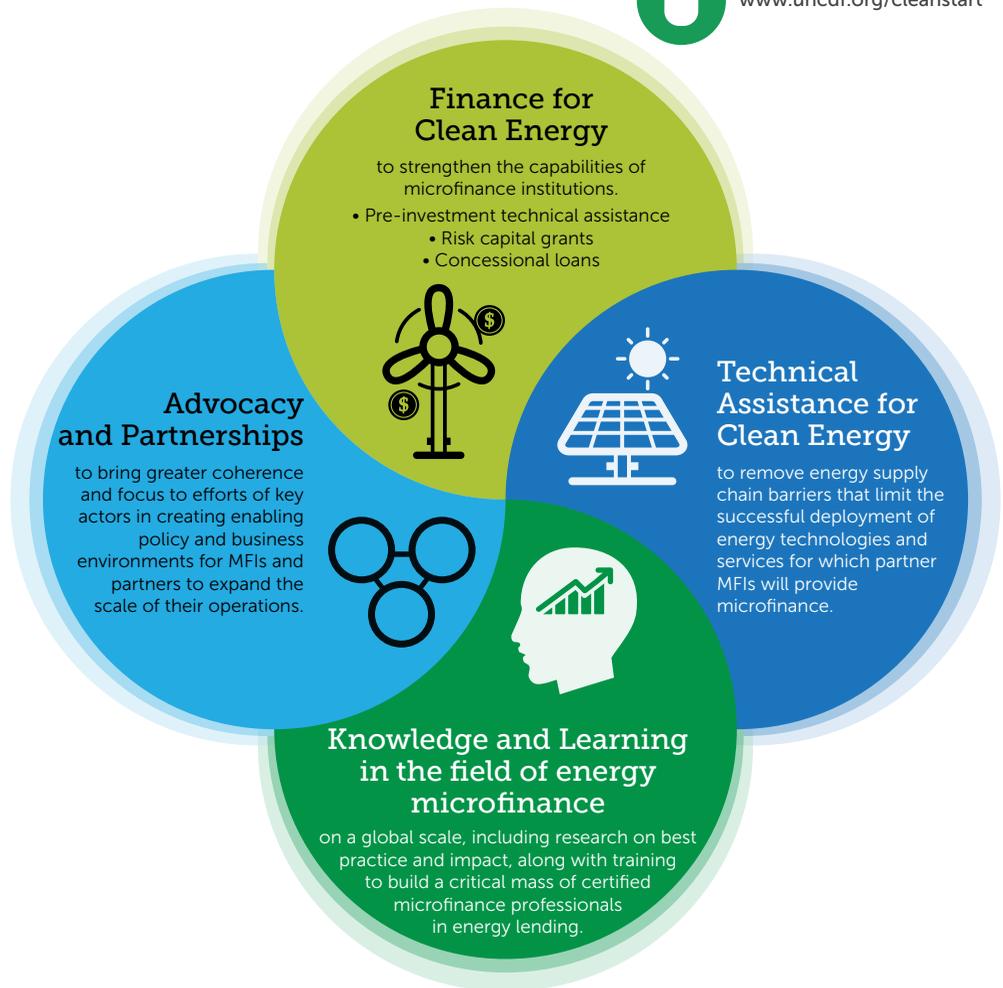
Clean energy access is a major constraint for the world's poor. Over a quarter of the world's population lacks access to electricity, while some 2 billion people are forced to spend disproportionate amounts of time and resources on traditional biomass for cooking and heating.

Where modern energy services are unavailable, people resort to expensive and unsustainable systems, which can exacerbate energy insecurity and leave communities more vulnerable to the effects of climate change.

In many countries, however, thanks to recent technological developments, efforts to widen access to clean energy now depend less on technology and more on financing arrangements, backed by a policy environment that is focused on serving the poor.

The UNCDF **CleanStart** programme supports low-income consumers to transition to cleaner and more efficient energy through microfinance. CleanStart is a global programme helping to lift at least 2.5 million people out of energy poverty by 2017.

The programme provides risk capital and technical assistance to competitively selected financial service providers and energy enterprises. The selected businesses then develop and refine scalable consumer financing models, addressing critical bottlenecks in the value chain that can affect scalability. They share the research



and tools they generate throughout the industry, and advocate for industry-wide changes while brokering partnerships up the value chain, such as with investors and policy makers.

At the heart of the CleanStart approach is public-private partnership around a common vision of expanding energy access for the poor.

In Nepal, for example, CleanStart collaborates closely with the Central Renewable Energy

Fund, a \$120 million multi-donor wholesale fund dedicated to renewable energy, to build confidence among commercial banks in the prospects of financing the clean energy sector. In 2014, four financial institutions in Nepal extended loans for solar home systems, biogas and improved cook stoves to over 10,000 clients, testing innovations in consumer financing for clean energy.

Through CleanStart, UNCDF contributes to the global Sustainable Energy for All (SE4All) initiative.

# Smoke-free and Solar-powered through CleanStart

Since April 2014, the CleanStart Programme has been working closely with financial service providers in Nepal to expand micro-loans for cleaner and more efficient energy such as solar lighting and improved cooking solutions.

The four partners – ACE Development Bank Ltd. (ACE); Jeevan Bikas Samaj (JBS); Sana Kisan Bikas Bank Ltd. (SKBBL); and Clean Energy Development Bank Ltd. (CEDBL) – have set out to reach together at least 102,000 households and micro-entrepreneurs throughout Nepal by 2017.

By January 2015, these partners collectively provided energy loans to over 10,000 clients, with the bulk of loans financing solar home systems of 20-watt peaks or higher which typically powers four lights. So how did they do it?

JBS has 60 branch offices in seven districts serving the poorest of the poor. SKBBL, meanwhile, partners with 384 small farmer cooperatives in more than 50 districts, many of them located in Nepal's remotest regions. JBS has some experience with providing biogas loans, but for SKBBL energy lending is new territory. To date, JBS is offering energy loans in all seven of its operating districts and SKBBL in 38 districts.

SKBBL wants the home of every member farmer—totaling 384,000 households—to be smoke-free and lit with solar energy. JBS has set up a subsidiary called JBS Urja ('energy' in Nepali) as a one-stop shop that not only markets products but also provides installation and maintenance services. It has 29 technicians and provides after-sales service within 48 hours. Smaller financial intermediaries operating near JBS are keen to partner with JBS given their distribution and servicing capacity. At the moment, JBS Urja is providing technical assistance and trainings to microfinance institutions that have requested technological support.

The ability to deliver a captive market has placed SKBBL and JBS in good positions to negotiate prices for their clients. In fact, the solar home systems they offer are about 3,000 NPR (US\$30) cheaper than market price. On top of this, SKBBL offers their energy lending at an interest rate 1 percent lower than that of their regular credit products. Every bit helps, given that many JBS and SKBBL clients live in grid-connected areas, and purchase solar home systems as a back-up source for an unstable electricity supply.



UNCDF's CleanStart Programme, in cooperation with the Austrian Development Cooperation, the Norwegian Agency for Development Cooperation (NORAD), the Government of Liechtenstein and the Swedish International Development Agency (Sida), aims to dramatically expand financing for low-income consumers who want to transition to renewable, clean energy. In Nepal, the programme is partnering with four financial service providers to provide rural households access to the credit they need to make this switch.

## DIGITAL FINANCE

The number of people worldwide who have some type of bank account jumped 22 percent between 2011 and 2014, indicating that new technologies, such as mobile phone ‘wallets’ and digitized payments, have made it easier for people in developing countries to connect to the formal economy. Globally, 62 percent of adults have a bank account, up from 51 percent in 2011.<sup>9</sup>

Along with these gains, big opportunities remain to increase financial inclusion, especially among women and poor people.

Moving from a cash-based economy to one where digital payments are prevalent has many potential benefits for governments, companies and the development community. It can improve the efficiency of making

payments by increasing the speed of payments and by lowering the cost of disbursing and receiving them. It can enhance the security of payments and thus reduce the incidence of crime associated with them. And it can increase the transparency of payments, thereby decreasing the likelihood of leakage between the sender and receiver. Shifting to digital payments can also provide an important first entry point into the formal financial system, which can lead to significant increases in savings and the substitution of formal for informal saving.<sup>10</sup>

In the post-2015 context, digitized payments can yield more than greater efficiency, significant cost savings and enhanced transparency. Taken together, these results can help to free up domestic

resources for priority investments. For example, in Mexico, the government is saving \$1.3 billion annually – or 3.3 percent of its total expenditures on wages, pensions, and social transfers – by making payments electronically.<sup>11</sup>

However, no one can single-handedly drive the transition to digital payments alone. That’s why UNCDF hosts the **Better Than Cash Alliance (BTCA)**, a partnership of governments, companies, and international organizations working collaboratively to accelerate the transition from cash to digital payments in order to break the cycle of poverty and drive inclusive growth.



[www.betterthancash.org](http://www.betterthancash.org)

**Building on its neutral status as a UNCDF-housed partnership, the Better Than Cash Alliance is uniquely positioned to capture and share insights and evidence, and convene a wide range of stakeholders to address policy, political and competitive barriers to this vital transition.**

<sup>9</sup> Global Findex Database 2014, World Bank.

<sup>10</sup> Ibid. See also ‘The Opportunities of Digitizing Payments’, 2014, World Bank, Better Than Cash Alliance, and Bill & Melinda Gates Foundation.

<sup>11</sup> Babatz, G., 2013. ‘Sustained Effort, Saving Billions: Lessons from the Mexican Government’s Shift to Electronic Payments.’ Better Than Cash Alliance Evidence Paper: Mexico Study.

With over 40 members, the Alliance serves as an **implementing partner for the G20 Global Partnership for Financial Inclusion** and is supported by the Bill & Melinda Gates Foundation, Ford Foundation, Citi, Omidyar Network, MasterCard, Visa Inc. and the United States Agency for International Development (USAID).

BTCA supports governments, companies and international organizations that are the key drivers behind the transition to make digital payments widely available by:

1

Advocating for the transition from cash to digital payments.

2 Researching evidence and the practical guidance necessary to drive the effective shift from cash to digital payments in a way that advances financial inclusion and implements responsible finance principles.

3

Catalysing the development of digital payments ecosystems at the country level that reduce costs, increase transparency, advance financial inclusion, empower women and drive inclusive growth.

While access to mobile financial services has made great strides in several countries, notably in Africa, LDCs present special challenges: they tend to have smaller populations and smaller transaction volumes, and are more rural than other countries. Physical infrastructure (roads, electricity and mobile signal coverage) is often limited, making it costly to maintain financial service infrastructure. Additionally, mobile network operators and financial services providers tend to invest less, seeing less mass market potential.

At the same time, as has been demonstrated in sub-Saharan Africa, mobile money accounts can drive financial inclusion. While

just 1 percent of adults globally say they use a mobile money account and nothing else, in sub-Saharan Africa, 12 percent of adults (64 million adults) have mobile money accounts (compared to just 2 percent worldwide); 45 percent of them have only a mobile money account.

In 2012, UNCDF, in partnership with the Swedish International Development Cooperation Agency, the Australian Department of Foreign Affairs and Trade, and the Bill & Melinda Gates Foundation, launched the **Mobile Money for the Poor (MM4P)** programme, a global initiative to demonstrate how the correct mix of financial, technical and policy support can build a

robust branchless and mobile financial services ecosystem in LDCs.

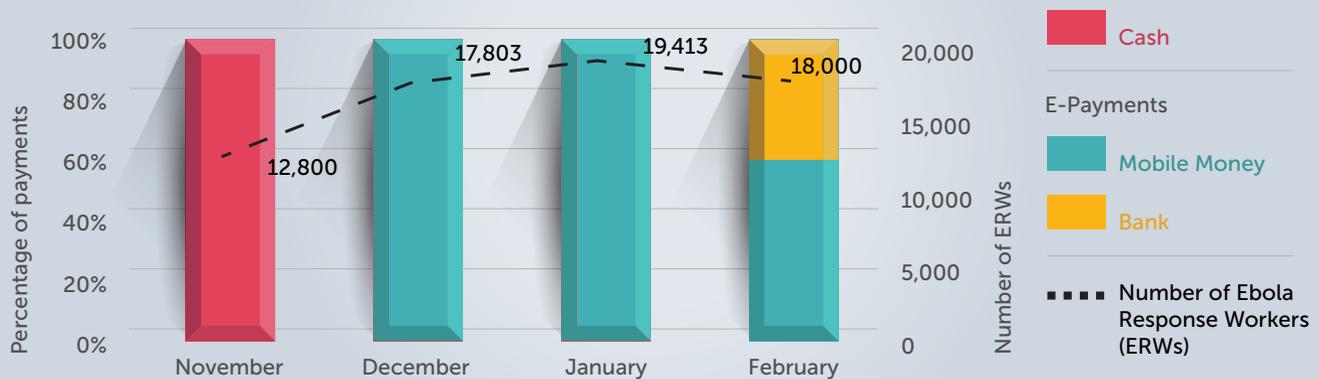
Implemented in Liberia, Lao PDR, Malawi, Nepal and Uganda, in 2014 the programme expanded to Benin, Senegal, and Zambia thanks to the support of The MasterCard Foundation. This expansion will allow MM4P to increase mobile-enabled delivery channels for financial services to serve 17.75 million active digital financial clients, representing a net increase of 11.58 million users across eight countries.



[www.uncdf.org/mm4p](http://www.uncdf.org/mm4p)

# Digitizing Payments to Ebola Response Workers

## Sierra Leone: Cash to E-Payments



As the world looked on at the situation in Sierra Leone, Guinea and Liberia, there was growing consensus that the national Ebola Response Workers (ERWs) were the cornerstone upon which the response rested. These workers were on the frontlines, transporting the sick, caring for the infected, tracing and monitoring the exposed, attending to the deceased, and providing security and coordination at all levels. It was clear that without their work the response could not be successful, and without adequate compensation and pay, these workers could not work.

In 2014, UNCDF and the Better Than Cash Alliance (BTCA) worked with UNDP and the UN Mission for Ebola Emergency Response

to set up the Payment of ERW Programme. There were many moving parts to consider: payment cycles measured in weeks rather than months; the swelling ranks of ERWs each pay cycle; a 20 percent turnover rate; and the lateral movements of workers to different health centres.

UNCDF began to address the key bottleneck of delivery of payments to the 'last mile,' by reinforcing existing payment systems – building on national capacities in payroll, the commercial banking sector, mobile network operators, emergency employment schemes, NGOs, and volunteers.

Through diligent collaboration with its partners, UNCDF was

able to balance the digitization of hazard payments to ensure that they met fiduciary standards, while at the same time using real-time electronic systems to keep these indispensable service providers adequately staffed and compensated.

Today, across the three countries, 95-100 percent of registered Ebola workers, approximately 38,000 people, are linked to payment mechanisms and in most payment cycles more than 90 percent of registered Ebola workers are being paid on time.

In Sierra Leone, 100 percent of the workers are paid via e-payments, with 40 percent through banks and 60 percent through mobile.

## Digital Payments in Crisis Situations: An Emerging Discipline

Historically, technology has been difficult to deploy during crises and conflicts. However there have been efforts to use it in early recovery – such as after the 2010 Haiti earthquake, and directly following the 2011 Pakistan floods.

In an emergency, the priority is to get money and resources to the people in need by any means

available. Whereas the humanitarian response industry has focused on cash transfers predominantly in hard cash, the financial sector development community has been taking advantage of cheaper, more adaptable technology to digitize payments and transfers, leveraging lessons derived from broader social safety net programmes.

UNCDF's experience in the Ebola crisis has proven that financially inclusive payments and transfers can occur even in the most difficult of circumstances. The next challenge will be to scale up the technology to maximize the longer-term benefits of payments and transfers, bolstering the effectiveness of fund delivery.

The Government of Rwanda, a member of the **Better Than Cash Alliance**, has committed to shift to digital payments and achieve 80 percent financial inclusion by 2017. The Better Than Cash Alliance is an alliance of governments, private sector and development partners committed to accelerating the shift from cash to electronic payments. With UNCDF as its secretariat, the Better Than Cash Alliance is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc.



## SOUTH-SOUTH COOPERATION

Since the adoption of the Millennium Declaration in 2000, many developing countries have experienced significantly faster economic growth than developed economies. The economic rise of the global South is undoubtedly a key driver of progress towards the Millennium Development Goals (MDGs). Global poverty decreased significantly and several other MDG targets have also been met ahead of time, including access to improved drinking water, gender parity in primary education and political participation of women. Others are on track to be met, such as the targets on fighting malaria and tuberculosis.

Despite these achievements, stark disparities persist – and in many cases have increased – between and within countries, between men and woman, across urban and rural areas. Much unfinished business remains to realize all of the MDGs.

Against this backdrop, the rise of the Global South and the dynamism of South-South cooperation are good news for the post-2015 agenda. The trends are extremely encouraging: South-South cooperation continues to grow rapidly, more than doubling between 2006 and 2011. While data on concessional South-South flows is incomplete, they are estimated at between \$16.1 and \$19 billion in 2011, representing more than 10 percent of global public finance flows. Non-concessional South-South flows, such as foreign direct investment

or bank loans, have also expanded dramatically in recent years.

Financial assistance is just one element of South-South cooperation. The value of South-South cooperation and assistance is enormous when 'bundled' with trade, investment and (often trade-related) technical cooperation.

As a UN agency with a financing mandate, UNCDF has a clear responsibility in helping to pilot and scale up financing mechanisms that facilitate more and better financing to support South-South and Triangular cooperation.

This means using ODA where needs are greatest, including least developed countries; making sure public financial resources can catalyse private financing; and helping to forge innovative public-private partnerships and to foster domestic resource mobilization.

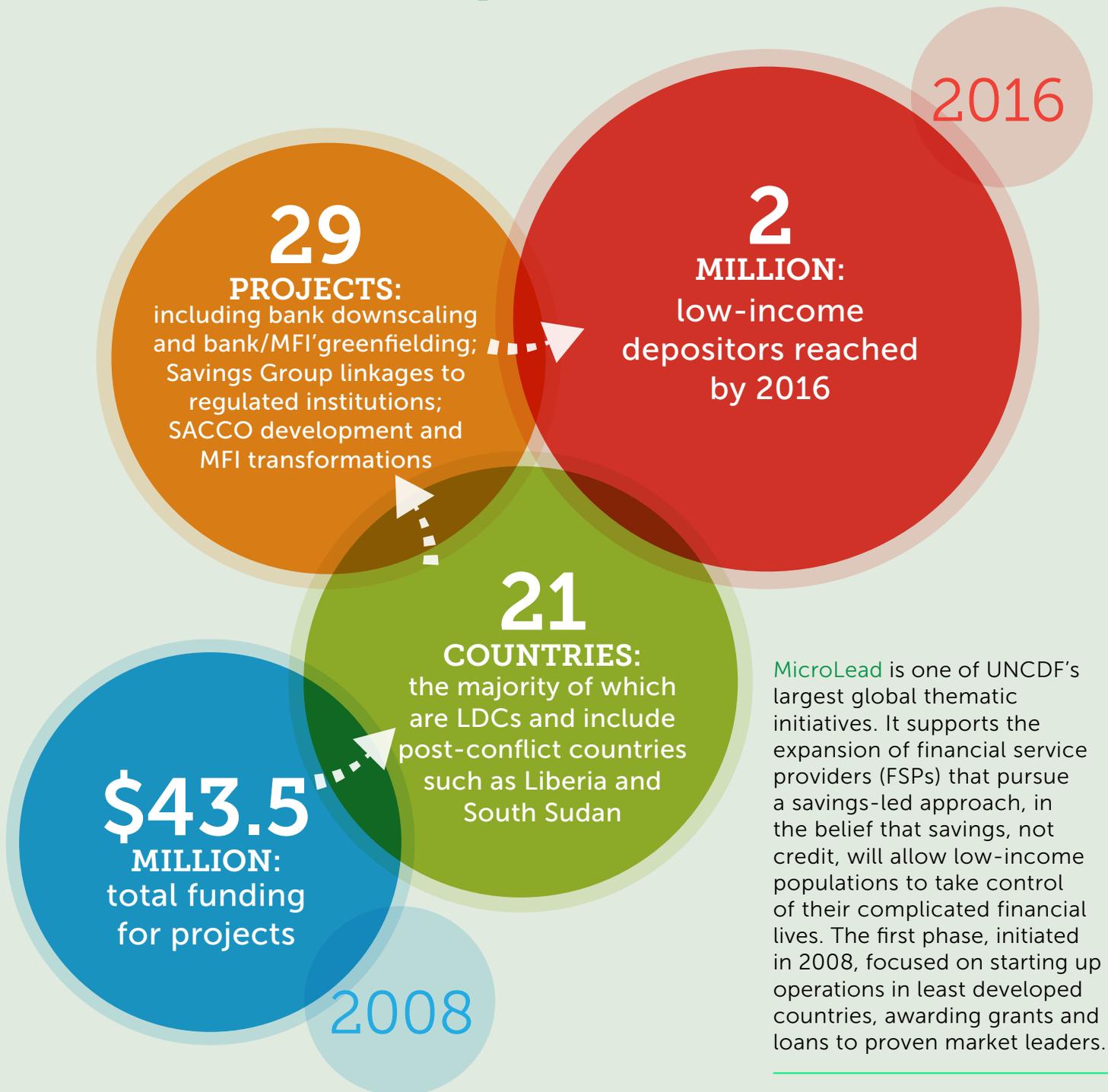
UNCDF's flagship programme [MicroLead](#) is recognized as an innovative approach to South-South cooperation for developing inclusive financial sectors. MicroLead supports southern microfinance market leaders to enter LDCs, with a focus on mobilizing savings from low-income populations. The competitively selected market leaders from the South (which include the Equity Bank from Kenya, Basix from India, BRAC from Bangladesh and CARD from the Philippines) brought about USD 100 million as their own equity to fund their expansion in

LDCs. The combined business plans of those new institutions showed that after five years of operations, their loan outstanding and saving balances would amount to about \$645 million.

Another aspect of South-South cooperation – characterized by great innovations – is the increasing cooperation between cities, towns and local governments. UNCDF is part of the global network of local governments that are exploring ways to promote local economic development and meet common challenges such as climate adaptation and the provision of infrastructure and housing in growing urban areas. Networks such as ICLEI and the United Cities and Local Governments (UCLG) unite towns and cities across advanced and emerging countries to address these problems and devise innovative financial mechanisms that foster local development.

In the field of climate change, UNCDF has taken this logic a step further to create a mechanism – called the [Local Climate Adaptive Living Facility \(LoCAL\)](#) – for local governments in LDCs to secure public and private finance for building climate resilience. This is a concrete example of South-South collaboration as the mechanism is governed by the LDCs themselves and includes an active agenda for knowledge-sharing. As a result of this framework, countries like Cambodia and Bhutan have secured climate finance for their local governments of over 50 times the original UNCDF seed capital investment of \$1 million.

# Savings as a Stepping Stone to Women's Economic Empowerment





SAVINGS



WOMEN



RURAL



TECHNOLOGY

The second phase, started in 2011, includes capacity-building by technical service providers with FSPs. The FSPs are poised for significant growth in providing deposit services to low-income populations via alternative delivery channels, with a focus on outreach to rural areas, women and financial education.

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MicroLead began in 2009 when UNCDF, in partnership with the Bill & Melinda Gates Foundation, initiated a flagship \$27 million global inclusive finance programme to provide loans and grants on a competitive basis to microfinance institutions, commercial banks and financial cooperatives based in developing countries and pursuing a savings-based approach to expand operations to underserved markets. At the end of 2014, over one million new active depositors had been reached by the programme across African and Asian LDCs.

Expanded in September 2011 with a contribution from The MasterCard Foundation, UNCDF launched the expansion of MicroLead in sub-Saharan Africa via a \$23.5 million, six-year programme to increase access to deposit services for a minimum of 450,000 low-income people in rural markets employing alternative delivery channels and financial education to increase uptake and usage.

One year later, UNCDF expanded MicroLead to Myanmar with a \$7 million, 4.5-year grant from LIFT Myanmar, a multi-donor trust fund. The Myanmar programme awarded funding to three Asian microfinance leaders to support their entrance into Myanmar. As with the other two phases, MicroLead Myanmar's focus is on deposit services to rural low-income populations.

One example within its sub-Saharan Africa Expansion phase is MicroLead's support to NBS Bank in Malawi to increase its rural outreach via alternative delivery channels with a focus on women.

Based on the findings of TSP Women's research undertaken with NBS Bank, the project team developed the Pafupi savings account, a mobile savings account designed for low-income people in rural areas, especially women with no previous access to a bank account.

In October 2014, NBS launched its pilot of the Pafupi savings product through the NBS's proprietary Pafupi agent network.

Pafupi savings accounts have no monthly fees and enable women to bank in their neighbourhoods, cutting the cost of transport and therefore the cost of accessing formal financial services. Pafupi offers transaction services through local shops, which serve as bank agents. The agents and bank customers transact using a mobile phone.

At year-end 2014, NBS's Pafupi pilot counted 63 active agents offering access to its bank services and had opened 1,530 branchless Pafupi accounts. The early pilot results confirmed the partners' original findings and will be the basis for the bank's planned institution-wide roll-out of the Pafupi product in 2015. Through the MicroLead project, NBS expects to double the number of customers it serves by 2016.

# ASSESSING OUR WORK

In order to stay innovative and relevant, UNCDF's portfolio is built on a tradition of learning. This is why UNCDF has maintained its strong commitment to evaluation, so that lessons inform the evolution of our approaches and models, and allow us to account rigorously for the public resources with which we are entrusted.

So far, UNCDF has completed 24 external evaluations since 2010. In 2014, UNCDF completed one final evaluation, related to the Support Programme to Decentralisation, Deconcentration and Local Economic Development in Benin, and began three others: a Phase I final evaluation of the YouthStart programme, supporting the development of youth financial services in eight African countries; a mid-term evaluation of the expansion phase of the MicroLead programme, supporting the expansion of savings-led models across sub-Saharan Africa; and a thematic evaluation of the performance of UNCDF's local development fund mechanism in African and Asian LDCs since 2005.

Findings of UNCDF evaluations benefit the wider development community as well. The Government of Belgium used the results of the Benin evaluation in deciding how best to support food security in Africa going forward, while UNCDF is using the same results in the design of a new global food security programme planned for 2015.

Understanding the 'user journey' was at the core of a learning event organized for grantees and partners from two UNCDF programmes, MicroLead and Mobile Money for the Poor. Through meeting and talking with agents and clients directly, the participants, mostly providers of digital financial services, were able to identify ways to improve their services in rural areas by adopting a more customer-centric approach.





## What Others Say about Us

“One of the best examples of innovation and creativity in the UN system.”

US Mission to the United Nations

2015 First Regular Session of the Executive Board

“As a small organization focused on collaboration with the private sector, UNCDF is particularly strong in the areas of policy development and sharing these developments with the wider development community.”

2012 Australian Multilateral Assessment

“UNCDF’s work directly supports national ownership, with the project in the Solomon Islands, for example, exemplifying the principles of the Paris/Accra Declaration.”

2010-2012 European Commission

Results-Oriented Monitoring Reports

“If there is something that works, it is UNCDF. You are a very important organization for us.”

Permanent Mission of the Republic of Benin to the United Nations

2015 First Regular Session of the Executive Board

“UNCDF’s flexible grant instrument puts it in a unique position to support the building of inclusive financial sectors.”

The SmartAid for Microfinance Index 2013

UNCDF scored 2nd among 19 agencies

# PARTNERS AND RESOURCES

Its role as catalyst and incubator means that UNCDF must continually draw on a strong and expanding network of partners. Partnerships support innovation labs, which bring together a range of partners to find cost-effective and scalable solutions to some of the biggest challenges affecting developing countries. Partnerships enable UNCDF to reach those most in need faster and more efficiently.

## Two Examples of Partnership Power

**1** Access to mobile phones can be a game changer for the poor, particularly for those 2 billion adults who lack access to financial services. The **Mobile Money for the Poor programme (MM4P)** supports branchless and mobile financial services in select LDCs, to demonstrate how the correct mix of financial, technical and policy support can build a robust branchless and mobile financial services ecosystem.

The programme is designed to focus specifically on very poor countries where the commercial business case for branchless banking and mobile money is marginal, but the needs of the population are great.

In March 2014, the Bill & Melinda Gates Foundation joined UNCDF's MM4P to help banks, mobile network operators, regulators and users of these services to reach millions of new unbanked customers. And in October, The MasterCard Foundation came aboard to expand MM4P into three additional LDCs – Benin,

Senegal, and Zambia – bringing the total number of LDCs where MM4P is active to eight.

MM4P will now be able to increase mobile-enabled delivery channels for financial services to serve 17.75 million active digital financial clients, representing a net increase of 11.58 million users across eight LDCs. These targets aim to catalyse the uptake needed for the market to have sufficient momentum to ultimately reach the majority of the adult population.

**2** In 2014, in close partnership with Swedish International Development Cooperation Agency, UNCDF launched the initiative **Leveraging Domestic Finance for Inclusive Growth and**

**Resilience in LDCs**, which will focus on identifying, selecting and developing a pipeline of gender-sensitive, investible projects and public infrastructure.

This new partnership will finance investible pipelines of public and private projects monitored and measured

by impact on local development indicators. The initial financing are for food security, clean energy and climate resilience. Gender awareness is mainstreamed throughout the fund and will be applied using UNCDF's LFI, Cleanstart and LoCAL programmes.

In 2014, UNCDF expanded its partnerships within the United Nations, the philanthropic community and the private sector in an effort to develop viable financing models in pursuit of local economic development.

The UNCDF development partners' base has broadened, with 44 development partners supporting UNCDF's work in 2014, up from 36 in 2013.

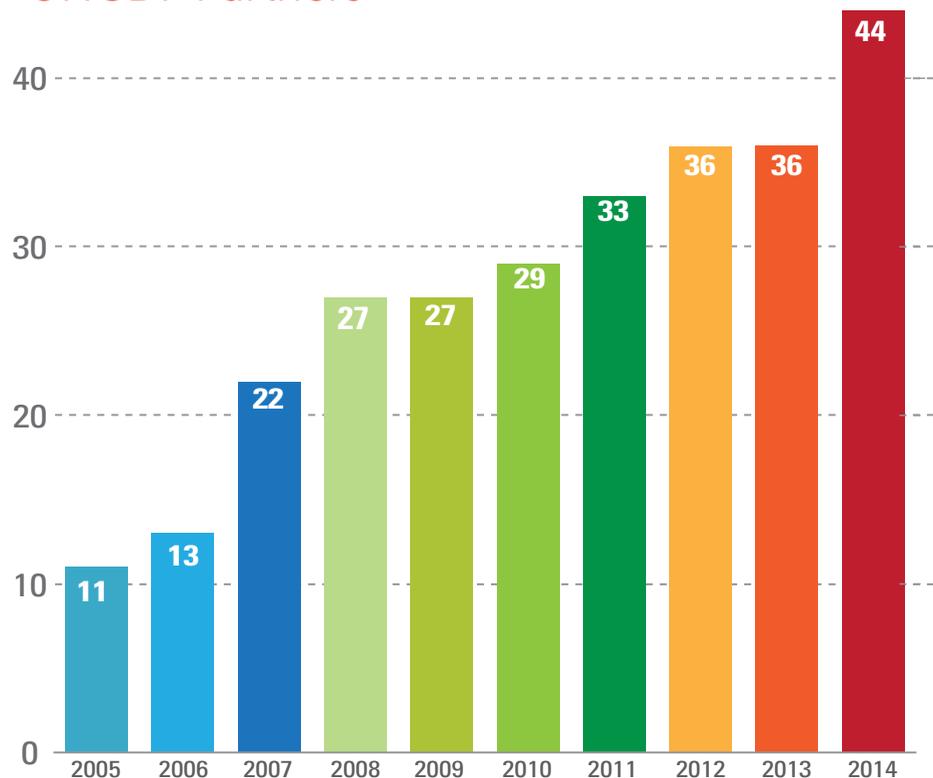
In 2014, owing mainly to increasing non-core contributions, **total UNCDF revenue reached \$88.3 million, up from \$65.4 million in 2013.** Contributions to UNCDF in 2014 included \$21.1 million from private sector foundations and corporations, representing 23.8 percent of total resources.

In 2014, **UNCDF's top overall donors** were Sweden, the United Nations Multi-Donor Trust Fund, The MasterCard Foundation, the European Commission, Belgium, the Bill & Melinda Gates Foundation, Switzerland, Denmark, Australia and Luxembourg.

In the same year, **UNCDF's top core donors** were Sweden, Switzerland, Belgium, Luxembourg, and the United States. **Non-core contributions reached a record high of \$73.3 million in 2014** (26 percent of which originated from eight major private sector foundations and corporations), **an increase of 51 percent** from 2013.

**Core contributions** reached some \$14.9 million in 2014, a \$1.4 million decrease from 2013, and still falling well short of the \$25 million target required to sustain UNCDF operations in 40 LDCs.

## UNCDF Partners



# Contributions to Regular and Other Resources in 2014

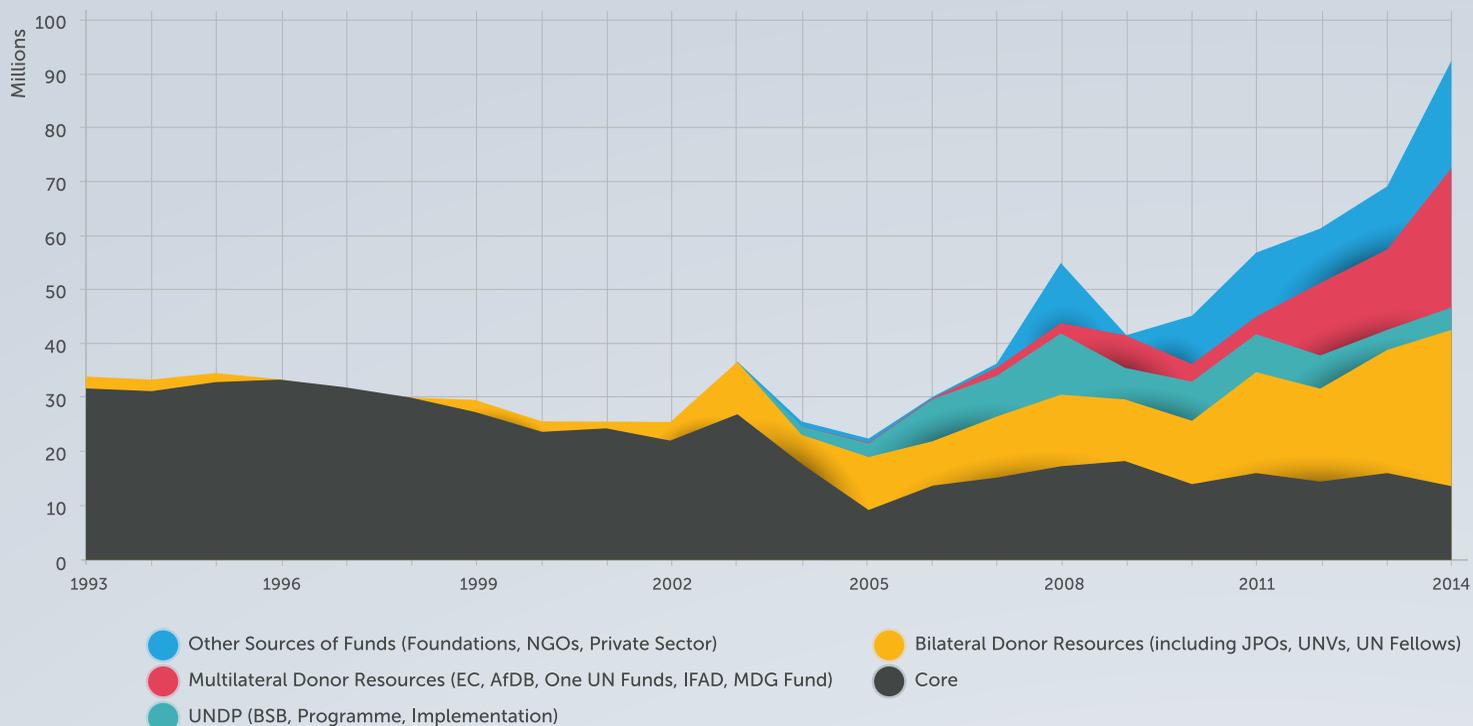
in United States dollars

#	Country/Institution	Regular	Other*	Total
1	Sweden	3,538,682	15,462,204	19,000,886
2	Multi-Partner Trust Fund		14,105,295	14,105,295
3	The MasterCard Foundation		11,977,879	11,977,879
4	European Union		10,880,481	10,880,481
5	Belgium	2,721,088	3,021,846	5,742,935
6	Bill & Melinda Gates Foundation		4,561,000	4,561,000
7	Switzerland	3,340,757		3,340,757
8	Luxembourg	1,632,653	1,571,906	3,204,559
9	Denmark		2,924,529	2,924,529
10	Australia		2,859,371	2,859,371
11	USA	900,000	1,250,000	2,150,000
12	DfID		1,019,264	1,019,264
13	Omidyar		1,000,000	1,000,000
14	Norway	834,168		834,168
15	VISA		800,000	800,000
16	IFAD		529,650	529,650
17	CITI Foundation		500,000	500,000
18	Master Card Worldwide		500,000	500,000
19	Italy	249,066	209,308	458,374
20	Austria	408,163		408,163
21	UNDP		400,000	400,000
22	Kuwait		383,913	383,913
23	MetLife Foundation		250,000	250,000
24	FMO		200,000	200,000
25	Liechtenstein		110,914	110,914
26	Ford Foundation		60,598	60,598
27	China	30,000		30,000
28	The Netherlands		27,000	27,000
29	Myanmar	9,780		9,780
30	Bhutan	8,035		8,035
31	Thailand	5,000		5,000
32	Vietnam	1,000		1,000
33	Other	(2,500)	(1,346)	(3,846)
<b>TOTAL</b>		<b>13,675,893</b>	<b>74,603,812</b>	<b>88,279,705</b>

\* Other Resources include UN Fellows, JPOs and UNVs fully funded by donor countries.

# Diversification of Resources: Contributions to UNCDF 1993-2014

in United States dollars



## Why is it Important to Invest in UNCDF's Core?

Core contributions allow UNCDF to **innovate and prove concept**. They allow UNCDF to **field substantive expertise** to a country for a period of 12 to 18 months to develop relevant programmes, embed with UNDP and United Nations country teams, **develop and maintain critical public and private partnerships, and mobilize the resources** required to operationalize the programme.

UNCDF has a track record of achieving on average a 1:4:10 leverage ratio of core to non-core to domestic and other investment resources.

Core contributions also make it possible for UNCDF to **maintain a presence in the UNDP country office for the duration of the programme**, a model whose value has been demonstrated over decades of successful scaling up and joint work in wedding financing models with governance and policy change.

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'Empowering women to participate in the economy is smart economics.' This is why the [Pacific Financial Inclusion Programme \(PFIP\)](#), in cooperation with UNDP, DFAT, the Government of New Zealand and the EU, wants to reach out to 500,000 women across the Pacific by 2019 providing them access to appropriate and affordable financial services. In total, PFIP aims to add one million Pacific Islanders to the formal financial sector by 2019, through creating national-level financial education initiatives and spearheading catalytic policy initiatives.



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