



# A Year in the Work of UNCDF

Twelve Months in Creating New Opportunities  
in the Least Developed Countries

**2011**  
Annual Report

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# Interview

with UNCDF's  
Executive Secretary  
David Morrison

David Morrison headed UNCDF as Executive Secretary from 2008 to 2012 and helped lay the groundwork for UNCDF's recent growth. In this interview Mr. Morrison recalls the highlights of UNCDF's work in 2011, and shared his thoughts about the future.

## Looking back over the past year, what are the achievements you would highlight?

UNCDF had a good year in 2011. The statistics bear this out: contributions to UNCDF grew to \$52 million in 2011, up 27 per cent from 2010. Programme delivery grew to roughly \$60 million, up 22 per cent from 2010 and more than double the 2006 figure. These statistics represent a continued growth trajectory that began four or five years ago.

Growth is good, but of course care must be taken that it does not lead to compromises in the quality of core programmes. That is why we have been stepping up our investment in evaluation and programmatic review. 2011 was the most intense year on record in terms of examining our own programmatic performance. Here, again, the results have been quite positive. Recent evaluations confirm the relevance and soundness of our overall approaches in helping local governments strengthen public investment and basic

## Interview

UNCDF Executive Secretary David Morrison visits country operations in Bangladesh. UNCDF has been a long-term development partner of Bangladesh. Over the past three decades UNCDF has helped its Government meet its development challenges by focusing initially on local agriculture, and then more recently on decentralization and local service delivery.



service delivery and in ensuring that financial services reach more poor people and small businesses.

In 2011, UNCDF was also rated highly by the independent SmartAid for Microfinance Index, receiving 83 out of the 100 points, the highest score amongst agencies participating in SmartAid 2009 and SmartAid 2011.

Finally, UNCDF was assessed very positively in the 2011 Australian Multilateral Assessment (AMA) — which assessed 42 multilateral institutions in terms of their organizational effectiveness — particularly in terms of sound approach in working in fragile states; development and promotion of innovative approaches; close attention

to the cost effectiveness of programmes; and an inclusive approach to programming.

So, while we can always do better, I think that 2011 was a pretty sound year for UNCDF.

**Your tenure as head of UNCDF coincided with turbulent times for the developing world and many aid organizations. It seems that UNCDF has been able to weather the storm. How did UNCDF manage that?**

UNCDF has continued to grow and deliver value despite the tough times. The primary reason for

this is that we have invested significantly in organizational change. Over the past decade, we have decentralized our operations to be closer to the people we serve: we have moved 50 percent of our staff to the field. Most of our new global initiatives are managed by staff in the regional offices in Bangkok, Dakar, and Johannesburg.

We have diversified our donor base to include private foundations. In fact, private foundations such as The MasterCard Foundation and the Bill & Melinda Gates Foundation are now among our largest donors. We have also worked on building partnerships with institutions that help enhance our impact, including training institutes, think tanks, and multilateral organizations like the OECD. Evaluation and knowledge generation have become a priority to make sure we continue to stay relevant and effective. We have worked hard to develop new products that address today's challenges and opportunities, such as climate change adaptation, clean energy, mobile banking and public-private partnerships.

### What's the outlook for the future?

If for the past year key word has been "Growth", for the present and future is certainly "Innovation".

UNCDF has recently developed a number of new initiatives which will make a real difference

to people's lives in many world's poorest countries. We're always working to keep pace with the changing realities on the ground and our new initiatives tackle a host of emerging challenges: climate change adaptation, energy poverty, mobile banking and public-private partnerships.

We recently launched for example a new financing facility called *LoCAL*, which is investing in climate resilience at the local level. UNCDF's new *CleanStart* programme is working with financial service providers to help poor people and small business invest in clean energy products such as solar panels and clean burning stoves. We also recently launched a *Mobile Money for the Poor* — or MM4P — programme, which builds on previous work on mobile banking in the Pacific. MM4P is going to focus on post-conflict countries to improve people's access to financial services, especially savings products. Our new *Local Finance Initiative* is now working in Tanzania and Uganda to match sleepy capital sitting in domestic pension funds and banks with high impact local investment opportunities in small-scale infrastructure and public utilities.

All of these innovative initiatives are currently being tested in a few countries, and will be rolled out more widely over the course of 2012.





## UNCDF's work around the world



Local Development



Microfinance



“ UNCDF should be seen as a  
development actor that  
paves the way for others. ”

— 2008 Assessment of Multilateral Organizations,  
Government of Sweden

“ UNCDF fulfills an important  
risk-taking and innovation role  
that other development agencies  
and governments are interested in  
expanding and building on. ”

— 2004 UNCDF Independent Impact Assessment

“ There is evidence that UNCDF  
has contributed to impacts on the  
policy environments in the countries  
in which it works and it has been  
successful in leveraging replication  
of its approaches by a diverse  
group of donors. ”

— 2004 Universalia Independent Impact Assessment

“ UNCDF has a clear focus on  
pushing the frontiers of financial  
inclusion in some of the most difficult  
markets.... It is well placed to develop  
and pioneer new initiatives. ”

— The SmartAid for Microfinance Index 2011

“ A much-needed intervention,  
geared towards poverty reduction  
through micro-infrastructure  
development. ”

— 2010 European Commission  
Results-Oriented Monitoring Report  
Laos Saravane Decentralisation Project

# January 2011

## Pioneering Financial Education in Nepal

Since the end of the civil war in 2006, Nepal has changed dramatically. Overall poverty rates have declined, almost all children now attend primary school, and women make up 30 percent of the representatives in parliament. Yet, despite these impressive achievements, almost one third of the population still lives below the national poverty line.

UNCDF has been working towards making financial services available for the poor in Nepal for decades, by supporting providers that offer a range of financial products at a reasonable cost, including savings, credit and insurance. But access to financial services is only a first step towards enabling people to build better futures. In order to **empower poor families and small businesses** to make informed choices, financial education is key.

Living on around one dollar per day requires tremendous financial skill. In Nepal as elsewhere, poor people rely mostly on family and informal networks to manage their finances. Although their incomes are small and paid at unpredictable intervals, they devise strategies to save, invest and borrow by entrusting money to a neighbor for safekeeping or visiting a moneylender in times of need. Unfortunately, these strategies can at times be unnecessarily risky and costly.

January



Clients of Swabalamban Laghubitta Bikas Bank, a microfinance development bank in Nepal supported by the UNCDF/UNDP Enhancing Access to Financial Services Programme, are attending the monthly center meeting, for repayment, loan demand and savings deposit. The overarching goal of the Programme is to contribute to the achievement of the Millennium Development Goals, in particular Goal 1 of cutting absolute poverty in Nepal by one third by 2015, by increasing sustainable access to financial services for poor and low-income people.

In January, UNCDF launched a new initiative in Nepal that aims to **empower poor people by teaching them the basics of personal finance**. Working with financial service providers and the Central Bank, UNCDF conducted a training course on how to deliver financial education for specific target groups. As a result, these organizations are now equipped to broaden their clients' knowledge of financial options and promote effective money management. The course covered **all aspects of financial literacy** from identifying the needs and demands for financial education to monitoring and outcome evaluation.

Just as there is a renewed emphasis on financial education in the developed world in the aftermath of the economic crisis of 2009, financial literacy is gaining traction across the developing world. Financial education is especially important in the context of rapidly expanding microfinance institutions in Nepal and elsewhere. **Combining access to financial products and services with financial education will allow poor people to realize the benefits from financial inclusion and manage their incomes in ways that maximize wellbeing and ultimately contributes to pro-poor growth.**

In Nepal, UNCDF also seeks to support efforts by financial institutions and regulators to deepen, broaden and scale up the outreach of financial services. The initiative is taking the lead in assisting the Government of Nepal in formulating a **National Strategy for Financial Literacy**. Lessons from the initiative will also feed into the process of developing a regulatory framework for the microfinance sector in Nepal. These efforts will also contribute to the formulation of the Microfinance Act, which will likely be passed in the course of 2012.

UNCDF is also promoting financial education in other countries as part of the *Pacific Financial Inclusion Programme (PFIP)*, which is being implemented jointly with UNDP, financed by AusAID and the European Union. The PFIP aims to find new ways to provide financial services to hard-to-reach

populations and is active in Fiji, Papua New Guinea, Samoa, the Solomon Islands and Vanuatu.

## Bangladesh: Innovating and Paving the Way for Partners

Bangladesh has become one of Asia's most dynamic economies and is on track to meet the Millennium Development Goals' first target of halving poverty by 2015. UNCDF has been on the ground for decades. In particular, UNCDF and its partners have been

focused on upgrading the local government system that delivers public services in remote rural areas.

Local governments matter because they are the primary nexus between the citizen and the state. They provide much of the basic infrastructure that is essential to MDG attainment: rural roads, primary schools, health facilities, irrigation schemes, water and sanitation. **When local governments function well, citizens' voices are heard, investment responds to real needs, and economies begin to grow.**



As part of the Learning and Innovation Component of the Local Governance Support Project, UNCDF helps the Government of Bangladesh build the capacities of 388 Union Parishads — the lowest tier of administrative government — to manage their resources and deliver infrastructure and basic services in a manner that responds to local needs. In one of the country's poorest regions, the Union Parishad has built a new road which serves for transportation and gives people access to local markets.

Today in Bangladesh a system is in place that rewards local governments for performing well. If local governments can demonstrate that they involve the population in determining spending priorities and that they comply with financial management regulations, they are eligible for an additional grant, which is reinvested locally into public infrastructure or services. The fact that the population is aware of this increases the pressure for local governments to perform, creating **a virtuous cycle of accountability, performance and investment.**

UNCDF first designed and tested this performance-based investment model in the district of Sirajganj in central Bangladesh in the late 1990s. Robust results have subsequently convinced the World Bank to take on this approach and roll it out nationally. Meanwhile, **UNCDF continues to innovate and test new incentives to further enhance local governments' performance and responsiveness to local needs.**

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

initiative is to continue to enhance local government investment and performance, while deepening local democracy. UNCDF is also testing ways to develop the capacities of local governments with regards to new but necessary competencies in disaster risk reduction and preparedness.

In total, the *Union Parishad Governance Project* will invest over US\$ 18 million until 2016. Approximately 400 local governments or Union Parishads in seven districts will be eligible for these investment grants. The project fits squarely with Bangladesh's National Rural Development Policy, which wants Union Parishads to become "facilitators" for development and growth in rural areas.

UNCDF's innovations on the ground have also had a considerable impact at the policy level in Bangladesh. For instance, the participatory principles tested in earlier projects have become enshrined in the Local Government Act. The *Union Parishad Governance Project* will continue to ensure that **successful experimentation on the ground feeds into policy development**, and that the country's impressive aggregate growth figures translate to more pro-poor investment.

# February 2011

## LoCAL and CleanStart: Financing Climate Change Adaptation and Clean Energy Solutions

Extreme weather events such as droughts, floods, landslides, and cyclones have been occurring with increased frequency, hitting least developed countries especially hard. Not only are LDCs home to the vast majority of victims from climate change and natural disasters, but the associated economic toll is grave. When agriculture makes up the bulk of GDP and most people are subsistence farmers, changing weather patterns come at a huge human and economic cost. Climate change and natural disasters have also exacerbated energy constraints for the world's poorest.

Much of UNCDF's work in the early months of 2011 focused on designing interventions to address the twin challenges of climate change adaptation and clean energy access in LDCs. Throughout the year, both UNCDF thematic practices — working on *Finance for Local Development and Financial Services for the Poor* — engaged with leading experts and stakeholders to think through possible interventions. As a result, UNCDF was able to launch two new global initiatives to **help LDCs begin taking steps towards a green economy**: the *Local Climate Adaptive Living Facility (LoCAL)* and *CleanStart*.

## Local Climate Adaptive Living Facility

The LoCAL Facility is designed to finance local governments' climate adaptation efforts. **Building climate resilience requires many small investments**, such as improving drainage systems to cope with increased rainfall or raising the level of bridges where rivers are prone to flooding. Local governments are at the frontline in terms of identifying these measures and making them happen. What they tend to lack is the necessary fiscal space. That is where the LoCAL Facility comes in.

Capitalizing on UNCDF's investment mandate and expertise in public finance, LoCAL connects local governments to international financing earmarked to build climate adaptation and resilience. Funds are channeled through existing national intergovernmental fiscal transfer systems and supplement regular transfers with performance-based climate resilience grants. **Communities and their local governments jointly identify the most pressing climate adaptation needs** to which the supplementary funds are to be applied. The transfers can also be used for investments that promote food security — such as water catchment systems that help farmers manage droughts — or investments for climate-related disaster risk reduction and preparedness.

Currently, LoCAL is being tested in Bhutan and Cambodia. In both cases, LoCAL is building

on existing UNCDF local development projects. In Bhutan, the first round of **performance-based climate resilience grants** has been disbursed, and the districts of Zhemgang and Wangduephodrang in the Phobjica valley are using the funds to maintain and climate-proof their infrastructure.

By linking climate finance to national planning and budgeting processes, large sums can flow quickly and effectively, **minimizing administrative cost**. UNCDF's expertise in public financial management has also provided support to strengthen transparency and accountability. As a result of the early success of LoCAL, it has now become a key element of the Royal Government of Bhutan's climate fiscal framework.

Through its work on LoCAL, UNCDF was also active in the relevant climate change policy fora in 2011. The LoCAL facility was presented at the *Climate Change Summit (COP 17)* in Durban, South Africa, in a high level panel discussion convened with UNDP's Energy and Environment Group and the Global Environment Facility. Environment Ministers from Maldives, El Salvador, Nigeria, Gambia, Vanuatu spoke at the event.

LoCAL was also discussed at *ICLEI — the Local Governments for Sustainability conference* — which was opened by South African President Jacob Zuma this year. Mayors from around the world





In many developing countries, local governments lack the fiscal space to invest in 'climate-proofing' existing infrastructure or to undertake other forward-looking investments that help build resilience. LoCAL (Local Climate Adaptive Living Facility) is the UNCDF facility for investment in local level climate resilience. Focused on least developed countries, the facility channels global adaptation finance to local governments to help them invest in building community resilience. In the Mekong Region, Cambodia, LoCAL grants helped communities to adopt to climate change and to respond to its increased intensity of flooding.

discussed the role of local governments in preparing and **implementing integrated, inclusive and long-term local adaptation strategies**; as well as the potential of LoCAL to finance that process. In the course of 2012, LoCAL will be extended to additional LDCs in Africa and the Arab States.

## CleanStart: Financing Clean Energy Access

Expanding energy access is essential to tackling poverty. At present, 1.5 billion people struggle to get by without electricity, 80 percent living in the LDCs of South Asia and sub-Saharan Africa. The

lack of electricity isn't just a drain on employment, productivity and learning: exposure to smoke from cooking with biomass and coal causes two million deaths per year. This affects children in particular, as the use of solid fuel is estimated to cause half of all under-five deaths from pneumonia in LDCs.

Where modern energy services are unavailable, people resort to expensive and unsustainable methods, which can exacerbate energy insecurity and leave communities more vulnerable to the effects of climate change. As technology offers new clean energy solutions, **expanding access to them requires to tackle a number of financial and non-financial barriers.**



*CleanStart* Programme applies a sector-wide approach that addresses bottlenecks in financing, value chains and regulations. In particular, it introduces financing arrangements so that **poor people can gain access to clean energy technology such as solar panels or clean burning stoves**. Building on UNCDF's expertise on financial services for the poor, *CleanStart* will boost clean energy access for poor households and micro-entrepreneurs through microfinance institutions.

In UNCDF's partner countries, microfinance institutions are well placed to provide the products and services poor households and micro-entrepreneurs need to pursue clean energy opportunities. *CleanStart* will promote such financing arrangements, support quality assurance measures and offer advisory services to contribute to a mutually beneficial cycle of investment, awareness-building and the creation of a new, higher return market segment.

The project will be implemented in partnership with UNDP, aiming to **lift at least 2.5 million people out of energy poverty by 2017**, in ways that can be replicated and scaled up by others. Over the course of 2012 *CleanStart* will be piloted in Nepal

and one African LDC. The first country assessment for Nepal was already concluded in 2011 and the detailed project design is currently underway.

Subject to approval by the Government of Nepal, *CleanStart* will work with the Alternative Energy Promotion Centre (AEPD) and **a range of financial institutions to drive a dramatic expansion of financing available** to end users. *CleanStart* plans to support the AEPD by designing and establishing a US\$ 350 million refinancing window within it.

The *CleanStart* programme in Nepal plans to work with a range of financial institutions to maximise prospects for scale and generate lessons about how different institutions promote energy access. UNCDF will work with agencies that provide wholesale finance to Microfinance Institutions (MFIs), cooperative federations and MFIs themselves.

Through *CleanStart* UNCDF is also advocating for clean energy access for the poor. At the *Rio+20 United Nations Conference on Sustainable Development* in June 2012, UNCDF will host a round-table on *CleanStart* with some of its closest partners to advocate for increased financing for clean energy.

# March 2011

## UNCDF in Post crisis and Fragile States: Investing in Local Economic Recovery

UNCDF's economic development mandate — building public and private financing mechanisms that catalyze economic growth and improve livelihoods — is especially relevant in post-conflict settings. Together with UNDP, UNCDF is among the first agencies to assist post-conflict or fragile states in their recovery phase, providing capital and technical assistance to re-establish local governments' capacity to deliver basic services, and helping financial service providers set up their operations to allow poor people and small businesses to begin the process of rebuilding their livelihoods.

Historically, UNCDF has always had a special commitment to countries emerging from conflict or crisis. In 2011, **almost one third of UNCDF's investment portfolio was in LDCs that have recently emerged from conflict.** Currently, UNCDF is active in Burundi, the Central African Republic, the Democratic Republic of Congo, Guinea Bissau, Haiti, Liberia, Nepal, Sierra Leone, Somalia, South Sudan and Timor Leste.

UNCDF's approach in post-crisis environments is focused on introducing solutions that help build robust government systems and trigger sustainable local development dynamics. That means that funds

March

are delivered through national budgets — not through parallel structures — to help build national systems for public financial management, planning and accountability. When promoting financial services, close attention is paid to the profitability of financial service providers and the quality of their portfolios.

Last year, UNCDF's contribution to stabilization and recovery was recognized with its first grant from the UN Peacebuilding Fund to implement a livelihoods and local economic recovery project in the Acholi Region in Northern Uganda. Project implementation began in 2011 in close partnerships with the Food and Agriculture Organization, the International Organization for Migration, UNDP, and the World Food Programme.

Although Northern Uganda has been relatively peaceful and many formerly internally displaced people have returned to the region, its economy remains stagnant and heavily dependent on aid. Last year, UNCDF worked with local governments in Kitgum, Lamwo and Amuru to foster an enabling economic environment by defining and implementing **conflict-sensitive local economic development** plans. Some of the issues that the plans aim to address include natural resource management, cross-border trade with South Sudan and commercial farming.

Across the border in South Sudan, UNCDF has been supporting post-conflict reconstruction by



UNCDF's MicroLead programme, an initiative supported by the Bill & Melinda Gates Foundation and The MasterCard Foundation, provides loans and grants to leading microfinance institutions on a competitive basis to facilitate their entry into world's poorest countries where access to finance is most limited, especially in countries recovering from conflict and crisis. In Juba town in South Sudan a client of Finance South Sudan Limited, one of MicroLead's grantee, has been able to increase her tailoring works and incomes as a result of the loans advanced to her.

enabling financial service providers to set up operations in Africa's newest country. Kenya's Equity Bank initiated operations in Juba, South Sudan, in June 2009, with funding from UNCDF's MicroLead initiative. The bank now has over 37,000 depositors and is projected to reach 132,000 depositors by the end of 2013. Approximately 20 per cent of its clientele

are women, which is significant since in South Sudan there are inherent cultural issues which hinder women from actively participating in economic activities.

Equity Bank's operations became **operationally sustainable** within nine months despite a challenging country context where operating expenses are extremely high. This is because all construction materials must be trucked in from Nairobi or Kampala, the legal framework is still evolving, parts of the country remain in conflict, and the road network is almost non-existent. Nevertheless, Equity Bank has to date opened three branches in Juba and Yei, while additional branches are under construction across the country. Furthermore, to deepen outreach among rural communities, the bank has procured leases for branches in Nimule, Torit and Bor. With the addition of these branches, country coverage will be approximately 45 percent, allowing many South Sudanese to **rebuild their lives after decades of instability and conflict**.

## Evaluations Confirm Effectiveness and Provide Impetus for Continued Improvement

As in previous years, taking risks and trying new approaches went hand in hand with a commitment to **continuous assessment and improvement**. To examine performance against programme and corporate objectives, seven project and programme

evaluations and one thematic portfolio review were commissioned in 2011, taking an in-depth look at results achieved from Haiti to the Solomon Islands.

The message is encouraging. Results of evaluations and programme reviews **reaffirmed the relevance and effectiveness of efforts** to strengthen public investment and basic service delivery by local governments, and to ensure financial services reach more poor people and small businesses. Across thematic areas, projects were largely praised for being aligned with partner governments' development strategies — a key principle of aid effectiveness. Evaluators also noted the coherence of the sector development approach for interventions aiming to expand financial services for the poor. Similarly, UNCDF was recognized for channelling its investments through national planning and budgeting systems, thereby reinforcing national structures.

This year's thematic portfolio review focused on ongoing investments in the 26 LDCs where UNCDF invests in financial services for the poor. The review provided analysis and recommendations on performance according to the Organisation for Economic Co-operation and Development's standard five evaluation criteria — relevance, efficiency, effectiveness, impact and sustainability. In the spirit of transparency and learning, the review will be published in 2012 and add to a growing body of evidence on how best to assess development partners' support to inclusive

finance being collected by the Consultative Group to Assist the Poor (CGAP) — the leading independent policy and research centre dedicated to advancing financial access for the world's poor. A CGAP representative was part of the review's Advisory Panel.

As with any serious evaluation effort, some weaknesses were also identified. For one, UNCDF fell short of its 2011 targets for influencing wider policy and institutional environments. Furthermore, some evaluations showed that UNCDF programmes and the way they are managed can be too heavily focused on field-level activities. This seems a particular risk when programmes have a large number of micro-investments. Evaluations have also underlined the importance of having clear mechanisms in place to publicize and disseminate the results of innovative work once evidence of performance has emerged.

In order to respond to these concerns and improve the likelihood that programmes affect positive change in the larger policy context, **UNCDF is committed to strengthening the results chain of its interventions**, focusing on the establishment of baselines and improvements in the quality and use of performance data. A monitoring and

accountability framework will be developed in 2012 to ensure a stronger focus on expected results, with direct attribution of responsibility amongst staff in charge of programme implementation. In 2011 UNCDF also strengthened capacity for internal knowledge management to capture, codify and disseminate the results of its programmes.

Finally, an external evaluation architecture review was completed in 2011, assessing the appropriateness and performance of UNCDF's evaluation function following changes to its Evaluation Policy. The review confirmed that systems are in place for the Evaluation Unit to play its role effectively. **UNCDF's evaluations were deemed to be impartial, independent and credible.** The review highlighted weaknesses — common to other UN agencies — in programme evaluability and recommended that UNCDF should improve the linkages between evaluation and planning, monitoring and reporting systems throughout the programme cycle. In this regard, the Unit stepped up its support in 2011 to programme units, developing and applying an Evaluability Standard for all projects prior to being approved. It also developed a new results-focused performance monitoring tool based on standard evaluation principles. Four projects have been assessed to date using this tool.

# April 2011

## Gender Equality As Smart Economics — Investing in Women's Economic Empowerment

Investing in women constitutes a breakthrough strategy for achieving the MDGs. As in previous years, women's empowerment was a core aspect of UNCDF's work in 2011. At the corporate level, a process was initiated in April to examine whether gender equality and women's empowerment could be promoted more systematically throughout the entire programme. After a review by an internal taskforce, UNCDF commissioned external assistance to guide the production and operationalization of a **fully-fledged gender strategy**.

This gender strategy, which will be finalized in the second quarter of 2012, seeks to improve the integration of gender issues in UNCDF's programmes and management practices at all levels. The process helped to articulate UNCDF's contribution to gender mainstreaming, and clarified **how a more deliberate focus on gender in future activities** will make UNCDF more successful in fulfilling its core mandate. Implementation and monitoring of the strategy's activities will begin in the second half of 2012.

Even before the gender strategy was formulated, UNCDF achieved significant impact with regards to women's empowerment. As in previous years, corporate results measures included gender-specific

April

April

targets and evaluations assessed project-level contributions to women's empowerment for both financial services and local development projects.

## Empowering Women through Local Development

UNCDF's flagship intervention for women's empowerment is the *Gender Equitable Local Development (GELD) Programme* — a global effort in partnership with UN Women, and supported by Belgium and Austria — that seeks to mainstream gender responsive planning, budgeting and investment at the local level. In 2011 an independent midterm review confirmed that the *GELD* approach is sound and that as a result, **gender-responsive investment is occurring**: new wells are being built to save women the backbreaking daily trek to find water, new clinics offer maternal and child health services, and schools now feature sanitary infrastructure for girls, offering them privacy and dignity. The impact of these investments on the lives of women is tremendous. In Tanzania, for instance, a *GELD*-supported water supply project has reduced women's travel time to fetch water by over 80 percent.

But after two and a half years of implementation it is clear that *GELD* has achieved much more than gender-sensitive investment. **Giving women a voice in planning, budgeting and procurement processes**

**at the local level has led to their active engagement as agents — and not merely recipients — of development.** *GELD* is about identifying all those spaces in local processes that allow for women's voices to be heard. The sum of all these innovations translates into a new way of doing business, one in which women count more. *GELD* is creating space for women to engage in democratic processes from the bottom up.

In Muembe district in north-western Mozambique, when women and households need to fetch drinking water, they no longer have to worry in walking long distances to reach the source of water. They can now benefit from the new water hole built thanks to the Gender Equitable and Local Development (GELD) programme, a UNCDF-UN Women initiative funded by Austria and Belgium. By allocating capital investment grants earmarked for women to local authorities and by engaging women in local development planning through awareness raising and capacity building activities, GELD aims at making sure that women's voices are heard, that women's needs and priorities are taken into account and that resources are allocated in a gender-sensitive way.





In the six African countries where *GELD* is being implemented, laws and policies specify quotas for women representation in all decision-making bodies at a certain rate. In Mozambique, for instance, the Law on Local State Organs states that 30 percent of all council members should be women. Before the start of *GELD*, only 20 percent of council members were women. After only two and a half years of *GELD* implementation, that figure now stands at 35 percent.

These local level changes instigated by *GELD* are also starting to **influence gender policy at the national level**. In Rwanda, for instance, the budget call circular that is issued to the districts has been changed because of *GELD* and now includes clear prescriptions on how to prepare a gender-sensitive budget statement at district level. Similar changes have occurred in Senegal's participatory budget planning processes.

In 2011, UNCDF was active in promoting gender equality beyond the *GELD* programme. In an effort to incorporate the gender dimension in all interventions, indicators were introduced to measure the extent to which local governments **apply a gender lens** to the way they plan for and use public resources. Progress is encouraging: data for Lao PDR, for example, demonstrate that 55 percent of investments by the District Development Fund reflect women's groups priorities. In Uganda, UNCDF supported the design and delivery of a *Postgraduate Diploma in Gender and*

*Local Economic Development* at Makerere University. In Nicaragua, a Local Development Fund for Gender Equity was established as part of a broader UN initiative on Gender Equity and Women's Empowerment.

## Enhancing Women's Access to Financial Services

In 2011, 66 percent of the clients of UNCDF-supported financial service providers were women. All providers financed by UNCDF signed performance agreements with clear targets for outreach to women. Reaching female clients is important because **women with access to financial services are more likely to start businesses, plan for life-cycle events such as childbirth, and cope with setbacks** such as the sudden illness of a family member. Data also demonstrate positive inter-generational effects: women with access to savings and credit are more likely to keep their children — including their daughters — in school.

Overall, women still make up a disproportionate part of the poor and have less access to education and productive resources than men. Although they perform a great proportion of the world's work, they reap fewer rewards from it. From its inception, microfinance sought to rectify these imbalances by focusing on women. As microfinance has gone mainstream, however, attention to the particular characteristics and needs of women has unfortunately



diminished. In 2011, UNCDF developed a concept for an *Access for Women's Empowerment (AWE)* Facility, designed to reverse that trend by promoting **innovative, replicable, sustainable, and scalable solutions**.

Recognizing that access to credit alone is not enough, *AWE* proposes solutions that will lead to more women having access to appropriate and demand-driven financial and non-financial services. When combined, these services can have a significant impact on women's economic empowerment, the sustainability and profitability of their businesses, the wellbeing of their families,

communities and societies at large. Financial services, designed specifically to meet women's needs, will include savings, credit, micro-insurance, domestic payment services, and remittances. *AWE* will also offer **non-financial services to address gender-related constraints** that prevent women from taking advantage of economic opportunities.

UNCDF is currently in discussion with a range of potential programme and funding partners with a view to establishing *AWE* as a fully-fledged programme in 2012.

“ GELD allowed women to stand up and, for the first time, to have men and women working together. Before we used to be only at home doing housework. Now, we sit in the consultative councils of our villages and we decide together with our husbands. Now we have a word to ensure that local governments spending addresses the needs of women and men equitably. ”

“ GELD is a blessing for our district. Women are so happy that they can participate in the planning sessions for the next development plan. They can now stand up and speak. ”

— Beneficiaries during the launching of the  
Health Centre in Kenema, Sierra Leone  
GELD Mid-Term Review 2011

# May 2011

## The SmartAid Index gives UNCDF top marks

How does one assess the quality and effectiveness of microfinance funding? CGAP — an independent policy and research centre dedicated to advancing financial access for the world's poor — attempts to do just that. Every two years, it produces the SmartAid Index, measuring whether development organizations have the right systems in place to support microfinance effectively. As in previous years, UNCDF came out near the top in the 2011 assessment, scoring 83 out of 100 points.

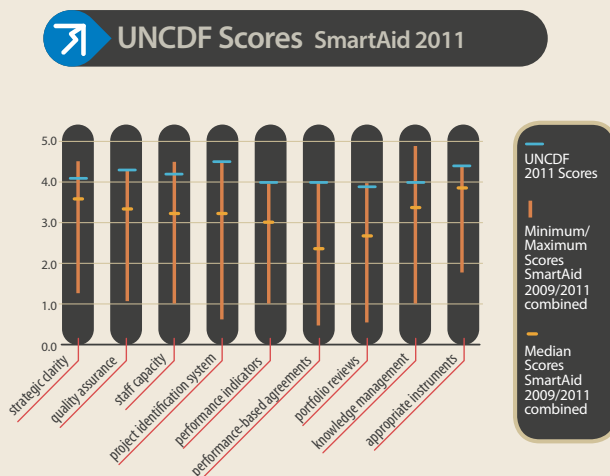
**The 2011 report identified UNCDF as an institution with a clear focus on pushing the frontiers of financial inclusion in some of the most difficult markets.** It confirmed that UNCDF is well placed to develop and pioneer new initiatives and commended UNCDF for its commitment to improving the effectiveness of its systems and its responsiveness to recommendations made in previous SmartAid assessments and other external evaluations.

Measuring the quality of microfinance funding is complex, given the long results chain from funding to impact on the ground. The SmartAid Index is built on the premise that sound management systems, policies, procedures and incentives are a necessary precondition for successful programmes. It identifies five elements that funders need to

May

support microfinance effectively: strategic clarity, staff capacity, accountability for results, knowledge management and appropriate instruments.

UNCDF ranked near the top across all five dimensions deemed necessary for the effective promotion of inclusive financial sectors. Among UNCDF's strengths, the review highlighted the **technical capacity of UNCDF staff**, as well as instruments being in place to deliver on its strategy and support financial service providers in LDCs. UNCDF's quality assurance processes for country-level programs was also found to be very solid. Grant funding was judged to be well aligned with UNCDF's strategy, and appropriate for its appetite for risk and focus on retail institutions in least developed countries.



The assessment also recognized that **UNCDF has a history of supporting the next generation of sustainable financial service providers** that focus on poor and low-income people. It also highlighted UNCDF's ability to work with partners, its flexible hiring structures and ability to respond quickly to demand and market needs.

The review also pointed out some areas for improvement, including the need for UNCDF to align new partnerships with strategic priorities. The report suggests that coherence between UNCDF's traditional country-level sector approach and its newer global thematic initiatives still requires some adjustment at the strategic level. Most importantly, UNCDF should address how its new approaches are implemented across countries.

Finally, the 2011 assessment encourages UNCDF to strengthen performance-based elements in loan agreements and clarify the use of grants to finance the portfolios of financial service providers. It points out that UNCDF should be cautious not to lose sight of its core strategy and overstretch its range of activities. UNCDF is committed to following up on these recommendations going forward.

## UNCDF Steps Up Efforts for Global Advocacy and Knowledge Sharing

In 2011 UNCDF continued its advocacy efforts in support of inclusive and sustainable growth in

LDCs. At the *Fourth United Nations Conference on the Least Developed Countries* held in Istanbul in May 2011, UNCDF partnered with the Governments of Austria and Luxembourg to **advocate for the economic empowerment of women**, and with the Government of Australia to **highlight the potential of mobile technology for extending financial services to poor households**. The purpose of the *LDC IV Conference* was to assess the results of the 10-year initiative known as the *Brussels Programme of Action*, as well as to adopt new measures and strategies for the sustainable development of the LDCs for the next decade.

Over the past 12 months UNCDF also continued to work closely with the **United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA)**, — **Her Royal Highness Princess Máxima of the Netherlands** — and the wider UNSGSA Reference Group, which includes — among others — CGAP, the International Finance Corporation, the Bill & Melinda Gates Foundation and others to advocate at global and country levels for financial inclusion.

UNCDF continued to host the Office of the UNSGSA at its headquarters in New York and collaborate in advocating on cross-cutting issues and initiatives that offer the greatest potential for broadening and deepening financial inclusion. In 2011, the priority issues in UNSGSA's advocacy

efforts included diversity of financial services, the continuum of finance from individuals to small and medium enterprises, responsible finance, financial literacy, and data for effective policy making and financial product development. In June 2011, Princess Máxima became the Honorary Patron of the G20 Global Partnership for Financial Inclusion. In September 2011, the United Nations Secretary-General re-designated Princess Máxima of the Netherlands for a second, two-year term.

Through its country programs and thematic interventions in the inclusive finance area, UNCDF also continued to support and **advocate for evidenced-based and proportionate regulation that balances access and protection for clients**. This is achieved by working with governments and development partners to build consensus around sound policies and practices. UNCDF has also joined efforts with other donors and investors to encourage financial service providers to adhere to sound practices. In 2011, it continued to raise awareness, support the certification of providers, and build provider capacity to operationalize sound client protection principles.

Client protection has been at the heart of UNCDF's advocacy efforts for a long time. In 2008, UNCDF was one of the founding members of the **Smart Campaign**, a global effort to embed client protection practices into the institutional culture and operations of the microfinance industry, and continued

to serve on its Board in 2011. UNCDF also helped develop the [Principles for Investors in Responsible Finance](#), which provide a framework for responsible investment. Finally, in 2011 UNCDF continued to incorporate client protection into its Performance-Based Agreements with partner institutions.

In terms of Knowledge Management, UNCDF achieved a significant milestone in 2011 with the establishment of a dedicated unit at its headquarters in New York. Over the years, UNCDF has accumulated significant [knowledge-capital](#) as a result of its interventions in 40 of the world's 48 least developed countries. UNCDF considers this knowledge to be a public good — a resource that Governments and development practitioners from around the globe should be able to access, debate and use. The newly created unit is leading the effort to [distil and package this knowledge and make it available to all](#), while also enhancing UNCDF's organizational learning and impact.

The process of codifying and sharing this knowledge generated through programs began in mid-2011 and is well underway. The newly established knowledge management unit strives to apply rigorous quality standards for publications and knowledge tools — seeking to make meaningful contributions to debates about the effectiveness of different interventions.

The momentum garnered by the creation of the new unit will continue in 2012. Forthcoming



H.R.H. Princess Maxima of the Netherlands, the UNSGSA visited a financial literacy class at a training center in Jakarta, Indonesia in April 2012. Part of the Government-mandated program, the training teaches migrant workers preparing to go abroad about financial services including remittances, savings and insurance, how to use ATMs and complete bank forms, and how to budget and plan to meet their obligations and goals, among other issues.

publications will look at best practices in procurement for local development; lessons learned in providing financial services to younger populations (based on UNCDF's *YouthStart* programme); and lessons learned in promoting responsible finance. In 2012 UNCDF intends to lay the groundwork for a subsequent flagship publication based on its accumulated knowledge of the operations and financing of local governments in the LDCs.

# June 2011

## Enhancing Impact Through Partnerships

Partnerships are central to extending UNCDF's reach and impact. UNCDF's key partnership is with UNDP, and this partnership strengthened even further in 2011, with the two organizations engaging in a broad variety of joint initiatives at both country and global levels. UNCDF was also able to bring a number of new partners on board in 2011, including bilateral donors, training institutes, private sector actors and foundations.

In 2011, UNCDF stepped up its **knowledge partnerships**, including with the Organization of Economic Co-operation and Development (OECD) on knowledge and advocacy around inclusive and sustainable growth. It also entered into formal partnerships with The Hague Academy for Local Governance to incorporate training of local officials into some of its public finance programmes, and it established an International Training Programme for officials in Southern and Eastern Africa, in partnership with the International Center for Local Democracy (ICLD) of Sweden.

Under UNCDF's longstanding partnership with the Boulder Institute of Microfinance, personnel from UNCDF-supported financial service providers, as well as newer UNCDF staff members, once again benefitted from the Institute's comprehensive summer

June

training programme in Turin, Italy. Going forward, UNCDF plans to strengthen these and similar knowledge and training partnerships in 2012 and beyond.

UNCDF was also able to build a number of **partnerships around diagnostic and programming tools**. All actors share an interest in accurately diagnosing development challenges, and in ensuring relevant, coherent interventions for addressing them. In 2011, UNCDF concluded partnership agreements with two South African institutions — Finmark Trust and the Centre for Financial Regulation and Inclusion — to develop the *Making Access to Financial Inclusion Possible (MAP)* tool. *MAP* is a new methodology to assess financial services sectors discussed in more detail on page 39.

Similarly, in 2011 UNCDF worked with ADETEF — the French international technical assistance agency of the Ministries for the Economy, Budget and Sustainable Development — to enhance its

“ The complexity and magnitude of the task of building inclusive financial sectors require diligence, patience, ample funding, and lots of staff intensity. UNCDF, in undertaking this task, exhibits significant donor commitment. ”

— 2008 IRIS Review of UNCDF Regional Programme  
‘Building Inclusive Finance Sectors in Africa (BIFSA)’

*Local Authorities Financial and Institutional Analysis System* that is also known as *LAFIAS*. In 2012, the revised version of *LAFIAS* will be tested in Guinea Bissau, Lesotho, the Solomon Islands and Niger.

UNCDF also invested in **partnerships for advocacy**. In 2011 UNCDF continued to work closely with the UN Secretary General’s Special Advocate for Inclusive Finance — her Royal Highness Princess Máxima of the Netherlands — and to host the Special Advocate’s Secretariat at its headquarters in New York.

At the *LDC IV Conference* in Istanbul in May 2011, UNCDF partnered with the Governments of Luxembourg and Austria to advocate for economic empowerment of women, and with the Government of Australia to highlight the potential of mobile technology for extending financial services to poor households. At the *Rio+20 United Nations Conference on Sustainable Development* in June 2012, UNCDF will advocate for financing access to Clean Energy for the Poor, again in the company of some of its closest partners.

## UNCDF and The MasterCard Foundation Expand *MicroLead*

UNCDF’s *MicroLead Programme*, launched in 2009 in partnership with the Bill & Melinda Gates Foundation has enjoyed considerable success to date. The initiative has become UNCDF’s





In the Democratic Republic of Congo, MicroLead's support to Opportunity International has enabled Henriette Balundu to expand her grocery store in Kinshasa's Masina market, giving her and her family new opportunities. To date, MicroLead has awarded funding for 13 projects worth \$20.1 million to southern-based market leaders to enable their entrance into developing countries with savings-led methodologies.

June

flagship global microfinance programme, providing 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. Today, *MicroLead*-funded financial service providers are active in 13 countries in Africa and Asia.

*MicroLead* has awarded total funding worth US\$ 20.1 million to southern-based market leaders to enable their entrance into underserved developing countries with savings-led methodologies. The programme's goal was to reach 525,000 new clients by 2013, half of whom should

be women or rural dwellers. Based on awarded projects' projections and results to date, this target will be exceeded by at least 300,000 people.

Given this positive result after only two and half years of implementation, UNCDF decided in 2011 to expand the initiative with support from The MasterCard Foundation. *MicroLead*'s second phase will focus exclusively on Sub-Saharan Africa and invest USD 23.5 million over six years to increase access to microfinance, particularly savings services, for 450,000 additional low income people.

In this new phase, experienced institutions or networks from developed and developing countries



may apply to establish either “greenfield” operations (i.e. entirely new operations) or to provide technical assistance to existing institutions that results in significant impact, particularly in the number of small-balance savers reached. With a view to strengthening the field, **a learning agenda has also been added to enable UNCDF to test if a savings-led approach creates stronger and more resilient financial service providers.** The *MicroLead* expansion will use a proven competitive process to select a minimum of eight institutions to enable innovative

and experienced microfinance leaders to establish new operations in underserved African countries.

Although the global availability of financial services has increased tremendously over the past 30 years, an estimated 2.7 billion people around the world continue to lack access to formal financial services. About 56 percent of adults worldwide remain unbanked. The new phase of *MicroLead* will have a large impact in terms of introducing sustainable financial services where they are most needed.

June

“ MicroLead facility exemplifies the best of UNCDF, building on its core strengths while innovating through partnerships with strong Southern providers and an emphasis on savings. ”

— The SmartAid for Microfinance Index 2009

# July 2011

## YouthStart: Promoting Financial Inclusion for Youth

Africa is a youthful continent: almost two in three people are below the age of 25. Demographers refer to this phenomenon as a youth bulge — the number of young people, especially those between the ages of 14-24 is large relative to the total adult population. A sizable young population can be a boon to economic growth, especially when young people are productively employed. Access to financial services and financial literacy can help young people to realize their potential and contribute to economic growth.

But few financial service providers understand the nuances and peculiarities of serving the youth market. Currently, only five percent of people between the ages of 15 and 24 have access to financial services in Sub-Saharan Africa, although the majority are economically active in some form. Many young people have migrated long distances from rural areas to try their luck in the informal economy in towns and cities.

UNCDF launched *YouthStart* to address this issue and **make financial services available to young people in a responsible and sustainable manner**. In partnership with The MasterCard Foundation, YouthStart helps design, test and scale up sustainable financial services tailored to the needs of young people with an **emphasis**

July

on savings and financial education. *YouthStart* also connects financial service providers to youth-serving organizations that can contribute to target and design products for youth.

In July 2011, *YouthStart* awarded its first round of grants to financial service providers. A total of US\$ 6.9 million were committed to 10 financial service providers in 7 countries — Burkina Faso, the Democratic Republic of Congo, Ethiopia, Malawi, Rwanda, Senegal and

Uganda — to design, test and scale up services for youth. All of the financial service providers were selected on the basis of a competitive process. The selected providers invested significantly in rigorous market research to design responsible and youth-focused financial services.

The synthesis of this research — among the first of its kind — was published as a UNCDF report entitled *Listening to Youth*. It provides recommendations on data selection and collection methods

Young mothers and adolescent girls meet on a savings group meeting in Pikine, Dakar. *YouthStart*, a UNCDF initiative established in partnership with The MasterCard Foundation, aims to reach 200,000 youth in Sub-Saharan Africa with demand-driven financial services and non-financial services, in particular savings and financial education, by 2014.



for Financial Service Providers seeking to develop youth financial and non-financial services as well as the key findings of market research conducted in the context of *YouthStart*. The volume also highlights the findings of four financial service providers that followed best practices in their research.

The report was launched in New York during the *UN High Level Meeting on Youth* in July 2011 as part of the *International Year on Youth*. The event provided an excellent opportunity to advance *YouthStart's* advocacy messages on policy and regulation to foster an enabling environment for young people's financial inclusion. UNCDF and The MasterCard Foundation also highlighted the role of financial education in allowing young people to make sound financial decisions, build a strong asset base, and create sustainable livelihoods for themselves.

By now, *YouthStart* has enabled 10 financial service providers to begin piloting their products in Africa. The majority of these institutions have developed savings products that are integrated with financial literacy and entrepreneurship education, as well as ongoing mentoring for youth. Often, training is delivered through schools to increase outreach. Many have also made use of innovative technologies such as mobile banking. To date, *YouthStart*-funded providers have reached a total of 11,000 young people — 43 percent being young women and adolescent girls. The aim is to reach 200,000 youth by 2014.

“Often one of the first funders with good practice experience to enter frontier markets.”

— The SmartAid for Microfinance Index 2009

Throughout 2011, UNCDF also continued to invest in knowledge generation and policy advocacy related to financial services for youth. It produced a policy paper entitled *Policy Opportunities and Constraints to Access Youth Financial Services*. The paper was launched at the *Child and Youth Finance International Summit*, held in Amsterdam in 2012. The Summit was the first event to bring together children, youth and senior level representatives from across various sectors on the topic of financial access and education for children and youth.

According to the policy paper, three main barriers limit access and use of youth financial services — restrictions in the legal and regulatory environment, inappropriate and inaccessible financial products offered by financial service providers, and poor financial capabilities of youth. Based on insights from *YouthStart* and other initiatives around the world, the paper contains recommendations for policy makers and regulators that could significantly advance financial inclusion for young people. It also calls for a coordinated multi-stakeholder process that engages all actors — policy makers

and regulators, financial service providers, youth service organizations, other youth stakeholders such as schools, as well as youth themselves.

The paper also calls for the creation of **regulatory environments that protect the rights of young people and the establishment and enforcement**

**of industry standards for youth financial inclusion.** Furthermore, the paper stresses the need to ensure that initiatives are aligned with national youth policies. Finally, the paper advocates for the formulation and implementation of national strategies for financial education and curricula that integrate financial education with entrepreneurship training.

“ UNCDF’s specialization on microfinance, its ability to work with partners and its flexible hiring structures allow it to respond quickly to demand and market needs. ”

— The SmartAid for Microfinance Index 2011

# August 2011

## Local Finance Initiative Unleashes Potential of Domestic Financial Markets

Least Developed Countries have enormous infrastructure needs. Roads, bridges, warehouses and marketplaces — crucial to unlocking economic growth and productivity — often remain unbuilt because of a lack of fiscal space and private investment. Underinvestment is especially severe in rural regions, where farmers depend on infrastructure to bring their crops to the market. Meanwhile, domestic sources of finance often remain untapped. Pension funds and other private sector savings pools are growing rapidly in LDCs, but are rarely invested locally.

UNCDF worked in 2011 to address this challenge by developing a new initiative to **catalyze domestic finance for economic investments at the local level**. On the supply side, the *Local Finance Initiative* works with domestic financial institutions, providing risk guarantees as well as technical assistance to projects that have potential to unlock local economic development. On the demand side, UNCDF is working with both public and private sectors to secure financing from financial institutions for solid investments. In particular, **UNCDF is working with sub-national governments and private entrepreneurs to design projects that are sound in terms of impact and financial return.**

August

The *Local Finance Initiative (LFI)* is a partnership between UNCDF, the Global Clearinghouse for Development Finance (GlobalDF) — a non-profit organization committed to mobilizing the private sector for development — and the Swiss Agency for Development and Cooperation (SDC). Two pilots were started in 2011 in Tanzania and Uganda. They are designed to **achieve a demonstration effect and subsequently unlock domestic private sector finance for local development**. A policy component aims to improve conditions for the domestic private sector to participate in economic development.

The initiative focuses on smaller scale economic and industrial infrastructure projects that can unleash local economic potential, including energy, transport, warehouses, and food processing plants. Working at local, national and international levels, the programme aims to generate

interest in and support for inclusive finance and local economic development among regulators, project developers, and the financial sector.

The *LFI Programme* is innovative on several levels. Few projects seek to tap into domestic capital for small-scale infrastructure development. Second, the initiative will introduce a number of tools to **enhance the business environment at local and national levels**. These tools have been developed by GlobalDF. Finally, the *LFI Programme* is unique in that it will simultaneously build the capacity of domestic financial institutions and sub-national governments to work together in engaging the private sector. The ultimate aim is for sub-national governmental entities, with strong support from the national governments, to effectively mobilize private sector capital and expertise for local economic development, with limited or no third-party credit support.

# September 2011

## UNCDF launches *MAP* — A Tool to Assess the Changing Landscape of Financial Service Provision at Country Level

Technology has profoundly changed the way in which people access financial services. Especially in LDCs, people can now benefit from financial services without ever having set foot in a bank, thanks to innovations around mobile money, agent-banking and government-to-people transfers. While these innovations have tremendous potential, the business of regulating financial sectors has become more challenging, in large part because analytical tools to make sense of what is going on have not kept pace with technological innovations. The scattered nature of services means that regulators, financial service providers and development agencies sometimes struggle to get an overview of the state of the financial services sector in a given country.

To address this challenge, UNCDF developed an **innovative diagnostic tool**, which provides a new methodology to assess the state of financial inclusion and promote coherent action to extend financial services to all. The tool goes by the acronym *MAP*, which stands for *Making Access to Financial Services Possible*. It takes into account the dynamic nature of the financial services sector in LDCs and was developed in collaboration with Finmark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). Over the

September



course of 2012, *MAP* will be launched in three LDCs. UNCDF will also work with partners such as the Asian Development Bank to promote its rollout in non-LDCs.

*MAP* is different from financial tools in that it takes **a broad view of financial inclusion**, including the range of products and services, institutions, delivery channels and actors. It assesses present and future drivers of financial inclusion, such as innovations

Through UNCDF's partnership with Fiji's Department of Social Welfare, Westpac and AusAid Fiji, over 20,000 un-banked social welfare beneficiaries can now access their benefits via no cost convenient bank accounts. Benefits were previously accessed via a costly and inconvenient voucher based system. Through UNCDF's Pacific Financial Inclusion Programme (PFIP), Westpac banking staff delivers client orientation training and demonstrates the use of an Electronic Funds Transfer at Point of Sale machine to social welfare clients — some of whom are using this form of electronic banking for the very first time.



around agent and branchless banking. **The idea behind *MAP* is that it is both a technical tool and a process.** It provides a methodological framework to produce an in-depth diagnostic of the state of financial inclusion, including an analysis of its drivers, the demand for services and their usage. At the same time, the production of a country's *MAP* will play out as a process that brings together the key stakeholders, helping governments articulate a financial inclusion roadmap and align donor funding behind it.

The process element is important, since it will help **build synergies and bring coherence to policy reform processes that can truly unleash the potential of recent innovations** around mobile banking. By bringing together stakeholders that are not usually engaged in discussions around financial inclusion — ministries in charge of telecommunication, agriculture and social welfare policy — UNCDF will facilitate a dialogue that can help realize some the promise of recent technological innovations. Some of the areas that show potential include work on mobile banking, agricultural value chains, and government-to-person (G2P) payments.

*MAP* has been **designed to promote the principles of the Paris Declaration**, including national ownership and donor coordination. During its rollout phase in 2012-13 *MAP* is expected to generate the partnerships and resources to expand access to appropriate and affordable financial services to millions of poor families and microenterprises in developing countries.

# October 2011

## Innovations in Social Protection

Social protection interventions — usually meaning income or in-kind support delivered to the poor — have gained prominence in recent years, because of their effectiveness in terms of poverty reduction, as well as their impact on health and education outcomes. In Nepal in 2011, UNCDF began implementing its first social protection initiative. It also invested in knowledge generation, publishing a discussion paper on the role of local governments in managing social protection schemes and hosting two workshops on the potential of financial services and micro-insurance in helping poor people to manage risk.

## The Social Protection Pilot in Nepal

Throughout 2011, UNCDF has been piloting an innovative approach to social protection in Nepal, which delivers benefit payments through formal financial service providers, thereby increasing efficiency and [promoting financial inclusion](#). The project is being implemented in the western districts of Kanchanpur and Dadeldhura in partnership with the World Bank. At its core, the project is about providing scholarships for 24,000 children. What is innovative is how the eligibility for scholarships is determined and how the scholarship payments are delivered.

UNCDF's facility for investment in local climate resilience (LoCAL) connects to existing national intergovernmental fiscal transfer systems and supplements transfers to local governments with performance-based climate resilience grants, channeling adaptation finance to where it is needed most. Communities and their local governments jointly identify the most pressing climate adaptation needs to which the supplement transfers should be applied. The transfers can also be used for investments that promote food security — such as water catchment systems that help farmers manage droughts — or investments for climate-related disaster risk reduction and preparedness.

UNCDF's pilot is the first social protection project in Nepal to test poverty targeting. By targeting, one can ensure that the scholarships are paid to those who are most in need. Currently, UNCDF is experimenting with two targeting approaches to see what works best — one based on the Multi-Dimensional Poverty Index (MDPI) and one using a Proxy Means Test (PMT). The targeting methodology was designed in collaboration with the Education and Local Development Ministries, contributing significantly to their data management and collection capabilities.

The second innovation is the way in which the scholarship payments are managed. **By making the payments through commercial banks and credit unions, the initiative is connecting a previously unbanked population to financial service providers.** Many poor households are gaining access to services such as savings and credit for the first time. The second benefit of this



new payment mechanism is that it enhances the efficiency of the payment process and eliminates any potential leakages.

The initiative is also unique in its involvement of **local governments as the interface between the beneficiaries and the Ministries of Education and Local Development.** At the district level, families can access grievance and redress mechanisms through their local governments, providing a channel of communication with the government institutions responsible for the

transfer. This allows for the early identification of problems and minimizes the risk of inclusion and exclusion errors in the selection of beneficiaries. Communities are also given a role in the management of the scheme through Village Development Committees and District Development Committees. Their involvement strengthens **accountability and transparency** in the selection and payment of the cash transfers.

The rationale these approaches to social protection as well as some of the insights from the pilot in Nepal are laid out in the discussion paper entitled *Local Government and Social Protection: Making Service Delivery available for the most vulnerable*, which was launched by UNCDF in Bangkok in October of 2011. Published in partnership with UNDP, the paper conceptualizes social protection as part and parcel of overall public service delivery, and examines the role that local governments can play in implementing social protection related policies.

The paper aims to shed light on two important questions that have not been systematically addressed in the existing literature. First, what added value can local government bring to safety net programmes? Does 'going local' improve or strengthen the effectiveness of social safety net initiatives? Secondly, what can safety net programmes bring to local government? Are there advantages for local governments in being more involved in the management and implementation of safety net programmes?

## Financial Inclusion and Micro-Insurance as Tools for Social Protection

The role of financial inclusion in **helping poor people manage risk and vulnerability** was the subject of a three-day think-shop organized by UNCDF in Bangkok in 2011. The event brought together leading microfinance practitioners and thinkers from BRAC, SafeSave, the Micro Insurance Academy, and Manchester University to discuss how private financial arrangements and services may provide an important opportunity to extend social protection in developing countries.

The think-shop discussed the unprecedented opportunities provided by the links between financial services and social assistance, and in particular cash transfers, such as they are being explored by UNCDF's pilot project in Nepal. Participants also explored the synergies between the financial inclusion and social protection agendas more broadly, highlighting ways forward to meaningfully **extend social protection in terms of outreach and instruments, policy space, and technical expertise**. Private responses and instruments as complementary means of extending social protection also featured prominently in the discussions.

Participants of the think-shop agreed that while the potential synergies between financial inclusion and social protection are clear and compelling,

there are limits to realising them. Some of the obstacles are related to the current business models of microfinance institutions, practitioner knowledge and regulatory environments. The experiences and lessons shared during the event will be synthesized by UNCDF in a forthcoming report.

At the request of the Royal Government of Cambodia, UNCDF also convened a workshop in Phnom Penh bringing together stakeholders, regulators and development partners to discuss the potential of [micro-insurance as a strategy to expand social protection and reduce vulnerability](#). The workshop discussed different insurance services and how they can play a role in mitigating welfare losses resulting from the occurrence of risk events such as the death of a family member or natural disasters. The use of insurance as a catalyst for economic development in low-income communities was also discussed.

To date, the Cambodian government has introduced a [micro-insurance](#) policy together with a legal and regulatory framework for the industry. But the workshop highlighted some areas that remain to be addressed, including consumer education to enable

people to better understand the value of micro-insurance; creating greater awareness of key actors in the micro-insurance supply chain; and assessing demand and supply issues to allow development partners and retailers to have greater confidence in allocating resources and investments. The experiences and lessons shared during the event will be summarized in a report, outlining key ways forward in building the micro-insurance sector in Cambodia.

In Africa, a joint micro-insurance initiative with the International Labour Organization (ILO) is supporting service providers in Ethiopia and Zambia to expand coverage and test new products. The initiative aims to expand micro-insurance services in association with savings and credit products to help poor people mitigate risk and cope with vulnerability more effectively.

Over the course of 2012, UNCDF will intensify its work on micro-insurance. *MAP*, UNCDF's new methodology to assess a country's financial services sector described on page 39, will be tested in three LDCs over the course of 2012. These *MAP* assessments will include an analysis of each country's micro-insurance sector and its potential contribution to accelerate financial inclusion and enhance social protection.

# November 2011

## Adoption of UNCDF-designed Performance-Based Grant System

In 2011, the Cabinet of the Solomon Islands officially adopted a local government finance system designed by UNCDF as part of the *Provincial Governance Strengthening Programme*. The UNCDF-designed system has now become the principal channel for development finance in the archipelago, and the Government has increased its own contributions by 400 percent. The main feature of the system is that it rewards good performance on the part of Provincial Governments with increased financing, creating a **virtuous cycle of good governance, increased investment and better service delivery**.

UNCDF has been working on service delivery in the Solomon Islands for many years. Initially, Provinces suffered from low capacity and limited financial resources. As a result, central government and citizens had limited confidence in the ability of the Provinces to deliver basic services. In order to create incentives for provincial governments to improve financial and administrative practices, UNCDF and UNDP launched the *Provincial Governance Strengthening Programme* in 2008.

The Programme sought to improve governance and service delivery through fiscal decentralization. It also introduced **performance measures** that Provincial Governments had to

comply with in order to qualify for funding from the centre. Regular performance assessments take stock of Provincial Governments' capabilities in key areas such as financial management and budget execution, and determine the level of funding for which they are eligible.

The performance-based grants were conceived, in part, to ensure that as their financing increases, provincial capacity to deliver programmes and services are also enhanced. Once Provinces have shown **tangible improvements in their institutional and organizational performance**, they are eligible to access earmarked money from the central government. The terms of the grant are absolute, but incremental. Provinces do not receive money for partial achievement of the goals, but can qualify for payments as benchmarks are met.

The results speak for themselves. When the assessments were first introduced in 2008, the provincial government of the Isabel Province did very poorly. Today, after three years of UNCDF support, it is one of the top performing provinces. **Competition and robust performance conditions have inspired non-performing provinces to work hard to catch up.**

A review conducted in the Solomon Islands in 2011 also highlighted the beneficial effect that the adoption of International Public Sector Accounting



Sea levels are rising because of climate change. This is particularly problematic in small islands in the Pacific, such as the Solomon Islands, where the sea is increasingly taking over the shores. People have started to adapt by raising the level of their houses and infrastructure. UNCDF's Local Climate Adaptation Facility, LoCAL, for investment in local level climate resilience, provides seed capital to local governments to finance local adaptation measures.

Standards (IPSAS) has had on Provincial financial management capacity. UNCDF helped introduce the standards at the local level preceding the national government's own adoption.

While logistics and the specific geography of Solomon Islands remain a big challenge for Provincial Governments, they now have more funds and increased capacity to deliver basic services. In 2011, UNCDF also began working with them to address climate change challenges with financing from its new *Local Climate Adaptive Living Facility (LoCAL)*.



## UNCDF launches *Mobile Money for the Poor (MM4P) Initiative*

Mobile phones have transformed the lives of many poor people the world over. As UNCDF's *Pacific Financial Inclusion Programme (PFIP)* has shown, mobile technology is a potential game changer for increasing access to financial services by poor households. In 2011, UNCDF designed and launched the *Mobile Money for the Poor (MM4P)* — a global programme that applies some of the lessons learned through *PFIP* to a broader set of LDCs in Africa and Asia. *MM4P* will become operational in at least two LDCs in 2012.

The potential of *MM4P* is tremendous. Mobile telephony has reached billions and the penetration rate of mobile phone use continues to grow by more than 20% annually. Researchers with the Consultative Group to Assist the Poor (CGAP) estimate that 1.7 billion people will have mobile phones in the developing world by 2012, but they will continue to lack access to bank accounts.

*MM4P* is a five-year initiative aiming to **promote and improve the use of electronic banking platforms, particularly mobile phones, to provide financial services to low-income households.** The Programme received



Community facilitators of Wailevu, Savusavu in Fiji undergo a mobile money training to understand how to use the platform, its benefits and how to register customers on this mobile money platform. The Pacific Financial Inclusion Programme (PFIP) is working with Vodafone Fiji's MPAISA and Digicel Mobile Money to introduce the mobile money service in Fiji, Samoa, Tonga, Vanuatu and PNG. To date these services has registered over 450,000 clients across five countries.



initial contributions in 2011 of US\$ 4.3 million from the Swedish International Development Cooperation Agency (Sida) and US\$ 500,000 from the Australian Agency for International Development (AusAID).

UNCDF has acquired a considerable expertise on branchless banking through its work in the Pacific. *PFIP*, implemented in partnership with AusAID, the European Union (EU), and UNDP brought branchless banking and mobile money services to five countries in the Pacific, reaching nearly 500,000 people. *PFIP* achieved this by **supporting mobile network operators and commercial banks in developing new platforms and products**. The initiative worked closely with the central banks to develop appropriate policies, regulation and supervision for these services.

Extending mobile money to other poor countries, particularly in Africa and Asia, will have a

huge impact. **Mobile banking is a faster, cheaper and safer alternative** to transfer money than other available services such as banks and post offices, or handing an envelope of cash to a bus driver. Rather than spending a day travelling by bus to the nearest bank, recipients in rural areas can spend their time doing more productive things.

*MM4P* will provide a mix of grants and loans to leading mobile money providers, distributors and partners on a competitive basis to allow them to **expand into difficult and under-served markets such as post-conflict settings**. The aim is to reach four million additional clients and small and micro-enterprises in least developed countries by the end of 2017, including 1.2 million that were previously unbanked, and 1.4 million with a second generation service.

# December 2011

## UNCDF Advocates for Increasing Aid Transparency and joins the International Aid Transparency Initiative

In December, UNCDF participated in the *Fourth High Level Forum on Aid Effectiveness* in Busan in South Korea where it became the 27th donor signatory to the International Aid Transparency Initiative (IATI). The decision to join the IATI reflects UNCDF's commitment to the **highest standards of transparency and accountability**, and its belief that increasing aid transparency will foster development effectiveness.

The IATI aims to improve the public availability and accessibility of information on aid. By adhering to the IATI's common international standard, information published by UNCDF will be easier to find, use and compare. This in turn will help donors and developing country governments plan and **manage scarce aid resources more effectively, and maximize the impact of aid**. And it will help parliaments, civil society organizations and citizens in both aid-giving and aid-receiving countries to hold their governments to account for aid spending.

For UNCDF, joining the IATI was a logical **next step in enhancing access to information for the multiple stakeholders of its work in 48 least developed countries**. Credible and timely information is essential to deliver the knowledge and lessons from its development programs.

Also at the *High Level Forum*, UNCDF's Executive Secretary represented the *Development Partners Working Group on Decentralisation and Local Governance* — *DeLoG* — in a side event advocating for the importance of decentralization and the local and regional dimensions of the Aid Effectiveness agenda, and highlighting *DeLoG*'s experience to date with aid effectiveness at the local and regional levels.

*DeLoG*, founded by the donor community, including UNCDF, in 2006, is an informal network of bilateral and multilateral development partners, which aims to advance the principles of aid effectiveness — the *Paris Declaration* and *Accra Agenda for Action* — in the sector of decentralisation and local governance support. To date, *DeLoG* has contributed to **enhance alignment and harmonization** in the decentralization and local governance sectors through knowledge

exchange, research, and capacity development. Most importantly, *DeLoG* has formulated a set of guiding principles on how to implement the *Paris Declaration*'s principles for decentralization and local governance. A Secretariat, funded by Germany and hosted by the GIZ in Bonn, supports the Group.

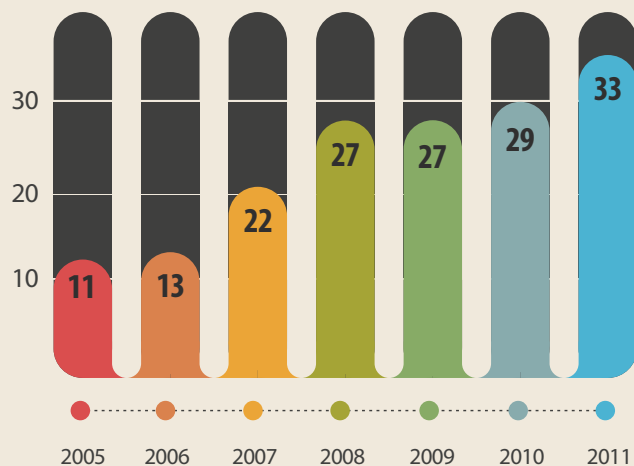
During the Busan event, UNCDF and *DeLoG* highlighted the specific role of decentralisation and local governance in advancing aid effectiveness. On behalf of *DeLoG* the UNCDF Executive Secretary also launched a new report entitled *Busan and beyond: Localising Paris Principles for more Effective Support to Decentralisation and Local Governance Reforms*.

**The report highlights local governments' role in fostering inclusive and sustainable development and in delivering development aid more effectively.**

# UNCDF Resources

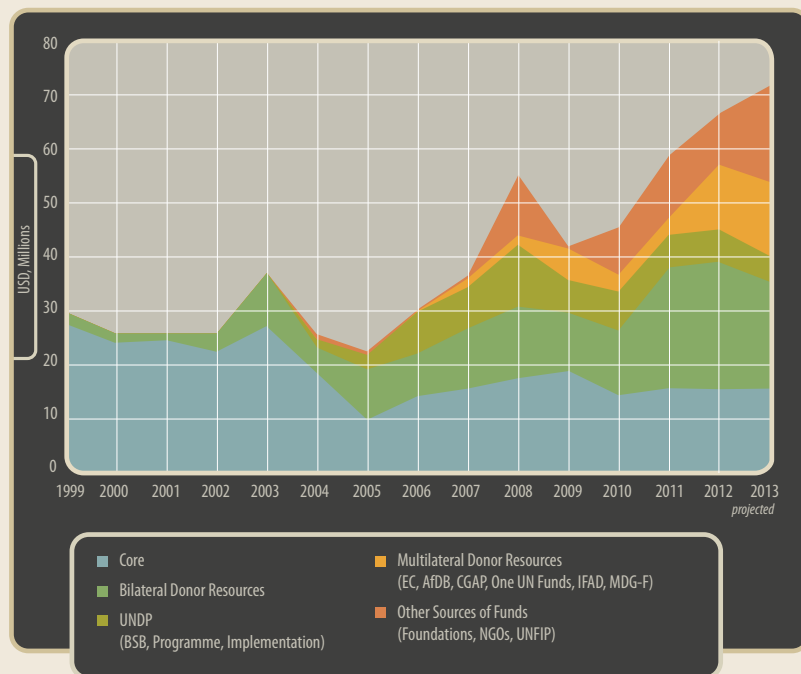
In 2011, UNCDF's total resources reached the highest level in decades amounting to \$53.2 million, an increase of 29 percent from \$41.1 million in 2010. Voluntary contributions to UNCDF's regular (core) resources increased from \$15 million in 2010 to \$16 million (excluding UNDP programming support). Although two core donors (Belgium and Luxembourg) increased their voluntary contributions, most of the growth in UNCDF's regular resources is attributed to favourable exchange rates and is below the pre-financial crisis level of \$18.7 million. UNCDF continues to rely on a small set of core donors — voluntary contributions from six donors constitute 95 percent of UNCDF's regular resources — and remains short of its

Number of Donors





## UNCDF Resources 1999 - 2013



target of \$25 million which will allow UNCDF to operate effectively in 40 least developed countries (LDCs).

Earmarked (non-core) contributions to UNCDF reached \$33.9 million in 2011, the highest in UNCDF history. UNCDF continues to enjoy increased support from bilateral and multilateral partners, private sector foundations and NGOs while remaining a strong

partner in “One UN” initiatives. The MasterCard Foundation was UNCDF’s largest partner in financial terms contributing \$9.2 million in 2011. The remaining top donors were Sweden, Belgium, the Australian Agency for International Development, and the Canadian International Development Agency. In total, UNCDF received support from 33 development partners in 2011 (up from 29 in 2010 and 20 in 2007).

Earmarked resources represent an important complement to the regular resource base of UNCDF. In the past decade, UNCDF's earmarked resources have increased tenfold, as UNCDF's programmes to create new opportunities for poor people and their communities by increasing access to microfinance and investment capital have consistently showed strong results and increased demand by the LDC governments. However, the ability of UNCDF to make

strategic capital investments with the lasting impact depends on a critical mass of core funding to be able to respond timely to crises and opportunities. In the current dynamic environment, it is essential that UNCDF is able to catalyse truly transformative change in the countries it serves. UNCDF is fully committed to continuously improving its results-based reporting practice for effective, efficient and transparent use of the resources entrusted to the organization.

**UNCDF, Income, and Expenditures, 2011** *(Thousands of United States dollars)*

<b>INCOME</b>	<b>2011</b>	<b>2010</b>
Voluntary Contributions	15,977	14,221
Cost Sharing Contributions	26,376	16,419
Sub-trust funds contributions Schedule 7.1	7,474	7,405
<b>Sub Total</b>	<b>49,827</b>	<b>38,045</b>
Interest Income	305	408
Reimbursable Support Services	1,910	2,560
Other Income	524	975
<b>TOTAL INCOME</b>	<b>52,566</b>	<b>41,988</b>
<b>EXPENDITURE</b>		
Programme		
Regular Resources	26,512	22,441
Cost Sharing	15,893	11,148
Sub-trust funds Schedule 7.1	8,113	7,175
<b>Sub Total</b>	<b>50,518</b>	<b>40,764</b>
Biennial Support Budget - Net		
Management and Administrative costs		
Technical Support Costs		
Reimbursable Support Services Costs	2,014	1,300
<b>Sub Total</b>	<b>2,014</b>	<b>1,300</b>
Other Expenditure	119	1
<b>TOTAL EXPENDITURE</b>	<b>52,651</b>	<b>42,065</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>(85)</b>	<b>(77)</b>
Savings on prior biennium's obligations		
Transfer to/(from) Reserves	-	-
Refunds to donors and transfers to/(from) Other Funds	(187)	(20)
Fund balances 1 January	52,967	53,063
<b>FUND BALANCES, 31 December</b>	<b>52,695</b>	<b>52,966</b>

*Report date as of April 20, 2012*

**UNCDF Balance Sheet 2011 (Thousands, of United, States, dollars)**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
Cash	1,822	2,742
Investments Schedule 8	75,162	71,708
Loans to Financial Services	4,816	5,169
Operating funds provided to Governments		
Operating funds provided to Executing agents	789	789
Due from UNDP – Regular Resources		
Other accounts receivable and deferred charges	996	753
Accrued interest	408	400
<b>TOTAL ASSETS</b>	<b>83,993</b>	<b>81,561</b>
<b>LIABILITIES</b>		
Operating Fund payable to Governments		
Operating Fund payable to Executing agents	718	718
Unliquidated obligations	21	21
Accounts payable	2,881	1,029
Due to UNDP – Regular Resources	3,046	1,519
Deferred Income	31	707
<b>TOTAL LIABILITIES</b>	<b>6,697</b>	<b>3,994</b>
<b>RESERVES AND FUND BALANCES</b>		
Operational Reserve	24,600	24,600
Unexpended Resources		
Regular Resources	12,087	21,318
Cost sharing	26,495	16,174
Sub-trust funds	10,939	11,817
<b>Sub Total</b>	<b>49,521</b>	<b>49,309</b>
Reimbursable Support Services	3,173	3,659
Total Unexpended Resources	52,694	52,968
<b>TOTAL RESERVES AND FUND BALANCES, 31 DECEMBER</b>	<b>77,294</b>	<b>77,568</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>	<b>83,991</b>	<b>81,562</b>

The accompanying notes are an integral part of the financial statements



## Notes to the Financial Statements

### UN CAPITAL DEVELOPMENT FUND

#### a) Mandate and goals

In its resolutions 2186 (XXI) of 13 December 1966, 2321 (XXII) of 15 December 1967 and 3122 (XXVIII) of 13 December 1973, the General Assembly established UNCDF with a mandate to assist developing countries, "first and foremost the least developed" amongst them, "in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans."

Working throughout the least developed countries and making full use of its capital investment mandate and flexible financial instruments, UNCDF's goals are to reduce poverty and advance the Millennium Development Goals by:

- a) Increasing access by poor people and small enterprises to microfinance; and
- b) Improving the delivery of pro-poor services and infrastructure at the local level.

The UNDP Administrator serves simultaneously as the Managing Director of UNCDF. UNCDF reports through its Managing Director to the UNDP Executive Board.

#### b) Cash

The cash amount shown in schedule 7 includes the following non-convertible currencies (in thousands of United States dollar);

	2011	2010
Accumulated non-convertible currencies		
<b>TOTAL</b>	<b>470</b>	<b>475</b>

#### c) Investments

The carrying value of investments for bonds and notes of \$ 40,393 million is disclosed in schedule 8. The increase of value of dollar \$ 40,393 million in the bond value in detailed below;

Beginning value 1 January 2010	Purchases	Maturities	Net Amortization	Carrying Value 31/12/2011	Movement (Decrease)	Market Value	Par Value
19,254	163,944	(121,281)	(2,119)	40,513	21,259	40,393	39,560

#### d) 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 the 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 for regular resources originally established in 1979, remained unchanged dollar \$ 22,6 million as at 31 December 2009. An additional operational reserve of \$ 2,0 million has been set aside for extra budgetary resources.

#### e) UNDP support to UNCDF Programme resources

UNDP provided UNCDF with the amount of \$ 2,9 million in 2011 (2010: \$ 3,1 million; 2009: \$ 1 million; 2008: \$ 6 million) to support its programme resources. Expenditures, incurred by UNCDF against these amounts, were transferred to UNDP and recorded to its Regional Programmes.



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UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their businesses by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals.



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*Creating New Opportunities in the World's Poorest Countries*