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Report on results achieved by the United Nations Capital Development Fund in 2011

Summary

UNCDF had a strong year in 2011. Results of evaluations and programme reviews reaffirmed the relevance and effectiveness of its efforts to help local governments strengthen public investment and basic service delivery and to ensure that financial services reach more poor people and small businesses. UNCDF is addressing the weaknesses identified, including in programme management.

Contributions 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. 63 per cent of programme delivery was in Africa, 30 per cent in Asia and the Pacific, and 7 per cent in the Arab States and Haiti. Local development programmes accounted for 60 per cent of total delivery; financial services programmes for 40 per cent.

UNCDF met most of its 2011 targets for improving local government capacities to plan, allocate and manage resources, as well as for increasing access to financial services and improving the sustainability of service providers. The results for influencing wider policy and institutional environments were mixed, with further efforts in this regard planned for 2012.

UNCDF will continue to develop a range of new programmes; to strengthen partnerships; and to improve organizational performance, including through a new gender strategy and advanced knowledge management. As UNCDF begins planning for the 2014-2017 period, possible future directions will be examined for the organization as an integral part of the UNDP group.

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I. Introduction

1. Many least developed country economies are growing fast. Yet as the fourth United Nations Conference on the Least Developed Countries, held in May 2011, made clear, achieving inclusive, sustainable development remains a pressing challenge. Progress towards the Millennium Development Goals has been uneven in different regions of the world and within countries, where many areas and individuals are not benefiting from impressive aggregate growth. Least developed countries still exhibit patterns of under-investment at the sub-national level and large regional differences in citizens' access to services. Many suffer from underdeveloped financial sectors, with few products and services accessible to poor households. Inadequate public investment at the local level, and insufficient access to financial services by poor households and small businesses, constrain the achievement of the Millennium Development Goals throughout the least developed countries.

2. UNCDF, the capital investment organization of the United Nations for the 48 least developed countries, is helping to address these challenges. It focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. Within its economic development mandate UNCDF specializes in public and private financing mechanisms that can catalyse economic growth and make it more inclusive and sustainable. UNCDF programmes combine capital and technical assistance, and help local governments strengthen public investment and basic service delivery and ensure that financial services reach more poor people and small businesses.

3. UNCDF had a strong year in 2011. Contributions grew to $52 million, 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. 63 per cent of UNCDF programme delivery was in Africa, 30 per cent in Asia and the Pacific, and 7 per cent in the Arab States and Haiti. Programmes supporting local development accounted for 60 per cent of total delivery; programmes supporting financial services for the poor accounted for 40 per cent.

4. Several programme initiatives took shape in 2011. Building on the successful Pacific Financial Inclusion Programme, UNCDF developed and received initial funding for a global initiative designed to bring 'mobile money' to additional least developed countries in Africa and Asia. The 'local climate adaptive living' facility, a new programme designed to help local governments finance climate change adaptation measures, began pilot activities in Bhutan and Cambodia. Clean Start, which is designed to enable poor households finance clean energy solutions, approached its pilot phase. UNCDF refined its 'local authorities financial and institutional analysis' system and developed a 'making access to finance possible' diagnostic and action framework, which will be implemented more widely in 2012.

5. UNCDF invested heavily in evaluation and programmatic review. It commissioned eight evaluations and reviews, maintaining the increase that began in 2010 as part of the 'special projects implementation review' exercise. Results have confirmed the relevance and effectiveness of UNCDF work and highlighted areas that need strengthening, including programme management. Other areas of investment included internal knowledge management, and increased capacity for policy work and advocacy. UNCDF invested substantially in staff development, including leadership training for mid- to senior-level staff from all regions.

6. UNCDF is poised to begin the groundwork for a new strategic framework to guide its activities in the period 2014-2017. During this process it will consider initiating, in 2012, a broader stakeholder discussion of the range of future possibilities for UNCDF as an integral part of the larger ‘UNDP family’. The last such discussions took place in 2004-2005, against a backdrop of declining donor support and uncertainty about the viability of UNCDF. Circumstances have changed since then: UNCDF is garnering increasing support from a diverse range of donors; demand for its services is growing; and its partnership with UNDP has never been stronger.

II. Programme results, 2011

A. Public finance for local development

7. Local governments provide much of the infrastructure and related services that are crucial to attaining the Millennium Development Goals: the building and maintenance of roads, marketplaces and warehouse facilities; irrigation schemes; primary schools, health centres, and other public investments that improve lives and help local economies grow.

8. UNCDF helps develop systems and capacities that enable local governments to carry out their vital activities. It operates at the national level to support appropriate policy and institutional frameworks, and at the local level to help build the requisite capacities within local governments themselves. It focuses in particular on strengthening public financial management (budgeting, accounting, procurement and investment programming); intergovernmental fiscal transfer systems; and, where appropriate, own-source revenues (local taxes and fees).

9. UNCDF works with local governments because they often represent the primary nexus between citizen and state, and offer the opportunity to build platforms of accountable, targeted public investment that achieves both impact and value for money. Many local governments in least developed countries fall short of that ideal because they lack adequate capacities and financing. UNCDF programmes take account of those challenges by deploying proven approaches for strengthening local government performance, using existing public financial systems rather than parallel structures so that they are better able to build sustainable national capacities.

10. In 2011, UNCDF operated local development country programmes in 30 least developed countries: 21 in sub-Saharan Africa, seven in Asia and the Pacific, one in the Arab States and one in the Caribbean. Ten of those countries have recently emerged from conflict. In addition, UNCDF provided technical assistance on behalf of UNDP programmes in five non-least-developed countries. A senior UNCDF technical advisor was assigned to the Arab States to assist with the UNDP response to the political transformations there.

11. In all of its local development work, UNCDF strives to (a) improve local government capacities to plan, allocate and manage resources; (b) increase local government access to investment capital; and (c) strengthen the wider policy and institutional environment.

Results

Local government capacity to plan, allocate and manage resources[1]

Table 1.

Outcome indicators	Plan	Actual	Performance*
1. Number of local governments supported that are consulting local communities in finalizing investment plans and budgets	815	765	+
2. Number of local governments supported where budgets are disbursed in line with the priorities of the plans	783	654	+
3. Number of local governments supported that use national public procurement standards and regular external audits while managing resources (accountability)	831	713	+
4. Number of local governments supported that publicize their expenditure against their budget (transparency)	795	701	+
5. Number of local governments supported that apply a gender perspective to planning and budgeting	708	569	+
6. Number of local governments supported where 'genderized' budgets and investments are implemented	299	209	+/-

*Performance assessment scores: Achieved (+) = 75-100%; Partially achieved (+/-) = 50-75%; Not satisfactory (-) = < 50%

Participatory planning and budgeting

12. In 2011, 94 per cent of UNCDF-supported local governments adopted consultative, participatory mechanisms that better engage local communities in decision-making processes, particularly planning and budgeting (indicator 1).

13. According to an external evaluation, in Bangladesh UNCDF support effectively "develop[ed] local capacities … in [inter alia] the areas of participatory assessments and prioritization of local development needs"; this fed into local planning and budgeting processes. Practices were improved, to a large extent, by training local planning-committee officials in organizing grass-roots-level participatory forums. A midterm review of 'gender-equitable local development', a joint UNCDF/UN-Women programme, found evidence of improved participatory planning processes in pilot localities in Mozambique, Rwanda, Senegal, Sierra Leone and Tanzania,.

[1]UNCDF programmes support the performance assessment of over 3,900 local governments. Because of differences in the size and mandates of local governments from country to country, in some cases (such as Bangladesh and Nepal) the unit of analysis has been aggregated to the district level for comparison purposes. UNCDF often works with a selected group of local governments with a view to policy influence leading to national scale-up and replication (indicators 7-9).

Disbursements and budget execution

14. The disbursement capacities of local governments improved as a result of UNCDF support in 2011 (indicator 2). In Southern and Eastern Africa and in Asia and the Pacific, about 80 per cent of UNCDF-supported local governments executed their budgets in line with the priorities established in their own plans.

15. In Bhutan, a joint project review concluded that "local governments have generally improved significantly on spending according to budget allocations ... unspent funds in 2010-2011 of all the Gewogs [local authorities] amounted to 15.3 per cent compared to 24.49 per cent in 2009-2010 ... due to increased capacities ... and the Ministry of Finance's budget reallocation process". A review in the Solomon Islands highlighted that "provincial governments' public expenditure management capacities, have considerably increased" due in part to the adoption of International Public Sector Accounting Standards, which UNCDF helped to introduce at the local level prior to adoption by the national government.

16. In West and Central Africa number of external setbacks hindered budget execution and financial disbursement: in Benin, a labour-related dispute between central authorities and local civil servants disrupted the local public expenditure cycle, while in Senegal, the adoption of a policy to foster inter-municipal cooperation caused delays in disbursements. The story was more positive for the 'gender-equitable local development' project in Rwanda, where, according to a midterm review, the target districts are consistently "among the highest ranks in terms of [external] performance evaluations and customer satisfaction [surveys] as a result of [inter alia] the project interventions".

Transparency and accountability

17. Over 85 per cent of UNCDF-supported local governments adopted national procurement standards and/or conducted financial audits (indicator 3) and published their expenditure reports against budgetary allocations (indicator 4). The development of locally appropriate, efficient and transparent procurement is a hallmark of UNCDF local development interventions. The standards captured by the indicators were often significantly lower among non-UNCDF supported local governments or at the beginning of a country intervention.

18. Examples of increased transparency and accountability in 2011 include Benin, where local authorities were open to the conduct of external, civil-society-led, performance audits; and Liberia, where the application of procurement and audit standards increased considerably in UNCDF-supported localities. In Bhutan and elsewhere, efforts were undertaken to institutionalize 'community contracting' models. Challenges remain: in East Timor: despite improvements in local public management practices, financial audits had yet to be performed by targeted local authorities.

Gender-sensitized budgets and investments

19. In its efforts to incorporate the gender dimension into all its interventions, UNCDF introduced indicators that measured the extent to which local governments apply a gender 'lens' to the way they plan for and use public resources (indicator 5). 'Genderized' budgets and investments were successful in about 70 per cent of local governments supported by UNCDF (indicator 6).

20 In Benin, Guinea and Senegal, local government received training in how to take gender issues into consideration during the budgeting process. In Liberia, the local development fund strengthened the capacity of communities to organize themselves and engage district and county administrations so as to promote

gender-equitable local development through regular town-hall meetings and inclusive consultations.

21. In the Lao People's Democratic Republic, a breakdown of investments made by the district development fund reflected the application of a gender perspective in planning and prioritization by gender-specific decision-making processes. Men’s groups tended to propose investments in agriculture, public works and transportation, while women’s groups tended to prioritize education, health and local markets. The data showed that 55 per cent of investments were in the latter group (women), giving an indication of the successful effects of incorporating a gender perspective in investment planning and execution.

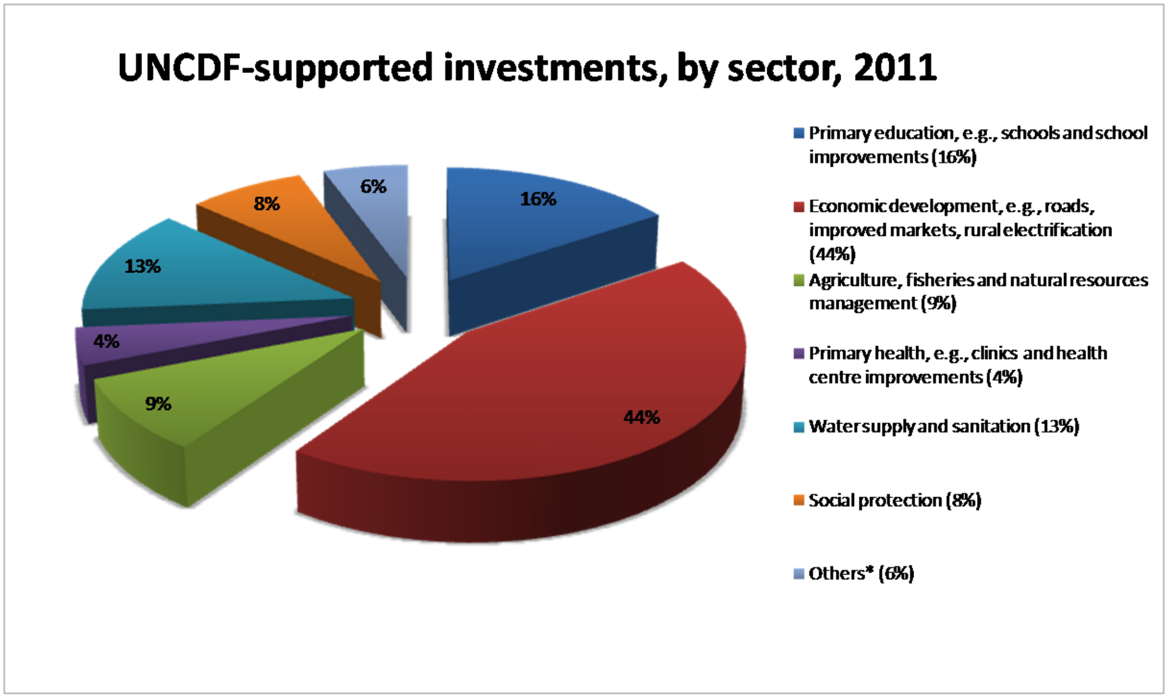
Local government access to investment capital

22. A key performance dimension is whether UNCDF capital assistance was truly catalytic, that is, whether it leverages additional investment capital for local governments through a national public financial system. ‘Leveraging in’ additional investment capital can happen in two ways. ‘Direct leverage’ is when the use of UNCDF-developed systems enables local governments to access increased investment capital, either in the form of additional donor funding within the UNCDF programme or because of a general increase in government transfers. ‘Indirect leverage’ is when UNCDF-developed systems are demonstrably and verifiably adopted by central government and taken to larger scale – often with the support of an international financial institution or other partner – in ways that result in increased flows of investment capital to the local level.

23. In 2011, UNCDF began to develop baselines and benchmarks to better assess the degree to which its interventions help catalyse additional capital at the local level (which implied more, and more effective, investment in roads, marketplaces, health stations and other public infrastructure conducive to human wellbeing and economic development).

24. UNCDF programmes directly leveraged three to eight times the volume of original UNCDF resources: for every dollar that UNCDF invested in a particular project, other development partners and/or national governments invested $3-8 in that project. When parallel and follow-on capital flows were added (‘indirect leverage’), the ratio rose substantially, in some cases up to 70 times the original UNCDF financing. In Bangladesh, the national government and the World Bank acknowledged that the lessons of UNCDF local development work had demonstrated the potential absorption capacity and investment programming potential of local governments. Consequently, a new $300-million individual development account programme will extend nationwide the fiscal transfer system of local grants and local governance reform developed by UNCDF and UNDP. Such cases exemplify a key feature of the UNCDF approach: UNCDF programmes consciously seek to pave the way for other, larger players to follow.

25. The figure below illustrates the range of sectors in which participating local governments invested resources provided by, through, or with the technical support of UNCDF. Economic infrastructure – including roads and transportation infrastructure – was a vital area, particularly in the Asia Pacific region, where local governments often have to respond to the demands associated with fast-growing local markets. Sectors such as education and water and sanitation also benefited substantially from UNCDF-supported public investments.



*Including investments in capacity development, local administration, etc.

Policy and institutional environment

Table 2.

Outcome indicators	Plan	Actual	Performance
7. Number of countries where changes in policy, regulations and legislation can be attributed directly to UNCDF work	25	13	-
8. Number of countries in which UNCDF approaches, models or tools are adopted by national governments and development partners	29	20	+/-

26. Achieving policy impact is the overarching objective of UNCDF local development work. In most cases it is a precondition for achieving the longer-term goal of increased access to investment capital by local governments.

27. In 2011, changes in national policies, regulations and legislation (indicator 7) were effected in 11 countries. In Liberia, for instance, UNCDF provided technical support in the drafting of the national policy on decentralization and local governance. The policy was signed by the President in September 2011, and was followed by a continuing legislative reform process. In Southern and Eastern Africa, UNCDF led the review of fiscal decentralization and inter-governmental fiscal transfers in Lesotho. Malawi embarked upon constitutional amendments to the local government act to institute an appropriate financial model for local governments, based on a UNCDF-supported pilot.

28. The Asia-Pacific region also saw considerable progress towards improved policy and regulatory frameworks. An evaluation in Cambodia confirmed that innovations introduced in the field of planning and finance were scaled up through national legislation and guidelines. In the Solomon Islands, the cabinet adopted a local government finance system designed by UNCDF as the principal vehicle for development finance, increasing its contributions by 400 per cent. This was corroborated by the findings of an external evaluation in the Solomon Islands, which concluded that UNCDF support led "most notably, to an increased flow of funding to Provincial Governments". In the Lao People's Democratic Republic, the UNCDF-supported district development fund experience led to a Prime Minister's decree strengthening the role of district-level development.

29. UNCDF-developed approaches, models and tools were frequently adopted by partners – including national governments and international development partners – in their own programmes and interventions (indicator 8). For instance, the UNCDF 'local authorities financial and institutional analysis' system was extended to new tiers of local authorities in Mali by the Luxembourg Agency for Development Cooperation and received financial support from the European Commission. In Timor-Leste, the national government adopted a UNCDF-developed methodology to allocate and channel the proceeds of the national oil fund to district-level investments.

30. UNCDF nevertheless fell short of its 2011 targets for influencing wider policy and institutional environments. Evaluations showed that UNCDF programmes and the way they were managed could still be too heavily focused on field-level activities. This was a particular risk where programmes depended on a number of micro-investments. In some cases excessive emphasis was placed on managing processes around investment schemes rather than managing for results at the level of national systems and procedures.

31. Some evaluations revealed a lack of focus, during project implementation, on setting up systems to ensure support to operations and maintenance of project-funded infrastructure, and on addressing human resources constraints in some local governments. These deficiencies could undermine the sustainability of programme results and thus the credibility of the overall intervention in terms of policy influence. Evaluations also underlined the importance of having clear mechanisms in place to publicize and disseminate the results of innovative work once the evidence of performance has emerged.

32. In order to respond to these concerns and improve the likelihood that its programmes will influence larger policy environments, UNCDF is strengthening the results chain in 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 sharper focus on expected results, with attribution of responsibility among staff responsible for programme implementation. The recently strengthened capacity of UNCDF in internal knowledge management was helpful codifying, capturing and disseminating the results of programmatic interventions.

B. Financial services for the poor

33. There is a strong consensus that increased levels of financial inclusion – through the extension of poor people's access to savings, credit, insurance, and payment services – contributes to sustainable economic growth. A positive correlation has also been found between increased financial inclusion and reduced inequality, showing that financial inclusion promotes 'pro-poor' growth.

34. At the household level, financial services allow poor families and small businesses to manage irregular income streams, absorb economic setbacks and avoid costly informal services. Microfinance has a well-known role in supporting entrepreneurship and empowering women, while savings and credit can play powerful roles in helping poor people pay school costs, respond to health concerns and afford clean water and clean energy technology.

35. UNCDF efforts to extend financial services to the poor follows an ‘inclusive finance’ approach to ensure that a range of financial products is available to all segments of society at a reasonable cost and on a sustainable basis. UNCDF supports a variety of providers (microfinance institutions, banks, cooperatives and money transfer companies) and financial services (savings, credit, insurance, payments and remittances). UNCDF also supports newer delivery channels (such as mobile phone networks) that offer tremendous potential for scale.

36. UNCDF delivers support through country programmes, global programmes and advocacy. Country programmes are tailored to the needs of individual countries, with dedicated support at the macro level (policy, legal and regulatory framework), the financial infrastructure level and the retail level (financial service providers). Global programmes are designed to complement country programmes by promoting innovations that expand the frontiers of financial inclusion (youth, renewable energy or mobile money, for example). UNCDF advocates policies and regulations that will further financial inclusion, both globally and at the country level. This includes secretariat support to the United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development.

37. In 2011, UNCDF supported inclusive finance programming in 27 least developed countries, in 23 cases through country programmes: 15 in sub-Saharan Africa and eight in Asia. UNCDF supported four of the 27 countries through global or regional initiatives. Ten countries currently being supported are in post-conflict situations. In addition, UNCDF supported UNDP inclusive finance activities in seven countries where UNCDF did not have its own programmes.

38. In all of its work UNCDF strives to (a) increase access to financial services; (b) increase the sustainability of the financial service providers it supports; and (c) strengthen the overall policy and institutional environment. The growth from 2004 to 2011 in clients served by UNCDF-supported financial service providers is shown below.

Improved access to financial services (number of active clients)

Table 3.

Year	2004	2005	2006	2007	2008	2009	2010	2011
Number of clients	379,018	438,272	616,035	1,171,306	1,768,931	2,550,565	3,511,723	4,062,161

39. UNCDF is on target to reach its goal of serving 6 million active clients by 2013 through the financial service providers in which it invests. Sixty-six per cent of borrowers are women (significantly above the UNCDF threshold of 50 per cent woman, both in aggregate and at the level of individual institutions). Given that households comprise five persons on average, this represents a positive impact on the lives of some 20.3 million people.

Table 4.

Outcome indicators	Plan	Actual	Performance
1. Extent to which financial service providers are improving their client outreach	3,921,749	4,062,161	+
2. Net change in value of loan portfolio of the financial service provider versus total UNCDF core contributions	18 to 1	27 to 1	+
3. Net change in value of savings portfolio of the financial service provider versus total UNCDF core contributions	11 to 1	28 to 1	+

40. Substantial growth in outreach in 2011 (indicator 1) came largely through the addition of new thematic initiatives such as YouthStart and MicroLead, and the continued rapid expansion (to 489,931) in 'branchless banking' clients from the Pacific financial inclusion programme, which is pioneering government-to-people payments, mobile-phone banking and financial capability in the Pacific.

41. UNCDF support to 93 financial service providers in 2011 (up from 85 in 2010) allowed them to improve the value of their loan and savings portfolios significantly more than anticipated (indicators 2 and 3). This is largely because of the current operational phase of YouthStart, which is funded through a non-core contribution. Future results will likely be in line with established global targets, as some financial service providers fail fully to meet targets established in their performance-based agreements.

42. The sustainability of the financial service providers in which UNCDF invests is captured in indicators focusing on profitability, portfolio quality and transparency (indicators 4 through 6).

Sustainability of financial service providers

Table 5.

Outcome indicators	Plan	Actual	Performance
4. Extent to which financial service providers are improving their sustainability (profitability)	80%	80%	+
5. Extent to which financial service providers are improving their portfolio quality	80%	58%	±
6. Financial service providers have audited financial statements (transparency)	>95%	91%	+

43. Eighty per cent of the financial service providers supported by UNCDF improved their profitability, and 58 per cent met targets for the quality of their portfolio. The 80 per cent result for profitability improves on the 64 per cent achieved in 2010. The increase in sustainability was supported by evaluation findings completed in Timor-Leste in 2011. In Burkina Faso, an evaluation found

that UNCDF was more successful in helping strong financial service providers expand to new regions than in transforming weaker ones. In Malawi, an evaluation found that UNCDF could have strengthened portfolio quality by focusing more on capacity development than on innovation.

44. Portfolio quality is measured against the global standard (less than 5 per cent of portfolio at risk) reflected in the performance-based agreements that financial service providers sign as a condition of UNCDF funding. While performance on portfolio quality was strong in Asia, with 95 per cent of providers meeting targets, it improved marginally overall. Poor portfolio quality was concentrated in Africa, and resulted from a combination of internal and external factors. Internal factors included mismatch between client needs and loan products, weak internal control systems, and inadequate governance and oversight. External factors included new regulations in the countries in the West African Economic and Monetary Union (such as Senegal and Burkina Faso) that now allow financial service providers to keep non-performing loans in their portfolio for a maximum of two years – as opposed to one year in the past – before the required write-off. Poor weather conditions affected the performance of agricultural loans.

45. To address areas in need of improvement, UNCDF identified mechanisms including portfolio clean-up, training of external auditors, training of financial service providers' board members, training in market research and product design, and diversification of clientele, all of which will be under scrutiny in 2012 and beyond. Ninety-one per cent of providers carried out external audits in 2011, with funding suspended for those failing to comply. UNCDF will continue to suspend non-performing financial service providers when necessary.

Policy and institutional environment

Table 6.

Outcome indicators	Plan	Actual	Performance*
7. Extent to which national policy environment is improved for client protection	50%	42%	+
8. Ability of networks and associations to provide advocacy (e.g., client protection) to financial service providers	50%	29%	+/-
9. Extent to which financial service providers are engaged (e.g., in client protection)	35%	23%	+/-
10. Extent to which donors support UNCDF financial systems approach	60%	53%	+

*Performance assessment scores: Achieved (+)=75-100%; Partially achieved(+/-)=50-75%; Not satisfactory(-)=< 50%

46. While the vast body of evidence demonstrates that formal financial services benefit poor households and small businesses, events and publicity in the past year have highlighted potentially negative effects (such as over-indebtedness) that microcredit can have on poor people. The UNCDF view is that while access to

financial services is crucially important, so, too, is the quality of the financial services offered. Both access and quality are necessary in order to achieve the greatest possible client benefits in terms of reduced vulnerabilities, increased incomes, accumulated assets, the enhanced well-being of households, and the growth of enterprises.

47. To promote expanded access to quality finance, UNCDF has contributed to developing and promulgating global principles. UNCDF was one of the first to endorse the client protection principles of the 'smart' campaign in 2010, and it continues to contribute to the implementation and certification process as a member of the steering committee. UNCDF also contributed to the development of the principles for investors in inclusive finance launched in early 2011, which support investments in institutions meeting responsible finance standards.

48. In 2010, UNCDF began to implement those principles, in an effort to achieve more than 80 per cent coverage by 2013. UNCDF seeks to support a national policy environment that protects clients while encouraging innovations that bring them the products and services that meet their needs (indicator 7). In 2011, 42 per cent of the countries where UNCDF operates undertook sector-wide initiatives in those areas. That was less than the 50 per cent target for 2011, but an increase over previous years. The initiatives included engaging policymakers and regulators to raise awareness about client protection and to highlight priority issues such as market-conduct regulation and pricing disclosure. One example was the African Pricing Transparency Leaders Forum hosted by Microfinance Transparency and supported by the Agence française de développement, the Luxembourg Agency for Development Cooperation, and UNCDF.

49. At the financial infrastructure level, UNCDF engages primarily with networks and associations of financial service providers. In 2011 it improved the ability of industry-level players to establish standards and best practices and to build the capacity of member financial service providers to consistently deliver responsible financial services to their clients. Industry-level players play an important advocacy role with regulators and supervisors. UNCDF supported regional trainings on the 'smart' campaign client protection principles and their dissemination at the national level. In Liberia, Madagascar, Mozambique, Rwanda and Senegal, trainers brought client protection to providers, industry associations, policymakers and regulators. This led to institutional assessments and action plans to address priority areas.

50. In 2011 UNCDF increased the number of activities led by networks for their member financial service providers, although it reached only 58 per cent of its target (indicator 8). UNCDF is seeking to identify additional resources to address this under-funded mandate, so that associations can improve both the scope and quality of access by engaging with members and government.

51. Financial service providers must design their products and services to meet the needs of clients; provide these products and services in a transparent and ethical manner; and ensure that their clients are equipped to make good decisions about their use. Beginning in late 2010, UNCDF revised its standard funding agreement to require that all partners endorse the client protection principles – with the goal of achieving more than 80 per cent coverage by 2013.

52. Twenty-three per cent of all UNCDF partners have endorsed the principles (indicator 9), a four-fold increase from the previous year but still short of the target of 35 per cent. In the coming year, UNCDF will engage current and new partners to increase endorsement and implementation of client protection actions at the financial service provider level.

53. In line with established principles, UNCDF works with development partners to align support and programming to national priorities. Country-level investment committees review new initiatives as well as coordinate, and in some instances pool, country-level funding. Fifty-three per cent of donors active in inclusive finance at the country level participated in these UNCDF-organized investment committees in 2011 (indicator 10), a slight increase over the previous year and 89 per cent of the target for the year.

III. Management results, 2011

54. UNCDF continued to strengthen its operations in 2011 to keep pace with an expanding range of programmes and initiatives and a 22 per cent growth in financial delivery. While in previous years management attention had focused on strengthening internal structures and controls, the emphasis in 2011 shifted to measures designed to boost overall organizational performance.

Table 7.

Perspective	Strategic objective	Indicator	2010 result	2011 target	2011 result
Client satisfaction	Relevant programming on least developed countries, including post-conflict	Least developed countries with UNCDF programmes	37 least developed countries	37 least developed countries	37 LDCs
Internal efficiency	Strengthen United Nations coordination *	Percentage of least developed countries where UNCDF is active in which contributions are integrated into the United Nations country-level programming framework	70%	85%	85%
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	11%	11%	10.3%
	Staff perception*	Percentage of staff that feels motivated to work at full capacity	70%	75%	81%
	Implementation of the audit recommendations of the Office of Audit and Investigation		18	23	21
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$17.3 million	$20 million	$19.0 million**
	Ensure delivery against plan	Other resources mobilized	$23.8 million	$25 million	$33.0 million
		Delivery against approved annual spending limits	81%	80%	84%

* Staff perception results compare 2010 results with 2009 as no global staff survey was performed in 2011.
** Regular resources mobilized include $3 million in UNDP programme contributions to UNCDF

55. The highlights of 2011 included increased capacity for human resources management; leadership training for all mid- and senior-level staff members; the establishment of a knowledge management, policy and advocacy unit to promote organizational learning and increase the impact of UNCDF work; a modified evaluation approach with increased support for decentralized evaluations; and investment in a new website designed to increase organizational transparency. Also in the interests of transparency, at the Fourth High Level Forum on Aid

Effectiveness in November, UNCDF announced that it had joined the International Aid Transparency Initiative and would become fully compliant in 2012.

IV. Financial analysis

56. In spite of continued pressures on development budgets globally in 2011, total contributions to UNCDF resources increased by 27 per cent, from $41.1 million in 2010 to $52 million in 2011, including $3 million allocated by UNDP to UNCDF programme funding. The number of donors and their diversity also continued to improve, reaching 33 in 2011 (up from 29 in 2010 and 20 in 2007). Among the top five donors to UNCDF in 2011, the largest was the MasterCard Foundation contributing $9.2 million. The remaining top donors were Sweden, Belgium, the Australian Agency for International Development, and the Canadian International Development Agency.

57 While a healthy sign of continued and more diverse donor support, much of the recent growth has been in 'earmarked' resources ($33 million in 2011). Contributions to core resources increased from $15 million in 2010 to $16 million in 2011 (excluding UNDP programming support) largely because of favourable exchange rates. Core contributions have not, however, returned to the pre-financial crisis level of $18.7 million, and remain well short of the established target of $25 million for UNCDF to operate effectively in 40 least developed countries.

58. Total expenditures in 2011 were $59.9 million, 22 per cent higher than in 2010 ($49.3 million). Expenditures on regular resources increased as many projects that were initiated in 2008-2009 planned for strong investments in 2011. The strong increase in expenditures for other resources is mainly attributable to increased expenditures in two projects: YouthStart and the Pacific Financial Inclusion Programme. UNCDF is watching its long-term financial stability very carefully, investing its limited core resources strategically in initiatives that will maximize development results and attract significant non-core resources.

59. Fund balances at the end of 2010 were approximately $51.5 million. UNCDF also has operational reserves of approximately $24.6 million for core and extrabudgetary accounts.

Expenditure trends, 2005-2011

Table 8 (*in millions of dollars*)

Expenditures	2005	2006	2007	2008	2009	2010	2011
Programme expenditures	19.2	25.2	28.7	37.0	41.5	43.9	53.7
- of which regular resources*	11.6	16.8	19.0	22.6	22.2	25.0	29.4
- of which other resources	7.6	8.4	9.7	14.4	19.3	18.2	24.4
UNCDF support**	6.7	4.6	5.4	6.8	7.6	5.5	6.2
Total	25.9	29.8	34.1	43.8	49.1	49.3	59.9

* Figures include UNCDF expenditures against UNDP programme contributions ($3 million in 2011)
**Figures include UNCDF expenditures against the UNDP biennial support budget ($4 million in 2011).

60. The bulk of UNCDF programme resources go to Africa (see table 9). In 2011, 63 per cent of country programme expenditures went to Africa, followed by Asia and the Pacific at 30 per cent. Eighty-two per cent of programme expenditures are delivered through country programmes, while UNCDF global thematic initiatives accounted for 18 per cent of programme delivery. Expenditures in the latter category included the flagship programmes MicroLead and YouthStart, the Pacific Islands financial inclusion programme, the gender equitable local development joint programme with UN-Women, and knowledge management and advocacy initiatives such as support to the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development.

2011 programme expenditures, by region and practice area

Table 9.
(in millions of dollars)

Regions/themes	Local development	Microfinance	Total
Africa	17.7	16.0	25.5
Asia and Pacific	10.5	5.7	15.0
Arab States	0.5		0.5
Latin America	3.2		3.0
Total	31.9	21.7	53.7

Source: Financial statements for UNCDF as of 31 December 2011 before final closing of accounts.

V. UNCDF looking forward

61. In the larger effort to achieve sustainable, inclusive development in the least developed countries, UNCDF intends to continue strengthening public investment and basic service delivery at the local level and ensuring that financial services reach more poor households and small businesses. Against that background, priorities for 2012-2013 can be grouped around three major themes: products, partnerships and performance.

A. Products

62. UNCDF will continue to prioritize programmes and initiatives that respond to country-level demand within least developed countries in the following areas:

(a) *Mobile money*. As the Pacific Financial Inclusion Programme has shown, mobile technology is a potential 'game-changer' for increasing access by poor households to financial services. The UNCDF's mobile money for the poor programme will apply some of the lessons learned from Pacific Financial Inclusion to a broader set of least developed countries in Africa and Asia. It will become operational in at least two of them in 2012.

(b) *Climate change*. Building climate-change resilience requires many small, local initiatives such as improving drainage or reinforcing sea walls). The UNCDF local climate adaptive living facility seeks to enable direct access by local governments to the climate financing necessary to retrofit existing facilities, plan new facilities and incorporate climate issues into all investments. The facility is designed to work in conjunction with existing joint programmes between UNCDF and UNDP. Piloted in Asia in 2011, it will be extended to additional least developed countries in Africa and the Arab States region in 2012.

(c) *Local finance*. Domestic sources of development finance are largely untapped in many least developed countries. The UNCDF local finance initiative seeks to catalyse domestic finance for economic investments at the local level. The initiative will apply credit enhancement instruments such as partial risk guarantees to small-scale investment projects, along with capacity-building for local financial institutions, project developers, and other relevant actors. It will be launched in Uganda and Tanzania in 2012.

(d) *Clean energy finance*. Energy poverty is a serious obstacle to achieving the Millennium Development Goals. Clean Start is a new UNCDF-UNDP joint programme designed to enable poor households and micro-entrepreneurs to access low-cost, cleaner energy supplies such as renewables or improved cook-stoves. Clean Start combines stronger clean-energy value chains with financing from microfinance institutions with proven experience in reaching low-income populations and micro-enterprises. Clean Start will be piloted in one Asian and one African least developed country in 2012.

B. Partnerships

63. Partnerships help UNCDF to extend its reach and impact. Priorities for the coming period include:

(a) *Partnerships for diagnostic and programming tools*. All actors share an interest in accurately diagnosing development challenges and ensuring relevant, coherent interventions for addressing them. In 2011, in partnership with Finmark Trust (South Africa) and the Centre for Financial Regulation and Inclusion (South Africa) UNCDF developed ‘making access to financial inclusion possible’, a set of new methodologies for assessing the state of financial inclusion in a given country and promoting coherent action to address the key challenges. UNCDF will pilot the initiative in three least developed countries in 2012, and will work with partners (including the Asian Development Bank) to promote its introduction in non-least-developed countries. Similarly, in 2011 UNCDF worked with the Association for the Development of Exchanges in Economic and Financial Technology (France) to enhance its ‘local authorities financial and institutional analysis’ system. In 2012, the revised version of the system will be tested in Guinea Bissau, Lesotho, the Solomon Islands and Niger.

(b) *Partnerships for advocacy*. In 2011 UNCDF worked closely with the United Nations Secretary General's Special Advocate for Inclusive Finance and her wider reference group (the Consultative Group to Assist the Poor, the International Finance Corporation, the Bill and Melinda Gates Foundation and others) to advocate at global and country levels for financial inclusion. This work will continue in 2012, as will UNCDF support for the Special Advocate’s secretariat, which is housed at UNCDF headquarters in New York. At the fourth United Nations Conference on the Least Developed Countries 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.

(c) *Partnerships for knowledge and training*. UNCDF stepped up its knowledge partnerships in 2011, including with the Organization of Economic Cooperation and Development on knowledge and advocacy of inclusive and sustainable growth. It entered into formal partnerships with The Hague Academy for Local Governance to incorporate training of local officials into some of its local development programmes, and it established an international training programme for officials in Southern and Eastern Africa, in partnership with the International Centre for Local Democracy (Sweden). Under the longstanding partnership between UNCDF and the Boulder Institute of Microfinance, personnel from UNCDF-supported financial service providers, as well as newer UNCDF staff members, once again benefitted from the comprehensive summer training programme organized by the Institute in Turin, Italy. These and similar knowledge and training partnerships will be strengthened in 2012 and beyond.

C. Performance

64. UNCDF will continue to invest in measures designed to strengthen organizational performance. Priorities for 2012 include:

(a) *Programme management*. Evaluations in 2011 highlighted weaknesses in how some UNCDF programmes have been managed. UNCDF will address these by reviewing and strengthening results chains in projects and clarifying accountabilities. In addition, UNCDF will strive to measure the impact of its work on end beneficiaries more effectively. (For a larger discussion of this issue see the UNCDF 2010 annual report, chapter III: UNCDF and the Millennium Development Goals.)

(b) *Evaluation and programme review*. The priority given to evaluation and programme review in the recent past will continue in 2012. In addition to a range of project evaluations, UNCDF will finalize reviews of its financial services portfolio and its flagship MicroLead programme (now a $50 million funding facility supported by the Bill and Melinda Gates Foundation and the MasterCard Foundation). UNCDF will also undertake a thematic review of the links between its local development work and food security

(c) *Gender strategy*. UNCDF began a process in early 2011 to see whether it could be doing more to promote gender equality and the empowerment of women. An internal taskforce recommended commissioning external assistance to help the organization produce and operationalize a fully-fledged gender strategy in 2012. The goal is to improve the integration of gender issues into UNCDF programmes and management practices at every level. The strategy is being designed to clarify the contribution of current work to gender mainstreaming, and to convey how taking the gender dimension into account in all of its future activities will make UNCDF more successful in fulfilling its core mandate. The strategy will be drafted in the first half of 2012, and means for implementing and monitoring it will be developed in the second half of the year.

(d) *Knowledge management and dissemination*. The momentum garnered by creating a dedicated UNCDF unit for knowledge management, policy and advocacy will continue in 2012. The recent UNCDF publication *Local Governments and Social Protection* will be followed by a study of social protection and financial inclusion in Asia. Other forthcoming publications explore best practices in procurement for local development; lessons learned in providing financial services to younger populations (based on the 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 least developed countries.

D. Planning for 2014-2017

65. UNCDF will use the coming period to contribute to the strategic planning process of UNDP and to develop its own, complementary, strategic framework for the years 2014-2017. As mentioned above, this has not been done in a formal sense since 2004-2005, and the circumstances in which UNCDF – and many of the least developed countries it serves – have changed a great deal since then. Against that background, consideration could be given to initiating an informal stakeholder process in 2012 to consider the range of possibilities for the future UNCDF, as an integral part of the UNDP group of organizations. UNCDF management intends to seek the advice of a range of stakeholders in that regard over the coming months.