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**United Nations Capital Development Fund**

**Results-oriented annual report of the United Nations  
Capital Development Fund**

*Summary*

In its decision 99/22 of 17 September 1999, the Executive Board welcomed the positive assessment of the work of the United Nations Capital Development Fund (UNCDF) by the external evaluation team. In the same decision, the Board encouraged the United Nations Capital Development Fund to take the necessary action to implement the recommendations in cooperation with all other relevant actors and to report to the Executive Board on its performance within the context of the results-oriented annual report (ROAR) in 2000.

The 2000 ROAR is submitted in response to decision 99/22 and presents the analysis of UNCDF performance in 2000 assessed against its strategic results framework for the period 2000 to 2003. Progress in the sub-goals on local governance and microfinance was conclusive, confirming the Fund's comparative advantages in these areas. While the assessment is positive overall, there is room for improvement in measuring the organization's performance in natural resource management. UNCDF saw an increase in the number of new donors, including programme countries. However, despite this increase, core resources are still below targets. Therefore, because of the shortfall in available resources, the Fund cannot meet all the demands from programme countries. On the basis of the convincing results presented in the ROAR, UNCDF will strive to mobilize additional resources.

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## Introduction

1. In its decision 99/22 of 17 September 1999, the Executive Board welcomed the positive assessment of the work of the United Nations Capital Development Fund (UNCDF) by the external evaluation. In the same decision, the Board “encouraged the United Nations Capital Development Fund to take the necessary action to implement the recommendations in cooperation with all other relevant actors and to report to the Executive Board on its performance within the context of the results-oriented annual report (ROAR) in 2000.” The Board also encouraged UNCDF to report on “the Fund’s partnership with the United Nations Development Programme in [local governance and microfinance] with particular emphasis on evolving roles and responsibilities.”

2. The overall goal of the UNCDF strategic results framework (SRF) 2000-2003, contained in document DP/2000/CRP.10, of which the Executive Board took note in its decision 2000/15, is to help to reduce poverty through local development programmes and microfinance. This objective is further divided into four sub-goals—local governance, microfinance, natural resource management, and corporate management—that consist of outcomes reflecting UNCDF programming at the local level. The methodologies for preparing the SRF and undertaking the ROAR analysis are contained in the annex to the present document. To validate field data, the Fund compared selected data with external mid-term and final evaluations performed in 2000; these conclusions are also contained in the annex one.

3. The discussion below focuses on those results attributable to UNCDF interventions. This reflects the small size of UNCDF and its orientation towards innovating pilot projects in local governance and microfinance. No attempt is made in the report to measure the contribution of the Fund towards meeting its goal and sub-goals in the global context since the effort to do so would have diluted the discussion and detracted from it. The Fund used the ROAR process to reveal areas in need of attention, to support decision-making at programme/project and headquarters levels, and to give donors and development country partners an accurate picture of UNCDF performance.

4. The present report contains a summary of : overall results and conclusions; strengths and challenges; future operational and management tasks; analyses of goals, sub-goals, and outcomes; lessons learned; and in the annex the methodologies used.

## I. Overall results and conclusions

### A. Goal analysis

5. UNCDF plays a critical role in reducing poverty. The Fund serves as a catalyst, committed to risking innovation, insisting upon external assessments and exposing mistakes in order to learn from them. UNCDF understands that its unique role demands focus. The Fund therefore: (a) limits itself to two thematic areas—local governance and microfinance; (b) emphasizes less-developed countries of which 15 are considered concentration countries; and (c) focuses on key entry points—local authorities and microfinance institutions.

**Box 1: Malawi illustrates the organization's approach and potential impact**

One of the world's poorest countries, Malawi ranked 12th from the bottom on UNDP's human development index in 2000. UNCDF has helped the government to alleviate poverty through decentralized development planning, increased agricultural productivity, and small enterprise development to encourage broad-based economic growth since 1974. The UNCDF programme for Malawi includes an initiative to promote economic development and alleviate poverty through decentralized, bottom-up planning.

The pilot programme, Supporting Local Governance and Decentralization, has produced results in policy impact, district planning and financing systems, and donor replication. The programme supported the government in its formulation of its progressive decentralization policy and the Local Government Act, the creation of the Decentralization Secretariat and the Interim Administration for District Assemblies, and the development of standard accounting and financial management manuals as well as comprehensive training on their use. Local government elections held in November 2000 set up 39 district, town, municipal and city assemblies.

The Local Government Act and the Decentralization Policy adopted many UNCDF/World Bank recommendations for devolving the provision of public services. With UNCDF support, the government developed a national district development planning system and established institutional structures and a decentralized district development fund (DDF) in all districts. The Fund has since attracted other donors such as the UNICEF, the WFP and the Danish International Development Agency to channel their funds through the DDF.

6. UNCDF addresses poverty reduction by investing with the poor. The Fund builds the productive capacity and self-reliance of poor communities by increasing their access to essential, local infrastructure and services. The Fund also strengthens community influence over economic and social investments that directly affect lives and livelihoods. Investing with the poor implies close partnership and emphasizes participation, engagement and dialogue. UNCDF-sponsored investments are therefore planned, implemented and monitored using broad leadership and popular participation. UNCDF particularly promotes transparent and accountable local governing institutions that can manage civic assets in the common interest.

7. UNCDF interventions are a small part of overall Official Development Assistance (ODA). Despite this fact, the Fund nevertheless alleviates poverty through its local development programmes (LDPs) and microfinance operations. Research shows access to basic infrastructure and services—including financial services—reduces poverty (See, for example, annex and bibliography in the policy paper “Taking Risks”, produced by UNCDF in April 1999, available on request in English and French from UNCDF). Therefore, rather than use its limited resources to analyse the effect of UNCDF interventions on poverty reduction at the global level, the Fund assesses its impact on a country-by-country basis.

8. In 1998 UNCDF reformulated its approach to microfinance, based on lessons learned from experiences in Malawi and elsewhere. Previous assistance focused on credit guarantee schemes with linkages between commercial banks and microfinance institutions (MFIs). Now the Fund provides direct support to young and promising MFIs, as well as to more mature financial institutions expanding services to rural areas, especially remote ones.

**Box 2:** Through a \$3 million grant from UNCDF, Pride Africa—a MFI headquartered in Nairobi, Kenya—established a local MFI in Malawi. In 2000, this local micro-finance operation brought access to credit to 3,600 poor Malawis in just six months. It is expected to show operating profit in its fourth year, when it has 19,000 clients with a loan portfolio of \$2.44 million.

## B. Strengths and challenges

9. The ROAR analysis highlighted several strengths and challenges in UNCDF programming and management, which are presented below on three main categories: local development programmes, including natural resource management; microfinance; and management.

### *Local development programmes*

10. In 1995, UNCDF began to focus its activities on local governance thereby creating its new niche. In view of this short time frame, programming is still relatively new in many countries. As a small fund with limited resources, UNCDF strives for maximum efficiency and effectiveness and operates predominantly in countries where its approach can be most conducive to realizing results.

11. While the SRF cannot capture details of local development programmes, the analysis across ongoing programming emphasized some strengths and challenges.

12. Local-level planning in UNCDF-funded LDPs was generally participatory, with community members—or their representatives on local development committees—involved in needs identification, planning, and micro-project implementation. Women were active at all levels but the quantity and quality of their participation must be increased. The capacity development of local authorities and other actors in local development facilitated the approval of local development plans. Applying performance standards to unconditional grant funding added transparency and accountability to local planning and financing. UNCDF achieved an additional measure of success whenever a project—through outreach and advocacy—influenced national and/or local policies on decentralization.

13. While the Fund set ambitious replication targets, it recognizes that replication takes time. Nevertheless, the UNCDF approach was validated with every new partnership, every replication of a UNCDF model, every time a government applied the Fund model to other regions. The sub-goal and outcome analyses showed UNCDF achieved such successes in several countries e.g. Cambodia, Malawi, Mozambique, Senegal, Uganda, Viet Nam.

14. The progress made in natural resource management was uneven and the indicators used for the first UNCDF ROAR failed to capture some advances. After an in-depth assessment of the eco-development portfolio in 1998, UNCDF incorporated the eco-approach into the local development programme as a “green window” in 1999, thus working more closely with local authorities. This addressed the conclusion that eco-development projects had ignored institutional strategy for long-term sustainability and national ownership by focusing exclusively on community institutions and bypassing local state counterparts. At the workshop on local development and decentralization of natural resource management held in Cotonou, Benin, in December 2000, it was noted that the diagnostic and planning procedures and mechanisms adopted in projects had forged stronger alliances between local actors. Access to planning tools and capacity-building allowed village communities to assume a critical role in natural resource management. Local populations understood their environmental problems better and consequently took quickly to experimenting with, and subsequently adopting, best practices in natural resource management. The sub-goal and outcomes on natural resource management were all the more ambitious because: (a) they required changes in natural resource management

behaviour; (b) their cause-and-effect hypotheses were more complex; and (c) non-controllable variables—such as input and crop price policies—were numerous. For these reasons, the UNCDF strategy in natural resource management remains in evolution, even after a consolidation phase.

15. While UNCDF has made great inroads in local governance in the last five years, the organization must address two important needs: (a) better project level monitoring and evaluation systems would give the Fund more access to useful lessons and (b) more adequate maintenance would improve sustainability of the infrastructure. The 1999 Evaluation Results report identified these weaknesses, UNCDF devised several responses, and the ROAR data reaffirmed the need to make appropriate changes a priority.

#### *Microfinance operations*

16. The UNCDF Special Unit for Microfinance (SUM) manages and provides technical backstopping for the UNCDF-funded microfinance portfolio and the UNDP-funded MicroStart programme; it also provides technical advisory services to UNDP country offices. While the ROAR data analysis looked only at UNCDF-funded projects, the SUM role in microfinance for both organizations was significant. Following the independent review of UNCDF microfinance activities undertaken by the Consultative Group for Assisting the Poorest (CGAP), several projects closed down or were completely reformulated to reflect the new microfinance policy. Using criteria highlighted in the March 1999 UNCDF working paper on microfinance regarding minimum conditions for sustainable microfinance programmes (“Building on lessons learned”), the Fund has separated most of its microfinance investments from its local governance projects and made them “stand-alone” investments. Nevertheless, several UNCDF microfinance investments remain linked to other development programmes requiring close monitoring of their viability.

17. The Fund’s microfinance policy also highlights the need to weigh the geographical focus on remote rural areas against other preconditions (population density, social cohesion, economic potential, etc.) to ensure the sustainability of investments. While much progress was made assessing the minimum conditions needed to develop microfinance in remote rural areas on a sustainable basis, this remains a challenging area for UNCDF microfinance.

18. UNCDF improved the quality and timeliness of performance reporting on microfinance investments in 2000. While this discipline brought good results for newer investments, it was less effective for some older projects. In addition, the ROAR reporting highlighted the need to improve inconsistent definitions and calculation methods for key indicators.

19. The emphasis on institutional capacity-building eclipsed the importance of assessing the impact of interventions on the ground. SUM did, however, support the development of the tools know as Assessing the Impact of Micro-enterprise Services/AIMS, tested on one MicroStart project in 2000. Such tools may also facilitate reporting on gender issues in the future.

#### *Management*

20. The major task facing UNCDF in 2000 was to implement the recommendations of the external evaluation of UNCDF undertaken in 1999 (see para. 1 above). While progress was a little slower than expected, the Fund realized satisfactory advances, thereby improving UNCDF programming: UNCDF revised its formulation process, closed a number of projects, restructured the organization, and agreed on strategies for policy impact and replication, lessons learned, and best practices. The organization deepened its partnership with UNDP in 2000; the Fund’s Business Plan 2001-2002 outlined steps to further strengthen this key relationship. Once again the Fund showed its adaptability, implementing change efficiently and effectively. This was largely due to the committed and skilled staff of UNCDF in the field and at Headquarters.

21. Despite a positive evaluation of the organization endorsed by the Executive Board in 1999, net donor contributions did not increase. As a result, UNCDF was unable to respond fully to demands by programme countries for Fund support. While one of the comparative advantages of UNCDF is its small size, without

increased funding—whether core or non-core—the Fund will eventually suffer operational difficulties, as evidenced by the drop in new project approvals.

### C. Future operational and management tasks

22. Following the ROAR analysis, and in consultation with staff, UNCDF management identified the following priority tasks to be implemented in the next two years:

**Policy:** Operationalize UNCDF’s new strategy for policy impact and replication.

**Operational performance:** Operationalize natural resource management within local development programmes; improve monitoring and reporting for all projects—producing a more complete picture of UNCDF achievements in natural resource management and improving consistency in microfinance reporting; and implement promised improvements set out in previous documents relating to infrastructure maintenance, thereby ensuring greater sustainability.

**Funding:** Concentrate on resource mobilization.

**Impact:** Prepare for the 2002 impact evaluation of UNCDF interventions.

## II. Detailed results

### A. Performance analysis by sub-goal

23. The categories for the performance ratings for the outcomes of each sub-goal are explained in paragraph 6 of the annex to the present documents. “No rating” indicates that there was insufficient data to undertake an analysis.

**Sub-goal 1: To increase sustainable access of the poor to public goods and services through good local governance.**

Outcomes	Performance
Improved capacity of local communities and civil society organizations to participate in the planning of local development.	Satisfactory
Participatory planning processes are institutionalized at the local level.	Partially achieved
Financing mechanisms based on principles of good governance are institutionalized at the local level.	Partially achieved
Local authorities have improved access to sustainable funding sources.	Partially achieved
Increased local capacity to deliver basic infrastructure and public services.	Satisfactory
Increased local capacity to maintain basic infrastructure and public services.	Partially achieved
Local communities are empowered to hold local authorities accountable for delivery of basic infrastructure and public services.	Satisfactory
Improved national policy and regulatory frameworks for decentralization and strengthened local government.	Satisfactory
Best practices of UNCDF pilot projects are replicated by other donors and central governments.	Satisfactory

**Box 3.** The Local Development Programme in Nampula Province in Mozambique—a successful example of government replication—still struggles to strike appropriate balance between participation of the rural population and the need for results. Current methodology assures greater access to basic infrastructure but money might be spent more efficiently were the rural population better able to articulate their concerns. The participation by women is still relatively weak but the Programme is addressing these issues quantitatively and qualitatively. In Necata, the long distance to the nearest health post was a common complaint by pregnant women. A member of this community said, “We found the health post the most important issue because one needs to be healthy to go to school or to work.”

24. SRF-defined principles of good local governance include accountability, transparency, and participation in planning and decision-making. Analysis of public goods and services resulting from UNCDF-financed projects confirmed that social infrastructure is the most common request of local communities. Examination of the UNCDF project portfolio demonstrated that the Fund has increased sustainable access for the poor to public goods and services in those areas where the organization provides support. This, however, relates only part of the Fund's achievement: factoring UNCDF influence on national policies and the replication of its LDP approach by both donors and governments multiplies the Fund's actual contribution exponentially—e.g., in Cambodia, Malawi, Mozambique, Palestine, and Uganda.

25. This sub-goal revealed UNCDF diversity in local level partners. Central government-local government partnerships shaped and influenced national policy through bottom-up lessons learned at the local level. Partnerships with local non-governmental organizations (NGOs) and civil society groups ensured that UNCDF programmes continued responding to needs, thereby laying the groundwork for policies that serve the poor.

26. UNCDF continued to partner with UNDP in local development. This symbiosis combined UNDP upstream experience and UNCDF in-depth local knowledge and experience.

27. Because national governments are the primary partners in UNCDF interventions, their ownership of programmes and willingness to replicate successful experiences adds sustainability. UNCDF encouraged ownership by national governments of its programmes, promoting an enabling policy environment and subsidiarity.

28. Finally, bilateral and multilateral donors are key to the replication of local development programmes, pending the Government's ability to do so itself. Replication takes many forms and can span many years: in 1995, UNCDF partnered with the World Bank to test policy and to design decentralization strategies in Uganda. The success of this effort led the Bank to expand the pilot nationwide through its International Development Association (IDA) loans. This collaboration also extended to programmes in Malawi, Mozambique and Senegal in 2000. UNCDF continued building partnerships with bilateral donors, such as the Australians in Vietnam, Belgium in Mali and Niger, and the Netherlands in Mozambique.

**Sub-goal 2: To increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment.**

Outcomes	Performance
The poor, especially women, have greater access to microfinance services.	Satisfactory
Microfinance institutions are financially viable and provide quality services.	Satisfactory
Countries have improved their enabling environments for supporting the development of micro-finance.	Satisfactory

**Box 4.** In Nicaragua, a UNCDF-funded project channeled \$ 2.86 million to MFIs operating in five northern departments. The project set industry standards in Nicaragua by introducing a revolving credit fund administered by a local institution and instilling financial discipline to the region. Credit repayment rates of 100 per cent by the MFIs show the importance of combining institutional strengthening with access to financial credit.

29. The three outcomes for this sub-goal confirmed satisfactory progress. UNCDF-supported MFIs generally increased access by the poor to microfinance services, as shown by higher numbers of active borrowers and savers. All MFIs included women clients, albeit to varying degrees. While consistent and proper reporting was still an issue with many MFIs, these organizations began early on to institute best practices—such as setting interest rates to cover the full cost of delivering the service, maintaining low levels of delinquency, and aiming for zero default. The UNCDF emphasis on building institutional capacity saw progress in MFI operational and financial self-sufficiency. This is noteworthy since the Fund supports young and promising institutions as well as older MFIs pushing the frontier of their interventions into rural Africa. UNCDF actively supported enabling environments for microfinance. Understandably, Fund contribution at this level is still somewhat limited.

30. By building the capacity of these institutions, supporting start-ups, and identifying “break-through” organizations, UNCDF increases their capacity to provide quality services to microfinance customers. Competition in the financial services market leads to increased efficiency, thereby benefiting the poor by decreasing the cost of the services.

31. The outcomes tracked only UNCDF-financed projects. Following the merging of the Special Unit for Microfinance with UNCDF in 1999, the Fund continued to play an active role in managing and providing backstopping for over 20 UNDP-financed MicroStart projects. Launched in 1997, MicroStart currently invests in 65 MFIs in 14 countries. Collectively, these MFIs have more than tripled the number of active clients they serve, from a baseline of 48,191 to 151,416 in 2000. The percentage of women clients served rose from 57 per cent to 84 per cent over the same period. The low average loan size relative to per capita gross domestic product (GDP) and the focus on women strongly indicate that these MFIs are serving the poor. SUM pursued its learning agenda by promoting the understanding of and support to the role of savings in Africa through research and product development by MicroSave Africa, a programme supported by UNDP, CGAP and the Department for International Development (DFID) of the United Kingdom.

32. UNCDF established partnerships with technically strong international service providers, government agencies, donor and support organizations and learning institutions. Strategic alliances with donors, mature microfinance institutions, and the commercial banking sector facilitated expansion of new MFIs. SUM also strengthened its partnerships with multilateral and bilateral donors, such as CGAP and the African Development Bank (AfDB).

**Sub-goal 3: To improve sustainable livelihoods of the poor through enhanced productivity, as well as increased access to, and local management of, natural resources.**

Outcomes	Performance
Increased capacity of local authorities to plan and invest in land-use related activities.	Partially achieved
Communities living in fragile environments adopt sustainable and/or more productive land-use practices.	Partially achieved
Livelihood opportunities of rural communities are diversified.	No rating
Local populations have greater access to markets	No rating
Local authorities as well as community and user groups are capable of managing natural resources in a sustainable manner	Below expectations
Communities look to institutional mechanisms to solve conflicts related to natural resources management.	Below expectations

**Box 5.** The July 2000 assessment by the Belgian Government of the UNCDF/Belgian Survival Fund eco-development project in Bankass, Mali, concluded that, “the project improved living conditions and empowered the poor”.

- The project used its flexibility to help to create pre-commune structures, pending local elections and the formal establishment of decentralized administrative arrangements; it thus played a role in laying foundations for the coming decentralization.
- Secure grain banks accessible to the local population—and particularly the most needy—made the greatest difference: in hard times, one family no longer must work for another but can borrow from the grain bank while continuing to cultivate its own fields.
- Although women made up 29 per cent of the 273 persons from 89 villages trained in needs assessment, women remain excluded from the traditional decision-making circle.

33. Improved sustainable livelihoods for the poor were to be measured in this ROAR by tracking increased productivity of the local rural economy and local management of natural resources. The inconsistent reporting and often unsatisfactory performance of projects that reported suggest that the UNCDF contribution to this sub-goal in 2000 was limited.

34. Analysis of this sub-goal proved challenging for several reasons: (a) Despite nine eco-development projects and six rural development-type projects reporting, relatively few tracked sub-goal 3 issues and (b) three indicators received inadequate response. SRF outcomes and indicators for sub-goal 3 must therefore be reworked for 2001.

35. Most UNCDF sub-goal 3 project partners were found at the local level, including traditional leaders, community-based organizations, extension services, and local authorities. UNDP joined with UNCDF on most projects and UNCDF developed a close partnership with the Belgian Survival Fund in Mali and Niger.

**Sub-goal 4: To promote a financially sound organization that develops and implements quality programming in local governance and microfinance.**

<b>Outcomes</b>	<b>Performance</b>
UNCDF will have moved from policy refinement to an emphasis on operational impact.	Satisfactory
UNCDF will have maintained quality assurance through skilled staff, improved elements of the project cycle and continuous learning through monitoring and evaluation.	Satisfactory
UNCDF will have maximized its comparative advantages through improved partnerships.	Satisfactory
UNCDF will have become more efficient and cost-effective through improved tracking and analysis of its finances.	Satisfactory
UNCDF will have developed a culture of resource mobilization based on measurable performance, efficiency and value for money.	Partially achieved
UNCDF will have diversified its resource base and increased the number of donors.	Partially achieved

36. The organization has switched focus from policy refinement to policy implementation. New projects in 2000 reflected this and ongoing projects underwent realignment as needed. UNCDF closed unproductive projects and projects outside its niche.

37. UNCDF enhanced the quality of its programming by incorporating lessons learned, improving its formulation process, and cleaning up its portfolio. While the Fund undertook a major effort to increase available funds in 2000, actual results were a source of some concern. The Fund has maintained its financial integrity and remains sound but core and non-core funding must increase for UNCDF to sustain current programme expenditure levels. In order to implement the new policy quickly and effectively, UNCDF approved projects between 1995 and 1999 whose total annual cost exceeded annual contributions. This required the Fund to access its accumulated liquidities, thereby decreasing core resources—a decrease as yet unmatched by an increase in net donor contributions and non-core funding.

38. UNCDF sought to maximize its impact on poverty by cultivating strategic partnerships in all facets of the Fund's work. UNCDF and UNDP deepened their partnership in 2000. This relationship proved complementary in many ways, as UNDP refocused upstream and opportunities emerged to apply UNCDF downstream experiences in local development and microfinance. UNCDF also increased partnerships with research organizations, technical institutions, and practitioners in the field—such as the Center for Development Research in Copenhagen, the Ford Foundation, le Programme municipal de développement (Benin), and the University of Western Cape.

**B. Analysis of outcomes by strategic area of support**

**Strategic area of support 1.1: Promote a participatory development planning process at the local level.**

**Outcome 1.1.1: Improved capacity of local communities and civil society organizations to participate in the planning of local development. [Satisfactory]**

<b>Indicators</b>	<b>Targets</b>	<b>Achievements</b>
(a) Percentage of projects where communities use participatory approaches for assessing needs.	16 projects	14 projects (87.5%) [Satisfactory]
(b) Percentage of projects with an increase in women's participation in community needs assessments.	12 projects	10 projects (83%) [Satisfactory]
(c) Percentage of projects with communities regularly preparing annual investment plans.	8 projects	7 projects (87.5%) [Satisfactory]

39. Most projects reported having village or commune development committees that linked the locally elected authority with community members. Institutional capacity of these committees improved via training in participatory approaches and local planning, as well as through practical experience. Community members, including women, could thus identify needs, understand options, and express expectations. At least 3,637 villages and/or communes participated in assessments in 2000.

**Outcome 1.1.2: Participatory planning processes are institutionalized at the local level. [Partially achieved]**

Indicators	Targets	Achievements
(a) Percentage of projects where local authorities have approved local development plans meeting minimum quality standards.	14 projects	8 projects (57%) [Partially achieved]
(b) Percentage of projects with local development plans reflecting community needs assessments.	12 projects	7 projects (58%) [Partially achieved]
(c) Percentage of projects with women representatives participating in the preparation of the local development plans.	13 projects	10 projects (77%) [Satisfactory]

40. Institutionalizing participatory planning processes at the local level is a gradual activity that often takes considerable time. Several local development programmes were slow starting up in part because strengthening the technical skills and building capacity within local institutions took longer than expected. This produced less-than-satisfactory performance. The percentage of participating women dropped significantly, suggesting that men dominated planning. The high approval rating for local development plans, however, demonstrated that local plans are meeting established criteria.

**Strategic area of support 1.2: Promote sound and sustainable financing and financial management practices at the local level.**

**Outcome 1.2.1: Financing mechanisms based on principles of good governance are institutionalized at the local level. [Partially achieved]**

Indicators	Targets	Achievements
(a) Percentage of projects where audit reports show an improved compliance of the local authorities financial management and accounting procedures with national standards.	7 projects	6 projects (86%) [Satisfactory]
(b) Percentage of projects with local communities having access to public spending records.	6 projects	4 projects (67%) [Partially achieved]
(c) Percentage of projects with local communities maintaining financial records on micro-project final costs.	6 projects	3 projects (50%) [Partially achieved]

41. While relatively few projects reported on this outcome, the fact that audits had commenced showed welcome progress. The indicators incompletely captured the significant training of local authorities. Of some concern was the underreporting by several more advanced UNCDF projects. As previously mentioned, LDP capacity-building takes time; it is therefore too early in the implementation of most projects to measure the institutionalization of financing mechanisms.

**Outcome 1.2.2: Local authorities have improved access to sustainable funding sources. [Partially achieved]**

Indicators	Targets	Achievements
(a) Percentage of projects with local authorities having access to sustainable sources of funds for local development plans after UNCDF support ends.	6 projects	5 projects (83%) [Satisfactory]
(b) Percentage of projects with an increased replacement rate of UNCDF funds by alternative external sources (from central government or other donors).	5 projects	4 projects (80%) [Satisfactory]
(c) Percentage of projects with improved local revenue collection rates.	8 projects	3 Projects (38%) [Below expectations]

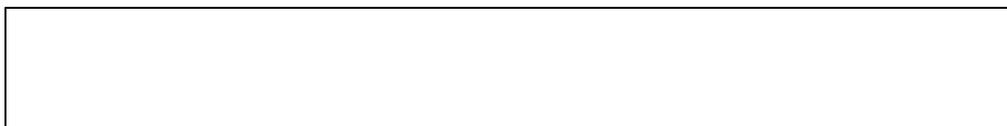
42. In 2000, UNCDF emphasized the importance of securing replication partners prior to project start-up. Ongoing projects have done this mainly by demonstrating success. Most local authorities began to increase their access to sustainable funding sources—a positive sign. Mandatory exit strategies in all new UNCDF projects boosted the Government's commitment either to fund local development after UNCDF withdrawal or to find other partners. Poor project performance in local resource mobilization can be attributed to many factors, including a poor resource base and the capacity of taxpayers to contribute.

**Strategic area of support 1.3: Develop local capacity to deliver and maintain basic infrastructure and public services on a sustainable basis.**

**Outcome 1.3.1: Increased local capacity to deliver basic infrastructure and public services. [Satisfactory]**

Indicators	Targets	Achievements
(a) Percentage of projects with an increase, at community level, in the number of basic infrastructure and public services.	22 projects	15 projects (68%) [Partially achieved]
(b) Percentage of projects with contracts for micro-projects completed within 125 per cent of planned budget and completion time.	9 projects	7 projects (78%) [Satisfactory]
(c) Percentage of projects with micro-projects positively assessed for quality.	9 projects	8 projects (89%) [Satisfactory]
(d) Percentage of projects with service and infrastructure users who are satisfied with the relevance, quality, access and cost of the service/infrastructure.	9 projects	7 projects (78%) [Satisfactory]

43. All projects—except those in microfinance—constructed infrastructure. Two out of three achieved their targets. Those projects reporting on efficiency, mainly of LDPs, said that most construction was completed on time, on budget, and was of satisfactory quality. Given the many projects with late starts in 2000, all indicators suggested there will be more and better local delivery of basic infrastructure and public services in 2001.



**Box 6.** Commune development committees in Cambodia boosted productivity through competitive bidding that brought the costs of projects financed by local development funds down by 15 per cent.

**Outcome 1.3.2: Increased local capacity to maintain basic infrastructure and public services. [Partially achieved]**

Indicators	Targets	Achievements
(a) Percentage of projects with physical infrastructure meeting technical standards of maintenance after three years of completion.	Too early to track	[No rating]
(b) Percentage of projects in which micro-projects have operation and maintenance plans/budgets.	14 projects	8 projects (57%) [Partially achieved]

44. The 1999 Evaluation Results report identified operation and maintenance as a recurrent problem; UNCDF management is taking steps to improve performance (such as developing and implementing a system based on corporate principles of participatory monitoring and evaluation and providing technical support to local authorities and community groups for the management, operation and maintenance of investment assets). Analysis of indicators echoed this conclusion, reiterating the importance of implementing those remedies identified by UNCDF management.

**Outcome 1.3.3: Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services. [Satisfactory]**

Indicators	Targets	Achievements
Percentage of projects showing that local communities are satisfied with public access to information relating to funds allocation, procurement and contract-awarding procedures and implementation.	9 projects	7 projects (78%) [Satisfactory]

45. Public access to information is key to good governance. Transparency enabled community members to hold locally elected authorities accountable for their decisions. A greater sense of ownership ensued in 2000 when local communities not only identified their needs but also followed the process of completing needed infrastructure.

**Strategic area of support 1.4: Advocate for national policies supporting decentralization and for the replication of pilot programmes.**

**Outcome 1.4.1: Improved national policy and regulatory frameworks for decentralization and strengthened local government. [Satisfactory]**

Indicators	Targets	Achievements
(a) Regulatory frameworks for increased participation of local development committees and other community-based organizations in the local planning process are in place and functional.	9 projects	6 projects (67%) [Partially achieved]
(b) The national legal and statutory framework on decentralization is amended/updated based on the UNCDF experience at the local level.	7 projects	7 projects (100%) [Satisfactory]

46. UNCDF worked closely with governments, UNDP and donors to improve national policies and regulatory frameworks on decentralization. The collection, analysis, and dissemination to central governments of lessons learned from UNCDF pilot programmes made positive contributions to policies. In Mozambique, for example, draft legislation reflecting the experience of the Nampula model (supported by UNCDF) awaits approval.

**Outcome 1.4.2: Best practices of UNCDF pilot projects are replicated by other donors and central governments. [Satisfactory]**

Indicators	Targets	Achievements
(a) Percentage of projects being replicated by other donors.	5 projects	4 projects (80%) [Satisfactory]
(b) Percentage of countries where UNCDF pilot projects are being replicated by the central government.	5 projects	5 projects (100%) [Satisfactory]

47. Progress was favorable on this outcome, particularly for local governance projects. In Cambodia, a programme supported by UNCDF and UNDP evolved into a national government programme, attracting donors such as the German Agency for Technical cooperation (GTZ) and DFID. In Malawi, AfD is helping to replicate the District Development Fund in five other districts. The Government of Zambia will disburse World Bank funds following district development plan methodology supported by UNCDF. In microfinance, UNCDF experience with the Credit Agency for Enterprise and Production (ACEP) in Senegal led to replication by other MFIs.

**Strategic area of support 2.1: Support an increase in assets of the poor.**

**Outcome 2.1.1: The poor, especially women, have greater access to microfinance services. [Satisfactory]**

Indicators	Targets	Achievements
(a) Percentage of microfinance institutions (MFIs) reaching targets regarding number of active borrowers. <sup>1</sup>	27 MFIs	26 MFIs (96%) [Satisfactory]
(b) Percentage of MFIs reaching targets regarding no. of active savers.	22 MFIs	17 MFIs (77%) [Satisfactory]
(c) Average percentage of women borrowers per MFI.	27 MFIs	27 MFIs (100%) [Satisfactory]
(d) Average loan size per MFI.	26 MFIs	19 MFIs (73%) [Partially achieved]
(e) Percentage of MFI clientele considered as poor.	N/A	N/A [No rating]

<sup>1</sup> For ROAR purposes only UNCDF financially supported MFIs reported.

48. Eighty per cent of MFIs added active borrowers in year 2000, all MFIs loaned to women, and in 60 per cent of MFIs more than half the borrowers were women (This number differs from the 96 per cent shown in indicator 2.1.1a, as some MFIs began with targets lower than their 1999 baseline figures. Such cases included MFIs which, in agreement with UNCDF, prioritized consolidation over increasing borrowers). MFIs also generally provided financial services for savers. MFIs were less successful in meeting their targets for average loan size but this demand-driven item simply reflected client needs. Analysis of this outcome suggested that UNCDF should review these indicators further for 2001.

**Strategic area of support 2.2: Promote the development of sustainable microfinance institutions.**

**Outcome 2.2.1: MFIs are financially viable and provide quality services. [Satisfactory]**

Indicators	Targets	Achievements
(a) Percentage of MFIs reaching operational self-sufficiency.	16 MFIs	14 MFIs (87.5%) [Satisfactory]
(b) Percentage of MFIs reaching financial self-sufficiency.	19 MFIs	12 MFIs (63%) [Partially achieved]
(c) Percentage of MFIs operating with increased operating efficiency: (i) outstanding portfolio/credit officer and (ii) active loans/credit officer	21 MFIs 12 MFIs	15 MFIs (71%) 9 MFIs (82%) [Satisfactory]

49. UNCDF often works with new and expanding microfinance institutions; in such MFIs, operational and financial self-sufficiency are not goals achievable in the short term. Nevertheless, the assessment of MFI ratings showed most attained interim operational self-sufficiency targets and several MFIs even showed financial self-sufficiency. Technical reviews showed calculations were inconsistent, possibly signaling lower ratios in 2001. Most MFIs attained minimum performance standards set by UNCDF.

**Strategic area of support 2.3: Advocate for an enabling environment for sustainable microfinance activities.**

**Outcome 2.3.1: Countries have improved their enabling environment for supporting the development of microfinance<sup>2</sup>. [Satisfactory]**

Indicator	Target	Achievement
Number of projects having led to institutional change in the microfinance environment.	5 projects	4 projects (80 per cent) [Satisfactory]

<sup>2</sup>*An enabling environment for the development of microfinance includes key economic and policy prerequisites. A legislative and regulatory environment is not a prerequisite for successful microfinance. Consequently, regulation of the microfinance industry has not been a UNCDF priority; the Fund has instead concentrated on advising government partners when and how to regulate the industry.*

50. MFIs survive and thrive in very different social, political and economic conditions. Certain factors in an environment can, however, help or hinder the emergence and growth of sustainable MFIs that reach the poor. Workshops and study tours in 2000 alerted government officials of the Lao People's Democratic Republic of the pitfalls of microfinance industry regulation prior to adequate industry experience in the country. In Madagascar, UNCDF boosted financial reporting discipline for a number of MFI partners, enhancing their credibility and status with national authorities. The Fund also established links to the formal banking system, thereby facilitating refinancing. Improving the enabling environment for microfinance development was a relatively new priority for UNCDF; building MFI institutional capacity remains the key UNCDF contribution. In this light, progress was satisfactory but must improve in the coming years.

**Strategic area of support 3.1: Support increased land-use productivity.**

51. For all sub-goal 3 outcomes, reporting was limited and often unclear. Reasons for this included: (a) Older rural development projects had few project indicators or weak monitoring and evaluation systems; (b) the SRF indicators were sometimes unsuitable for older project activities or proved too difficult to monitor, and (c) several newer LDPs with natural resource management components were in the early stages of implementation and therefore lacked results.

**Outcome 3.1.1: Increased capacity of local authorities to plan and invest in activities related to land-use. [Partially achieved]**

Indicators	Targets	Achievements
(a) Percentage of projects with local authorities having plans in activities related to land-use.	6 projects	3 projects (50%) [Partially achieved]
(b) Percentage of projects with local community participating in the preparation of land-use investment plans.	5 projects	3 projects (60%) [Partially achieved]

52. Several projects increased the capacity of local authorities to plan and invest in land-use related activities. Results should improve in 2001 with new projects on line and slow starters producing.

**Outcome 3.1.2: Communities living in fragile environments adopt sustainable and/or more productive land-use practices. [Partially achieved]**

Indicators	Targets	Achievements
(a) Percentage of projects where food security for the community has improved.	6 projects	4 projects (66%) [Partially achieved]
(b) Percentage of projects where crop yields are stabilized and/or improved.	6 projects	6 projects (100%) [Satisfactory]

53. Several projects promoted sustainable and/or more productive land-use practices implemented by communities living in fragile environments. Two indicators monitored changes in such practices by measuring improved local food security and stabilized or increased crop yields in a project area. Analysis of the data revealed that not all reporting projects defined food security in a similar manner. However, for the purposes of the present report, the statement in the 1996 World Food Summit Plan of Action holds true: “Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.” Achievement rates were respectively 66 per cent and 100 per cent, suggesting that most Fund-supported communities adopted more sustainable and/or productive land-use practices.

**Outcome 3.1.3: Livelihood opportunities of rural communities are diversified. [Partially achieved]**

Indicator	Target	Achievement
Percentage of projects with an increase in the individual incomes deriving from new activities	0 projects	0 projects [No rating]

54. New sources of income break dependency on traditional agricultural practices. Increased individual incomes are measures of diversification of rural livelihood. Many project achievements went unreported because data collection was time-consuming and demanded potentially expensive tools. One such unreported achievement was in Mali, where UNCDF supported the establishment and management by women of a dairy in the Bankass region. Many women used the time they saved to improve their literacy and accounting skills. Milk production increased substantially, as did the women’s revenue, thereby improving their food security and the nutritional health of their children.

55. Indicators have been modified in 2001 to capture actual progress better.

**Outcome 3.1.4: Local populations have greater access to markets. [No rating]**

Indicators	Targets	Achievements
(a) Percentage of projects where markets show a decrease in cost of produce.	0 projects	0 projects [No rating]
(b) Percentage of projects where show an increase in collected fees.	1 project	1 project (100%) [Satisfactory]

56. Good roads can lower produce costs at market. While the Fund moved away from blueprint infrastructure projects, its portfolio included at least eight projects with such components. In addition to tracking kilometres built or rehabilitated, greater access to markets was considered an indirect outcome of improved transportation.

A dearth of available data on these indicators precluded their analysis for the present ROAR. Although UNCDF projects performed satisfactorily in improving road infrastructure, current outcome and indicators need revision to reflect the impact of UNCDF roads projects better.

**Strategic area of support 3.2: Promote local management of natural resources.**

**Outcome 3.2.1: Local authorities as well as community and user groups are capable of managing natural resources in a sustainable manner. [Below expectations]**

Indicators	Targets	Achievements
(a) Percentage of projects with user groups are still functional after UNCDF support ends.	5 projects	2 projects (40%) [Below expectations]
(b) Percentage of projects with documented evidence of positive changes in the practices of the communities concerning natural resources management.	5 projects	3 projects (60%) [Partially achieved]
(c) Percentage of projects where local authorities increase their retention of receipts from natural resources.	0 projects	0 projects [No rating]

57. Several projects sought to increase capacity of local authorities, and community and users' groups to manage natural resources sustainably. Unlike outcome 3.1.2 (individual practices), this outcome addressed the ability of a community as a whole, including that of local authorities, to manage their natural resource base according to clearly defined regulations. The workshop on local development and decentralized natural resource management held late in 2000 highlighted obstacles to local natural resource management, such as: (a) when natural resource management was effectively decentralized to the local level, financial and human resources did not always follow; (b) traditional local leaders often conflicted with locally elected officials; (c) natural resource management activities were often lacked originality and were repetitive, thereby ignoring local conditions; and (d) natural resource management suffered from weak negotiation skills of village and commune leaders.

**Outcome 3.2.2: Communities look into institutional mechanisms to solve conflicts relating to natural resource management. [Below expectations]**

Indicator	Target	Achievement
Percentage of projects with a decrease in the number of conflicts relating to natural resource or land use.	3 projects	1 project (33 per cent) [Below expectations]

58. Improved institutional mechanisms can minimize natural resource conflicts. Populations in fragile environments often wage acute, long-lasting competition for use of scarce natural resources. This is clearly an area to be further strengthened. Sustainable natural resource management requires community members to develop and follow, with or without intervention by local authorities, a self-regulatory framework for the use of scarce resources. The main achievements in 2000 were in Benin, where three communities devised and implemented conflict resolution for access to classified communal forests, and in Madagascar, where 14 villages elaborated, but did not implement, a similar mechanism.

**Strategic area of support 4.1: Promote excellence in the planning and implementation of local development programmes and microfinance operations.**

**Outcome 4.1.1: UNCDF will have moved from policy refinement to an emphasis on operational impact. [Satisfactory]**

Indicators	Targets	Achievements
(a) Annual programme targets met: Expenditures Approvals	\$ 40million \$ 25million	\$ 38 million <sup>3</sup> (97%) US\$ 19.2 million (77%) [Satisfactory]
(b) Evaluations show greater levels of impact.	99 Evaluation report shows impact	UNCDF is effectively enhancing the well-being of the poor [Satisfactory]
(c) Action plan 2000 targets are respected for recommendations 1, 2 and 7.	See AP 2000 for recom- mendations 1, 2, and 7	Recommendations 1 and 2 achieved; recommendation 7 ongoing and will be finalized in 2001 [Satisfactory]

<sup>3</sup> Available figures at the time of writing the report.

59. The majority of local development programmes and microfinance projects in 2000 were in line with UNCDF policy. A December workshop brought together practitioners and UNCDF field and project staff to clarify natural resource management policy in local governance, based upon lessons learned and practical experience. The 1999 Evaluation Results report concluded that UNCDF interventions were indeed having an impact on the poor. UNCDF detailed its refocus on policy impact and replication in a new strategy paper, to be implemented in 2001.

**Outcome 4.1.2: UNCDF will have maintained quality assurance through skilled staffing, improved elements of the project cycle, and continuous learning through monitoring and evaluation. [Satisfactory]**

Indicators	Targets	Achievements
(a) Increase in number of requests for UNCDF advisory services.	3	5 for Local Governance Unit and 23 for Special Unit for Microfinance [Exceeded expectations]
(b) Average time for project formulation.	12 months	12 months (100 per cent) [Satisfactory]
(c) Programmes formulated according to new guidelines.	Guidelines drafted and tested in two pilots	Guidelines prepared and pilots done in MAG and NIC [Satisfactory]
(d) Percentage of new projects with an exit strategy for UNCDF.	4	3 (75 per cent) [Satisfactory]
(e) Dissemination of lessons learned and best practices .	Strategy for lessons learned and best practice prepared and put into operation	Draft strategy approved [Satisfactory]

60. While the 1999 external evaluation cited “substantial variance in the quality of projects,” it called the Fund’s efforts “broadly good” and pointed out that “projects appear to be taking risks and innovating.” All five indicators were satisfactory, demonstrating high demand for UNCDF services, improvement of its programme formulation process, and emphasis on lessons learned and best practices. The UNCDF position at the cutting edge, innovating practices in local governance and microfinance, consistently draws staff willing to work hard, think creatively and strive for quality results.

**Outcome 4.1.3: UNCDF will have maximized its comparative advantages<sup>4</sup>. [Satisfactory]**

Indicators	Targets	Achievements
(a) No. of programmes/projects with replication partners on board prior to start-up.	2 projects	1 project (50 per cent) [Partially achieved]
(b) Best practices (BP) regarding policy impact are documented.	Documented via West Africa workshop and policy paper	9 cases documented [Satisfactory]
(c) Number of programmes with strategies for policy impact and replication.	Technical and programme missions review policy impact and replication	All mission included reviews of policy impact and replication in terms of reference [Satisfactory]
(d) Increased networking and growth in number of partnerships.	3 partnerships	5 partnerships (167 per cent) [Exceeded targets]

<sup>4</sup> UNCDF’s comparative advantages include, *inter alia*, small size, emphasis on capital investment, focus on local governance and microfinance, and focus on a limited number of countries.

61. Policy impact and replication are UNCDF policy objectives. UNCDF worked closely with governments and other partners to promote policy changes encouraging local governance, decentralization and an enabling microfinance environment. UNCDF comparative advantages include its small size, emphasis on capital investment, focus on local governance and microfinance, and focus on a limited number of countries. The Fund also worked towards wider replication of UNCDF-supported pilot programmes and the adoption of best practices by governments, multilateral and bilateral organizations, and the private sector. Policy impact and replication, and the partnerships to support them, were critical to UNCDF success and all indicators showed progress.

**Strategic area of support 4.2: Promote sound financial management of the organization and diversify the funding base.**

**Outcome 4.2.1: UNCDF will have become more efficient and cost-effective through improved tracking and analysis of its finances. [Satisfactory]**

Indicators	Targets	Achievements
(a) UNCDF reports on costs such as technical, supervisory, evaluation, mission on a yearly basis.	FIM installed in UNCDF and options for supplementary reporting reviewed	FIM installed, options reviewed, and study on monitoring and evaluation costs undertaken [Partially achieved]
(b) Percentage of administrative costs. <sup>5</sup>	\$ 5.4 million or 13.5 per cent	\$ 5.6million <sup>6</sup> or 14.7% (96%) [Satisfactory]
(c) Amount of savings.	\$ 5 million	\$ 12.8 million (142 per cent) [Exceeded expectations]
(d) Changes made due to improved tracking.	Improved project budget planning and portfolio clean-up	Results-based budgeting introduced, \$ 2.8 million savings due to portfolio clean-up [Satisfactory]

<sup>5</sup> As compared with project expenditures

<sup>6</sup> Available figures at time of writing report

62. UNCDF made significant progress, exceeding expectations, in cleaning up its portfolio, realizing savings in the process. Improvements in the analysis of project budgets were initiated and will continue in 2001. Obstacles in 2000 included a relatively inflexible input-based financial system, which has yet to meet UNCDF reporting needs. Administrative costs as reported are somewhat deceptive because they do not separate technical costs, such as salaries of technical advisors, from standard administrative support costs. Furthermore, UNCDF in 2000 assumed previous UNDP contribution to SUM administrative budget. Such factors place a premium on Fund efficiency and the need for improved tracking in 2001.

**Strategic area of support 4.2: Promote sound financial management of the organization and diversify the funding base.**

**Outcome 4.2.2: UNCDF will have developed a culture of resource mobilization based on measurable performance, efficiency and value for money. [Partially achieved]**

Indicators	Targets	Achievements
(a) All staff have a role in resource mobilization.	Donor database developed and strategy finalized	Resource mobilization information system established and strategy being finalized [Satisfactory]
(b) Percentage of increase in non-core funding.	\$ 5 million or a 127 per cent increase	US\$ 3.8 million <sup>7</sup> or a 72% increase (57%) [Partially achieved]

<sup>7</sup> Available figures at time of writing the report.

63. The challenge of attracting required funds transformed the role UNCDF staff must play in mobilizing resources. A new organizational culture, supported by user-friendly information systems and resource mobilization policies, emerged in year 2000. This positive development is tempered, however, by the ever-growing UNCDF need for funds.

**Outcome 4.2.3: UNCDF will have diversified its resource base and increased the number of donors. [Partially achieved]**

Indicator	Target	Achievement
Percentage cent of increase in core funding.		
(a) Donors	16	18 (113%)
(b) Contributions	\$ 25million	\$ 24.7 million <sup>9</sup> (99%)
(c) Core 8	\$ 38 million	\$ 30.3 million (80%) [Partially achieved]

<sup>8</sup> Core resources are the total of donor contributions and interest generated from miscellaneous income.

<sup>9</sup> Available figures at time of writing the report.

64. UNCDF dependence on relatively few major contributors was a concern of the external evaluation: the withdrawal of even one donor could dramatically affect the organization's finances. With this in mind, the Fund sought to increase donors both from the North (to add funds) and from the South (to demonstrate ownership). While donors from the North increased from nine to 11 and donors from the South went from six to seven, contributions declined from \$ 27.3 million in 1999 to \$ 24.7 million in 2000. This is partially due to the strong US dollar. Although some donors increased their local currency contributions to the Fund, the overall UNCDF financial picture did not improve in 2000, with net dollar decreases in contributions and core funding (from \$ 33.7 million in 1999 to \$ 30.3 million in year 2000).

### III. Lessons learned in results-based management

65. Two retreats and a staff questionnaire in February 2001 revealed the following lessons: (a) The SRF/ROAR exercise increased staff understanding of the organization and improved project planning and monitoring at the field level; (b) the exercise was time-consuming; (c) most programmes and projects provided their outcomes, indicators and targets for 2000 between September and November 2000, which may have distorted rates of achievement upwards; (d) the SRF outcomes and their indicators were appreciated, although some revisions are required to reflect better the Fund's ongoing programming; (e) all submissions from the field required several rounds of feedback before finalization; (f) most staff need training to improve their input into the process; and (g) the emphasis on quantitative indicators by most projects, and poor planning by others, underscored the need to strengthen planning, monitoring and reporting at the project level.

66. The staff feedback suggested that UNCDF is on track in pursuing results-based management and that the SRF was an appropriate instrument to monitor the organization's performance. This was, however, the first year and the Fund must improve the process for 2001. Based on the aforementioned lessons, several actions have been and will be taken:

A working group was established to revise the SRF 2000 – 2003, particularly for sub-goal 3. The group also improved the ROAR guidelines accordingly for redistribution to staff in April 2001; and

Training is proposed as follows: (a) develop a user-friendly compact disc that covers planning and evaluation, including the ROAR guidelines, with templates and examples; (b) hold a follow-up workshop on the results of the ROAR and actions to take; and (c) hold three regional training workshops on results-based management, including project planning and monitoring and evaluation.

## Annex. Methodology

### SRF preparation

1. The methodology used for the SRF 2000–2003 included staff training and documentation in the form of the SRF guidelines and the framework. Most staff had been familiar with this approach since September 1998, as of when all new UNCDF project documents were required to include a logical framework. While UNCDF works mainly in local governance and microfinance, some older, ongoing projects do not reflect current UNCDF priorities. Incorporating these projects into the SRF was not always easy. It is important to note that UNCDF does not have a separate sub-goal for gender-related issues. Rather, UNCDF incorporates gender issues into all sub-goals and collects gender-disaggregated data for all relevant indicators.

2. The UNCDF mandate guided the preparation of the SRF, as did the need to:

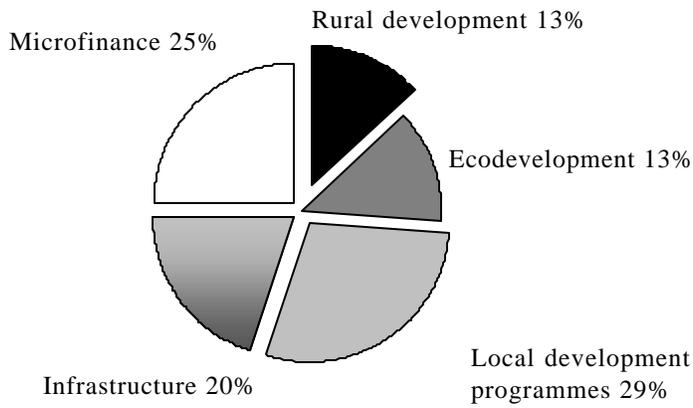
Clearly define the corporate goal, sub-goals, and strategic areas of support;

- a) Limit the number of goals and sub-goals to present the UNCDF focus accurately;
- b) Closely reflect ongoing programmes and projects to minimize additional reporting demands on the field;
- c) Carefully select situational indicators that capture the broader development changes in key UNCDF programming areas, and outcome indicators that demonstrate UNCDF performance while addressing attribution.

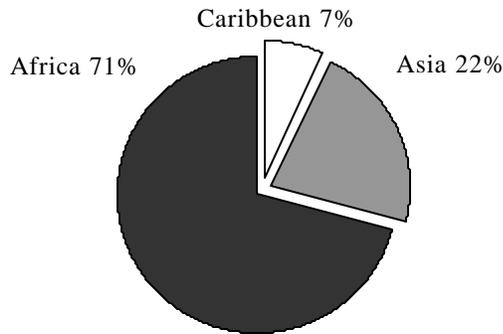
As in the logical framework process, responsibility for attaining results or outputs is vested in programmes and projects. Successful completion of objectives can depend on factors outside project control. The same holds true for the outputs and outcomes in the SRF. UNCDF is responsible for obtaining outputs that should then contribute towards achieving the outcomes.

3. In its decision 2000/15 of 23 June 2000, the Executive Board took note of the UNCDF SRF (contained in document DP/2000/CRP.10). Following that decision, programmes and projects were to identify outcomes, indicators, baselines and targets by August 2000 in the form of target tables. For many projects the work plans were used as the source of year 2000 targets; for others targets were defined for this deadline and, where relevant baselines were included. The implementation rate of activities varies widely owing to the pioneering nature of UNCDF projects; nevertheless, the Fund set an ambitious minimum for success at 75 per cent of target completion. Reports were to be submitted only for those projects with more than five months of activity in 2000 were to report. The graphs below summarize the origin and types of projects for which reporting was submitted. UNCDF has a total portfolio of 126 programmes and projects, of which a small number are being closed as part of the portfolio clean-up. Of the 50 projects that met the criteria for reporting, target tables were provided for 45 (90 per cent). Capacity issues—such as Programme Officer vacancies at reporting time—were cited as the main cause for failure to report. UNCDF has many more than 50 ongoing programmes and projects but in most of the others, there was insufficient activity for three reasons: they were just beginning, they had delayed implementation, or they were ending. UNCDF will take appropriate action to improve reporting on all its projects for the next ROAR.

Reporting projects by thematic area

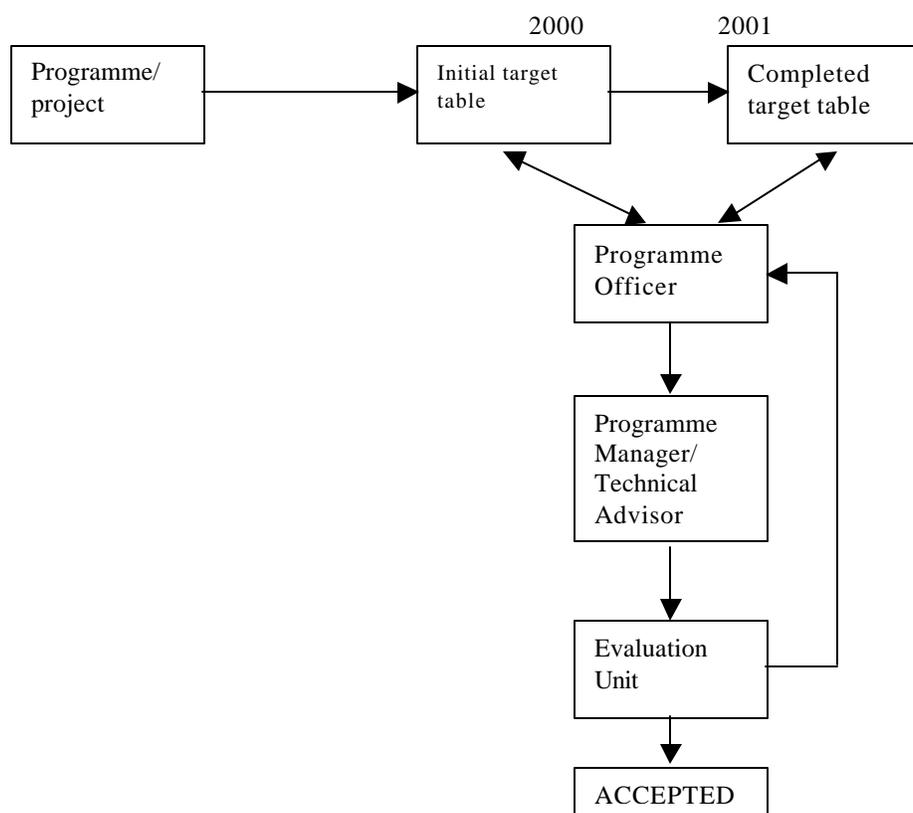


Reporting projects by geographic area



Data collection and analysis

4. By January 2001, UNCDF programme officers had verified the target tables in the field and programme managers and technical advisors had screened them for accuracy at headquarters. This was done under the overall supervision of senior management.
5. The flow chart below shows the process for preparing, reviewing and approving the target tables.



6. The categories for target achievement rates were defined as follows:

Over 100% :	Exceeded targets
75% - 100% :	Satisfactory
50 – 74% :	Partially achieved
Below 50% :	Below expectations

7. Assessing the rate of achievement using common indicators allowed the Fund to compare projects that reported on outcomes measured at different levels. For example, for indicator 1.1.1a on participatory needs assessments achievement rates could be used to correlate projects whether reporting was on the number of villages which held assessments on the number of communes where villages held assessments.

8. Following this assessment, UNCDF determined the number of projects within categories. Dividing the total number of projects judged “Satisfactory” and “Exceeded targets” by the total number of projects which tracked a given indicator gave an overall average for that indicator. The table below provides an example:

PROJECT	TARGET	ACHIEVEMENT	PERCENTAGE	CATEGORY
Project 1	100 villages	80 villages	80 per cent	Satisfactory
Project 2	50 communes	25 communes	50 per cent	Partially ...
Project 3	200 villages	210 villages	105 per cent	Exceeded ...
Project 4	2 districts	2 districts	100 per cent	Satisfactory
Overall assessment of indicator			3 of 4 projects are satisfactory or above = 75 per cent	Satisfactory

9. This methodology enabled UNCDF to determine performance for each indicator across projects.

10. UNCDF reviewed its performance per indicator and combined this with other reports and evaluations. A “satisfactory” assessment meant UNCDF had progressed acceptably towards achievement of that outcome.

11. Each sub-goal was analysed to determine the Fund’s performance. UNCDF also measured 10 situational indicators—not by collecting situational data directly, but rather by relying on credible, publicly available, national and regional statistics. Because there were few such statistics covering 2000, situational indicators were not used for analytical purposes in the present report, but may be factored into trend analysis in future years.

12. Although relatively small UNCDF projects can only marginally affect national situational indicators, the Fund makes significant improvements in the local context. Furthermore, the Fund validates its approach when donors or governments replicate its projects, where it influences decentralization policies, and when microfinance institutions become viable enough to access financial markets independently of donor funding. Therefore sub-goal and goal analysis weighed review of outcomes and indicators and the UNCDF role in replication and policy promotion.

13. Analysis of indicators identified those that must be modified or simply dropped. This will be done in a separate exercise in time for 2001 target-setting.

14. The ROAR was prepared in a consultative manner with a high degree of staff involvement. This was particularly important since the data and analysis of the report will fuel operational decision-making. Consultation also gave the staff more ownership of the process. Two staff retreats in February 2001 reviewed initial data by indicator. Report drafts were then shared weekly with all staff for review and comment. Selected staff provided field perspective for the review.

### Data validation

15. The staff retreats identified a few projects as problematic. UNCDF also compared external project evaluation conclusions covering operations in 2000 with the target tables of those projects. Nine comparisons were undertaken (equivalent to 20 per cent of the overall number of target tables).

16. Data validation efforts indicated that reporting did not consistently match reality in the field, as observed during staff technical missions. Comparison of target tables to external evaluation reports, however, showed that only one project out of nine was inconsistent (on three indicators). Consequently, as pointed out in the section on lessons learned, some achievements described below may look more positive in the 2000 ROAR than they might ultimately appear in 2001, when improved monitoring and reporting at the project level are in place.