



LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Affaires étrangères
et européennes

Direction de la coopération
au développement et
de l'action humanitaire



Unlocking Public and Private
Finance for the Poor



LUXEMBOURG AND THE UN CAPITAL DEVELOPMENT FUND
**PARTNERSHIP FOR DEVELOPMENT RESULTS
IN THE LEAST DEVELOPED COUNTRIES**



BACKGROUND

The Government of the Grand Duchy of Luxembourg and the United Nations Capital Development Fund entered a framework agreement in 2008. The agreement recognized the important role UNCDF plays in the international context through its mandate to help the Least Developed Countries (LDCs) achieve their development goals and the Programme of Action for the LDCs. It also acknowledged the essential advisory and support UNCDF offers in the elaboration of public policies in developing countries to enable decentralization and local development and to build inclusive financial sectors to support LDCs in the fight against poverty and help make the transition to development.

In 2011, Luxembourg and UNCDF renewed the framework agreement aiming to deepen the partnership and provide a coherent, predictable, flexible and structured framework for collaboration, with the overall objective of supporting UNCDF and the realization of its mandate and activities.

The Framework agreement remains valid today.

UNCDF, as an international support measure for LDCs, leverages its decades-long experience in local development finance and financial inclusion to address a range of “last mile” development challenges. UNCDF innovates those financing models that demonstrate how public resources – such as ODA - can de-risk the local economic space and crowd in roughly ten times as much in public and private resources, especially from domestic sources. These models have proven to be highly relevant to LDC development agendas, and to catalyse impressive results towards the achievement of the Sustainable Development Goals (SDGs).

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.

VALUE OF LUXEMBOURG

CORE CONTRIBUTION

UNCDF's core funding is a major contributor to the programme innovation stage by providing funding to support the organisation's technical expertise and seed capital to develop new finance models and innovative approaches. Core resources from Luxembourg allow UNCDF to maintain an ongoing country-level presence for the duration of a new programme. Evidence has shown that it requires a period of at least 12 to 18 months to develop new programmes and develop the necessary partnerships and financial resources needed to keep the programme going in the long term.

Core contributions allow UNCDF to take risks with new models and new learning and test ideas that institutional investors are not yet ready to take up. Additional resources will help reinforce UNCDF's models, and support their innovation, scale up, and replication in a range of LDCs. Contributing to the UNCDF core therefore offers:

- + Strong value for money in terms of direct sustainable impact on populations

EARMARKED CONTRIBUTIONS

Luxembourg also supported UNCDF with earmarked contributions. The most recent projects are shown below:

Projects

REGIONAL PROJECT: Building Inclusive Financial Sectors in Africa - Phase II

SENEGAL: Projet d'Appui au Développement Économique Local en ancrage au Programme National de Développement Local (PADEL/PNDL)

NIGER: Programme d'Appui au Développement de la Microfinance (PADMIF)

LAO PDR: Strengthening Capacity and Service Delivery of Local Administrations (GPAR SCSD)

REGIONAL PROJECT: Local Cross-Border Initiative (LOBI)

CORE, THEMATIC AND NON-CORE CONTRIBUTIONS

across many LDCs through concept-proven pilots and programmes;

- + The opportunity to learn lessons from cutting-edge programmes and innovations that can inform and benefit partners on their own international development cooperation efforts;
- + High leverage by catalyzing additional resources from domestic and other resources.

UNCDF's Executive Board has agreed to a target for core funding of US\$25 million per year. Right now, UNCDF's core resource envelope falls far short of that target. Despite this constraint, long-time funders and trusted partners like Luxembourg support UNCDF's ability to take programmes along the innovation-to-scale journey; to address emerging development opportunities to craft new innovations and flagships; and to respond to new demand for UNCDF support in line with the 2030 Agenda, the Addis Ababa Action Agenda, and the Istanbul Programme of Action.

resources disbursed at the country and global levels.

Duration
2008-2012
2008-2017
2010-2015
2011-2015
2012-2014

THEMATIC CONTRIBUTIONS TO FINANCIAL INCLUSION AND LOCAL DEVELOPMENT

The thematic contributions from Luxembourg, which are flexible in nature, have enabled UNCDF to innovate new finance models consistent with LDC graduation ambitions, the Addis Ababa Action Agenda and Agenda 2030. This means:

- + Learn lessons together about what works, and under what conditions, around cutting-edge last mile finance solutions, managed risk-taking, innovation, consolidation and scale up;
- + Provide opportunities for leverage by identifying new markets, de-risking the local investment space, and building viable and investable project pipelines;
- + Replicate and scale up models with proven impact, for example on food security, women and youth economic empowerment, and local resilience;
- + Engage across a focused range of themes and/or countries, including in "frontier" areas where local finance can unlock sustainable development potential, by, for example, unlocking domestic capital markets through the productive use of existing domestic resources, investing in public and private infrastructure with proven fiscal sustainability, or connecting new technologies to localities and households.

Given the integrated and interlinked nature of the Sustainable Development Goals (SDGs), the thematic contributions from Luxembourg enabled UNCDF to leverage its experience and expertise in local development finance and financial inclusion to address a range of development challenges in a similarly integrated fashion. These thematic approaches were operationalized through UNCDF's global, regional and country programmes in LDCs, including in crisis and conflict-affected settings.

PERFORMANCE OVERVIEW (2014)

Financial Inclusion

Supported

138 FINANCIAL SERVICE PROVIDERS (FSPs) in 2017



Supported FSPs to provide services to

18 MILLION PEOPLE

TO USE DIGITAL PAYMENTS



Helped

4.3 MILLION PEOPLE TO

access loans, grow SMEs, better manage and plan household finance



53% were women



Through FSPs piloted

161 NEW FINANCIAL PRODUCTS

New financial products leveraging

\$445M IN CLIENT SAVINGS

Policy Support



29



Financial Inclusion **Roadmaps** and/or **Strategies** have been adopted by Governments.

BETTER THAN CASH ALLIANCE



has now **64 MEMBERS**

- 2017 RESULTS)

Local Development Finance

UNCDF supported local governments and Small Medium Entreprises by providing acces to finance



In 2017, UNCDF supported

833 local governments

\$24 million in resilience finance unlocked from domestic or international sources



Supported the completion of over



4,673

local infrastructure investments

Sustainable local governments financing systems developed

Financing models for local economic development expanded

Supported 68 LOCAL GOVERNMENTS

79% of targeted localities integrated resilience



in **13 COUNTRIES**

Policy Support



76% change in local fiscal space

30 policy/regulatory changes adopted (43% addressing gender)



RESULTS IN FINANCIAL INCLUSION

MAKING ACCESS POSSIBLE

Within the Financial Inclusion practice area, the Luxembourg thematic contribution was allocated to enhance research and development, develop innovative programmes and seed funding for proof of concept and programme expansion.

There is growing evidence that financial sector development contributes to a reduction in poverty and inequality. However, many governments face a lack of reliable data to support decisions on financial inclusion. Making Access Possible (MAP)¹ is a multi-country financial inclusion programme that offers a powerful platform to encourage private sector investments in expanding financial inclusion, by supporting critical market data-driven investment decisions and setting up an enabling environment that will incentivize those investments. The primary focus of MAP is to help governments create an environment that promotes accelerated market development for financial inclusion, contributing to sustainable financing for development through the provision of reliable data that helps to bring all stakeholders to the table.

¹ MAP supports other global initiatives on financial inclusion, including G20 initiatives, and the Alliance for Financial Inclusion (AFI) Maya Declarations.

MAP is a powerful engine for South-South cooperation and fosters peer-to-peer learning among countries by leveraging global and regional platforms like the West African Economic and Monetary Union.

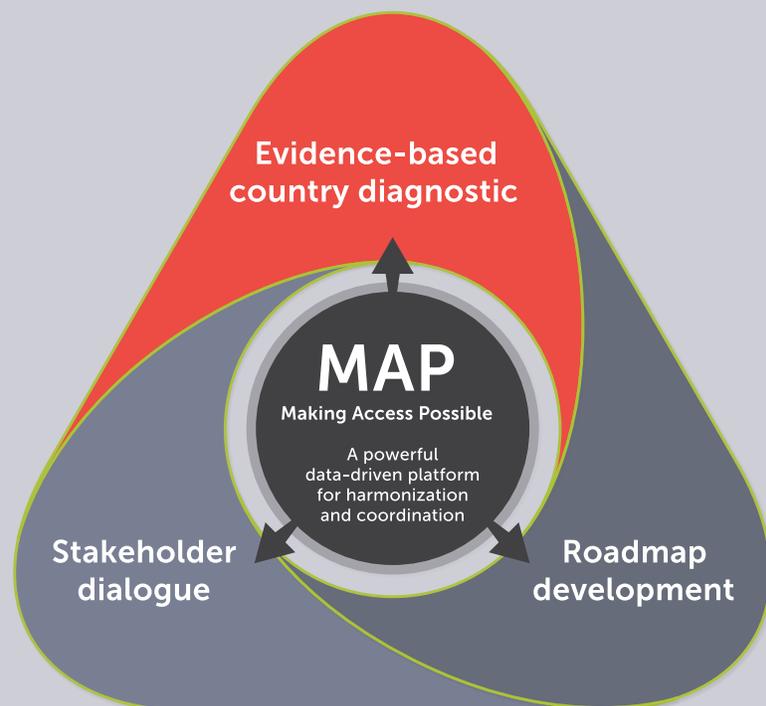
Since 2012, with the support of Luxembourg and other partners, MAP has been implemented in 15² countries, with national financial inclusion roadmaps developed in five countries.

MAP creates impact in terms of (i) the number of clients reached (adults, women and small businesses), with a framework which enables government and donors to invest in the areas most likely to have impact on financial inclusion, (ii) its demonstration effect on the industry, where successful MAP countries will encourage other countries and development partners to follow suit, tailoring the approach to their own unique circumstances, and (iii) private sector investments in expanding financial inclusion by providing critical market data driving investment decisions and setting up an enabling environment that will incentivize those investments.

² Swaziland, Lesotho, Malawi, Botswana, Zimbabwe, DRC, Mozambique, Madagascar, Myanmar, Laos, Nepal, Cambodia, Vietnam, Togo, Burkina Faso

IN FOCUS: MAKING ACCESS POSSIBLE, MYANMAR FINANCIAL INCLUSION ROADMAP

Using the data collected in a 2013 MAP diagnostic on rates of financial inclusion in Myanmar, a Financial Inclusion Roadmap was developed and officially adopted and launched by the Government in April 2015. UNCDF is working with the Government to achieve the Roadmap's goal of connecting 40 percent of the population to formal financial products by 2020, with a special emphasis on women-owned and women-led businesses, small and medium-sized businesses, young people and the rural poor.



FINANCIAL SERVICES FOR THE YOUTH

From 2010 to 2015, UNCDF piloted approaches to offer youth (ages 12 – 24) affordable, relevant and accessible financial products coupled with complementary non-financial services in eight Least Developed Countries (LDCs) in Africa.¹ YouthStart more than tripled the pilot's original target of providing access to finance to 200,000 youth. In 2015, the programme's final evaluation found that YouthStart performed effectively by increasing both youth's access to appropriate financial and non-financial services, and the institutional capacity of its partner financial service providers.

UNCDF is now expanding the programme to other LDCs in Africa and Asia² and deepening its programmatic intervention in the countries of the regional pilot. The objective of the newly formulated YouthStart Global is to reduce the proportion of youth aged 15-24 in LDCs who are not in decent employment,³ education or training to support Sustainable Development Goals 4 and 8.

1 Burkina Faso, Democratic Republic of Congo, Ethiopia, Malawi, Rwanda, Senegal, Togo, and Uganda.

2 Benin, Cambodia, Fiji, Madagascar, Malawi, Mozambique, Niger, Tanzania and Zambia.

3 To the degree possible, the program will be consistent with the ILO's decent work agenda.

Luxembourg's support enabled assessments of youth economic opportunities ecosystems in Cambodia, Democratic Republic of Congo (DRC), Senegal, Madagascar, Malawi, and Uganda.

In each of these countries, UNCDF conducted scoping missions to identify and secure buy-in for the programme of key players for a youth economic opportunities ecosystem and to gain a better understanding of the youth employment and entrepreneurship initiatives existing in each country; map the financial service providers that are already serving youth in a targeted manner or have the potential to do so; and track the main policies and regulatory frameworks governing the youth economic empowerment agenda.

UNCDF also launched #TheBanktheYouth Campaign. This ongoing advocacy campaign aims to increase the number of youth who use responsible, accessible and affordable financial services. The campaign was launched in Benin, Burkina Faso, DRC, Madagascar, Senegal, Tanzania, and Uganda, with 1200 participants in total, including representatives from 20 UN agencies as well as 10 development partners, including the World Bank and the African Development Bank. The campaign has generated 50 impact champions and has been mentioned 23 times in newspapers, radio, magazines, online blogs and TV and, more than 400 times in social media.

GRADUATING FROM SAVINGS TO ECONOMIC OPPORTUNITIES

Patrick Kawooya is a proud young man who just graduated from school. When he was first approached two years ago by FINCA Uganda, he had just turned 16 and did not believe he could go to a bank to open an account. When he tried to save, he kept his money at home, but was constantly tempted to spend it on petty things.

When Patrick opened a savings account, he was not quite sure what he would do with the money. Gradually, as he completed the financial education module offered by FINCA, he started to develop a project and learned how to use a savings account. For the first time, he set a goal: saving over a period of 12 months to purchase a small pig. In just one year, his one pig worth 50,000 Uganda shilling (US\$20) has become a healthy pig worth 125,000 Uganda shilling (US\$50). He hopes to purchase, produce and sell additional pigs with his profits.

Patrick's story is one of many shared by our partners about young people who have been able to accumulate assets and build the foundation for a small first business.



RESULTS IN LOCAL DEVELOPMENT FINANCE

LOCAL ECONOMIC DEVELOPMENT

In 2011, UNCDF started to enhance and expand its approaches to local economic development, to ensure that people in all regions and locations benefit from development. This meant dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations. It meant re-investing international and domestic resources back into local economies and local services through fiscal decentralization, climate finance and project finance. It also meant focusing on efforts to strengthen public financial management and local revenue collection, improving the quality and sustainability of public and private investments, and promoting accountability at the local level.

The contribution from Luxembourg was instrumental in supporting these efforts as UNCDF

carried out a series of focused studies and research activities, capitalized on the different approaches and experiences across its portfolio and regions of operation, and introduced new financing mechanisms that can respond more effectively to the needs of local communities in the LDCs.

UNCDF invests its seed capital and technical assistance to promote increased capital flows to the local level, reducing inequalities, improving services and increasing opportunities for sustainable economic development – all contributing to sustainable and equitable local development. UNCDF does this through innovation and testing in new public and private financial systems that mobilize, allocate, and invest additional resources while promoting transparency and accountability in their use.

IN FOCUS: SUPPORTING FOOD SECURITY IN MALI

The rural town of Koréra-Kore, located in the northeast of Niore du Sahel in Mali, now has a cereal bank with storage capacity of 150 tons of grain, allowing its 4,000 inhabitants to safely store their crops. With the support of UNCDF and the 'Appui aux Collectivités territoriales' joint programme the town is able to cover the food needs of its inhabitants during lean periods.



INCLUSIVE AND EQUITABLE LOCAL DEVELOPMENT (IELD)

Women worldwide are more likely than men to become and remain unemployed, have fewer chances to participate in the labour force and often must accept lower quality jobs. An important determinant of gender equality is the unequal distribution of unpaid care and household work between women and men. At the local level, structural barriers including lack of adequate infrastructure and access to services and markets exacerbate gender gaps and prevent women from participating fully and equally in the economy.

The Inclusive and Equitable Local Development Programme (IELD), a joint global programme funded partly by Luxembourg and implemented by UNCDF, UNDP and UN Women, addresses these impediments through local public and private investments, with an emphasis on unlocking domestic capital for women's economic empowerment and entrepreneurship.

IELD combines UNDP's country presence and technical support, UN Women's mandate as the UN entity empowered to promote the status of women, and UNCDF's investment mandate and LDC focus. IELD carries out local economic assessments with a gender lens to identify the impediments to women's economic empowerment in local economies. These could be related to transport, labour market access, training, child care, water and sanitation, security, access to investment capital for clusters in the supply chain, or a range of other issues.

Each local economy is different and each solution will be a specific blended finance intervention that may

include local government investments and revenue-generating investments financed by domestic capital. Performance will be measured by the set of women's economic empowerment indicators developed by the three UN agencies and linked to the high-level panel on women's economic empowerment emerging from the World Economic Forum.

The thematic contribution from Luxembourg enabled UNCDF to formally roll out the IELD programme implementation and develop appropriate tools and knowledge to understand the local economy and entry points for enhancing women's economic empowerment. The programme is currently operational in two pilot countries, Tanzania and Bangladesh, where it is building capacities of the local governments on gender-responsive public finance management and economic policy and, helping to identify, together with local stakeholders, practical and innovative solutions to finance women's economic development initiatives. In these countries, UNCDF is developing a local pipeline of investable projects that includes women-led enterprises and gender-sensitive businesses, large enough to have a transformative impact on the livelihoods of women and men.

UNCDF targets geographic areas and localities that have potential and opportunities to enhance women's participation in the economy, but are under-equipped with basic services including infrastructure. By providing women better access to services, infrastructure and markets, UNCDF contributes to creating an enabling environment necessary for inclusive economic development.

SEE BOX IN NEXT PAGE >>

RESULTS IN LOCAL DEVELOPMENT FINANCE

IN FOCUS: PINEAPPLE JUICE NOW IN CANS THE SANTANA PROJECT, BENIN

UNCDF is supporting the Santana project to become investment-ready and facilitating access to additional capital from local banks. The growing fruit juice processing industry in Benin helps to increase income for smallholder farmers and thus improve local livelihoods. The Santana Company has been in this industry since its establishment in 1998 in Benin. Its key area of business is fruit processing, with a focus on pineapple juice. The business currently employs 21 people, with 13 permanent employees and 8 part-time workers (52% women), and has the potential to generate employment for 1800 women from 150 local producers of pineapple linked to the Santana project.



IN FOCUS: LOCAL CROSS BORDER INITIATIVE (LOBI)

The cross-border territories of West Africa are amongst the most dynamic in the world. Economic and cultural exchanges are frequent and vital. Yet these zones are often characterized by conflict, poor border management that allows illicit traffic, and disputes over the management of natural resources. The borders are often disputed and generally not adequately controlled. Although more developed than elsewhere in Africa, cross-border cooperation in West Africa suffers from a lack of systematic institutional support, the absence of a recognized framework for cross-border cooperation, a governance deficit and a lack of recognition of the role of local authorities. A targeted approach to improving coordination amongst the actors involved in cross-border cooperation could serve as a powerful tool for development at the local, national, and sub-regional levels.

The aim of LOBI is to transform the local economy by improving revenues and creating new economic opportunities. The development of the zone will boost the joint capacity of Niger, Mali and Burkina Faso in growing the productivity of the regional market, thus improving market competitiveness.

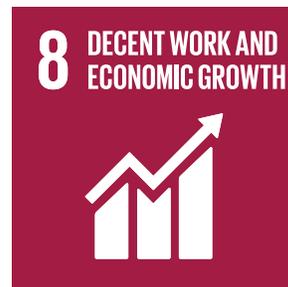
With the support of Luxembourg, UNCDF's intervention helped coordinate local actors based on their commitment to shared and mutually beneficial infrastructure development. These infrastructure projects—financed through a largely consultative process and managed through a system of inter-communal governance—were designed to boost local production and improve the productive capacities of livestock farmers.



UNCDF and the



with impact on



ABOUT UNCDF

The UN Capital Development Fund makes public and private finance work for the poor in the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: **financial inclusion** that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how **localized investments** — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

UN Capital Development Fund

Two UN Plaza, 26th Floor
New York, NY 10017

+1 212 906 6565

 info@uncdf.org

 www.uncdf.org

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