



United Nations Capital Development Fund

2005 Results and Outlook for 2006

Informal Executive Board Meeting

16 May 2006



Presentation Overview

- **2005 Results.**
 - ✓ Context.
 - ✓ Programme Results.
 - ✓ Management Results.
 - ✓ Research, Communication and Knowledge Sharing.
 - ✓ Financial Results.
- **Case Studies: Innovation and Scaling in UNCDF Practice Areas.**
 - ✓ Bangladesh: Scaling-up, Replication and Strategic Partnerships.
 - ✓ Tanzania: Extending Local Development Programmes to Local Economic Development.
- **Outlook for 2006.**
 - ✓ Business Development.
 - ✓ Financial Outlook.
 - ✓ Programmes and New Initiatives.
- **Framework for Strategic Partnership with UNDP.**
- **Challenges and Constraints.**

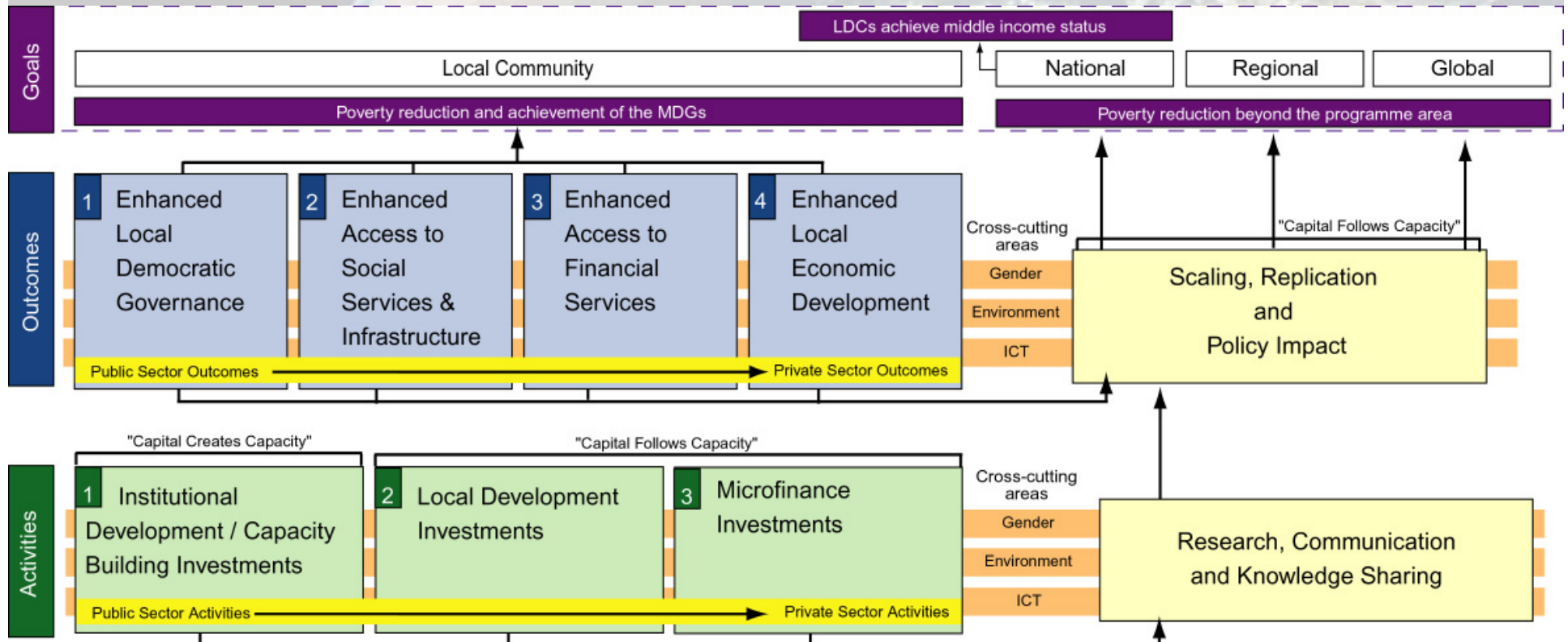
2005 Results: Context

- January 2005: Executive Board determines preferred option for UNCDF business model.
- March 2005: Change management process initiated to achieve greater decentralization and improve operating effectiveness and efficiency.
- June 2005: Executive Board adopts new Business Plan, including mainstreaming of \$5 million for each of 2006 and 2007 in UNDP Biennium Budget.
 - ✓ Business Plan contemplates expansion to 45 LDCs from 28.
- August 2005: New Executive Secretary joins.
- Fall 2005:
 - ✓ Strategic review of Business Plan completed and presented to Executive Board.
 - ✓ Change management process and organizational restructuring completed at HQ and begun at Regional and Country Office levels.
 - ✓ Initial discussions with select Member States regarding expanding donor base and increasing financial support.

2005 Results: Context

- November 2005: International Year of Microcredit culminates in Forum at UN Headquarters in NYC.
- January 2006: The Blue Book on Building Inclusive Financial Sectors for Development released.
- 26 January 2006: Executive Board Decision:
 - Noted “the progress that UNCDF has made so far in implementing the Business Plan...”
 - Called upon “donor countries and other countries in a position to do so to provide and sustain additional funding support for UNCDF programmes and activities in the Least Developed Countries...”
 - Requested the Administrator of UNDP and the Executive Secretary of UNCDF to “work closely to finalize a memorandum of understanding ...setting forth the key elements of their strategic, operational, and financial partnership...”

Summary of Goals, Activities, Outcomes and Principles



2005 Programme Results: Local Development

Performance Analysis: Local Development Practice Area

- Local Development Practice Area invests in institutional capacity building to strengthen local democratic governance and improve local infrastructure and pro-poor service delivery on a decentralized basis.
- In 2005, UNCDF had Local Development Programmes (LDPs) and Local Development Funds (LDFs) in 23 LDCs.
- Fully-achieved planned performance at the local level:
 - ✓ Ratings on LDP effectiveness and participation at 85.5% confirms LDPs success in delivery of participatory planning mechanisms.
 - ✓ 38% of LDPs place a high emphasis on training of women in the area of need assessment, participatory planning approaches and monitoring, and financial management.
 - ✓ 76% of the LDPs specifically support women's groups and associations with earmarked funds for implementation of small-scale projects, especially focusing on income-generating activities.

2005 Programme Results: Local Development

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- ✓ LDPs seek to incorporate more rigorous and systematic strategy to mobilize local resources as well as appropriate tools for tax collection.
 - UNCDF effort produce results: in Bangladesh and Guinea **annual revenue targets** for Local Authorities where UNCDF works were **exceeded** in 2005.
- UNCDF piloting for LDPs resulted in significant scaling and replication in 2005:
 - ✓ **Mozambique:** Initially implemented in two provinces; subsequently upscaled to 8 of 11 provinces.
 - ✓ **Yemen:** UNCDF is leading the **national** decentralization process.
 - ✓ **Bangladesh:** See Case Study to follow.
- Formulations in **Local Economic Development** -- an extension of LD Practice Area -- are underway in three African LDCs (Tanzania, Uganda and Zambia).

2005 Programme Results: Local Development

Local Development Investments in 2005

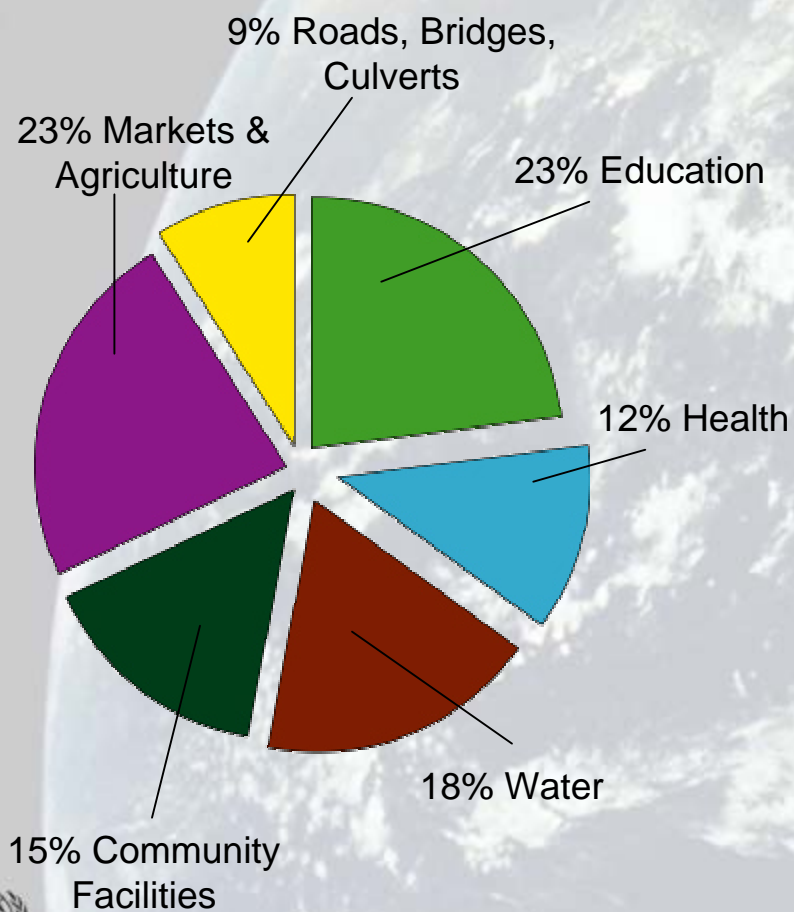
| | |
|---|--------------------|
| Total investments 2005 (US\$): | \$8,271,171 |
| Number of local governments supported: | 493 |
| Number of investments made in infrastructure and access to social services: | 2,779 |
| Average amount per investment: | \$2,976 |
| Estimated number of direct beneficiaries: | 3,942,000 |
| Average investment per capita: | \$2.10 |

- In comparison with 2004, the total number of **investments increased by 12%**, with **average amount per investment in US\$ increasing by 24%**.

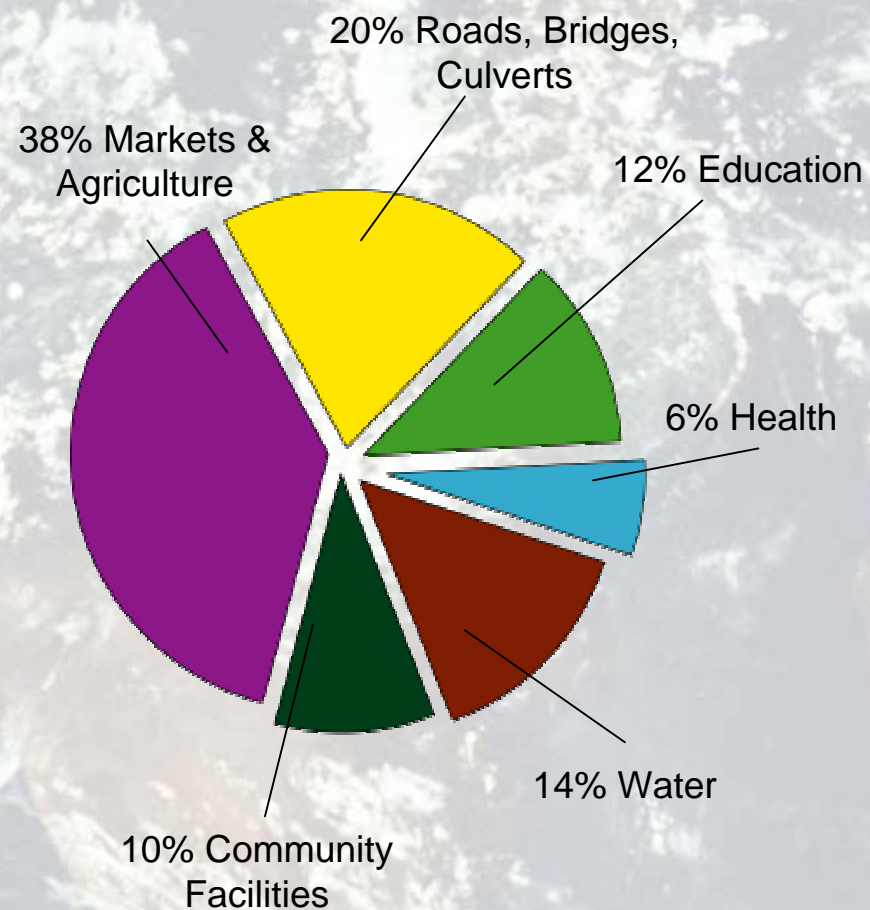
2005 Programme Results: Local Development

Local Development Investments by Sector in 2005

% of Projects (# of Projects):



% of Investments (US\$):



2005 Programme Results: Local Development

...continued

Capital Investments by Type and Investment Amount: 2001-2005

| Type of Investment | Number Projects | Share of Projects (%) | Investment in US\$ | Average Unit Cost in US\$ | Share of Investments (%) |
|-----------------------------------|-----------------|-----------------------|---------------------|---------------------------|--------------------------|
| Education | 1,352 | 12% | \$ 7,740,996 | \$ 5,725 | 25 % |
| Health | 963 | 9% | 4,226,131 | 4,388 | 13 % |
| Water supply | 1,966 | 18% | 4,770,720 | 2,426 | 15 % |
| LG offices / community facilities | 1,198 | 11% | 4,312,650 | 3,599 | 13 % |
| Markets / agriculture / NRM | 3,894 | 34% | 5,995,105 | 1,539 | 20 % |
| Roads, bridges, culverts | 1,805 | 16% | 4,436,721 | 1,458 | 14 % |
| Total | 11,178 | 100% | \$31,482,323 | \$ 2,816 | 100 % |

2005 Programme Results: Microfinance

Performance Analysis: Microfinance Practice Area

- In 2005, in accordance with the Business Plan, UNCDF strengthened its focus on building inclusive financial sectors as its main area of emphasis in its Microfinance Practice Area.
- Highlights of 2005 results in Microfinance Area:
 - ✓ 2 new inclusive finance programmes approved (Madagascar and Central Bank of West African States).
 - ✓ 6 countries applying UNCDF's new sector development approach, plus one regional support programme for Africa (Togo, DRC, Guinea Bissau, Liberia, Sierra Leone, Madagascar).
 - ✓ 14 countries improved their policy and enabling environment for microfinance services with support from UNCDF.
 - ✓ 438,272 people currently receiving microfinance services from Financial Service Providers (FSPs) supported by UNCDF.
 - Of these clients, approximately 200,000 were female.
 - ✓ 17 out of 19 (89%) of the FSPs currently supported by UNCDF demonstrated a positive trend in financial sustainability.

2005 Programme Results: Microfinance

✓ Initial indications of results of sector development approach to financial inclusion are encouraging:

– **Sierra Leone:**

- UNCDF collaborating with KfW (Germany) and UNDP.
- Launched US\$10.3 million programme to build an inclusive financial sector in 2004.
- Investments made in several FSPs led to increase in clients from 13,000 in 2004 to 37,325 in 2005: surpasses programme target by end 2005 by 87%.

– **Madagascar:**

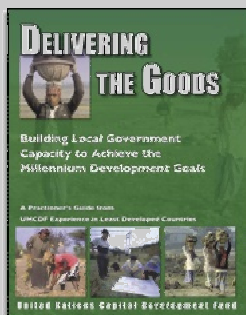
- Participatory process to develop a National Microfinance Policy and Strategy (NMFS).
- Clear targets at 3 levels: (i) policy (ii) FSPs and (iii) institutional arrangements.
- NMFS approved by national workshop and Government in 2004.
- 2005 Results: +17% active clients compared to 2004.

2005 Management Results

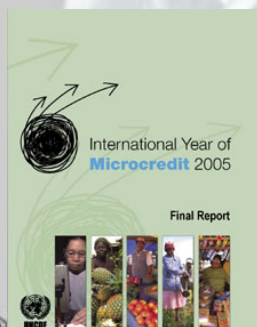
| Perspective | Strategic Objective | 2005 Target | 2005 Result |
|---------------------|--|--------------|-----------------|
| Learning and Growth | Expand geographically | 28 LDCs | 26 LDCs |
| | Increase investment size | \$ 1 million | \$ 0.72 million |
| Client Satisfaction | Strategic partnership with UNDP | 75% | 73% |
| Internal Efficiency | Increase staff at regional and country level | no target | 63 % |
| | UN coordination | no target | 26 LDCs |
| | Efficiency of delivery | 26% | 32% |
| | People management | no target | 65% |
| Financial Resources | Resource mobilization (Core) | \$13 million | \$ 10.7 million |
| | Resource mobilization (Non-Core) | \$12 million | \$ 10.1 million |
| | Delivery | no target | 74% |

- Achieved most targets in Organizational Performance.
- Performed least satisfactorily in mobilizing Financial Resources.

Research, Communication and Knowledge Sharing



- ***Delivering the Goods: Building Local Government Capacity to Achieve the MDGs***
 - ✓ Published: January 2006.
 - ✓ A Practitioners' Guide offering theory and practice of UNCDF's Local Development Programmes in Least Developed Countries.
- ***Building Inclusive Financial Sectors for Development*** (Blue Book)
 - Accessed on UNCDF website 10,577 times between 16 Jan and 8 May 2006.
 - UNCDF using Blue Book as tool and guide for building inclusive financial sectors in Africa.
 - Tool kit targets policy makers around the world and is scheduled for completion in May 2006 and release at Dakar Conference.
- ***2005 International Year of Microcredit Final Report***
 - ✓ Released: May 2006.
 - ✓ UNCDF Final Report on activities of the International Year of Microcredit.



2005 Financial Results⁽¹⁾

| | 2004 | 2005 | % change |
|--|----------------|----------------|--------------|
| Revenue | US\$ (million) | US\$ (million) | |
| Core Contributions | \$17.2 | \$9.5 | (45%) |
| Non-Core Contributions | 6.2 | 10.3 | 66% |
| Interest | 1.1 | 1.8 | 63% |
| Other income (net) | 2 | 1.3 | (35%) |
| Total | 26.5 | 22.9 | (14%) |
| Expenditures | | | |
| Programme expenditures | \$23.4 | \$19.2 | (18%) |
| Core | 14.8 | 11.6 | (22%) |
| Non-Core | 8.6 | 7.6 | (12%) |
| Biennial Support Budget | 5.3 | 6.7 | 26% |
| Total | \$28.7 | \$25.9 | (10%) |
| Excess of Revenue over Expenditures | (\$2.2) | (\$3) | (38%) |

2005 Financial Results

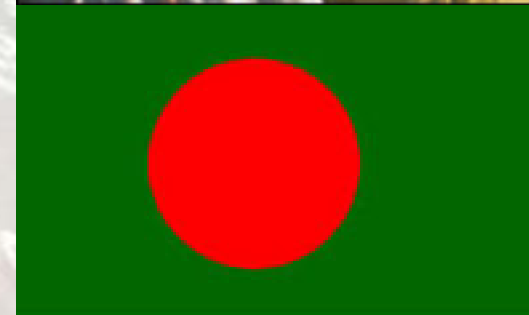
- Core contributions declined from \$17.2 million in 2004 to US \$9.5 million in 2005, a decline of 45%. This does not include \$1.2 million from a Member State for 2005 that was received in January 2006.
- Non-Core contributions increased from \$6.2 million in 2004 to \$10.3 million in 2005, an increase of 66%. Increase represents expanded programme support at field level.
- Total programme expenditures declined by 18% (from \$23.4 million in 2004 to \$19.2 million in 2005), but were about the same if certain programme-related accounting adjustments between 2004 and 2005 are taken into account.
- Excess of Total Expenditures over Total Income resulted in reduction of Unexpended Resources of \$3 million by 31 December 2004 to 31 December 2005.
 - ✓ Unexpended Regular Reserve at 31 December 2005: \$25.3 million.
 - ✓ Operational Reserve at 31 December 2005: \$22.6 million.

Case Study: BANGLADESH

Scaling up, Replication and Strategic Partnerships

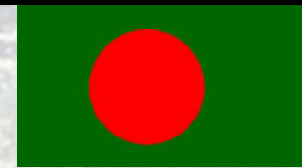
UNCDF in Bangladesh

- In 1999, UNCDF introduced local development pilot programme in Sirajganj District to build the capacity of local government bodies to raise revenue and deliver public goods and services in response to local needs.
- Joint programme with UNDP (UNCDF \$5.0 million; UNDP \$2.5 million).
- Policy innovations included:
 - ✓ Direct, formula-based block grant funding, explicitly tied to Union Parishad (UP) performance.
 - ✓ Procedures for inclusive and poverty-focused planning and budgeting.
 - ✓ Arrangements for transparent implementation and monitoring of delivery.
 - ✓ Open, public assessments of UP performance.
 - ✓ Support to empowerment of elected women UP members.
 - ✓ Capacity-building measures focused on specific UP “competencies” such as tax collection and office management.



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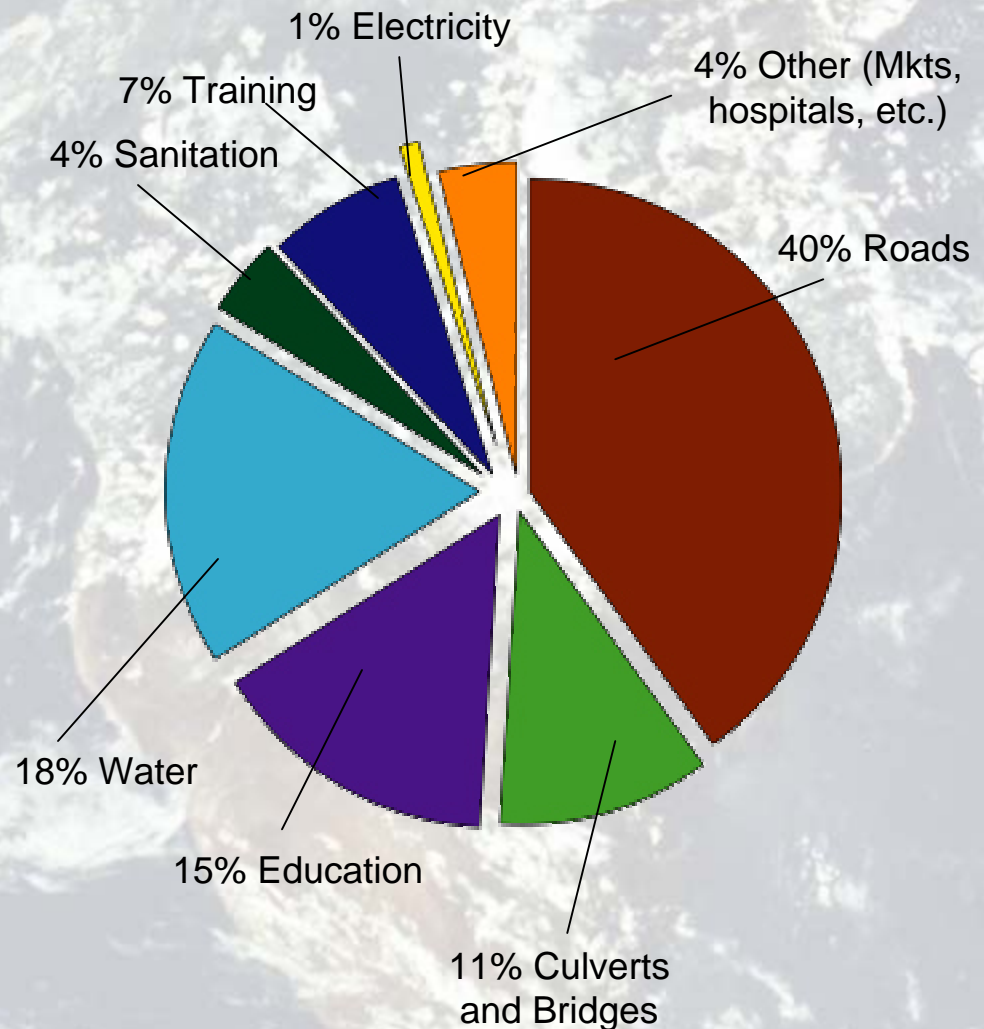
Case Study: BANGLADESH



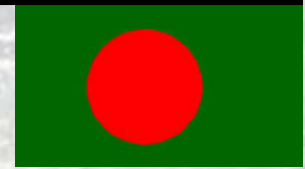
SLGDP Results in 2005:

- \$529,686 (36.8 million taka) total investments in Union Parishads (UPs).
- 856 small-scale infrastructure projects funded.
- \$618 average per investment.
- Increasing level of block grants allocated from national development budget directly to UPs.
- UPs measurably more active, accountable and better able to perform duties (e.g. tax revenue collection risen 4x in some cases).
- Sirajganj received numerous positive independent reviews and is now the officially cited model which the Government of Bangladesh has decided to be replicated.

% of Projects (# of Projects) 2005:



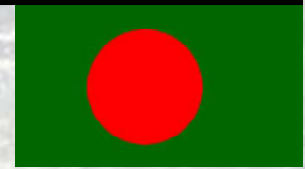
Case Study: BANGLADESH



Scaling-up, Replication and Partnerships

- Based on the success of UNCDF's piloting, the Government of Bangladesh determined in early 2006 to launch a national 5 year Local Government Support Programme (LGSP) to roll out the LDP innovations to all 4,500 Union Parishads in Bangladesh.
 - ✓ US\$ 206 million Programme will be supported by:
 - Government of Bangladesh (\$78.4 million).
 - World Bank (\$111.5 million).
 - UNCDF (\$2.5 million).
 - UNDP (\$2 million).
 - European Commission (\$11.6 million).
 - ✓ Scope for other partners to join.
 - ✓ Expected impacts of the LGSP:
 - More effective/efficient local pro-poor infrastructure and service delivery as called for in PRSP.
 - More accountable local government and better local governance.
 - A tested framework for future pooled funding or “sector support” to local government.

Case Study: BANGLADESH



- **UNCDF Role in Scaling up and Replication:**

- ✓ UNCDF to provide **technical support services** to Government and World Bank to ensure **innovation** and **quality control** as LGSP upscales.
- ✓ **UNCDF continues learning and innovation** in 6 Districts and feeds results into policy and the other components.
- ✓ UNCDF to provide **technical management** of the **Social Protection pilot** component funded by the World Bank in Sirajganj District.
- ✓ UNCDF provides technical leadership and co-funding (with UNDP and EC) for “**Learning and Innovation**” component of LGSP.

Case Study: Tanzania

Extending LDPs into Local Economic Development

UNCDF in Tanzania

- From 1997-2005, UNCDF, in partnership with UNDP, NORAD and Government of Tanzania, provided support amounting to US\$ 19 million.
- UNCDF-supported LDPs built capacity of 6 rural local governments in Mwanza region and delivered wide range of infrastructure projects, including:
 - ✓ 360 KM of roads rehabilitated.
 - ✓ 18 health facilities.
 - ✓ 22 educational facilities.
 - ✓ 13 economic infrastructure projects, including markets.
- Late 2005, UNCDF began to formulate new programme as extension of LDPs and LDFs: Focus on **using local authorities to promote local economic development (LED)** as a means of spurring economic growth and reducing poverty.



Case Study: TANZANIA



Result of 2005 UNCDF formulation mission:

- ***Support to Local Economy in Mwanza Programme*** (SLEM) is 5-year programme Programme, executed by the Prime Minister's Office, Regional Administration and Local Government, that mobilizes multiple stakeholders and financial resources for LED.
- Focused on range of pro-poor measures needed to unleash local entrepreneurship and support local economy, poverty reduction and improvement of food security.
- Pioneers an innovative approach to pro-poor local economic development which stresses leadership of local government authorities and joint involvement of the public and the private sectors.
- Main outputs are:
 - ✓ Institutional and human capacity building.
 - ✓ Capital investment for economic development at local level.
 - ✓ Learning and knowledge sharing for policy impact and replication.
- Programme will establish two distinct and complementary financial tools:
 - ✓ Local Economic Development Capital Fund.
 - ✓ Local Capacity-building Capital Grant.
- Additional funding requirements projected: \$ 6.15 million.

Outlook for 2006: Business Development

- Business Development strategy seeks to:
 - ✓ Broaden and diversify donor base of Member States.
 - ✓ Provide long-term, predictable funding from Member States.
 - ✓ Broaden and diversify development partner funding.
- UNCDF presentation to Executive Board at January 2006 meeting identified business development as UNCDF's "biggest challenge and constraint."
- Executive Board decision of 26 January 2006:
 - ✓ Requested Executive Secretary to report at June 2006 session on status of business development.
 - ✓ Reiterated its call upon UNDP "to assist UNCDF in mobilizing the resources necessary to sustain its current Local Development and Microfinance activities."
 - ✓ Reiterated its call "upon donor countries and other countries in a position to do so to provide and sustain additional funding support for UNCDF programmes and activities in the Least Developed Countries."

Business Development

...continued

- Beginning in early March 2006: UNCDF provided fundraising letter and supporting materials to 36 Member States:
 - ✓ Investment Plan based on growth and expansion plan contained in presentation to Executive Board in January 2006.
 - ✓ 45 LDCs for investment by 2007.
- Resource mobilization targets as set forth in fundraising materials:
 - ✓ Raise at least **US\$10 million in new Core funding** in both 2006 and 2007.
 - ✓ Support to specific **geographical and thematic areas**, such as Post-Conflict Countries and Building Inclusive Financial Sectors in Africa.
 - ✓ Facilitate funding to UNCDF using **a variety of flexible modalities** directed to UNCDF or through UNDP.

Business Development

...continued

- As of 15 May 2006, of 36 Members States contacted:
 - ✓ **5** indicated a **potential interest** in providing **additional or new Core** (“non-earmarked”) funding.
 - ✓ **8** indicated that they **would not provide Core** funding due to UN Reform, “system-wide coherence”, “simplification” or other similar considerations. Also, budget cycles for 2007 largely complete for some Member States.
 - ✓ **21** indicated that they **would like to provide Non-Core** (“ear-marked”) resources at country level or on a thematic basis and will review project proposals from UNCDF on a case-by-case basis.
 - ✓ **4** are still **reviewing** materials and have not indicated formal interest.
 - ✓ **6** have **not responded**.

Business Development

...continued

- More complete feedback on fundraising package by Executive Board meeting in June.
- Preliminary conclusions based on resource mobilization experience to date:
 - ✓ **21 of 26 Member States responding (81%) recognize the value and unique nature of UNCDF's work, and indicate a strong interest in working with UNCDF and providing Non-Core funding to UNCDF programmes in the field.**
 - ✓ However:
 - **Target** of US\$ 10 million in **new Core funding** in both 2006 and 2007 **not likely to be met.**
 - **Significant expansion of donor base** of Member States **for Core funding** remains **challenging to achieve.**
 - **UN Reform** focus and individual Member State priorities on “simplification” and similar issues constitute **significant challenge** to UNCDF's ability to raise **Core funds** from Member States.

Outlook for 2006: Financial Outlook

- Projected **expenditures for 2006 of \$25 million**:
 - ✓ \$20 million for Programmes in 41 LDCs (\$15 million for Local Development and \$ 5 million for Microfinance).
 - ✓ \$5 million for administrative budget (funded through UNDP Biennial Budget).
- Programme Budget funded from UNCDF Core Resources and interest. At May 15, 2006:
 - ✓ **Core Contributions** (including pledges): **\$11.2 million**, an **increase** of nearly **5%** over 2005.
 - ✓ Combined **Core and Non-Core** (including pledges): **\$21.8 million**, an **increase** of **12%** over 2005.
 - ✓ Core contributors to date include: Austria, Belgium, Canada, Luxembourg, Norway, Sweden, Thailand and 4 LDCs.
 - ✓ Interest income for 2006 is expected to exceed \$1 million.
- Any excess of Expenditures over Revenue will be funded from Unexpended Regular Resources (\$25 million at 31 December 2005).

Outlook for 2006: Programmes and New Initiatives

▪ **2006 Programmes Outlook:**

- ✓ Microfinance Practice Area:
 - Implementing 13 programmes.
 - 21 new programmes under preparation.
- ✓ Local Development Practice Area:
 - Implementing 40 programmes.
 - 19 new programmes under preparation.
- ✓ Strong demand by LDCs for UNCDF's technical support and investment capital.
- ✓ Consultations with potential new programme countries and partners on-going.
- ✓ Working with a wide variety of development partners.

Outlook for 2006: Programmes and New Initiatives

- **2006 New Initiatives:**

- ✓ **UN Conference on Building Inclusive Financial Sectors**

- ✓ To take place in Dakar, Senegal on 5 - 6 June 2006.
 - ✓ Co-sponsored by UNCDF, UNDP, IFAD and SDC.
 - 200 participants from Governments, Central Banks, development agencies, MFIs and other FSPs, private sector financial institutions, academia, civil society, donors and investors, UN Agencies and Bretton Woods Institutions.

- **UN Advisors Group on Inclusive Financial Sectors**

- ✓ New Advisors Group will provide advice and guidance to UNDP, UNDESA, and UNCDF on issue of inclusive finance.
 - Focus on encouraging, supporting, and monitoring global progress toward establishment of inclusive financial sectors.
 - Invitations to nominees extended April 2006.
 - ✓ UNCDF to host small Secretariat but will **not** provide funding.
 - ✓ Resource mobilization underway with UNDP but **funding not yet secured**; Advisors Group will not meet and Secretariat will not be hired until funding is in place.

Framework for a Strategic Partnership with UNDP

- UNCDF Business Plan provides important context for Strategic Partnership with UNDP.
 - ✓ Recognizes key comparative advantages of UNCDF.
 - ✓ Sets forth important elements of UNDP/UNCDF strategic relationship.
- Executive Board decision in January 2006 requested UNDP and UNCDF to “work closely to finalize a memorandum of understanding” setting forth the key elements of their strategic, operational, and financial partnership and to report to the Board at the June 2006 annual session.
- Challenge for Strategic Partnership is to further **strengthen existing, successful partnership** within context established by:
 - ✓ UNDP Multi-year Funding Framework (MYFF) and UNCDF Business Plan.
 - ✓ Progress in implementing the MYFF and the Business Plan to date.
 - ✓ Accumulated experience at strategic and operational levels.
- Framework for Strategic Partnership submitted by UNCDF to UNDP on 24 April. Substantive discussions in progress.

Strategic Partnership with UNDP

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Strategic objectives:

- Achieve **programmatic synergies and excellence** based on the comparative advantages and Practice Areas of each organization.
- Achieve **greater efficiency and effectiveness** of Joint Programmes with UNDP and Joint Programming within UN system.
- Contribute to ongoing efforts to **simplify, harmonize and rationalize** management, operations and oversight among UN agencies as part of **UN Reform** and follow-up on **Paris Declaration on Aid Effectiveness**.

Operational objectives:

- Clarify respective **roles and functions**, especially at Regional and Country Office levels.
- Enhance **functional visibility and formal recognition** of UNCDF, particularly at Regional and Country levels to support strategic objectives and facilitate effective resource mobilization.
- Assure **management, operational and financial alignment** with UNDP, including in particular maximizing UNCDF participation in all appropriate UNDP planning and management frameworks and systems.

Key Challenges and Constraints

- **Participating** in institutional dialogue on **UN Reform** and “system-wide coherence” issues.
- **Obtaining Core funding** in UN Reform environment.
- **Obtaining Non-Core funding** at Country level, Programme level and for geographic and thematic initiatives.
- **Adjusting growth and expansion plan** to available financial resources.
- Completing **Strategic Partnership** with UNDP.
- **Providing required administrative support** for all UNCDF activities exclusively from administrative budget provided by UNDP.
- **Managing the decentralization** process.