Briefing by
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to the UNDP/UNFPA Executive Board on

Preliminary 2012 results and the Stakeholders Consultations
on Scenarios for UNCDF’s Future

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Mr. President,

Distinguished Delegates,

Ladies and Gentlemen,

It is a true pleasure to address the Executive Board in my capacity as Executive Secretary of UNCDF. Having been on the job for exactly three months has given me the opportunity to meet some of you in person, here in New York and elsewhere. In particular, I had the opportunity to engage with some of you during the first meeting of the Stakeholders Consultations on scenarios for UNCDF’s future in early December 2012, and during today’s informal lunch session on the same subject. But this is the first occasion I have to address you collectively as the Executive Board, in a formal session, and this is indeed an honor.

Let me begin by thanking all of you for the warm welcome you have extended to me as the incoming head of UNCDF. I think we have gotten off to a good start. First and foremost I would like to thank the Administrator Helen Clark for having placed her trust in me at the helm of UNCDF, and the Associate Administrator Rebeca Grynspan for the friendly and professional interaction between our two organizations. I am looking forward to building on the existing partnership with UNDP and making it even stronger.

I would especially like to pay tribute to Deputy Executive Secretary Christine Roth, who was a very effective Officer-in-Charge during the transition period, and to all the
colleagues at UNCDF who not only kept things running but also managed some significant new accomplishments.

Finally, I would like to pay tribute to my predecessor David Morrison, with whom I had the pleasure to work closely in my former capacity as director for development cooperation at the Luxembourg Ministry of Foreign Affairs. David did an excellent job as Executive Secretary of UNCDF, and left behind an organization with a strong reputation, strong growth and, as far as I can tell from my short tenure so far, an agency with sound operational structures and systems.

Today I would like to share with you some of the impressions I have gathered of UNCDF over the last three months and to outline some of the priorities I see for the next months and years.

I know that there are other newcomers amongst us today; so for their benefit let me give a short summary of UNCDF’s mandate and our interventions focusing on the support to the Least Developed Countries in order to achieve the MDGs. UNCDF was created by a General Assembly resolution in 1966, at the same time that UNDP was established. While UNDP was to focus on technical assistance, UNCDF was to focus on capital investments – roads, bridges, schools, and the like. However, financing commensurate with this initial vision did not materialize, and the ambitions for UNCDF were lowered a bit, and its geographical scope was narrowed to focus primarily on the Least Developed Countries. But the unique capital investment mandate of UNCDF was maintained, making it the only UN agency mandated to provide grants, hard and soft loans and guarantees directly to national and sub-national, as well as to private sector entities. With this flexible investment mandate, combined with strong technical presence on the ground, UNCDF is well positioned to deliver on the MDGs and the evolving Post-2015 development agenda focusing on inclusive and sustainable growth and the need to leverage ODA and national resources with private capital flows.

UNCDF has proven its ability to deliver true leverage on the smaller and more risky investments and interventions within its sectorial practices of Inclusive Finance and Local Development Finance. Our concept proven pilot projects and programs are replicated and brought to scale with the help and the add-on financing of other development partners with different and complementary mandates.

It is also important to remember that UNCDF is the only UN agency mandated to focus primarily on the LDCs, currently supporting 40 out of the 48 LDCs, with country level programs, as well as regional and global programs.
In summary, UNCDF’s investment mandate and its specific types of interventions continue to be a very useful complement to the work of UNDP and the larger UN system, often acting as an on-ramp for UN sister organizations, the International Finance Institutions, and increasingly private sector investors and foundations.

To back these impressions up, allow me to outline my initial findings of the organization and let me begin by saying that I believe that UNCDF is fundamentally sound and pointed in the right direction, with strong growth both in terms of non core income and program delivery. In fact, I think it is quite a remarkable story of institutional change over the past 5-7 years, and one which is best captured with a few telling statistics. The publication “UNCDF in numbers” should be available on your desk. Allow me to briefly quote from it:

- In 2006 UNCDF was active in 28 program countries. By 2012 that number had grown to 43, including in three non-LDCs.
- In 2006 UNCDF’s total revenue was $22.3 million dollars from 20 donors. Total income in 2012 amounted to some $57 million from 36 different donors, including 10 million dollars from 6 large private sector foundations and corporations, representing 17% of the total income. - 2012 has definitely been the best year in terms of total income for UNCDF over at least 20 years.
- In 2006 UNCDF’s total expenditure was $29.8 million compared to $53.7 million in 2012. In other words, UNCDF has seen a strong, yet balanced growth, in terms of both income and expenditures in the recent past.

In terms of 2012 development results, the preliminary figures show the following:

In our Local Development Finance Practice Area we expanded our capacity building and investment support from 437 local governments in 2006 to 831 local governments in 2012, over halve of those are in Africa. By activating and strengthening the government system at the local level using national systems, UNCDF is able to provide evidence-based upstream policy advice that in many countries by now has directly contributed to the launch of national decentralization strategies. In recent years, UNCDF has increasingly partnered with UN and non-UN agencies to link key development objectives, such as climate change adaptation, food security, gender equality, cross-border cooperation and local economic development to its portfolio. The objective is to introduce these crosscutting themes at the local level, prove concept and thereby allow for replication and scaling up reaching large numbers in the poor and underserved populations.
Let me give you an example. In 2011, UNCDF launched the LoCAL global program. LoCAL stands for Local Climate Change Adaptive Living Facility. The program builds on UNCDF’s 20 years track record in building or improving local government systems in the LDCs, including related fiscal transfer systems. The LoCAL facility channels - with UNCDF oversight - global adaptation finance to local governments, who are at the frontline of dealing with the effect of climate change, and enables them to invest in building local resilience. LoCAL is currently being implemented in Bhutan, Nepal, Cambodia and will be expanded to Africa in 2013.

In our Financial Inclusion Practice Area in 2012 we provided support to 83 different microfinance institutions with over 7.18 million clients, 69% of whom are women. To this point, allow me to briefly explain the difference between “micro-credit” and the broader concept of “inclusive finance”. An inclusive financial sector is characterized by access at a reasonable cost for all households and enterprises to the range of financial services adapted to their needs, including savings, credit, remittances, insurance, etc. This requires sound institutions, guided by appropriate internal management systems, industry performance standards and performance monitoring by the market, as well as an enabling legal environment with sound prudential regulations. This also requires multiple and able providers of financial services, so as to allow to offer cost-effective alternatives to the end user clients.

The recognition that financial services in this broad sense are an important tool for fighting poverty has led to strong demand for UNCDF’s sector development approach in the spirit of truly inclusive finance. In 2012, UNCDF had initiated Inclusive Finance programs in 25 LDCs. UNCDF has developed a number of global programs used by the microfinance industry, currently servicing approx. 200 million poor people, as an entry point to address high priority development issues such as access to clean energy at household and microenterprise level (the CleanStart program), youth employment and financial literacy (YouthStart program), electronic payments including mobile money and social protection schemes (BTCA and MM4P programs), and, finally, scaling-up access to finance in regions and countries where financial inclusion remains a particularly difficult challenge (Reference to MicroLead, with a $58.5 million budget, UNCDF’s largest program).

In the same context, I would in particular like to highlight the launch in 2012 of the "Better Than Cash Alliance" together with USAID, Visa, Citi, the Omidyar Network, the Ford Foundation and the Bill & Melinda Gates Foundation. With UNCDF as secretariat,
the Alliance provides expertise and resources needed to make the transition from cash payments to digital payments by governments, UN agencies and corporations focusing on developing countries, to achieve the shared goals of empowering people and growing emerging economies. Around the world, 2.5 billion people are excluded from formal financial services. As a result, most poor households live almost entirely in a cash economy. Shifting to electronic distribution of social benefits, humanitarian aid or payroll payments will advance financial inclusion while achieving cost savings, efficiency and transparency. The initiative was launched in conjunction with the opening of 2012 General Assembly and not later than a week ago we presented the work of the Alliance at the Global Economic Forum in Davos.

The 2012 figures I have cited are preliminary figures and of course not exhaustive. We will present a full report to you at the Annual Session of the Board in June this year.

Beyond my personal findings, let me now to turn to evaluations and external assessments of UNCDF’s work. We remain strongly committed to regular independent evaluation of our work, completing a total of 6 evaluations in 2012.

In local development, evaluations confirmed that projects have been largely successful in introducing new local government systems and procedures and providing much-appreciated capacity building in planning, financial management and procurement by local authorities in the LDCs. The high quality of technical expertise provided by UNCDF was often highlighted. Regarding areas for improvement, evaluators highlighted the absence of earmarked budgets in some projects to support operations and maintenance of local-level infrastructure and under-developed systems within local governments to mobilize own source revenue.

In inclusive finance, the UNCDF approach has been judged to be well aligned with its LDC mandate and its strategic approach to work in so-called ‘difficult’ environments and its combination of country programs and global thematic initiatives in areas such as youth financial services or South–South cooperation highly relevant to the needs of LDC counterparts.

Regarding program scaling up and replication, evaluations have highlighted the need for better mechanisms to publicize and disseminate the results of work that are innovative with a view to better supporting UNCDF’s broader objectives of supporting policy reform and leveraging additional amounts of investment capital into public and inclusive finance systems in LDCs.
In 2012, UNCDF also launched its new gender strategy and decided to adopt the UNDP strategy on Environmental and Social Safeguards.

I have already mentioned examples of major partnerships launched in 2012 with private sector partners. Many new program level partnerships were also launched with donor member states in 2012. I would like to highlight in particular a new innovative $16 million dollar multi-program partnership with Swedish Sida supporting seven UNCDF global programs through one cost sharing agreement providing maximum flexibility for UNCDF to deepen its comparative advantage related to sustainable development and inclusive growth. Norway and Austria later in the year joined this framework agreement by partnering with UNCDF on the CleanStart global program launched at the Rio+20 Summit. Furthermore, UNCDF expanded its collaboration in 2012 with the European Commission, Australia, Switzerland, Belgium, USAID, UK, Luxembourg, Denmark, Norway and other donor member states.

Let me also mention some of our outreach and advocacy work in 2012. UNCDF actively participated in the Rio+20 preparations and summit with side events and policy inputs. Similarly, UNCDF started to engage, and is now firmly included, in the UN inter-agency process on Rio+20 follow-up and the Post-2015 process. In 2012, UNCDF also had the opportunity to co-organize two events at the European Development Days, and was invited to present its work in the EU working group on development cooperation. This is a result of a more active collaboration between UNCDF and the European Commission on issues of joint interest, which has also lead for the first time to the placement of UNCDF staff at the UN office in Brussels.

Recently UNCDF also played a prominent role at the Africities Summit in Dakar. Africities is a continent wide forum on local development.

Last but not least we continued to host the secretariat of the Secretary General’s Special Advocate on Financial Inclusion, HRH Princess Maxima, who has been very active in 2012.

Mr. President,

Distinguished Delegates,

Let me now turn to some areas that require our attention in 2013 and the years to come.
I fully subscribe to the proposal that my predecessor made to our Executive Board to hold Stakeholder Consultations on the future of UNCDF and I appreciate the Board's subsequent decision 2012/12 - last June - to ask us to put these consultations on track before the end of the year. Why is this so important for us? - Well, because we feel that UNCDF has arrived at a crossroads! Today we face the alternative either to go on with business as usual and see our pertinence erode over time or to follow our mandate and instinct as the UN capital development fund and help trigger a new layer of financing for development on top of smart ODA, on top of national resources, on top of philanthropy and venture philanthropy and on top of corporate social responsibility. Important strategic decisions for the future, the pertinence and the effectiveness of our agency will need to be taken, at the appropriate formal level. They need to be adequately prepared during the period leading up to the annual session of the Executive Board in June. As a matter of fact, these questions must be addressed with a sense of urgency. Here is why:

While non-core resources have increased dramatically – more than 300% - over the past 6 years, core resources are hovering around $15-17 million in the past 5 years, and they still fall well short of the estimated $25 million minimum threshold level required to sustain UNCDF’s operations in 40 LDCs to whom UNCDF has committed its support in its Investment Plan. In 2013 UNCDF will have depleted its reserves, a scenario that the management has brought to the Board’s attention on several occasions in the past years.

While an adjustment of cost recovery levels upward would help, it would by far not solve UNCDF’s shortage in flexible funding necessary for sustained levels of programming, country and regional HR infrastructure and cost coverage. The practice of covering the cost of implementing programs financed by non-core contributions through our core budget is unsustainable. In 2013 our core budget will be used almost exclusively to that end. Little to nothing remains to invest in our core activities: designing, implementing and proving the concept of pilot projects ready to be put to scale via non-core financing. In a nutshell: UNCDF’s success in raising non-core funding is starving our business development of the indispensable new investments!

Hence, while we want to pursue discussions on cost recovery, program arrangements, development effectiveness and innovative financing mechanisms, UNCDF’s business model and value proposition – namely its investment mandate, its technical capacity and its interventions in the world’s most difficult and risky environments, where the needs are the highest – will clearly require an increase in core budget.
This urgent matter obviously needs to be viewed in light of the future demand for UNCDF in the Post-2015 framework, including the next Strategic Plan, into which UNCDF will be included as a close partner to UNDP, building on division of labor, synergies and comparative advantages. UNCDF is well positioned - both in terms of the relevance of its practice areas and its technical capacity and flexible investment mandate - to deliver on the evolving Post-2015 development agenda focusing on inclusive and sustainable growth, and the need to leverage ODA with private capital flows. I am optimistic that we will witness a continued strong and increasing demand for UNCDF’s capital and services in the Post-2015 development framework.

Against this background we hope that during the Stakeholders Consultations process on UNCDF’s future, member states can follow us on our proposed mix of options that would allow UNCDF to sustain its current support to 40 LDCs and to step it up to all LDCs who so wish, with the help of an increasingly diverse group of public and private sector partners. In concrete terms, we are talking about a $10 million increase in annual core contributions from 2012 levels. With a $25 million dollar core base, UNCDF would commit to continue leveraging substantive non-core and follow-on investments primarily from private sector partners and IFIs, for the benefit of the LDCs.

At this point in time, this is indeed the key concern – and the key constraint – in regard to UNCDF’s future.

Another area that requires our attention in 2013 will be the introduction of a new and up-to-date loan management system. The new system has been under development in 2012 and testing will start this year. The system will allow UNCDF to grow its loan portfolio, including by linking blending instruments and guarantee facilities to its work for high impact interventions in the LDCs.

It is also my intention to assess the regional and country presence of UNCDF in order to ensure adequate capacity, with minimum costs, to deliver on UNCDF’s mandate at the country level. Similarly, some adjustments to operational processes and organizational set-up at headquarters may be necessary and I will revert back to you with more information on these changes during the year.

Mr. President,

Distinguished delegates,
I have initiated reviews of a number of the key aspects of our business, so it continues to be a work in progress. In this sense, I would very much welcome your feedback.

UNCDF has a unique positioning within the UN system and vis-a-vis UNDP because of its capital investment mandate, and its related financial flexibility: in addition to grants, it can make loans, provide guarantees, etc. – both at the sovereign and sub-sovereign level, including the private sector. This is probably one of the most flexible investment mandates in the multilateral system.

Further linkages to the evolving impact investment industry are currently being explored, including how UNCDF can use its flexible investment mandate to leverage private flows of capital, including for women’s micro-entrepreneurship and SME growth. In this context, I would like to announce that UNCDF will shortly be joining the Aspen Network of Development Entrepreneurs (ANDE).

UNCDF uses its mandate for innovative interventions with potential for transformational change in the area of inclusive finance and local development finance, and lately in the area of finance for the missing-middle investments. We should sustain and reinforce this tradition of innovation. Promising areas in which we are already involved, include:

- work on electronic payments and mobile money schemes in the poorest LDCs, linked to social protection via local governments currently being piloted in Asia and the Pacific with some major corporate partners and member state donors;

- new work on Local Economic Development via local governments that we are piloting in Southern and Eastern Africa, including unblocking of local financial sectors for investments in bankable smaller scale economic and industrial infrastructure, typically linked to value-chain constraints in the agri-business sector. This work is being implemented in Tanzania and Uganda through the UNCDF Local Finance Initiative funded by One UN funds, Switzerland and Swedish Sida;

- the LoCAL and CleanStart programs;

- the YouthStart Programme in partnership with MasterCard Foundation works with the microfinance industry in Africa to roll out youth’s savings products and financial literacy training in schools and universities.

- work ongoing on remittances with IFAD, on micro-insurance with ILO and with on the role of local governments in food security with Belgium. New tools for country level diagnostics for financial inclusion and local development are being
rolled out, and a new innovative on-line local development academy is being developed.

In summary, the picture that emerges is one of an organization committed to product innovation on behalf of its LDC partners, and that is deliberately catalytic, working with others from the outset with a view to having its interventions replicated and scaled up and thus achieve transformational change. We intend to continue the strong past commitment to work through national systems, to produce the type of measurable results, for which many of you have commended us in the past. Budgets permitting, we intend to hit our target of at least sustaining our presence in 40 LDCs, during the period of the next Strategic Plan. We intend to balance this growth with the need to ensure financial integrity and transparency at all times. In this context, I am pleased to inform you that in 2012 UNCDF has released for the first time its aid information to the International Aid Transparency Initiative (IATI).

On the resources side, we are counting on your support. We are very grateful to those of you who have not only maintained, but in some cases increased support for UNCDF in 2012, in spite of fiscal constraints.

2013 will be an exciting year for UNCDF. Our project pipeline financed through non-core contributions is already now at the level of 2012. The Stakeholders Consultations will hopefully lead to a solution regarding the need to increase UNCDF’s core resources, and provide a pertinent input for the Executive Board’s considerations at its 2013 annual session on UNCDF’s role in the Strategic Plan and the wider Post-2015 framework.

In closing, I would again like to thank all of you for your support and interest in the work of UNCDF. I am looking forward to working with you, under UNCDF’s mandate and with its comparative advantage, in support of the LDCs.

Thank you for your kind attention.