UNCDF: Report on results achieved in 2014 and perspectives for 2015

Statement by Ms. Judith Karl - Executive Secretary

Annual Session of the Executive Board, June 2015
(2-hour segment)

Mr. President,

Distinguished Members of the Executive Board,

It is an honor for me to address you today at this June Executive Board session and to report on our achievements over the past year. You will recall that I reported our preliminary results to you this past January in an informal session, so I am pleased to be back now to provide you a formal statement on our progress. And as this is my first formal address to this Executive Board since being appointed Executive Secretary of UNCDF, allow me to express my gratitude to the UNDP Administrator for her trust, and to all of you for the exceptional partnership and support you have offered to UNCDF over the years. I consider it a real privilege to be associated with such an innovative and catalytic part of the UN System, and I very much look forward to being part of its success as an important implementing partner for the post-2015 development agenda.

Today, I will:

- Highlight key development results from our Annual Report for 2014
- Provide an update on UNCDF’s institutional results
- And, say a few words on our financial situation.
2014 was the first year of implementation of the UNCDF Strategic Framework 2014-2017, and the first year applying the indicators in our new Integrated Results and Resource Matrix. UNCDF continued to use its capital mandate to support first and foremost the LDCs in their pursuit of sustainable and inclusive growth, by pursuing the three key objectives of our Strategic Framework:

- increasing financing for basic services and sustainable and inclusive growth;
- establishing financing mechanisms to increase resilience to economic and environmental shocks;
- fostering policy environments conducive to sustainable financing for sustainable development.

By focusing in its two main areas of expertise, Local Development Finance and Inclusive Finance, UNCDF worked in 31 countries to eliminate barriers of access by the poor to adequate and adapted financial, social and infrastructure services and to unleash productive capacities. UNCDF successfully worked with all its partners to support countries in scaling up innovative finance mechanisms that increase investment and leverage untapped potential. It applied its approaches and instruments to support national development plans for making finance more accessible, and inclusive, and made important steps to prove concept so as to pave the way for scaling up and replication.

This highlights UNCDF’s “maturity model”, a three-stage approach to innovation, leverage, and scaling up. UNCDF uses core resources as “seed capital” to establish country presence, to develop programmes and to prove concept. This is the innovation stage, for which core resources, healthy risk appetite, and open platform learning with partners are critical components.

UNCDF consolidates the lessons from the innovation stage to create the leverage for unlocking additional sources of public and private, foreign and domestic resources that will help countries embed the innovations in institutions, policies, capacities, and systems. During the consolidation stage, lessons can be drawn about the implications for replication, capacity development, and market potential.

UNCDF and its partner institutions also work with national and international investment partners to create the conditions for scaling up, for which a leverage of at least 1:10 is sought. Scaling up may involve replication
across more institutions, more populations, more geographic localities, and/or more countries.

One concrete example is the Local Finance Initiative (LFI), which promotes access to domestic finance for strategic investments that advance local economic development and private sector growth in LDCs. In 2014, LFI closed its first deal by providing seed capital and advisory support to help mobilize $2.6 million from a private investor for a much-needed customs depot, warehouse and lorry park in a cross border community in Uganda. In Tanzania, a $250,000 seed investment and technical assistance support for last mile transaction costs for three hydropower projects will leverage $15 million of domestic resources from local banks in 2015, resulting in benefits to thousands of families. 2015 will see this approach grow in Tanzania to over $100 million in investments, and replication in other countries. The demonstration value is strong; to show that public/private partnerships can be structured effectively to crowd in domestic capital that helps fund priority infrastructure projects in local development plans. These infrastructure projects, in turn, have direct social and economic benefit to local communities, and provide the spine around which local economic growth can be built.

UNCDF also works in financial inclusion, including through digital finance, as a key enabler of poverty reduction and inclusive growth. In the post-2015 context, the digitization of payments can result in greater efficiency, significant cost savings and enhanced transparency to reduce leakages, and these results can free domestic resources to be utilized for priority investments.

In this specific area, UNCDF has expanded the Mobile Money for the Poor (MM4P) programme to Benin, Senegal, and Zambia. MM4P is a global initiative to demonstrate how the correct mix of financial, technical and policy support can build a robust branchless and mobile financial services ecosystem in LDCs. This expansion will allow MM4P to increase mobile-enabled delivery channels for financial services to serve 17.8 million active digital financial clients, representing a net increase of 11.6 million users across eight countries.

Owing to an innovative approach to South-South cooperation for developing Inclusive Financial sectors, the MicroLead programme supported southern microfinance market leaders to enter LDCs in 2014, with a focus on mobilizing savings from low-income populations. The competitively selected market leaders from the South,
which include Equity Bank from Kenya, Basix from India, BRAC from Bangladesh, and CARD from the Philippines brought about USD 100 million as their own equity to fund their expansion in LDCs. The combined business plans of those new institutions showed that after 5 years of operations, their loans outstanding and saving balances would reach about $645 million.

Under the Shaping Inclusive Finance Transformations (or SHIFT) programme, UNCDF started providing a space for further discussions and work on women’s economic empowerment in Southeast Asia. The SHIFT Programme aims to assist 6 million low-income consumers, micro-entrepreneurs, and small and medium enterprises, especially women, within these markets to use well-regulated and affordable financial services by 2020. In 2014, SHIFT’s policy research and advocacy work led to the ASEAN governments adopting new policy measures to accelerate financial inclusion as a complement to the region’s financial integration efforts, including explicitly adopting financial inclusion as a priority for all governments and establishing an official regional architecture to support national plans.

Lack of access to financial resources is a major constraint for youth transitioning from school to work as it becomes difficult to access the credit needed to start a business, and to find secure places to accumulate assets, insurance and other relevant financial services that could support livelihoods. YouthStart’s financial services providers granted access to savings accounts to almost 515,000 young people (of which 46% are young women), trained over 500,000 youth in financial education (54% of whom are young women), and provided loans to almost 72,000 young entrepreneurs. As of 2014, these young clients accumulated US$14.2 million in savings, while the young entrepreneurs accessed US$7.3 million in loans to either start up or expand their own business. YouthStart is currently being evaluated in anticipation of a second phase.

UNCDF also hosts and supports the Better Than Cash-Alliance (BTCA) which serves as an implementing partner for the G20 Global Partnership for Financial Inclusion and supports governments, companies and international organizations that are the key drivers behind the transition to make digital payments widely available. This alliance of partners making concrete commitments to transition from cash to digital payments has now grown to 40 from the original 8 funding members, including 14 governments, 16 development organizations, and 2 private sector entities. Many more have expressed interest and are in line to join.
UNCDF also continued its decades of work in decentralization with governments in LDCs to localize finance outside the capital cities in order to accelerate growth in local economies, promote sustainable and climate resilient infrastructure development, and empower local communities.

The Local Climate Adaptive Living initiative (or LoCAL) is designed to support LDCs to channel global climate adaptation finance to local governments that are on the frontlines of dealing with the effects of climate change. Having provided an initial $1.2 million in grants to 29 local governments, reaching a population of over four million across seven LDCs in Asia (Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic and Nepal) and Africa (Benin and Mali), support was provided for adaptive land use planning, drainage, and water management, implementing resilient building regulations, retrofitting existing infrastructure, strengthening of roads and bridges and the adaptation of agricultural systems. The ultimate objective of this programme is to reach over 230 million people across these countries.

The CleanStart programme supported low-income consumers to transition to cleaner and more efficient energy through microfinance. CleanStart is a global programme helping to lift at least 2.5 million people out of energy poverty by 2017. The programme provided risk capital and technical assistance to competitively selected financial service providers and energy enterprises. In Nepal, for example, CleanStart collaborated with the Central Renewable Energy Fund, a $120 million multi-donor wholesale fund dedicated to renewable energy, to build confidence among commercial banks in the prospects of financing the clean energy sector. In 2014, four Nepalese financial institutions were supported by UNCDF to extend loans for solar home systems, biogas and improved cook stoves to over 10,000 clients, testing innovations in consumer financing for clean energy.

Because UNCDF has traditionally operated in rural areas, and given its expertise in working with local authorities, food security has become an essential element in our approach. In 2014, several UNCDF country programmes in sub-Saharan Africa included a thematic focus on food security. In Mali, for example, the Programme to Combat Food Insecurity and Malnutrition aimed at improving local authorities’ capacity to mainstream food security concerns into the local planning and budgeting process. More than $1.7 million were invested in local infrastructure to strengthen resilience to food shocks and to promote basic services delivery in
Nara and Nioro using UNCDF’s Local Development Fund. A similar programme in Niger saw the rate of non-vulnerable households increase from 14% in 2010 to 32.8% in 2014.

We believe these 2014 results are very encouraging, and also create a strong partnership foundation to stimulate and scale up innovative development solutions. While success in the post-2015 development agenda will require national solutions, we believe that innovative approaches that embed informed risk taking, proof of concept, and that catalyze domestic and international partnerships to achieve scale will have an important role to play in localizing inclusive growth in the real economy.

I will now comment on some of the institutional results and internal changes we have undertaken since the last reporting period.

In 2014, UNCDF expanded its partnerships base, with 44 development partners supporting UNCDF’s work, up from 36 in 2013.

In 2014, owing mainly to increasing non-core contributions, total UNCDF revenue reached $88.3 million, up from $65.4 million in 2013. Contributions to UNCDF included $21.1 million from private sector foundations and corporations, representing 23.8% of total resources.

Non-core contributions reached a record high of $73.3 million in 2014. On the other hand core contributions only reached $14.9 million in 2014, a $1.4 million decrease from 2013, and still falling well short of the $25 million target required to secure UNCDF operations in 40 LDCs.

Total programme expenditure in 2014, which includes the UNDP Biennial Support Budget contribution, increased to $62.1 million, compared to $61.0 million in 2013. Our overall delivery rate was 76.0%. We intend to improve it in 2015, assisted in part by the steps taken to strengthen our programme monitoring, performance and operations systems.
On the programme management and monitoring side, we have introduced an internal web-based dashboard to provide users real-time data on programme delivery, partnership frameworks, and programme output monitoring and financial management. Also, we received an unqualified audit for 2013 from the United Nations Board of Auditors. We have closed 56% of audit recommendations, and are close to implementing three important outstanding recommendations related to the revised Loan Policy; the RBM and performance dashboard whose first version was just released, and the ongoing financial closure of inactive projects. We also have a new draft Enterprise Risk Management strategy that is beginning its vetting and approval process.

On the gender front, UNCDF’s work is bearing fruit as it integrated gender equality and the empowerment of women and girls across its Programmes. By the mid-term of the Strategic Framework next year, IRRM indicators will be sex disaggregated. The new SHIFT programme in Asia is strongly driven by women’s economic empowerment objectives, and the soon to be approved IELD programme – jointly with UNDP and UNWOMEN – will provide innovative approaches to structural and infrastructure investment that will help transform women’s economic access at the local level across our entire local development portfolio. Internally we have made important progress in improving the gender balance in the UNCDF workforce, and we will continue to work on improving our performance against the UN SWAP framework.

On the “Delivering as One” process, UNCDF is working to increase the number of UNDAFs we participate in, and greater integration with UNDP and UNCTs in the context of post-2015 implementation. One strong example of working better together was the partnership around the UN response to Ebola mentioned by Jens in his statement. This experience is not only informing the Ebola recovery effort and the Nepal earthquake response, but it is also leading to a closer look at the role of financial inclusion and digital finance in a range of crisis-affected settings.

Let me now say a few words about what we have done to strengthen the foundations of the organization in order to be able to deliver on the Strategic Framework and be an agile partner for the post-2015.

First, as I look to the near future, core funding remains a key challenge. The savings generated through the UNCDF realignment exercise, which were meant to be channelled back into LDC presence, will be almost
directly offset by exchange rate fluctuations in 2015. This will keep us away from our target of 40 LDC's and risks more closures as existing programmes wind down.

The future UNCDF is planning for is one characterized inter alia by high and increasing demand for UNCDF's capital and technical support in our areas of expertise. We see demand for innovation around public/private partnership, innovations that drive more inclusive growth with solutions that reach outside capital cities, and solutions that demonstrably leverage ODA and domestic resources, as areas of growing interest in the post FfD and post-2015 years. We expect more demand as LDCs strive to graduate, and as innovative south south solutions push the frontiers of financial and digital solutions.

To put us in the best possible position to meet this demand, we undertook a realignment that has allowed space for some retooling, structural streamlining, and cost savings. A few results are worth highlighting:

- To counteract the “projectizing” effects of the reduction in core, creating more incentives and systems for engagement in country strategy rather than just project approaches to country presence;
- we have revamped our human resource tools and team;
- We are finalizing a thorough review of our policies, especially for loans and grants. This is very important to maintaining uncdf’s state of the art standards in the execution of our capital investment mandate
- We have also improved our financial planning process to remain flexible in the face of considerable funding uncertainty and enable a strategic and disciplined allocation of resources.
- Based on the Board’s decision, an 8% GMS rate is now applied for newly signed agreements and direct project costing was introduced to recover full cost for operational and management support to projects. We will come back to the Board in 2016 with a full review of our cost recovery policies and practices.
- Increase in gender balance, particularly at the management level, and improved geographic diversity in the work force at all levels;
- Strengthened commitment to evaluation, so that lessons inform the evolution of our approaches and models, and allow us to account rigorously for the public resources with which we are entrusted.

Today, the nature of capital flows to LDCs and the role of ODA are changing rapidly. Important new sources of
finance including from non-DAC donors, climate finance funds, social impact investors, South-South cooperation; philanthropists and global funds, as well as other less concessional flows are becoming increasingly important. Other capital flows such as FDI and remittances have significantly increased, and LDCs are now increasingly able to access a diverse range of non-concessional sources of finance.

The ability to adequately finance a post-2015 development framework will require a mix of policies and actions which spotlight public-private partnerships, the blending of grants with loans, the role of FDI, the importance of domestic resource mobilization while also ensuring a more coherent use of remittances and philanthropy. As innovative mechanisms and instruments are necessary to facilitate, leverage and complement ODA, UNCDF is well positioned in the multilateral system as an “incubator” that can provide grants, loans and credit enhancement to private and sub-national public entities. The relevance to post2015 implementation is clear:

- First, the “pathway out of poverty” effect: localizing development and climate finance, and access to financial services can play decisive roles in reducing inequality and promoting inclusive growth
- Second, a much stronger reliability and stability of national financial systems: Expanding financial inclusion and greater formalization create opportunities for national economies to grow as more savings are captured for investment, while greater business activity and transactions through the formal system widen the base for taxation. Additionally, there is growing evidence of financial inclusion creating more stable financial systems and economies, which in turn help economies grow more quickly and in ways more favorable to poor people.
- Third, access to new markets and business-building services for entrepreneurs: MSMEs have been globally considered as engines of economic growth as well as key instruments for promoting equitable development. Yet about 200 million small businesses in developing and emerging markets lack adequate financing. Enabling MSMEs to use regulated financial services and products designed to meet their needs creates opportunities for these to grow and contribute to creating jobs and growth, which are the surest way out of poverty for individuals and households.
- Fourth, the multiplier effect on other development challenges: localizing development finance and provision of Financial services can have powerful impacts when used to support specific development priorities such as secondary and tertiary infrastructure, gender equality, health, food security, and education.
Finally, we see today more possibilities through new technologies: The increasing popularity of transaction and payment services through cellphones and mom-and-pop shops has revealed the tremendous potential to expand financial inclusion through mobile technology. These "electronic money" models have already improved the lives of millions by reducing the need to carry cash or spend time travelling over long distances to reach the nearest point of service.

Mr. President, distinguished delegates

Let me end by noting that I am convinced that whatever the challenges of the next 12 months and beyond, we have a robust organization that is well positioned to deliver on the evolving post-2015 development agenda, given its emphasis on leveraging ODA with other sources of financing for development, including new sources from the private sector.

I look forward to working closely with you as we move ahead.

Thank you.