



# UNCDF Strategic Framework 2014 – 2017

**UN Capital Development Fund**

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## **About UNCDF, the United Nations Capital Development Fund**

*The original UNCDF mandate from the UN General Assembly (UNGA) is to “assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans” (Resolution 2186 (XXI), 13 December 1966). The mandate was complemented in 1973 to serve first and foremost but not exclusively the LDCs.*

*UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing – in the forms of grants, loans and credit enhancement – and the technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes its mandate complementary to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.*

*UNCDF has proven its ability to deliver true leverage on smaller and more risky investments and interventions within its core areas of expertise: Inclusive Finance and Local Development Finance. The concept-proven pilot projects and programmes are replicated and brought to scale with the help and the add-on financing of other development partners with different, and yet complementary, mandates.*

*UNCDF has also a proven track record in developing local public finance capacities, which were brought to a national scale by larger development partners (i.e. World Bank). It is also one of the development agencies most involved in promoting financial inclusion through a market development approach. From an early support to national microfinance strategies in the 1990s, UNCDF has updated its market development approach through the development of a new diagnostic tool and programmatic framework to support the development of national financial inclusion strategies.*

*UNCDF is the only UN agency mandated to focus primarily on the Least Developed Countries (LDCs), currently supporting 37 out of the 49 LDCs with country programmes, as well as regional and global programmes.*

*UNCDF’s work on inclusive finance seeks to develop inclusive financial systems and ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer relevant potential for scale.*

*UNCDF’s work on local development finance aims at ensuring that people in all regions and locations*

*benefit from economic growth. This means dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations. It means investing domestic resources into local economies and services through, inter-alia, fiscal decentralization, climate finance and project finance. UNCDF focuses its efforts towards strengthening public financial management and local revenue, improving the quality of public and private investments at the local level.*

*UNCDF's original mandate – to promote economic development in the least developed countries – remains highly relevant today. Economic growth is necessary to enhance living standards, reduce poverty and cope with the world's growing population. And it must be socially and environmentally sustainable to deliver maximum benefits for current and future generations.*

## The UNCDF Strategic Framework 2014-2017 At a Glance

The UNCDF Strategic Framework 2014-2017:

- (i) **is grounded** in UNCDF's mandate as defined by General Assembly Resolution 2186 (XXI), 13 December 1966 and the ambition to live its financial mandate to its full extent.
- (ii) **is consistent** with and guided by General Assembly Resolution 67/226 on the quadrennial comprehensive policy review of UN operational activities for development (QCPR), which establishes the main inter-governmental parameters of development activities for the UN System.
- (iii) **is developed** in close connection with UNDP Strategic Plan 2014-2017 to maximize synergies.
- (iv) **it reaffirms** UNCDF's commitment to help accelerate progress towards the Millennium Development Goals (MDG) and to shape and implement the post-2015 development agenda.
- (v) **it highlights** UNCDF's strong commitment to focus its work first and foremost on the Least Developed Countries (LDCs).
- (vi) **it incorporates** UNCDF's lead role in fostering financial inclusion and local development finance systems.
- (vii) **it introduces** Information and Communication Technology for Development as a key vector to amplify the impact of its core expertise, accelerate development in the LDCs and share lessons learnt globally.
- (viii) **it defines** three strategic objectives against which results will be monitored and measured.

# I. Context and Strategic Setting

## 1. Global Context

UNCDF's overall context is framed - at the highest level - by the challenges and trends faced by developing countries and by its geographic focus on the LDCs. At a corporate level, key elements to be considered are the UNDP 2014-2017 Strategic Plan and the lessons learnt during the UNCDF planning period 2010-2013.

### 1. Commitment to the Millennium Development Goals and to the post-2015 development framework

As part of the UN development system, UNCDF operates within the wider framework of the **MDGs** and is fully committed to advancing progress towards them. With its flexible capital investment mandate, strategic interventions in inclusive finance and local development finance, and geographic focus on the LDCs, UNCDF's work contributes directly to the achievement of MDG1 (poverty). It does so by promoting and providing access to adequate financial resources to people, small business and local governments and allowing for resources to be allocated and spent more efficiently and effectively. UNCDF's interventions have also a strong focus and impact on promoting gender equality and women's empowerment (MDG 3).<sup>1</sup>

Looking forward at the emerging post-2015 development agenda, UNCDF is strongly committed to promote and contribute to **inclusive growth**. Concerns to address "inequality" and promote sustainable and inclusive growth within a new framework for development have emerged as two major, cross-cutting issues<sup>2</sup>, which require a multi-stakeholder approach to effectively address their high level of complexity.

Within the emerging post-2015 agenda, **trends in development finance** are a key element shaping the environment in which UNCDF operates. Broad consensus has already emerged on the fact that both private and public resources are necessary to meet the enormous financing needs to generate inclusive growth across developing countries. In particular, various official reports highlight the importance of designing innovative finance instruments that can help to:

- (a) foster a more strategic use of ODA resources, leveraging private resources with public funds in a way that is consistent with the post-2015 development framework;

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<sup>1</sup> For example, women make up more than 60 per cent of the clients of UNCDF-supported Financial Service Providers.

<sup>2</sup> See UNCDF "Inclusive Future: Inequality, Inclusive Growth and the post-2015 Framework" (2013), <http://uncdf.org/sites/default/files/Documents/inequality.pdf>

- (b) ensure that appropriate funding is allocated to and reaches the LDCs; and
- (c) make sure that the financing for the development agenda fully integrates *inclusiveness* as a key defining principle.

The situation regarding development finance reaching LDCs<sup>3</sup> is of particular relevance for UNCDF: most type of finance including private and domestic resources is very limited in these countries. On one hand, LDCs are highly dependent on ODA (according to the latest data available the share of ODA in recipient country GNI is approximately 7 per cent)<sup>4</sup>, on the other hand LDCs have been disproportionately affected by the decline of ODA in recent years. In 2012 bilateral ODA to LDCs is estimated to have declined by 12.8 percent compared to 4 percent decline for total bilateral aid.<sup>5</sup>

In this context, UNCDF will make full use of its *capital* mandate and experience in piloting new solutions that can help mobilize additional sources of capital for development and design mechanisms for financial resources to be used more effectively and efficiently, especially in the LDCs.<sup>6</sup>

## 2. Focus on the Least Developed Countries

By its mandate, UNCDF's focuses its work first and foremost on the LDCs and its overall approaches are framed by the Brussels Declaration, the Programme of Action for the Least Developed Countries for the Decade 2001-2010 and the Istanbul Plan of Action for the LDCs. The Plan sets the ambitious target of enabling half of the LDCs to meet the criteria for graduation by 2020. UNCDF is strongly committed to help meet this target. At the same time, UNCDF recognizes the tremendous challenges facing the LDCs due to the economic downturn that has characterised the global economy during the last few years and that faces LDCs with the possibility of a relatively prolonged period of uncertainty.<sup>7</sup> As outlined clearly in the recent State of the Least Developed Countries 2013, "*progress in the implementation of the Istanbul Plan of Action is mixed <...> and the international community should give due priority to LDCs in the efforts to accelerate MDGs*".<sup>8</sup>

These trends have clear implications for UNCDF's Strategic Framework. On one hand, there is a clear need to work, especially with key actors in the UN system focusing on LDCs, to support a much needed acceleration of development to bring more LDCs close to graduation and thus help meet the objectives

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<sup>3</sup> As well as LandLocked Developing Countries and Small Island Developing States.

<sup>4</sup> UN (2012), MDG Gap Task Force Report – The Global Partnership for Development: Making Rhetoric a Reality.

<sup>5</sup> UN/OHRLLS (2013), OHRLSS Input for the UNTT Working Group on Financing For Development.

<sup>6</sup> This is especially important considering that ODA flows (as a result of the global financial crisis and of fiscal constraints in European Countries) is declining. The downward trend is even stronger with regards to ODA directed to LDCs (12.8% decline in 2012).

<sup>7</sup> In 2011, LDCs grew in average by 4.2 per cent, 1.4 percentage points lower than in 2010, thus replicating the slowdown of growth worldwide. This implies that "*the outlook for LDCs in the short- to medium-term is not encouraging. Given the growing danger that the world economy might be entering a lengthy period of stagnation, LDCs have to prepare for a relatively prolonged period of uncertainty, with possible escalation of financial tensions and economic downturn.*" For a more detailed explanation, see UNCTAD, The Least Developed Countries Report 2012, [http://unctad.org/en/PublicationsLibrary/ldc2012\\_en.pdf](http://unctad.org/en/PublicationsLibrary/ldc2012_en.pdf).

<sup>8</sup> See UN-OHRLLS (2013), State of the Least Developed Countries 2013.

set by the Istanbul Plan of Action for the LDCs. On the other hand, there is a need to support those that are about to start the process of graduation so that they can successfully graduate and make sure their development gains are sustainable in the long term.

While keeping a clear focus on LDCs, UNCDF will not overlook potential for promoting South-South cooperation especially when this can benefit LDCs. As a matter of fact, there are categories of countries (such as LandLocked Developing Countries (LLDCs), Small Island Developing States (SIDS), vulnerable or fragile countries, and countries in transition) that can benefit greatly from UNCDF support and that share similar challenges with the LDCs. These categories tend to overlap among themselves and – in some cases – to overlap significantly with LDCs. UNCDF will engage with developing countries beyond the LDCs in a way that will maximize the benefit of its interventions in the LDCs. It will do so in a strategic and selective manner and according to specific criteria and intervention modalities.

### **3. Partnership with UNDP**

UNCDF and UNDP were designed as complementary institutions in the mid-1960s and they work closely together within the framework set by the Quadrennial Comprehensive Policy Review of UN operational activities for development (QCPR)<sup>9</sup>, which establishes the main inter-governmental parameters of development activities for the UN System. The Administrator is the Managing Director of UNCDF [General Assembly Resolution 2321 (XXII) of 15 December 1967] and the UNCDF Executive Secretary is a full member of the UNDP Organizational Performance Group (OPG) chaired by the Associate Administrator.

The relationship with UNDP is rooted in the complementarity of the two organizations and aims at greater coherence, effectiveness and increased resource flows. Concerted efforts on the part of both organizations over the past planning period have resulted in strong synergies at the strategic, programmatic and operational level.

At the programmatic level, most of UNCDF programmes are joint with UNDP.

At the operational level, UNCDF is aligned with the UNDP accountability framework, allowing for differences only when needed and to reflect those instances where for business reasons, UNCDF policies, processes and instruments cannot be aligned with those of UNDP. Whenever possible, UNCDF makes full use of UNDP systems, such as ATLAS. Financial alignment between the two organizations is further evidenced by the integration of the UNCDF administrative budget in the UNDP biennial support budget and the inclusion of UNCDF in the UNDP programming arrangements.

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<sup>9</sup> As defined by General Assembly resolution 67/226, the Quadrennial Comprehensive Policy Review of UN operational activities for development (QCPR) is the primary policy instrument of the General Assembly to define the way the UN development system operates to support programme countries in their development efforts.



UNDP's Strategic Plan 2014-2017 presents a strong platform for enhanced synergies between the two organizations. It defines success as depending on *"finding ways of fighting poverty and inequality, deepening inclusion and reducing conflict, without inflicting irreversible damage on environmental systems, including the climate."* It also references the partnership between the two organizations and highlights that *"UNDP will rely upon UNCDF's financial mandate in specific areas of shared focus in the LDCs"*. UNCDF Strategic Framework is designed precisely to enhance this partnership and to make the most out of UNCDF's financing mandate and expertise.

## **2. Lessons from the 2010 -2013 Planning Period**

The 2010-2013 Corporate Management Plan is the instrument that guided UNCDF's strategic priorities for the period. It highlighted the organization's comparative advantage and unique comparative advantage including:

- Capital mandate and flexible investment instruments (grant, loan, credit enhancement);
- Technical expertise: in public finance, procurement and investments, particularly at the local level, and access to financial services for under-served populations;
- Willingness to take risks: UNCDF's knowledge and expertise make it able to recognize and support unproven, but promising institutions and approaches that can be taken to scale by others;
- Results through partnerships and leverage: UNCDF achieves significant and sustainable impact by working with and through partners.

UNCDF has used these comparative advantages to develop an effective business model through its interventions, based on:

- Seed capital, used in a catalytic way, with strong focus on leverage (with the objective to scale up UNCDF interventions);
- Technical support: through a strong technical capacity with in-house experts at regional and country level;
- Effective advocacy at national and global levels that improve enabling and policy environments for the scale up of UNCDF pilots and issues.

This business model has considerably strengthened UNCDF's positioning and value proposition over the past few years and made the organization an ideal "early stage investor". It can move quickly to adapt to changing environments and lessons learned, taking calculated risks at the outset in order to reduce systemic risk later on. This means, in the words of a 2008 Assessment of Multilateral Organizations by the Government of Sweden, that *"UNCDF should be seen as a development actor that paves the way for others"*.

In the past three years UNCDF has been successful in leveraging its investments, directly with non-core funds flowing through the organization, and indirectly through parallel and follow-on funds directed to the local level as a result of UNCDF's initial interventions.

In fact, the period 2010-2013 has been a history of strong growth for UNCDF. Total UNCDF revenue grew to a record level of around US\$ 55 million, up from US\$ 41 million in 2010. Diversification of the donor base continued to improve, including with regard to major foundations and the private sector. The number of donors has increased from 29 to 36 in the same period. Revenues are now driven by the growth in non-core resources, which increased by more than 100 per cent over 2010 levels.

Over the 2010 – 2013 period, UNCDF invested heavily in external evaluation, commissioning more than twenty project and programme evaluations with a view to strengthening the evidence base of what works and doesn't work in its interventions and provide inputs to ongoing programme management and broader strategy development.

Broadly speaking, evaluations tended to confirm the relevance and effectiveness of UNCDF's efforts to strengthen public investment and basic service delivery and to ensure that financial services reach more people and small businesses. Many UNCDF projects were judged to have provided much-needed capacity support to local authorities in the LDCs in the area of financial management and transparent procurement and in introducing and embedding participatory approaches to planning at the local level, such as in Bangladesh where UNCDF effectively supported the development of local capacities in the area of participatory assessment of local investments leading to a Government and World Bank scale up of the system.

In the area of contributions to national policy reform, UNCDF's support was recognized and appreciated in a number of cases. In Solomon Islands, for example, the government has adopted a finance system designed by UNCDF as the principal vehicle for development finance at the provincial level. In Mali a system of financial and institutional analysis developed by UNCDF was extended to new tiers of local authorities by an international development cooperation agency. In Timor Leste the government has adopted a UNCDF-developed methodology to allocate and channel the proceeds of the national oil-fund to district-level investments.

In the area of inclusive finance, a thematic evaluation in 2012 across most of UNCDF's inclusive finance projects judged the portfolio to be well aligned with the organization's geographic mandate and its strategic objectives to work in so-called 'difficult' environments. The portfolio was also judged to be performing well, with programmes particularly praised when targeting rural expansion, the development of new products directed at women, and new delivery mechanisms such as mobile banking. At the aggregate level, UNCDF-supported financial service providers had reached 1.8 million new depositors (38% increase since baseline) and 528,600 new borrowers (21% increase). Two-thirds of

funded Financial Service Providers (FSPs) had increased their operational self-sufficiency ratio (OSS) since baseline, and portfolio quality had increased for half the investees.

In its work on supporting macro-level reform, and in countries where national inclusive finance strategies and legislation are already in place, the Portfolio Review recommended more direct targeting of a number of policy topics for support by UNCDF – building, for example, on recent work by the organization on client protection or financial education/literacy. It also recommended that UNCDF re-design the financing model for its country sector programmes to improve funding leverage and to enable better participation in the setting up and governance of more viable investment fund structures.

Several evaluations highlighted the need for better mechanisms to publicize and disseminate the results of work that are innovative with a view to better supporting UNCDF advocacy objectives.

Evaluations also pointed out weaknesses in programme design and management and missed opportunities in working with others, including UNDP. Recommendations from evaluations included the need to improve the quality of project design and management – for example in setting out clearer results frameworks with a view to supporting improved management, monitoring and reporting for results, incorporating more systematic use of baseline assessments and greater responsiveness to changes in programme objectives or focus during implementation. UNCDF has already gone some way to respond to these challenges by introducing a new approach to self-evaluation which uses standard evaluation principles as a guide, and allowing programme stakeholder to self-assess against expected results during programme implementation.

Gender mainstreaming in programme design, management and reporting was also often judged as being deficient and reduced the impact of some programmes in strengthening women's participation in local government planning and management. As part of the System-Wide Action Plan on Gender Equality and the Empowerment of Women (SWAP), UNCDF started to improve the way it mainstreams gender throughout its operations, and together with UN Women, the Government of Belgium and the Government of Austria, it piloted a programme in six African countries seeking to introduce gender-responsive planning and budgeting at the local level.

Innovation has been an important theme throughout the last planning period and UNCDF has partnered with UNDP and the larger UN system, as well as with the private sector, to serve key development objectives such as climate change adaptation, clean energy, food security, youth development, gender equality, cross-border cooperation and local economic development through its portfolio. To better respond to these global challenges, UNCDF has developed new methodologies, such as diagnostics tools, global thematic initiatives and innovative programming approaches.

On the financial side, despite strong results in the period 2010-2013, the level of resources in terms of core contributions has not been commensurate with UNCDF's programme expansion. Upon the UNDP/UNFPA/UNOPS Executive Board's decision 2012/12, Stakeholders Consultations on scenarios for

UNCDF's future were launched in late 2012, addressing among other things the imbalance between core and non-core resources. These consultations have been critical in shaping UNCDF strategic framework for the period 2014-2017 which forms an integral part of the UNDP Strategic Plan for the same period.

## II. UNCDF Overarching Vision and Results

Bearing in mind the current trends in development finance and the structural challenges faced by the LDCs, UNCDF will realize the full potential of its capital mandate and flexible financial instruments to eradicate poverty, reduce inequalities and promote inclusive and sustainable growth.

UNCDF's vision will be implemented through the expertise and experience built in its two programme areas - **Inclusive Finance** and **Local Development Finance**; and through two vectors that will accelerate the results UNCDF is striving to achieve: (i) realization of the capital mandate and (ii) use of ICT4DEV as the infrastructure of the 21<sup>st</sup> century.

Capital flows provided by UNCDF have focused on small and medium investments at the local level in the LDCs to address unmet requirements. These investments have gone to both the public and the private sector. Public sector investments have targeted local governments to increase their capacity to deliver socio economic infrastructure and increase access of their citizens to basic services and economic opportunities. On the private sector side, investments have benefited financial service providers to expand their capacity to reach out to underserved segment of the market and foster financial inclusion.

The risk factor associated with these types of investments have required innovative solutions in order to de-risk opportunities that can be scaled up by other financial partners such as the World Bank.

During the period 2014-2017, innovative solutions will focus principally on the expansion of UNCDF's capital mandate to help leverage new sources of capital investment for the LDCs, including domestic sources, through the establishment of an investment vehicle targeting a new category of investors who are *"rejecting the notion that they face a binary choice between investing for maximum risk-adjusted returns or donating for social purpose"*<sup>10</sup>. The impact investment market is now at a significant turning point as it enters the mainstream and UNCDF is poised to explore the possibilities that will generate capital flows for the LDCs while ensuring that socio economic and environmental safeguards are respected.

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<sup>10</sup> Source: J.P. Morgan (2010) Impact Investments; an emerging asset class.

UNCDF will act as an “early stage” investor and incubator with the capacity to prove concept and de-risk opportunities that can later be scaled up by institutional and private sector financial partners.

Looking ahead, the expansion of UNCDF capital mandate will bring near the lines between public and private financing and will increasingly rely on new methods of financing that call for public private partnerships.

Recognizing the role of information and communication technologies as an enabling infrastructure of the 21<sup>st</sup> century, UNCDF will also fast track the use of ICT solutions to contribute to effective local development by enabling real time public financial management of scarce resources and by linking local businesses to internet based services. Building on some of UNCDF programmes in financial inclusion (Mobile Money for the Poor, MM4P, and the Better Than Cash Alliance, BTCA) UNCDF will also promote technology-driven solutions to financial access, enabling countries to leapfrog into innovative models of financial access, such as mobile banking solutions.

UNCDF’s capital mandate has played out in the LDCs at the local level, principally in rural areas. During the 2014-17 period UNCDF will look at expanding its interventions to peri-urban areas that are facing similar challenges of poor infrastructure and lack of opportunities.

While UNCDF will concentrate its own resources on the LDCs, it will work with UNDP and the larger UN system to make its expertise and knowledge available to non-LDCs when required.

UNCDF’s work will be organized around a set of three broad development objectives, which UNCDF will not reach by itself, but in partnership with a selected group of development partners, first and foremost UNDP and the UN system. UNCDF’s contribution will be specified through specific outcomes and outputs in the Results and Resources Framework. The manner in which UNCDF’s interventions in Inclusive Finance and Local Development Finance will contribute to these objectives reflects the synergies between UNCDF’s two programming areas.

The broad development objectives UNCDF will contribute to are:

- Increasing financing for basic services and sustainable and inclusive growth;
- Establishing financing mechanisms to increase resilience to economic and environmental shocks;
- Fostering policy environment conducive to sustainable financing for sustainable development.

In line with these objectives, UNCDF’s activities will place particular emphasis on specific target groups, in line with those of UNDP:

- (a) The poor and underserved populations;

- (b) Those groups who are experiencing the greatest inequalities and exclusion in terms of access to opportunities and achievement of results, especially vulnerable groups such as women and youth;
- (c) Geographically, UNCDF's work will focus on the rural and peri-urban areas.

### **1. Increasing financing for basic services and inclusive growth/local economic development**

In the area of **Inclusive Finance**, UNCDF has observed that there is a growing overlap between the development of inclusive financial sectors, access to basic services<sup>11</sup> and economic development. This overlap is reflected in three ways: first by the use of innovative distribution channels and technology (branchless banking) to digitalize social payment benefits to individuals; secondly by using increased financial inclusion for the poor to help them access basic services (i.e. sustainable energy sources, clean water etc....); and thirdly by helping financial service providers venture into new markets. UNCDF will actively pursue these three paths during the period 2014-17.

- (a) UNCDF will encourage innovations in the use of technology for development (mobile banking) and in distribution channels that could be used not only for accessing financial services like savings, credit, insurance, but also social transfers and payments from governments to persons in vulnerable groups. Through its new Making Access to Finance Possible (MAP) diagnostic tool, UNCDF will work with governments to include in their national financial inclusion strategies concrete agendas linking their social protection transfer programs to increased financial access. As the Secretariat of the Better Than Cash Alliance – an alliance of governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. – UNCDF will support a global advocacy effort to help government, private sector and development organizations to transition from cash to electronic platforms for large-scale payment streams, including in the area of social protection.
- (b) UNCDF will continue to prove concept around innovative approaches and create the basis for scalable models around specific development challenges such as youth capabilities and empowerment, food security, access to sustainable and clean energy sources etc. This approach will be applied to sectors like clean energy, aiming to transition 2 million people from costly and polluting energy sources to sustainable clean energy solutions by 2017 (figure to be confirmed). This initiative will also be closely linked to the United Nations Secretary-General initiative on Sustainable Energy for All.

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<sup>11</sup> UNCDF subscribes to UNDP's definition of basic services as the cluster of related services that deliver a minimum set of "inputs" needed by the poor to build their capabilities, access employment and livelihoods, and live in an environment that is safe and secure. For UNCDF, basic services include: social services, traditionally seen as health, nutrition, education and water and sanitation; economic services, that offer access to higher quality assets and services such as natural resources, energy, credit, insurance and social protection.

- (c) As of 2013, UNCDF supported overall more than 90 retail Financial Service Providers (FSPs) combining strong FSPs able to expand frontiers into rural areas or new product innovations, as well as young and promising institutions (tier 2 and 3) traditionally too risky for commercial or International Financial Institutions (IFI) funding, but nevertheless with potential to scale up in their own country. UNCDF has engaged with those FSPs (and in the promotion of inclusive finance in general) through 2 major modalities and will continue to do so for the period 2014-17: through *country programmes* where UNCDF supports governments and national stakeholders design and implement national financial strategies, and through *global thematic initiatives* in which UNCDF promotes specific innovative approaches/products that are tested in various countries through pilots, with the view to scale them up once the viability of those approaches has been confirmed. UNCDF will continue to deploy these two programming modalities through the implementation of the Strategic Framework 2014-17, with the objective to be present in 30 LDCs (provided it will have the necessary financial resources to do so). Through its global thematic initiatives, UNCDF has tended to work with stronger or well established financial service providers, helping them venture into new markets/products and develop innovative business models. These models can unleash considerable productive assets and economic opportunities for the poor. They can also be scaled up through leverage (measured by the ratio of UNCDF's core funding to the overall outstanding FSPs loan portfolio or savings balances). For the period 2014-17, UNCDF plans to reach at least 5 million borrowers, through its support to a range of financial service providers. At least 50% of those borrowers will be women. UNCDF commits to reach a leverage ratio on its investment (as defined above) of at least 15 times during the period of the Strategic Framework.

The UNCDF approach to **Local Development Finance** will be applied during the 2014 – 2017 period to demonstrate innovative ways of providing increased access to basic services and local infrastructure. Through its fiscal decentralization programmes UNCDF demonstrates how local level institutions can play a key role in improving and accelerating access to public goods such as health and education, to utilities such as water and energy and to necessities such as food. UNCDF supports and will continue to support central government policies for increased access to basic services at the local level.

A key feature of 2014 – 2017 will be addressing the challenge of providing local basic services in three environments. Firstly, *peri-urban areas* and localities facing rapid urban growth; secondly *rural areas* with weak institutional environments and high poverty incidence as a result of remote location, recent conflict or limited capacity; and thirdly those *local government jurisdictions* that are struggling with the challenges of a changing climate and its effect on access to services, local development and local revenues.

In all three cases, access to basic services at the local level is constrained by a combination of inappropriate and ineffective governance and shortages of infrastructure and investment. The proposed development solutions will be tailored to each case. For peri-urban areas, UNCDF is testing solutions

such as the EcoBond (in Bangladesh) and other forms of decentralized finance in Africa. For remote rural areas in cross-borders, the UNCDF Local Cross-Borders Initiative (LOBI) programme will explore how local governments on each side of the border can collaborate in providing access to basic services. Increased access to health and education is an outcome of most fiscal decentralization programmes, particularly as they demonstrate cost effective and responsive service provision that is scaled up by governments and other agencies with deeper pockets. Government to person (G2P) payments can provide part of the solution to increasing access to basic services and UNCDF will continue to explore ways to link, for example, the construction of schools with G2P scholarship schemes as in Nepal.

At the local level, inclusive and sustainable growth requires resilient local economies that include a varied mix of public sector and private sector investment and that are not over-dependent on one activity. Economic activities can contribute to inclusive local growth if they leverage and utilize other local resources, or they can be of an 'enclave' nature where the activity (e.g. a mineral mine) has little impact on the surrounding economy.

UNCDF will continue to support the efficient and effective use of public<sup>12</sup> and private finance for local economic development<sup>13</sup>. Through fiscal decentralization and the investment of own revenue, local governments can have a comparative advantage in the provision of public economic goods, such as roads, bridges, market places, irrigation and drainage systems, aqueducts, canals and storage facilities. This comparative advantage extends to a role in stimulating best practice amongst private sector contractors and to capitalizing the local economy through the contractors themselves and the employment and demand created. The local public sector is a large economic actor in many LDC localities. UNCDF will continue to increase access to productive assets and economic opportunities through local development finance. This will be extended in 2014 – 2017 to include new partner countries.

The Local Finance Initiative (LFI) is a global programme for local development finance that will work in harmony with ongoing local development programmes, to test ways of unlocking (preferably domestic) private finance for infrastructure projects as part of local economic development. In keeping with the division of labor traditionally established with the IFIs over the last four decades, UNCDF will focus on small infrastructure projects at the local level such as feeder roads, bridges, micro hydros, housing etc. UNCDF recognizes that, unlike a decade ago, LDCs economies contain capital surpluses but that these often accumulate in, for example, real estate and overseas holdings due to the perceived risk and lack of opportunities in many localities. LFI will apply a variety of investment modalities including municipal bonds, project finance, and public private partnerships. In all cases the objectives are to demonstrate how domestic private capital can work in synergy with public investments and provide a form of targeted “angel investing” in those infrastructure projects with proven local development impact.

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<sup>12</sup> UNCDF defines Public Finance the transfer of financial resources between central authorities and local governments and their utilization at local level, including the levy and use of own source revenue at the local level.

<sup>13</sup> Local Economic Development means the creation of opportunities (increased income/employment) at the local level through public or private investments.



UNCDF will provide capital where appropriate together with technical assistance in the form of feasibility studies, market research, cash flow analysis etc. In the case of municipal debt finance LFI will work with local governments and national entities to create the capacities and regulatory environment to pilot responsible municipal finance instruments such as the EcoBond piloted in Bangladesh. UNCDF can be a 'buyer of first resort' to provide confidence to this new market. This programme will be initially piloted in Bangladesh, Tanzania and Uganda and extended to five more partner countries during 2014 – 2017.

Member states are already working with UNCDF on local development programmes for food security, gender, climate resilience and economic development. The LFI global programme will combine expertise in public and private development finance to enable support for those revenue generating infrastructure projects that have an impact on these objectives. These are relatively new financing modalities for LDCs and UNCDF is leveraging its two decade experience in developing local public financial management and local public infrastructure in LDCs environments to introduce these new methods of financing local development, therefore providing a demonstration effect and building confidence for other actors.

## **2. Establishing effective financing mechanisms to increase resilience to economic and environmental shocks**

Access to basic financial services has been proven to be an effective way to reduce vulnerability and shock. Providing demand driven, flexible and secure saving services can help the poor overcome unforeseen circumstances and shocks. Micro-insurance service, applied to a range of needs (life, burial costs, health, or crop) has also proven to be an effective approach to reduce poor people's vulnerability. UNCDF will further expand access to those financial services during the period 2014-17. Specifically, UNCDF will expand its partnership with ILO for the promotion of micro-insurance within national financial inclusion strategies. Specifically, UNCDF commits to reach at least 10 million savers through its inclusive finance programmes by 2017 (at least 50% of them women).

UNCDF's contribution to reducing the impact of climate change at the local level is channeled through the UNCDF's Local Climate Adaptive Living Facility (LoCAL), which aims to provide a form of direct access for local governments to global climate finance through earmarked fiscal transfers as part of the regular local government finance system. By joining LoCAL, LDCs can help their local governments cope with the increased cost of building resilience to climate change and natural disasters. This includes support for land use planning, drainage and water management, implementing building regulations and adaptation policies (including retrofitting existing infrastructure), strengthening of roads and bridges, and where necessary the adaptation of agricultural systems.

LoCAL works by providing a mechanism that enables the mainstreaming of climate change adaptation and resilience into local government's planning and budgeting systems; increased awareness and support for the role of local government in adaptation, and; increased amount of finance available to local governments for investment in resilient infrastructure. LoCAL does this by piloting a system for the

verification of climate change expenditure at the local level and a mechanism that uses this to trigger further flows for local adaptation, including national fiscal transfers and access to global climate finance (through central government, but earmarked for the local level). LoCAL applies UNCDF's core approach to local development finance, which is to mobilize, allocate, invest and account for increased resource flows to the local level for sustainable, inclusive and equitable local development – in this case characterized by resilience to climate change. LoCAL activities have currently begun in Bangladesh, Bhutan, Cambodia, Benin, Ghana, Nepal, Mali and Mozambique. It is expected that 20 LDCs will be covered during the period 2014 – 2017.

### **3. Fostering policy environments that are conducive to sustainable financing for development**

All interventions outlined under Strategic Objectives 1 and 2 will result in financing flows and benefits for the targeted countries and regions across the LDCs. UNCDF will make strategic use of these interventions and the knowledge they will generate to help advance the policy agenda on financing for development at both national and global levels. It will do so with robust diagnostic tools and a strategic use of publications, as well as advocacy initiatives.

#### ***At the national level***

At national level, UNCDF will continue to deploy diagnostic tools and advocacy initiatives that will provide a key contribution to shaping Governments' agendas on financial inclusion and public finance systems. In the public finance sphere, UNCDF will make use of its capital mandate and flexible financing instruments to test out fiscal decentralization systems and improve public expenditure management systems at the local level. – leading to scale up by governments and larger international finance institutions like the World Bank. UNCDF's interventions at the level of policy shaping and policy making are based on an in-depth understanding of the fiscal environments and financial eco-systems that characterizes both public finance and economic development at the local level and financial inclusion for the poor. They promote a holistic approach, reaching out to a large set of stakeholders, helping to break "silos" that often impeded progress. For example, including not only central banks and ministries of finance, but also those of telecommunication and of social welfare in the policy space of financial inclusion; and linking ministries of finance, environment and local governments in the field of local climate adaptation. UNCDF's work on policy environment and market development will continue to rest on a strong multi-stakeholder process, reaching out not only to actors from the public sector, but also from the private sector and civil society. UNCDF's neutral status as a UN agency with in-depth technical expertise in finance (public and private) and its privileged relationship to governments, places it in a unique position to carry out this complex work.

***In the area of Inclusive Finance***, UNCDF policy work will encompass three major dimensions: its support to national financial inclusion strategies through UNCDF's new diagnostic and programmatic approach MAP (Making Access to Finance Possible), its thematic interventions around specific "frontier" issues (i.e. mobile money, youth, remittances, access to clean energy through microfinance etc...) and some

core cross cutting issues (i.e. client protection, gender). MAP incorporates an in-depth assessment of the offer and demand for financial services, as well as a comprehensive analysis of the supply and regulatory environments that shape financial access. MAP specifically analyzes the new drivers of financial inclusion, including the role of technology (mobile banking), innovations around distribution channels and the growing digitalization of social and welfare payment streams. It also helps countries develop national financial inclusion strategies and action plans. As a forward looking diagnostic and programmatic instrument, MAP can offer a critical contribution to countries in helping them design their own financial inclusion strategies and roadmaps. It answers the need from countries for an operational instrument to transform broad commitments on financial inclusion - under the G20, the Global Partnerships for Financial Inclusion (GPFI), the Alliance for Financial Inclusion (AFI) fora etc. - into evidence based diagnostic and concrete actions to fulfill those commitments. The MAP framework is also helping to set up environments conducive for new investments and innovations, including for the private sector that will further advance financial access.

UNCDF will moreover nurture an active policy dialogue linked to some of the “frontier” interventions it supports. For example, key policy issues related to youth finance, clean energy finance, branchless banking or remittances, will also be addressed with partners governments. This will be done using the national platforms of policy dialogue developed through the MAP process, whenever possible.

Finally, UNCDF will expand its policy dialogue agenda related to key cross cutting issues, including client protection and responsible finance, as well as gender and women empowerment.

***In the area of Local Development Finance***, during the period 2014 – 2017 UNCDF will work with member states to develop and implement a diagnostic tool combining three elements to develop a roadmap for institutional and economic growth at the local level. These are:

- A mapping of the distribution of public expenditure and of economic and social functions across a territory to identify bottlenecks and potential efficiency gains through the application of subsidiarity and fiscal decentralization, either through local governments or sector agencies.
- An assessment of the local government’s own revenue potential and existing capacities of local governments and local public institutions combined with a systematic review of their public expenditure management capacity.
- An assessment of the local economy, employment, growth patterns and capital availability, with a focus on the public and private infrastructure gaps.

This diagnostic tool is innovative because it not only provides a basis for programming specific responses to local development challenges but because it simultaneously enables the identification of potential resources that can be applied to meet those challenges, from domestic private and public capital as well as from international ODA and private funds. These include fiscal decentralization solutions, project finance and increases in own revenue and new ways for LDC local governments to attract capital such as

bond issues and public private partnerships. It will enable the private sector to better understand how specific projects fit into the jigsaw of local development.

### ***At the global level***

As a leading agency in development finance and through the country level interventions described above, UNCDF accumulates a significant 'knowledge-capital'. This knowledge is considered as a public good, as knowledge that governments and development practitioners from around the globe should be able to access, debate and use.

During 2014-2017 UNCDF will continue to invest resources in codifying and sharing internally and externally the knowledge that is generated via its programmes and projects so that it can contribute to advance the global agenda. UNCDF will further strengthen the processes it has put in place in the period 2010-2013 so that high-quality material and knowledge will emerge and be published. UNCDF advocacy initiatives and publications will be carefully planned to contribute to the post-2015 agenda and to the intergovernmental and inter-agency processes feeding the Financing for Development discussions. They will offer robust evidence for advocacy purposes on the role that smart local development policies and financial inclusion can play in fostering sustainable and inclusive growth. An increasing number of strong partnerships with other UN agencies and international organizations such as the OECD and the World Bank will allow UNCDF to maximize the impact of its advocacy and knowledge-sharing initiative and produce sizeable influence on the global policy debates. ICTs will be fully exploited to foster the dissemination and amplify UNCDF's advocacy efforts.

***In the area of Inclusive Finance***, as an important part of its global advocacy agenda, UNCDF will continue to support global advocacy by supporting the Secretariat of Her Majesty Queen Máxima of the Netherlands as the UN Secretary-General's Special Advocate (UNSGSA) for Inclusive Finance for Development, and hosting the Secretariat of the Better Than Cash Alliance (BTCA). BTCA – an alliance of governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc.– will continue to give UNCDF a strong stake on a key agenda that is driving financial inclusion: transitioning from cash to electronic platforms by leveraging innovation around technology. This agenda will be further expanded during 2014-17 and will be closely articulated with UNCDF's programming at country level. Synergies between BTCA and UNCDF's financial inclusion strategy will be developed in several ways:

- (i) by promoting BTCA's agenda in countries where UNCDF has MAP programming and on-going global thematic initiatives (i.e. MM4P);
- (ii) giving policy makers from LDCs a voice in the agenda forwarded by BTCA (i.e. share experiences; make a commitment to the BTCA agenda); and (iii) encourage South-South cooperation between LDCs where UNCDF is present and the lead Southern non-LDCs involved in the BTCA agenda (i.e. Kenya, Philippines etc.). This will provide UNCDF with a solid foundation to articulate its relevance, value proposition and impact, vis-à-vis its donors /

fundings. It also confirms the alignment of this recent growth with UNCDF’s strategic priorities and its position within the rapidly evolving paradigm of financial inclusion.

***In the area of Local Development Finance***, UNCDF will continue to play an active role in helping to advance the global agenda on the importance of local governments and local finance systems. UNCDF recognizes that growing territorial inequality have called into question the effectiveness of top-down, sector-specific policies. As clearly evidenced by many experiences from both developed and developing countries, ‘spatially-blind’ policy approaches have often failed to develop balanced, diversified rural and urban economies. In this context, a number of national governments are now considering moving past top-down policies towards a smarter, ‘localized’ approach to development and MDGs acceleration. A strong consensus is emerging across both developed and developing countries, that a new policy approach is needed, one that builds on local knowledge to tailor public policy to specific circumstances. This should allow the provision of public goods, when they are needed and where they are needed, in an integrated fashion. This logic is behind increasing efforts to ‘localize the MDGs’, and attack poverty traps via deliberate, place-based strategies. This approach is also guiding local development strategies that seek to harness endogenous potential and exploit opportunities for economic diversification and development. Finally, a place-based approach is increasingly adopted to drive policy responses to climate change that has significant – and territorially asymmetric – impact across developing countries. In this context, UNCDF will continue to actively advocate for a more prominent role of local governments and for better funded local development responses to global challenges. It will do so by engaging and contributing to all key fora discussing the ‘local’ dimension of development and development finance. This will include further strengthening relations with the Development Partners Working Group on Decentralization and Local Governance (DeLOG); the United Cities and Local Governments (UCLG); and the Local Governments for Sustainability (ICLEI).

### **III. Partnerships**

The vast majority of UNCDF’s interventions will be designed and delivered in partnership with carefully selected development partners, both public and private (profit and non-profit) who share UNCDF’s vision and development objectives with a view to maximize development results. In the 2014-17 period special emphasis will be put on building strategic and innovative partnerships with the following development partners.

#### **1. With UNDP**

As articulated in the UNDP Strategic Plan, UNDP will rely upon UNCDF’s financial mandate in specific areas of shared focus in LDCs. The main opportunities for stronger links fall into six main clusters: analysis using UNCDF’s diagnostic tools, local development initiatives, inclusive financial services, energy

access for the poor, local level responses to climate change and delivery mechanisms for social protection schemes.

On this basis, the two organizations are currently working together to determine the process, scope and scale of their cooperation for the period 2014-2017.

## **2. With the UN System**

UNCDF will further strengthen its partnership with the UN system, with the objective to “Deliver As One” and enhance the impact of coordinated UN agencies interventions in support to national policies and interventions. UNCDF will continue to work closely with UNDP through joint programmes at country level on both programming areas.

As LDCs are the partner of choice of UNCDF, it will reinforce the collaboration with the UN Office of the High Representative for LDCs, Landlocked Developing and Small Island States (UN-OHRLS), as well as with the Chair of the LDC Group. UNCDF will also promote closer links with UN agencies that are focusing on post conflict/disaster.

In the area of inclusive finance, UNCDF will scale up a number of existing partnerships with other UN agencies in the four following areas:

- (i) UNCDF will expand its cooperation with IFAD and FAO in the area of rural/agriculture finance, by developing joint diagnostic and programming tools for country level programming;
- (ii) It will expand its cooperation with ILO to promote micro-insurance in the context of national financial inclusion strategies;
- (iii) It will develop a close cooperation with agencies like UNDP, WFP, and the UN Secretariat helping them to transition large scale payment streams from cash to electronic platforms (in the context of the BTCA agenda);
- (iv) it will further develop an active UN inter-agency dialogue and cooperation on financial inclusion.

## **3. With International Financial Institutions (IFIs) and Development Finance Institutions (DFIs)**

Its uniquely flexible investment mandate and deep sector expertise positions UNCDF in the aid architecture as an early stage investor and incubator with the capacity to prove concept and de-risk opportunities that can later be scaled up by institutional financial partners, such as the World Bank, the regional development banks and also bilateral development finance institutions. In recent years, the replication and scaling up of UNCDF’s work by IFIs has become both more frequent and more deliberate.

Going forward UNCDF will engage proactively and strategically with IFIs at country and global levels to maximize the likelihood of successful leverage and scaling-up of UNCDF interventions. More of UNCDF's inclusive finance and local development finance interventions will be deliberately designed, preferably in partnership with IFIs, to be scaled up by subsequent IFI interventions at sector-wide or national scale. Furthermore, in applying its investment mandate at the local level, UNCDF will be deliberate in targeting the unblocking of the domestic financial sector and other domestic resources. This in turn will again facilitate for IFIs and other private and public investors to engage through domestic financial actors to scale up domestic resource mobilization and deepen the domestic financial sector.

#### **4. With the Private Sector and Foundations**

UNCDF will step-up its capacity to provide pre-investment support, including technical assistance, and seed capital for de-risking investment opportunities of interest to, in particular, domestic private sector investors. In the same spirit, UNCDF will engage with private sector investment partners at global level, including impact investors and private foundations, who share UNCDF's mission to support LDCs in achieving the MDGs and other internationally agreed development goals; and who have the same dual concern for economic viability of programmes and impact on social and environmental front while also seeking a financial return (but not necessarily maximized profit). To this end, UNCDF will explore the establishment of an investment fund with the purpose of bringing to scale strategic investment opportunities primarily originating from UNCDF's portfolio and/or pipeline-generating capacity (by providing pre-investment and seed capital support). Hereby, UNCDF will continue to focus on smaller and/or more risky bankable projects, institutions and firms that have the potential to unlock local value chains and/or provide crucial services to poor families and small and medium enterprises, while also generating adequate levels of financial returns. UNCDF will develop a comprehensive strategy of involvement with the private sector and foundations will be developed, building-in safeguards developed by the United Nations System and by UNDP.

#### **5. With Regional Institutions**

UNCDF's interventions are supporting a number of regional development institutions and dynamics linked to regional integration agendas, in both programming areas. UNCDF will further expand this cooperation with regional institutions through the period 2014-17.

In its Inclusive Finance programming area, UNCDF will develop strong cooperation agendas with three regional institutions: with the Association of Southeast Asian Nations (ASEAN) for developing a regional strategy for accelerating the graduation from LDC status of some of their members; with the Central Bank of West African States (BCEAO) for helping them develop their regional financial strategy and with the Southern African Development Community (SADC) for the promotion of financial inclusion from a regional perspective (i.e. linked with specific issues like cross border services and remittances).

In the area of Local Development Finance, UNCDF has developed a strong partnership with regional institutions, especially with the West Africa's ones such as the West Africa Monetary and Economic Union (also known by its French acronym, UEMOA), the Economic Community of West African States (ECOWAS) and the West African Development Bank (AfDB). The objective of these partnerships is to strengthen regional integration through local development and with local governments. UNCDF has supported original regional initiatives such as the West African Economic and Monetary Union and the Economic Community Of West African States (ECOWAS) in order to increase the role of local government in the regional integration process. In order to improve access to services and local economic development in these sensitive and high potential areas, a specific emphasize has been put on the cross-border and remote areas.

## **6. South-South and Triangular Cooperation**

Similar to UNDP, UNCDF will aim to sustain and expand South-South and triangular cooperation that maximizes mutual benefits, in in the following manner:

- (i) facilitating technology and knowledge transfers between and towards the LDCs UNCDF works in;
- (ii) fostering cross border initiatives and programmes (such as the ongoing LOBI programme in West Africa) that will have multiplying effects for the countries concerned;
- (iii) strengthening partnerships with regional institutions for harmonization of policies and practices (e.g. BCEAO, UEMOA, ECOWAS, SADC);
- (iv) facilitating capacity building initiatives between Northern-based institutions and LDCs, such as with the Hague Academy and the Swedish-based International Center for Local Democracy (ICLD);
- (v) strengthening the partnerships with Local Governments to disseminate lessons learned through peer to peer exchanges.

UNCDF will continue to work closely with the United Nations Office for South-South Cooperation (UNOSSC) providing them with relevant information and knowledge on the results of its initiatives in the LDCs.

## **IV. Institutional Effectiveness**

The institutional effectiveness of UNCDF will be measured against the vision, the mission and the objectives expressed in the present Strategic Framework, as well as against the Results and Resources Framework attached to it.



## **1. Accountability for Results**

UNCDF will continue to put strong emphasis on the quality of its programming, on transparency and the accountability for results at various levels in the organization.

In 2012, UNCDF reworked the results chain of its two programme areas in order to clarify the correlation between the organization's interventions and the development results they seek to influence. The results chain will be reviewed on a regular basis during the period 2014-2017 to ensure its continued relevance to the programmes being implemented. In addition, the accountability of the various units and staff in the organization is being redefined and will be clearly articulated in the planning documents that will cascade from this strategic framework. More specifically, each programme area – Local Development Finance and Inclusive Finance – will produce four year Business Plans that will be declined at the regional level and country level with regional and country plans. Implementation of these plans will be monitored on a continuous basis with formal quarterly reporting. Focus will be given to the way UNCDF's programmes have incorporated the gender dimension and the results observed. UNCDF will also report on the mainstreaming of gender in its operations under System-Wide Action Plan on Gender Equality and the Empowerment of Women (SWAP). UNCDF programming will incorporate UNDP's social and environmental safeguards.

The Strategic Framework will be reviewed on a continuous basis to ensure that appropriate adjustments in terms of approaches and resources when needed. There will be a formal review mid-way through its implementation and an independent evaluation will be carried out at the end of the period to coincide with the timing of UNDP's strategic plan mid-term review and independent evaluation.

Moreover, as the technical nature of UNCDF places a high value on knowledge, UNCDF will continue to focus on learning and knowledge management, covering issues such as:

- (a) clear targets for what useful data is not yet being captured;
- (b) better data collection;
- (c) more effective ways of turning data into knowledge;
- (d) more strategic communications on knowledge products with and amongst regional offices;
- (e) Improved institutional knowledge-sharing/best practices to develop a shared UNCDF understanding on a given topic.

The results of evaluations will continue to inform programming and organizational performance, building on a major effort started in 2011.

## **2. Organizing Financial and Human Resources to maximize results**

Increasingly, UNCDF is aware of the direct link between development results and financial and human resource inputs and the need to manage both efficiently to maximize development results that are sought.

**Financial Resources:** For the past few years, UNCDF has been operating in an environment of increasing non-core resources and stagnating core resources. While the organization has adjusted to this new trend and adjusted its cost structure to better respond to the new reality, there is clearly now an imbalance between its core budget and its non-core contributions that must be addressed if programming and project implementation in the LDCs are to remain at least at 2012 levels and if the ambitions of this Strategic Framework are to be realized. The implementation of the Strategic Framework will therefore only be possible only if UNCDF is able to secure its core funding structure to the minimum level of an estimated US\$ 25 million per year.

The Stakeholders Consultations process on scenarios for UNCDF's future, decided by the UNDP/UNFPA/UNOPS Executive Board in decision 2012/12, has allowed for discussions of the increasing pressure on the UNCDF core budget in an informal setting. On previous occasions, UNCDF has had the opportunity to attract the UNDP/UNFPA/UNOPS Executive Board's attention to the documented fact that only an annual core budget of US\$ 25 million will allow the agency to maintain the current level of its interventions in 37 of the 49 LDCs. However, the UNCDF annual core budget (excluding occasional contributions by UNDP) has remained below the minimum level required to sustain UNCDF's technical presence in 40 LDCs and investment capacity in 40 LDCs. Over the same period, due to very effective fundraising with important philanthropic foundations, the annual non-core contributions to UNCDF have more than tripled. However, with core reserves depleted and core income remaining below the minimum level required to sustain UNCDF's technical presence and investment capacity, the strong leverage of non-core resources and follow-on investments, that UNCDF has delivered in the past 5 years may be at risk.

During the Stakeholders Consultations, UNCDF was encouraged to engage with private foundations and private sector non-core contributors to negotiate a higher percentage of cost recovery, notably on the basis of the UNDP/UNFPA/UNOPS Executive Board's recent endorsement of a harmonized cost-recovery rate of 8 per cent for non-core contributions - that will be reviewed in 2016, with the possibility of increasing the rate if it is not consistent with the principle of full cost recovery. Calculations have shown that an increased cost recovery rate to 8% or even 10% will not be enough to resolve the issue UNCDF is facing. In addition to this measure, the organization has already and will continue to optimize its cost structure to alleviate pressure on the core. Already, the operational reserve has been reviewed downwards to release some resources for programming; staff costs have been shifted to development effectiveness and to non-core funding and a structural review is underway to identify potential staff cuts and maximize efficiency. It is anticipated however that these measures will not compensate for a lack of minimum core funding.

**Human Resources:** A talented and committed staff is one of UNCDF's greatest assets. Effective management of the work force will remain a key concern in UNCDF. At the same time, given the evolving context in which UNCDF is working, there will be a need to develop new competencies. UNCDF will also review structures throughout the organization.

In keeping with its financial mandate and the need to increase diversified sources of investment capital to the LDCs, the organization will strengthen its internal capacity in investment finance and public finance through re-training and strategic in-take of new profiles. The functions in the organization will be reviewed to maximize effectiveness and efficiency, with special focus on regional and country where the development results are achieved. The use of new communications technologies will be encouraged in order to reduce costs and maximize sharing of information between the three levels of the organization.

Changes in the work force will take into account professional aspirations of existing staff. UNCDF will strengthen learning and training opportunities in line with the objectives of the organization (Headquarters, Regional Office, and Country Offices).

### **3. Communications**

An effective communications strategy will help UNCDF achieve both its development and its business objectives, globally, regionally and at the country level. With the understanding that communication activities do not exist in a vacuum, UNCDF 2014-2017 strategy takes into account the larger context in which UNCDF operates, including:

- (i) the roles, responsibilities, and comparative advantages within the UN system, and that of civil society and private sector entities, particularly in view of ever scarcer ODA funding;
- (ii) the post-2015 development agenda; and
- (iii) UNCDF's unique combination of seed capital, policy advice and technical assistance, which may present new opportunities in maintaining a distinct identity in a competitive marketplace.

Mindful of this context and within the overall framework of the results it is striving to generate in the period 2014-2017, UNCDF will strengthen external communications through new web-based tools, events, publications, and social media tools and initiatives.

Focus will also be given to strengthening internal communications in support of corporate initiatives as staff understanding, buy-in and active support of initiatives come through effective top-down, bottom-up and peer-to-peer communications. To this effect, the organization will make increased use of appropriate technologies, especially network, dashboard and survey tools – using existing platforms available in UNDP with customization to address the specific needs of UNCDF.