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United Nations Capital Development Fund

Report on results achieved by UNCDF in 2022

Executive summary

This report presents the annual review of results achieved by the United Nations Capital Development Fund (UNCDF) in 2022. It examines progress made in achieving three outcome areas of the strategic framework, 2022-2025: (a) accelerated, inclusive, diversified, green economic transformation; (b) increased flows of public and private finance; and (c) strengthened market systems and enhanced public and private financing mechanisms. Analysis of UNCDF institutional effectiveness and summary of key evaluation findings are also presented.

Elements of a decision

The Executive Board may wish to: (a) take note of the report; (b) commend progress made by UNCDF in implementing its strategic framework, 2022-2025; (c) emphasize the critical role of UNCDF in delivering innovative and blended financing solutions to support least developed countries to deliver on the Doha Programme of Action and 2030 Agenda; (d) encourage the broader United Nations development system to engage with UNCDF and benefit from its financing capabilities; and (e) recommit to supporting UNCDF, including fully funding, as a minimum, base growth resource requirements in accordance with the strategic framework for 2022-2025 of \$25 million per year in regular resources and \$125 million in other resources.



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I. Contextual analysis

1. The status of least developed countries (LDCs) remains challenging. The war in Ukraine contributed to heightened disruptions in food and energy markets, hitting LDCs particularly hard, while climate change is increasing the frequency and severity of natural hazards and exacerbating existing vulnerabilities. Inflation has soared, with rising interest rates following suit, making the cost of capital unaffordable for many borrowers in LDCs and raising liquidity concerns as foreign lenders pull out of riskier markets. The business environment for small and medium-sized enterprises became exceedingly difficult in 2022.

2. The 46 LDCs face structural impediments and need greater stability and access to financial and technical resources to protect lives and accelerate inclusive and sustainable economic development. Projected growth of 4.4 per cent in 2023 remains far below the seven per cent target identified in Sustainable Development Goal 8.1, which is required to achieve significant poverty reduction. The lack of productive capacity, limited fiscal space and macroeconomic disparities may limit LDCs to make progress on the Sustainable Development Goals (SDGs).¹

3. Debt distress is a major challenge with 22 LDCs at high risk of debt distress. LDCs continue to rely heavily on other external financial flows, with official development assistance and remittances the primary sources of financing.²

4. LDCs are vulnerable to climate change due to their economies being highly dependent on climate-sensitive sectors. Climate finance for least developed countries were far behind the targets set at the 26th United Nations Climate Change Conference of the Parties. In 2021, LDCs accounted for 22 per cent of countries with the most recurring appeals against extreme weather crises, with an economic cost estimated at \$329 billion United States dollars globally.³ This valuation accounted for almost double the total levels of development assistance provided in that year alone.⁴

5. With new capabilities, financing instruments and partnerships, UNCDF has now built a track record of de-risking investments and attracting finance for climate resilient economic development in LDCs. With systems in place to operationalize its capital mandate, UNCDF learned several important lessons, notably how to optimize business processes, strengthen risk functions, enhance the performance of its investment portfolio, and assess development impact.

6. UNCDF experienced a growing trend in revenue from other (non-core) resources, which increased by 28 per cent from \$122.5 million in 2021 to \$156.9 million in 2022. At the same time, UNCDF regular resources declined by 7.5 per cent since 2021 to \$13.6 million, making up 8 per cent of total revenues in 2022 compared with 10.7 per cent in 2021. The trend in declining regular resources is expected to continue in 2023. Within this context and given the critical role of regular resources in enabling UNCDF to implement its strategic framework, 2022–2025, and provide the required levels of oversight, UNCDF management requested a comprehensive audit and a review of the organization in 2022.

¹ United Nations Department of Economic and Social Affairs (DESA), World Economic Situation and Prospects, 2023.

² World Investment Report 2022.

³ United Nations Conference on Trade and Development 2022 LDC Report.

⁴ Carty, T., & Walsh, L. (2022). *Footing the bill: Fair finance for loss and damage in an era of escalating climate impacts*. Oxfam Briefing Paper (June). Oxford.

II. UNCDF performance and highlights

A. UNCDF achievements

7. The UNCDF strategic framework for the period 2022-2025 established that UNCDF would support LDCs to achieve three linked strategic development outcomes: (a) accelerate inclusive, diversified, green economic transformation; (b) catalyse additional private and public flows of capital; and (c) strengthen market systems and financing mechanisms.

8. UNCDF does this by deploying a combination of financial instruments, financial advisory services and development expertise across five priority areas: The two well-established flagship areas of: (a) inclusive digital economies; and (b) local transformative finance; and in the emerging areas of (c) women's economic empowerment; (d) climate, energy and biodiversity finance; and (e) sustainable food systems finance.

9. UNCDF continues to operate in last mile territories where few others are present, designing, testing and helping scale up financing solutions targeted at underserved households, micro, small and medium-size enterprises (MSMEs) and local governments.

10. UNCDF began implementation on its new strategic framework in 2022. Despite a volatile global context, the organization stepped up assistance to make quantifiable differences in people's lives. The experience of collecting the results presented in this report identified the need to work on the refinement of indicators of performance to ensure they are specific, measurable, achievable, relevant and time-bound (SMART). This will be the task of a refined integrated results and resources matrix in 2023.

11. To contribute to inclusive and green economic transformation and diversification, UNCDF supported the development and scaling of more than 220 digital and financial products and services and supported 367 local investments in climate resilient infrastructure that reached more than 440,000 MSMEs and 18 million people. Moreover, UNCDF contributed to the creation of 165,000 jobs in sustainable food systems, infrastructure works, digital economy, and clean energy.

12. UNCDF boosted its role as the "United Nations catalytic financing entity for the LDCs". It issued a total of \$44 million in catalytic grants, loans and guarantees in 2022 with the explicit aim of catalysing additional flows of capital in support of UNCDF strategic priority areas. Overall, UNCDF helped catalyse more than \$600 million in additional public and private investment capital for sustainable development through its investments and technical assistance, including resources raised for externally managed blended finance investment funds that UNCDF established and supports: the BUILD Fund, International Municipal Investment Fund, and Global Fund for Coral Reefs.

13. The organization had a record year of total resource contributions, amounting to \$170.5 million and an all-time high of \$118.2 million in expenditures.

Results against Outcome 1 – Accelerate inclusive, diversified, green economic transformation

14. To contribute to inclusive and green economies, UNCDF provides financing and development solutions across five priority areas. It contributes to increased availability of digital and financial products and services, as well as resilient infrastructure and services to create benefits for individuals and MSMEs at the local level and in the last mile.

Inclusive digital economies

15. UNCDF equips people to use digital services in their daily lives by addressing market-system constraints, gender inequalities and engaging the private sector to develop innovative solutions that enable transition towards more inclusive, green and productive economies. In 2022, UNCDF in this priority area supported the piloting of 140 digital and financial services and scaled up 90 services to reach 6.7 million people and 440,000 target MSMEs. 2.5 million people received training on digital and financial skills.
16. UNCDF developed the inclusive digital economies scorecard to guide Member States on how to pursue and monitor digital economy transformation. Implemented in 31 countries across Africa, Asia and the Pacific, the scorecard identifies market constraints that hinder the development of an inclusive digital economy and helps governments and private partners set priorities. The Ministry of Technology and Science in Zambia, for example, used the scorecard to set long-term priorities aligned with the national development plan on digital transformation and in drafting the first national digital economy strategy.
17. With support from the European Union and Africa, Caribbean and Pacific Group of States, UNCDF also established national working groups on digital financial services in Ethiopia, Malawi, and Niger. These serve as platforms for public-private dialogue to spur and inform inclusive digital transformation.
18. Beyond supporting countries to utilize the scorecard, UNCDF assisted in developing or strengthening 30 strategies, policies or regulations to create an enabling environment for digital and financial inclusion; 23 were adopted in 2022.
19. Under its remittances and migration programme, UNCDF deepened engagement with central banks and line ministries across Africa to advance regional harmonization for remittance policies and improve the open digital payments ecosystem that makes cross-border payments more accessible and affordable. In Ethiopia, UNCDF supported the policy directive on the establishment and operation of foreign currency saving accounts, which resulted in the mobilization of \$48.1 million in 2022. The total domestic resources mobilized since the policy directive began in 2021 is \$134.6 million. Foreign currency deposits were made in 46,887 accounts across 20 banks.
20. In Ethiopia, the UNCDF hosted Better than Cash Alliance facilitated the drafting of the National Digital Payments Strategy, 2021-2024, which is a roadmap for transforming the payment ecosystem and closing the financial inclusion gender gap in the country. The Alliance deployed experts to help implement the strategy, which contributed to the opening of more than 20 million new mobile money accounts.
21. In Uganda, UNCDF continued to work with the Ministry of Information and Communication Technology to convene a digital transformation multistakeholder working group to review the Digital Uganda Vision. With the Ministry of Local Government and mayors of ten newly formed cities, UNCDF supported development of an e-governance strategy for more efficient delivery of quality public services.
22. UNCDF also supported the development of 13 national financial inclusion strategies in Africa and Asia Pacific and advised on a new regional financial inclusion strategy for the Economic and Monetary Community of Central Africa. In the Pacific, UNCDF support to Fiji, Tonga and Solomon Islands assisted in the design and implementation of National Financial Inclusion Strategies, helping ensure digital finance and disaster risk financing and insurance were prioritized.
23. To boost private sector innovation, UNCDF worked with fintech firms, financial service providers and other entrepreneurs to develop and pilot digital finance and other digital solutions to accelerate sustainable development.

24. Since 2020, UNCDF supported the development of 14 new digital remittances services to increase access to, and lower costs of, money transfers. In the first three quarters of 2022, 51,555 new customers were onboarded to these services. To date, a total of 580,000 customers have registered and more than three million transactions worth over \$1 billion have been made since the start of the programme.

25. With Visa and other partners in Bangladesh, UNCDF developed training modules for digital financial literacy for small and micro-businesses to connect with digital marketplaces. The project reached more than 200,000 businesses, 25 per cent of which are women-led.

26. To support sustainable recovery from COVID-19 for small businesses in Nepal, UNCDF facilitated the onboarding of more than 4,000 MSMEs (65 per cent women-led) to e-commerce platforms and trained more than 2,600 MSMEs (77 per cent women-led) on digital and financial skills. In total, UNCDF support in Nepal benefitted more than 19,000 businesses in 2022.

27. In partnership with the Bill and Melinda Gates Foundation, UNCDF in Myanmar is developing an industry-governed open-source payment platform, WynePay. It was designed to expand financial inclusion by offering incentives for financial services providers, individuals, and small businesses to use electronic payments. Over 30 financial service providers have joined. When the platform goes live in 2023, upwards of 2 million people (80 per cent women) will be able to make and receive faster, cheaper and safer digital payments.

28. In Uganda, UNCDF trained 1.7 million people to improve their digital and financial skills and made 19 investments to support the development and delivery of innovative digital services that 1.1 million people and over 29,000 small businesses engaged with. Moreover, UNCDF supported the digitization of school fee payments by setting up the 'school pay' digital system. To date, 423 schools have registered, and 250,000 parents pay fees through the platform. For better healthcare delivery in last mile territories, UNCDF piloted a digitalization model for 400 Village Health Teams to easily share records with different health facilities.

29. In the Pacific, UNCDF and United Nations partners supported e-commerce and e-payment initiatives, including the development of a national e-commerce strategy in the Solomon Islands, the digitization of government services in Vanuatu, and piloting five e-commerce projects for MSMEs in Fiji, Solomon Islands, Tonga, and Vanuatu.

Local transformative finance

30. UNCDF serves as a subnational financing hub to support national, regional and local governments, cities, and agencies in designing, testing and scaling up mechanisms for subnational finance in support of urban, green and productive transitions. It focuses on advancing five elements of subnational financing: Intergovernmental fiscal transfers, own source revenues, domestic capital markets, city-friendly investment funds, and guarantee instruments. These five elements are also reflected in other UNCDF emerging areas of work.

31. In 2022, UNCDF released its flagship publication, *Local Government Finance is Development Finance*, that examines how policy reforms in subnational finance can unlock significant flows of capital for local sustainable development. UNCDF was also primarily behind the data collection and analysis of local government finance in the face of multiple crises in LDCs for the third edition of the World Observatory on Subnational Government Finance and Investment report, launched in 2022.

32. UNCDF supported 367 small and medium-size local infrastructure investments and more than 200 such projects were brought to completion in 2022. Nearly half were designed to benefit women's economic empowerment and a majority also focused on building climate resilience. More than eight million people engaged with related infrastructure and services and, in total, UNCDF supported 430 local governments in increasing local fiscal space and 24 countries to strengthen intergovernmental fiscal transfer systems to local governments.

33. In Somalia, UNCDF intensified support of local governments to build a solid infrastructure base for sustainable service delivery, improve local revenue generation and strengthen the national fiscal transfer mechanism. Through the Local Development Fund, UNCDF disbursed \$5.2 million in performance-based grants for 81 infrastructure projects in 36 local governments across Somalia. Evidence shows marked improvement in government delivery of services and own source revenue generation, especially in Somaliland and Puntland where governments adopted UNCDF-supported mechanisms for intergovernmental fiscal transfers.
34. To promote domestic capital market reform, the Ministry of Finance and Planning in Tanzania requested UNCDF support the Tanga Water Authority in issuing a subnational bond. Once issued, it will be the first local currency infrastructure bond, and with green bond status. The project is projected to benefit over 410,000 people by enhancing water extraction, treatment, and distribution capacities for the residents of Tanga and nearby townships. Upon completion, water production capacity is expected to double with adequate supplies ensured for households, commercial, and institutional customers.
35. UNCDF, United Cities and Local Governments, and Global Fund for Cities Development established the International Municipal Investment Fund – a city-friendly investment initiative to support transformative investments that build resilience and productivity. The equity approach of the fund mitigates against rising borrowing costs and LDC debt levels. UNCDF manages the technical assistance facility for this fund and capitalization closed at 150 million euro in 2022, including commercial and first loss capital. First investments are expected in Mauritania, Belize, Gambia, Uganda and Ghana.
36. Another UNCDF city-friendly investment is the green public lighting system in Chefchaouen, Morocco. This zero per cent loan rate investment is comprised of a \$200,000 grant and \$400,000 reimbursable financing agreement to support an innovative model that relies on electricity bill saving, generated through improvements to the public lighting system, for repaying the principal. The objective is to pilot a model that can be replicated in other cities through a revolving fund.
37. UNCDF supported the city of Kumasi, Ghana on ways of funding a comprehensive portfolio of investments through equity and debt. The purpose is to accelerate the environmentally sustainable transformation of Ghana's second city through rapid transit, alleviation of congestion, and local economic development hubs, including for the orange economy. Included is UNCDF support to structure a potential revenue bond and secure a partial guarantee, which is part of a joint sustainable cities offering with the United Nations Human Settlements Programme (UN-Habitat).
38. Regarding city-friendly guarantees, UNCDF received a positive opinion from the European Commission to manage the 154 million euro Guarantee Facility for Sustainable Cities as part of the European Fund for Sustainable Development. The Facility will help resolve barriers to structural transformation in LDCs. UN-Habitat will join UNCDF on the facility Advisory Council.

Financing women's economic empowerment

39. UNCDF works to narrow finance gaps that limit women's opportunities for economic advancement and empowerment. The organization addresses market, infrastructure and enabling environment constraints for women's access to services and develops tailored financing solutions that target women and women-led businesses.
40. Since 2018, UNCDF invested more than \$3.3 million in grant and loan funding in 38 gender-responsive local transformation projects, including 11 infrastructure projects that benefited municipalities and women enterprises in Tanzania, Uganda, Bangladesh, Mali and Senegal. These gender-responsive initiatives led to new job creation and increases in income for 40,000 women.
41. To address growing income inequality in cities, the UNCDF IncluCity project established five water reservoirs with solar lighting in Mbale City, Uganda, providing greater security for women and children by enhancing their resilience to climate change. In Senegal, UNCDF deployed a \$90,000 grant

to the municipality of Soumbédioune to renovate its local fish market, improving working conditions and economic opportunities for female vendors.

42. In partnership with the International Labour Organization and Freetown City Council, UNCDF engaged with women groups, community members and local government to identify sites for the construction of 65 water kiosks with solar-power purification systems. Water kiosks will help address security and access challenges for women and girls, who carry the responsibility for fetching water. In parallel, UNCDF supported the formation of water-related gender-based violence network for survivors that feeds into community-led conflict resolution mechanisms and water management plans.

43. In Sierra Leone, UNCDF trained more than 10,000 entrepreneurs (92 per cent women) in business development skills and financial literacy. As a result, 3,500 of businesses formalized operations and more than 1,000 applied for loans from local financial institutions. In the Gambia, UNCDF and partners reached more than 30,000 women with tailored digital financial products and services, and financial literacy training.

44. In Myanmar, UNCDF provided technical support to increase the resilience of 11 microfinance institutions that serve over 225,000 clients. Six institutions were also supported in developing new individual loan products primarily targeting women, including in remote areas. In partnership with UN-Women and UNDP, UNCDF provided targeted technical assistance to 50 women-led enterprises to help them access financing from local financial service providers.

45. In Cambodia, Viet Nam, India, Sri Lanka and Indonesia, UNCDF supported more than 196,000 small businesses (81 per cent women-led) in using digital solutions, which provided them access to more than \$40 million in financing. In partnership with the United Nations Economic and Social Commission for Asia and the Pacific, Visa and the Dutch entrepreneurial development bank FMO, UNCDF provided a grant to Boost Capital in Cambodia for launching a digital microfinance platform where women-led businesses can apply for, and receive, online digital loans within minutes. The platform has a built-in financial education module. Boost Capital reaches 100,000 businesses and disbursed \$1.7 million in loans to 1,715 of these businesses and trained over 21,000 Cambodians (84 per cent women) on basic financial literacy skills.

Climate, clean energy and biodiversity finance

46. The Local Climate Adaptive Living Facility (LoCAL) deploys intergovernmental fiscal transfers to establish a standardized and internationally recognized country-based mechanism for accessing and channelling climate finance to local governments and their communities. LoCAL provides a ‘whole of society’ approach to financing and promoting locally led adaptation. It is currently being implemented or designed for implementation in 34 countries across Africa, Asia, the Caribbean, and Pacific. LoCAL is referenced in the Doha Programme of Action for LDCs and presented by various negotiation groups at the United Nations Framework Convention on Climate Change as an existing non-market approach under article 6.8 of the Paris Agreement. The International Standard Organization (ISO) 14093:2022, “Mechanism for financing local adaptation to climate change – performance-based climate resilience grants – Requirements and guidelines,” further establishes LoCAL as a standard for the delivery of climate finance and related assistance at the local level.

47. To date, LoCAL engaged 332 local government authorities and a combined population of 15.6 million people with small-scale investments for enhancing resilience to the effects of climate change. In 2022, LoCAL delivered \$21.2 million in all programme regions and countries. In Mozambique, \$2.97 million of climate resilient infrastructure was delivered in three provinces, and twenty-eight climate-proofed water, sanitation, education and health facilities were built to provide reliable access to services for 665,000 people in climate disaster affected areas. In the Gambia, 34 adaptation investments were delivered in 32 wards for \$720,000 and included solar-powered boreholes; integrated horticulture gardens; poultry and animal husbandry; tree nurseries, and climate-

proofed road infrastructure. LoCAL investments implemented through cash-for-work schemes created 5,086 temporary jobs: 26 per cent filled by adult women and 76 per cent by youth.

48. The UNCDF Pacific Insurance and Climate Adaption Programme successfully rolled out 15 new and improved digital climate and disaster risk financing and insurance products in Fiji, Tonga and Vanuatu and digitally registered 5,287 clients, where more than half were women. Coverage under these insurance products ensures financial protection for the most vulnerable. Pay-outs are disbursed through mobile money wallets and do not require loss or damage assessments.

49. UNCDF promotes access to finance across clean energy value chains, from customer to enterprise to larger investments, with the aim of scaling access to clean energy for low-income households. In 2022, the UNCDF portfolio of clean energy companies sold over 86,000 energy products that serve 420,000 people. Since the launch of programme activities in Uganda, Ethiopia, Burkina Faso, and the Democratic Republic of Congo, UNCDF supported companies sold 1.9 million energy products that serve 9.5 million people and offset two million tonnes of CO².

50. In Uganda, the UNCDF Renewable Energy Challenge Fund portfolio of companies sold over 23,000 cooking and solar units and improved the lives of more than 4.3 million people by saving them money, generating income, reducing indoor air pollution and reducing deforestation. UNCDF support also contributed to creating more than 3000 full-time, part time and commission-based jobs across the renewable energy value chain.

51. In Burkina Faso, UNCDF launched the Renewable Energy Fund for Resilience in 2019 with funding from Luxembourg. This Fund promotes access for the Burkinabè population to advance green and sustainable energy solutions. The fund portfolio of 16 companies sold over 1,670 cooking and 1,200 solar units in 2022, including multi-functional platforms, solar refrigeration and irrigation, solar kiosks for charging, clean cooking and solar home systems.

52. In 2022, UNCDF launched a strategic partnership with the Clean Cooking Alliance. The partnership focuses on scaling up innovative financing solutions for clean cooking and taps into the growing carbon trading markets. This collaboration builds on ongoing work with Sustainable Energy for All and Global Off-Grid Lighting Association to promote the standardization of performance indicators and enhance investment deal flows.

53. UNCDF acts as fund manager for CookFund in Tanzania, a key component of the Integrated Approach to Sustainable Cooking Solutions Program established by the Government in collaboration with the European Union. CookFund provides financial and technical support for the accelerated rollout of clean cooking solutions, leading to improved environment, job creation, and business opportunities. In 2022, UNCDF approved \$1.47 million in financial support for 16 small and medium-sized enterprises involved in the supply of clean cooking technologies. The first phase of the program is projected to benefit over 14,000 end-users, primarily living in urban areas.

54. UNCDF manages the secretariat for the Global Fund for Coral Reefs, a multi-donor funding mechanism to protect and restore coral reefs, working with UNDP and UNEP. In 2022, the initiative doubled its reach to 12 countries, expanded the coalition to nearly 50 public and private partners, increased total resources mobilized to \$190 million and accelerated global visibility for the crisis facing coral reefs. The Miamba Yetu Sustainable Reefs Investment programme in Kenya and Tanzania is a \$40 million initiative for stakeholders to support businesses that benefit coral reefs over the next 10 years. In 2022, partners developed a pipeline of bankable projects in eco-tourism, waste management, fisheries and land use management.

Sustainable food systems finance

55. As a follow up to its engagement in the United Nations Food Systems Summit, UNCDF expanded its support for developing and delivering financing solutions for municipal and small and medium enterprise investments in sustainable food systems that advance food security, including innovative

private or blended finance solutions, digital finance solutions and local transformative finance, working closely with other United Nations partners.

56. In Bangladesh, UNCDF in partnership with the Food and Agriculture Organization, supported iFarmer, a digital crowdfunding platform for increasing finance access to farmers. In 2022, support led to the establishment of 200 collection centres that benefitted 10,000 farmers. iFarmer supported 82,000 farmers to date with financial and technical support provided through UNCDF grants. UNCDF also provided a reimbursable grant to GUKIEL, a non-governmental organization and socially led enterprise for local food supply chain development. This resulted in the establishment of a storage and marketing hub for 5,000 sweet potato farmers. Sixty per cent of farmers involved are women.

57. In Burundi, UNCDF provided \$200,000, of which \$150,000 was allocated to a guarantee fund and \$50,000 to the Women's National Bank to make credit more accessible to women led MSMEs in the food value chain. This initiative is expected to reduce food loss and expand local fiscal space through increased tax collection from financed rural enterprises.

58. In Nepal, UNCDF and online food marketplace giant, Kheta, supported 8,000 smallholder farmers in gaining market access. The project facilitated collateral-free agriculture loan processing for 300 farmers (50 per cent women) through partnerships with Nepal Merchant Banking and Finance. UNCDF also supported 43,000 smallholder farmers (83 per cent women) in Cambodia and Indonesia to access markets, training and finance through digital solutions. In Indonesia, UNCDF helped create a fintech lending platform, registering 27,000 small holder farmers (65 per cent women) who received \$3 million in financing.

Results against outcomes 2 and 3 – Increased flows of public and private finance and strengthened market systems and enhanced financing mechanisms

Finance mobilized and catalyzed

59. As the United Nations catalytic financing entity for least developed countries, UNCDF helps directly and indirectly attract public and private investment capital for sustainable enterprises and local government projects, including technical assistance, seed capital grants, loans, guarantees, and relationships with third-party financiers. Overall, UNCDF has helped catalyze more than \$600 million in additional investment capital for sustainable development.

60. In 2022, UNCDF deployed 375 catalytic performance-based grants valued at \$40 million, which contributed to mobilizing direct co-financing and catalyzing additional indirect sources of finance.

61. Catalytic grants for the development of new digital remittances services, valued at \$4.6 million, helped mobilize \$ 2.6 million in additional investments, including \$600,000 in private sector commitments.

62. In Guinea, technical assistance and capital grants unlocked \$1.25 million in loans from commercial banks to support four agribusinesses, one medical imaging facility, and one municipal solid waste management system. To date, 380 jobs were created within supported projects.

63. In Bangladesh, UNCDF convened a multi-stakeholder Gender Responsive Investment Platform, institutionalized by the Bangladesh Bank. Through this platform more than \$1.4 million in domestic capital was unlocked for 16 gender-responsive investments and women-led enterprises.

64. UNCDF technical assistance and seed capital grants is catalyzing new funding flows at the local level. UNCDF in partnership with the Gambia River Basin Development Organization and the Government of Switzerland, for example, manages the Blue Peace Financing Initiative that supports access to public and private capital to manage river basin water resources shared by four countries. A

portfolio of investment-ready projects with a value of \$1 billion will be financed through the issuance of an innovative Blue Peace Bond.

65. The Development Initiative for Northern Uganda established funding mechanisms, including the START Facility in partnership with the Uganda Development Bank, to provide enterprises in the agri-processing sector with concessional financing. The START facility provided finance to 14 agriculture enterprises for \$1.7 million and business development services to an additional 120 businesses. Over \$10 million in funds were leveraged through the Uganda Development Bank and investments of recipient enterprises. Supported businesses created over 123,000 jobs with at least 500 direct jobs and the rest in smallholder farmer supply chains. To strengthen local governments, UNCDF implemented the Local Government Excellence Fund. Cumulative investments of \$2.7 million in 17 medium-sized infrastructure projects were completed and over \$1 million in additional contributions were leveraged from local governments and other partners. These investments have created jobs for 2,000 people, mainly market vendors.

66. Technical assistance to increase local fiscal space is part of UNCDF support to sustainable financing mechanisms. Training provided to 273 local government officers on revenue administration utilized the International Monetary Fund (IMF) Tax Administration Diagnostic Assessment Tool. In Somalia and Uganda, the Financing Durable Solutions for Forcibly Displaced Persons initiative partnered with the IMF to train local officials. UNCDF co-led a global infrastructure assets management training course in partnership with United Nations Department for Economic and Social Affairs. With support from the Joint SDG Fund, UNCDF supported digitalization of local revenue management and administration for local governments in Uganda, resulting in average tax revenue increases of over 18 per cent. The Local Development Training Academy in Nepal provided training to 14 local governments (1,032 officials) on the mobilization of own source revenues and, under a Joint SDG Fund programme with UNDP and UN-Women, and UNCDF, delivered training on the SDG Responsive Medium-Term Expenditure Framework, SDG budget coding, gender-responsive budgeting, and revenue improvement action plans to seven provincial governments and pilot local governments.

67. Regarding loans and guarantees, UNCDF continued to strengthen investment vehicles such as the BRIDGE Global Facility: A balance sheet concessional loan and guarantee facility. The facility continued to deploy and revolve donated capital while introducing new financial instruments like portfolio guarantees in support of vulnerable and underserved target users in frontier markets.

68. In 2022, UNCDF completed six transactions for a total value of \$3.7 million, including four guarantees of \$621,000, one loan of \$270,000, and one investment (beneficiary unit subscription) to the BUILD fund for \$2.87 million. Moreover, two other transactions (total value of \$510,000) were approved and in the contract negotiation phase as of December 2022.

69. In Papua New Guinea, UN-Women and UNCDF established an innovative financing solution through a 25 per cent first loss loan portfolio guarantee of \$225,000 in favour of the Women's Micro Bank Limited, aimed to mobilize \$900,000 in financing for women entrepreneurs. Loan disbursements were directed to over 600 women vendors and entrepreneurs. The portfolio guarantee addresses the barriers to accessing financing for market vendor women, easing the financial burden for borrowers by reducing collateral requirement from 50 per cent to 15 per cent while also reducing applicable interest rates by up to 12 per cent.

70. Similarly, a guarantee of \$200,000 in favour of the financial institution FINCA Zambia Limited (Foundation for International Community Assistance) was established to unlock \$333,000 in funding for businesses owned and led by women operating within the cross-border trade sector.

71. In 2022, three UNCDF loan and guarantee investments, valued at \$891,000, were leveraged to mobilize \$930,000 in direct co-investments and parallel finance.

72. To date, UNCDF issued 28 loans, seven guarantees and three 'beneficiary units' with a combined value of \$14.9 million in the areas of green economy, food security and nutrition, financial inclusion

and innovation, and blue economy, benefiting ten countries. Although innovative financing approaches like these are important, an evaluation of the UNCDF experience is necessary to refine these instruments. With a non-performing loan (NPL) ratio of 26 per cent UNCDF has recognized the need for an investment strategy to specify its risk appetite and target NPL given the markets in which it operates.

73. Third-party managed funds and finance mechanisms: The BUILD Fund, managed in partnership with Bamboo Capital Partners, achieved a first close capitalization of \$49 million, thanks to contributions from the Governments of Luxembourg and Norway in 2021, and Canada, Switzerland, and the Nordic Development Fund in 2022. Concomitantly, the United States Development Finance Corporation and Swedish International Development Cooperation Agency (SIDA) brought credit enhancement with a \$10 million joint guarantee for the Fund.

74. Although activity in 2022 focused on fundraising, the BUILD Fund and Rabo Foundation provided \$510,000 in funding to Green Mountain Arabica Coffee Limited, a women-owned coffee producer in Rwanda referred by UN-Women. The UNCDF designed BUILD Fund loan will allow the company to expand, improve its products and services, and lift more people out of poverty through direct and indirect creation of jobs for women and youth.

75. Additionally, UNCDF manages the BUILDER Technical Assistance Facility to prepare and de-risk investments for the BUILD Fund. The facility received \$6 million in contributions that will go towards the delivery of tailor-made business advisory support to promising enterprises and financial service providers. In 2022, UNCDF took part in developing key assessment tools, establishing the Facility committee, and recruiting expert consultants to ramp up the provision of technical assistance in 2023.

76. As part of the Global Fund for Coral Reefs, UNCDF leveraged the Blue BRIDGE Facility in 2022 to provide a \$500,000 seed grant to create the Global Fund for Coral Reefs Investment Fund, which is managed by Pegasus Capital Advisors. The grant supported early-stage development of the fund, resulting in a \$125 million investment from the Green Climate Fund that is expected to secure an additional \$375 million from private investors. In addition, Blue BRIDGE approved \$4.45 million in grants for seven sustainable enterprises working in support of coral reef restoration.

77. UNCDF supports the Credit Guarantee Corporation of Cambodia (CGCC) to assist MSMEs to recover from COVID-19 impacts and support start-ups in the agriculture, manufacturing, and service sectors. To address barriers to obtaining loans from domestic banks, CGCC established a credit guarantee system that provides preferential interest rates and reduced application costs for small businesses. The CGCC was established with a UNCDF catalytic grant of \$250,000 and capitalized through a \$200 million allocation from the public sector budget in 2022. To date, the Corporation issued 985 letters of guarantees, enabling \$92.7 million in loans from domestic banks, with 35 per cent going to women-owned businesses.

78. In Senegal, UNCDF assisted the Fonds Souverain d'Investissements Stratégiques (FONSIS), a sovereign wealth fund, in managing the Women's Economic Empowerment Fund (WE! Fund) to provide equity and loans to small businesses and support public-private partnerships. In 2022, WE! Fund received an additional \$10 million from the African Development Bank through the national Ministry of Finance.

79. While there was overall progress in raising capital for UNCDF financing mechanisms, much of this capital was sourced from public funders in the form of first-loss risk capital. Using this capital to de-risk and mobilize private capital is ongoing and requires calibrating the expectations of private investors and bringing forward projects that will build an investment track record in LDC markets. Furthermore, given rising interest rates and debt burdens, it is important to increase LDC fiscal space whilst developing domestic capital markets to accelerate transformative investments.

Strategic United Nations partnerships to finance the Sustainable Development Goals

80. UNCDF continued to see increased demand from other United Nations entities to collaborate and access its financing expertise to unlock capital in support of their objectives. In 2022, UNCDF received \$69.1 million in funding from United Nations pooled funds and \$10.8 million from other United Nations entities.

81. In 2022, UNDP continued to be a primary UNCDF partner on dozens of joint efforts. Working together, both organizations were awarded funding by the Nationally Appropriate Mitigation Actions (NAMA) Facility to prepare financing mechanisms aimed at supporting the development of cold chain storage in Kenya and reduce agricultural post-harvest losses. This preparatory work can unlock \$15 million in resources for the deployment of loans and guarantees. In Afghanistan, UNDP and UNCDF designed a project to increase access to finance for women-led businesses and will be achieved through the deployment of portfolio guarantees and re-guarantee schemes worth \$6.2 million.

82. Alongside UNDP and the Food and Agriculture Organization in Malawi, UNCDF put into motion a project to provide finance for underserved small and medium-sized enterprises, especially in the agri-business sector. It began to deploy the \$3 million that had been awarded by the Joint SDG Fund for the BUILD Malawi Fund.

83. In 2022, UNCDF signed a global agreement with the World Food Programme to jointly fund, develop and deploy concessional financing for underfinanced and innovative food systems businesses through the UNCDF BRIDGE Facility. The first collaboration was designed for Rwanda, will be capitalized with \$2.5 million, and begin implementation in 2023.

84. Through the Investment Advisory Initiative funded by the Government of the Netherlands, UNCDF continued to provide support to the United Nations development system in 12 countries across Africa and 27 advisory initiatives by providing development finance policy advice, identifying and supporting sustainable investments, and exploring innovative development financing initiatives targeting the private sector and investment community. In Benin, UNCDF worked with UNDP to develop an innovative “blue bond” and with UNFPA to develop a portfolio guarantee aimed at empowering young rural girls through access to finance and entrepreneurship opportunities.

85. UNCDF and the United Nations Human Settlements Programme launched the SDG Cities initiative to help cities access sustainable financing and bridge municipal infrastructure funding gaps. This multistakeholder initiative supports local governments to mobilize and direct flows of capital into financeable and sustainable infrastructure and work began on implementation in Ghana and through an initiative targeting women led cities.

B. How achievements were made: Analysis of institutional effectiveness

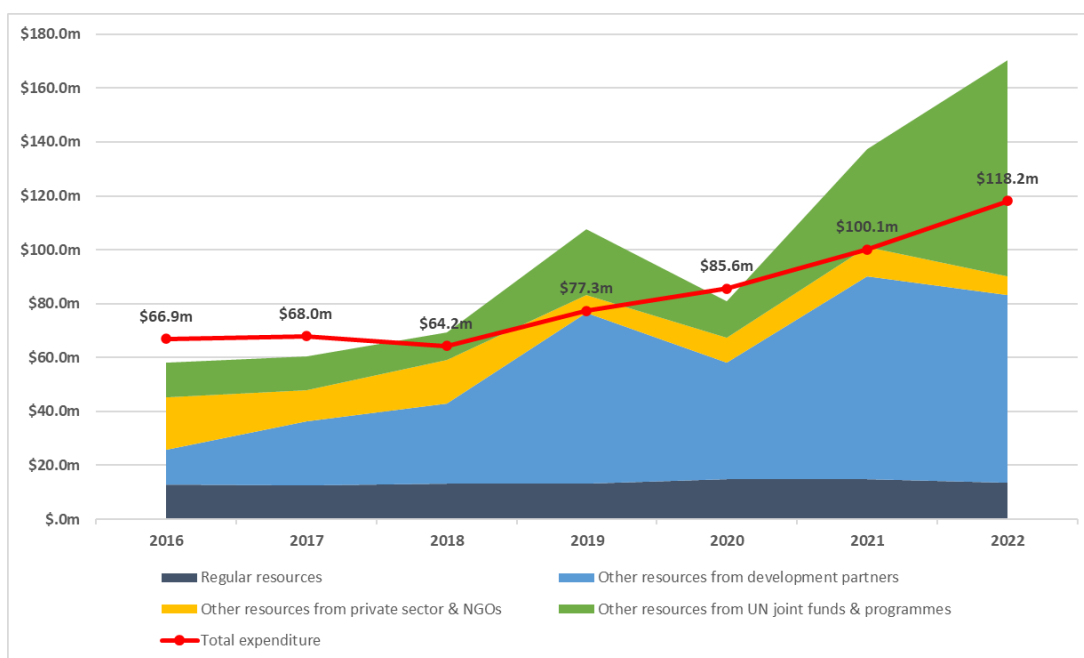
86. UNCDF witnessed a record year in resource contributions, amounting to \$170.5 million. This positive trend did not characterize the receipt of regular resources,⁵ however, which totalled \$13.6 million, a 7.5 per cent decline compared to 2021. Regular resources made up only 8 per cent of total revenue, well below the Secretary-General’s Funding Compact 2023 target of 30 per cent. Contributions are expected to drop by almost 40 per cent from \$9.6 million in 2022 to \$5.9 million in 2023. The drop in regular resources limits UNCDF oversight capacity of its programmes largely due to delays in recruitment of staff to support audit, evaluation and results-based management tasks. The drop in regular resources falls far short of the \$25 million established target in the strategic framework, 2022-2025, which is required to ensure a meaningful presence in all 46 LDCs and allow UNCDF to innovate and pilot new financing solutions, and to continue to ensure highest standards of transparency,

⁵ Regular resources include UNDP contributions. All 2022 revenue and expenditure figures are as of March 13, 2023 and subject to adjustment until publication of UNCDF audited financial statements.

accountability and impact monitoring. The number of regular resource partners decreased to nine, down from 11 in 2021 and 13 in 2020.

87. Revenue from other resources increased by 28 per cent in line with positive trends from previous fiscal years: \$122.5 million in 2021 to \$156.9 million in 2022. Almost \$80.4 million or 51.3 per cent of other resources came from United Nations pooled funds and entities, an increase of \$44.3 million compared to 2021, providing evidence that UNCDF continued to strengthen partnerships with United Nations entities in line with its new strategic framework. Forty-four per cent, or \$69.6 million, of other resources came from government partners, down from 61.6 per cent (\$75.4 million) in 2021. The remaining 4.4 per cent of contributions came from the private sector and NGOs, a decrease of \$4 million from 2021. The top five overall contributors were the Multi-Partner Trust Fund Office, European Union, and the Governments of Sweden, Switzerland and Denmark.

Figure 1. UNCDF revenue and expenditures, 2016-2022 (in millions of United States dollars)



88. The UNCDF Last Mile Finance Trust Fund continued to be a critical vehicle for receiving lightly earmarked resources, with contributions of \$8.8 million from two partners in 2022.

89. An all-time high of \$118.2 million in expenditures was recorded in 2022, a steep increase since the start of the previous 2018 strategic framework cycle (\$64.2 million in 2018; \$77.3 million in 2019; \$85.6 million in 2020; \$100.1 million in 2021). The increase was the result of enhanced programme delivery in the areas of local transformative finance and inclusive digital economies.

90. UNCDF continued to build on efforts to improve operational efficiencies, streamline business processes and achieve economies of scale, notably by implementing recommendations from a UNCDF-commissioned review in 2021 to improve the efficiency and effectiveness of its grant and debt instruments. To manage its growing portfolio of sustainable development investments, UNCDF put in place a risk management system based on common best practices of ensuring three lines of defence and separation of functions.

91. Thirty-seven least developed countries received investment and development assistance from UNCDF in 2022. In parallel, UNCDF increased support for sustainable financing for development in

select non-LDC contexts, including opportunities for South-South and triangular cooperation. Upwards of 70 practitioners in 15 countries from Asia, Africa and the Pacific participated in the first-of-its-kind community of practice meeting of the UNCDF inclusive digital economies scorecard (IDES), a policy tool implemented in 31 countries. The event resulted in establishing a strong network of experts for knowledge exchange on inclusive digital transformation practices.

92. UNCDF policy, communications, advocacy, and marketing allowed the organization to position itself as a partner of choice in the development of finance architecture according to its unique mandate as a development agency and finance institution focused on LDCs. This included proactively supporting the Group of Least Developed Countries at the United Nations with policy advice on innovative, blended and climate finance to help define and implement the Doha Programme of Action for 2022-2031. On the side lines of the 77th session of the United Nations General Assembly, UNCDF convened an investment forum focused on LDCs, bringing together high-level government representatives and the private sector to identify investment priorities and solutions for frontier markets.

93. UNCDF digital communications and social media assets performed solidly in 2022, with a growth in audience of 23.8 per cent compared to 2021 and total net audience growth of 41.2 per cent.

94. For the tenth consecutive year, UNCDF was awarded an unqualified audit opinion on its financial statements for 2021, reinstating the strong commitment to improving financial management, transparency, and accountability. UNCDF has no outstanding audit recommendations from the United Nations Board of Auditors.

95. UNCDF met minimum standards on 15 out of 17 indicators of the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women in 2022. Preliminary expenditure figures show the organization spent \$10 million (9 per cent) on specific gender equality-related priorities (GEN3) and \$69.9 million (59 per cent) on projects that included gender equality as a significant objective (GEN2). In 2023, UNCDF will continue efforts to promote a strong gender architecture and parity in staffing at all levels, notably mid-to-senior levels where there are gaps in the proportion of female staff. Results from a gender equality review are expected to lead to a gender strategy for UNCDF.

96. An audit of UNCDF will take place in the first quarter of 2023 and the organization will implement findings designed to strengthen operations for stronger programmatic growth in the face of declining regular resources. UNCDF structures will be streamlined, focusing on LDC presence, to efficiently support LDCs.

C. Strong commitment to evaluation and learning

97. In 2022, UNCDF maintained its commitment to independent evaluations, spending \$870,606 (0.85 per cent) of combined programmatic resources, approaching the 1 per cent target set out in the UNDP evaluation policy. The UNCDF Evaluation Unit was awarded two evaluation excellence awards from the UNDP Independent Evaluation Office for its midterm evaluation of the Expanding Financial Access Programme in Myanmar and final evaluation of the Shaping Inclusive Finance Transformations (SHIFT) SAARC Programme. The UNCDF Evaluation Unit conducted three evaluations in 2022 with findings, lessons and recommendations from two summarized below.

98. The midterm evaluation of the Joint UNCDF-UNDP Local Government Initiative on Climate Change (LoGIC) in Bangladesh assessed the \$37.5 million programme focused on raising awareness and developing the capacity of local governments, vulnerable communities, and civil society organizations to address local climate change adaptation in climate vulnerable districts through gender-sensitive approaches. Findings confirmed project relevance and coherence with the host government and global climate policy frameworks, as well as successful coordination with decentralized constituencies. The deployment of Performance-Based Climate Resilience Grants and Community Resilience Fund promoted transparency and accountability at all stages. The evaluation found LoGIC

had a positive impact on the lives of beneficiaries and contributed to changing the mindset of local governments on the importance of including climate adaptation in local planning, budgeting, and investments. Sustainability and mainstreaming in government systems, however, was evaluated as weak set against the short period of intervention and disruptions caused by the COVID-19 pandemic.

99. Findings from the Final Evaluation of the Digital Financial Services project in Sierra Leone – a UNCDF and Central Bank of Sierra Leone project designed to strengthen the financial sector and widen financial inclusion by focusing on fintech innovation and improved fintech regulation and dissemination of best practices – emphasized the relevance of supporting Central Bank aims, as well as aligning government policies on financial sector reform and United Nations and World Bank programmes of work. The evaluation highlighted project contributions to gender equality, and the development of a trusted relationship with the Central Bank that has been leveraged by other national development partners. Although evaluators commended the relevance of support provided to fintech companies, it was determined that fintech innovations had not yet resulted in significant increases in access to financial services due to the low penetration of smartphones, technical integration issues and regulatory obstacles. Evaluators recommended future work to support fintech should combine financial support for technical innovation with brokering and networking that links fintech innovators with potential commercial partners.

100. UNCDF continued to prioritize innovation and improved quality in its evaluations with all completed assessments gauged by the Independent Evaluation Office as ‘satisfactory’ or ‘highly satisfactory’. UNCDF continued to actively contribute to the work of the United Nations Evaluation Group and remains open to partnering with United Nations Evaluation Offices, Member States, and other stakeholders on joint efforts in the international evaluation system.

III. Looking ahead: UNCDF for the Doha Programme of Action

101. Emerging from the Fifth United Nations Conference on the Least Developed Countries, UNCDF will explore how it can leverage its role as a catalytic financing entity and respond to country demands to unlock financing to deliver on the Doha Programme of Action. In 2023, UNCDF is ready to respond, as appropriate, to mandates arising from the Secretary-General’s “Our Common Agenda,” and actively engage with member states, in particular LDCs, in preparing for the SDG Summit, the High-Level Dialogue on Financing for Development, and the 2024 Summit of the Future.

102. As UNCDF moves into its second year of implementing the strategic framework 2022-2025, it will continue to roll out initiatives to unlock SDG financing for last mile residents. UNCDF is in the final stages of completing the European Union pillar assessment on financial instruments, which will allow the organization to access European Union financing for sustainable investments and further expand the catalytic loans and guarantee portfolio going forward. It will also begin implementing the Guarantee Facility for Sustainable Cities initiative backed by the European Union, which is expected to unlock significant investments in sustainable infrastructure.

103. Throughout 2022, UNCDF laid the groundwork for other future catalytic financing efforts, including blended finance solutions for conservation of nature assets, an investment vehicle to accelerate digital transformations, support to countries on issuing green and climate bonds, and finance solutions for sustainable food systems and food security. In 2023, UNCDF plans to introduce a new strategy for its support to women’s economic empowerment.