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Report on results achieved by UNCDF in 2021

Executive summary

This report presents the annual review of results achieved by UNCDF in 2021. It examines progress made in achieving the two outcome areas of the Strategic Framework, 2018–2021: (a) enhancing inclusive financial markets and local development finance systems; and (b) unlocking public and private finance for the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change, primarily in least developed countries. Analysis of UNCDF institutional effectiveness and a 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 the progress made by UNCDF in implementing its Strategic Framework, 2018–2021; (c) emphasize its critical role in delivering innovative and blended financing approaches, including in support of wider United Nations development system activities, to support least developed countries in recovering and ‘building forward better’ from the COVID-19 crisis; and (d) recommit to supporting UNCDF, including through fully funding, as a minimum, its base growth resource requirements in accordance with the Strategic Framework, 2022–2025, of \$25 million per year in regular resources and \$125 million in other resources; including a one-time capitalization of \$50 million of its investment vehicle, the BRIDGE Facility.



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I. Contextual analysis

1. The near- to medium-term development outlook for the least developed countries continues to be bleak, due to the COVID-19 pandemic, global political instability, climate change and biodiversity loss. Following negative gross domestic product (GDP) growth in these countries in 2020, growth reached only 1.4 per cent in 2021 – the worst performance in three decades,¹ and far below the 7 per cent annual rate called for by the 2030 Agenda for Sustainable Development. Crises have pushed tens of millions of people into extreme poverty, reversing any progress made on the Sustainable Development Goals in recent years.

2. While some projections indicate GDP growth of 4 per cent in 2022 and 5.7 per cent in 2023, low vaccination rates, combined with mounting debt challenges, accelerating inflation rates,² and slow return of foreign investments, suggest a long path towards recovery for the least developed countries. Recovery is further impeded by low productive capacities and growing territorial disparities.

3. Even before the pandemic, least developed countries faced significant financing gaps in achieving sustainable development. About \$1 trillion would be needed annually to achieve the Sustainable Development Goals in the 46 least developed countries. The estimated financing gap in reaching the global goals is at least \$400 billion per year.³

4. In 2021, 22 of the least developed countries were at high risk of or already in debt distress,⁴ resulting in limited fiscal space. Financing shortfalls were particularly large at the subnational level. COVID-19 revealed the essential nature of local actors and the urgent need for new approaches to enable local authorities to mobilize financing.

5. The lack of depth of financial markets in least developed countries meant that private enterprises, especially small and medium-sized enterprises, faced barriers to accessing credit, and that capital was not available on accessible terms for the local sustainable infrastructure so urgently needed in the world's most rapidly urbanizing countries. The microfinance sector has been gravely affected by the crisis, with the solvency of many microfinance institutions – especially the smaller ones – at risk.⁵

6. Least developed countries will continue to rely heavily on external funding for the foreseeable future. However, resource flows are not increasing. In 2021, only 1.7 per cent of global foreign direct investments flows – \$28 billion⁶ – went to least developed countries. In 2021, the number of new 'greenfield' foreign direct investment deals were half that in 2019, and the number of Sustainable Development Goals-related investment projects declined by 30 per cent in 2020 and a further 17 per cent in 2021.⁷ Bilateral official development assistance flows to least developed countries have remained stagnant, hovering around \$28 billion since 2017.⁸

7. All these factors underscore the urgent need for new approaches, partnerships, innovation and risk-taking to build and transform private and public financing systems that catalyse more significant flows of capital for the least developed countries. In 2021, UNCDF defined its Strategic Framework, 2022-2025, which will provide a platform for scaling up its innovative approaches to delivering financing solutions that will help drive inclusive, green economic development in the least developed countries.

¹ United Nations Department of Economic and Social Affairs (DESA) World Economic Situation and Prospects, 2022

² DESA (ibid.) Estimated least developed country inflation was 39.6 per cent 2021

³ United Nations Conference on Trade and Development (UNCTAD), Least Developed Countries Report, 2021; Sustainable Development Solutions Network, 2019

⁴ <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

⁵ Consultative Group to Assist the Poor, "Microfinance Solvency and COVID-19: A Call for Coordination", September 2021.

⁶ UNCTAD 2021 – https://unctad.org/system/files/official-document/diaeiainf2021d3_en.pdf

⁷ Global Investment Trends Monitor, No 40 (unctad.org)

⁸ United Nations Department of Economic and Social Affairs, WESP 2022

II. UNCDF performance and highlights

A. What UNCDF achieved: Highlights of results

8. Of the 21 development effectiveness indicators reported in 2021, 20 are on track or exceeded their 2021 milestones. High-level results in 2021 include:

- (a) UNCDF worked to promote inclusive digital economies and financial inclusion, partnering with 390 financial and digital service providers, small and medium-sized enterprises and public organizations providing inclusive financial and other digital solutions to over 3 million people in 35 countries;
- (b) UNCDF supported scalable initiatives in 588 local governments in 42 countries to enhance their subnational financial systems, and completed 390 localized strategic investments, which contributed to creating 42,000 jobs and supporting climate adaptation, demonstrating the effectiveness of decentralized financing systems to contribute to COVID-19 recovery and advance sustainable development at the local level;
- (c) UNCDF issued nine new loans in five countries in 2021 for a total value of \$1.7 million, expanding its investment portfolio to 30 loans and guarantees. It disbursed a total of \$37 million through catalytic grants in support of local investments and inclusive finance and digital service provision, which together unlocked \$89 million in direct and catalytic financing; and
- (d) UNCDF continued to make progress with developing and supporting the capitalization of its two global third-party managed blended finance funds for small and medium-sized enterprise and infrastructure development, the BUILD Fund and the International Municipal Investment Fund. UNCDF joined the Global Coral Reefs Fund and was designated to manage its concessional loan operations. UNCDF intensified its focus on developing pipelines of sustainable investment projects for those funds, while also facilitating financing from other sources.

9. Output indicator 1.3.1, on the development and adoption of national roadmaps and financial inclusion strategies, partially met its target. This was due to a continued increase in demand from countries for more targeted and action-oriented policy interventions and reforms on financial and digital inclusion, moving away from strategies and roadmaps. There has been growing demand for broader digital economy-focused policy advice. To meet those demands, UNCDF scaled up its policy-focused assessment tool, the Inclusive Digital Economies Scorecard. As a consequence, outcome indicator 1.5, on the percentage of targeted countries shifting market stage in digital financial services, has been revised to track the market development stage in digital economies of targeted countries, based on the Scorecard. Measurements of digital financial services are captured in the Scorecard.

Results against outcome 1. Enhanced inclusive financial markets and local development finance systems that benefit poor and vulnerable populations

Inclusive financial markets and digital economies

10. UNCDF aims to contribute to the development of inclusive innovation ecosystems and accelerate the development and usage of technology and digital services in key sectors such as finance, energy, health, education, and agriculture. The UNCDF strategy of supporting market systems that drive inclusive digital economies has four components: empowered customers, inclusive innovation, an open digital payment ecosystem, and enabling policy and regulation.

11. UNCDF deployed the Inclusive Digital Economies Scorecard as an overarching tool to help guide countries in their digital economy transformations. Through collaboration with public and private stakeholders, the Scorecard gauges the status of the digital economy of a country, and its national market constraints and inclusiveness towards vulnerable and marginalized people, especially women, through its dedicated women's inclusiveness score. It sets priorities that inform governments in their digital transformation journey. The Scorecard was deployed in 25 countries in 2021. In Uganda, it forms

part of a comprehensive UNCDF approach to supporting Government and the private sector in expanding access to digital services and informing the mainstreaming of digitalization throughout the new national development plan. In the Solomon Islands, the Scorecard, launched in 2021, informed the updated national financial inclusion strategy and the development of the first national digital economy strategy, supported by UNCDF.

12. Under its migration and remittances programme, UNCDF applied its market development approach to enabling access to affordable remittance channels for migrants and their families. UNCDF worked with the National Bank of Ethiopia to support the introduction of seven policy measures and 14 capacity development activities on data management systems, micro savings bonds, and remittance directives. With the Intergovernmental Authority on Development, UNCDF supported the harmonization of remittance policies across Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda towards safer and more transparent formal remittance channels.

13. UNCDF worked with nine private sector partners to pilot and scale business models targeting migrants and their beneficiaries to improve their financial health and resilience in Bangladesh, Ethiopia, Myanmar, Senegal, Singapore, South Korea and the United Arab Emirates. Through these partnerships, a total of 13 services were launched, reaching 312,000 customers (27.5 per cent women), who transferred over \$350 million. Over 98,000 customers (79 per cent women) were trained through four financial literacy campaigns.

14. **Inclusive financial innovation.** UNCDF worked with private sector financial technology ('fintech') firms, financial service providers and other entrepreneurs to promote the development of digital financial and other solutions that serve last-mile markets. In 2021, UNCDF supported the piloting and scaling up of 99 such financial products and services.

15. Through its engagement with start-up incubators and innovation hubs, UNCDF supported an enabling environment for fintech companies and wider innovation ecosystems. In Zambia, UNCDF launched the FinTech4U Accelerator Programme for businesses in the fintech and digital financial services industry, targeting underserved population segments. In 2021, the programme supported 10 fintech firms with a platform to develop and test their products in a safe environment; build partnerships; and participate in capacity-development activities. Also in Zambia, UNCDF completed scoping for a new \$15-million micro, small and medium-sized enterprise guarantee and technical assistance facility to strengthen the performance and resilience of such enterprises through improved access to finance and business development services, and the use of digital solutions for business operations.

16. In Tanzania, UNCDF set up a digital lab with the Bank of Tanzania and ModusBox to integrate savings and credit cooperative organizations and microfinance institutions into the Tanzania instant payments system. A total of 23 financial service providers were trained on the principles and key features of open payment systems.

17. In Uganda, more than 700,000 clients (300,000 women) were reached directly in 2021 with digital payment services supported by UNCDF, and nearly 1.5 million people with digital and financial skills. UNCDF supported an association of innovation hubs and business incubators to run an innovation challenge where businesses were selected to receive grants to pilot their solutions, including a digital device for educating refugees in digital and financial skills; a mobile platform for last-mile delivery of affordable farm inputs to smallholder farmers; and a factoring platform for small and medium-sized enterprises to meet the payment terms of suppliers, workers and customers. UNCDF worked with private-sector actors to support business models extending credit to communities. It supported a fintech to develop a digital platform for village savings and loan associations to record and manage their transactions with members and support credit scoring to offer loan products to farmers. Almost 7,000 farmers registered with the digital system in 2021.

18. In Bangladesh, 2.3 million micro-merchants benefited from UNCDF-supported business innovations in digital payments, alternative credit scoring, micro-insurance, bookkeeping, inventory

management, business registry, and rural e-commerce. More than 100,000 small and medium-sized enterprises benefited from digital financial literacy support, and 3,400 micro-merchants from marginalized communities received training and business development services to access e-commerce and a last-mile delivery network.

19. **Digital innovations for COVID-19 response.** COVID-19 highlighted the potential of leveraging technology to improve people's livelihoods, beyond financial inclusion. The pandemic increased the relevance of digital services, including remitting through mobile phone wallets and making digital payments on e-commerce platforms. UNCDF supported countries in incorporating digital solutions in response to COVID-19. In the Pacific, UNCDF supported the reduction and waiver of remittance costs in Fiji and Tonga, resulting in a near-tenfold increase per month in the number and value of remittance transactions. In Rwanda, UNCDF partnered with the Information and Communications Technology Chamber, and the Ministry of Information and Communications Technology and Innovation, to increase the use of digital marketplaces, especially targeting women-owned micro, small and medium-sized enterprises, to allow for continued business during lockdowns. Since mid-2021, more than 1,000 micro, small and medium-sized enterprises were on-boarded to 22 e-commerce platforms. In West and Central Africa, UNCDF boosted financial education and digital literacy capacities for 63,797 customers; contributed to micro, small and medium-sized enterprise resilience through e-commerce and e-payment solutions; and provided funding to help digitize business operations.

20. **Reducing policy barriers to financial and digital inclusion.** UNCDF supported the implementation of national financial inclusion strategies in 14 countries in 2021, and assisted in the development of 23 new strategies, policies and action plans related to financial inclusion. For example, UNCDF created an advisory panel on women and digital financial services composed of civil society representatives, regulators and public decision-makers from six countries – Cameroon, the Central African Republic, Chad, Equatorial Guinea, Gabon, and the Republic of the Congo. The panel presented 23 policy proposals to accelerate the financial inclusion of women in Central Africa.

21. The Pacific Financial Inclusion Programme, active since 2014 and completed in June 2021, helped enrol over two million Pacific islanders (over 175,000 in 2021) into formal financial services, about 51 per cent of customers being women. The successor Pacific Digital Economy Programme was launched in 2021 to expand people's access to basic services through digital solutions and channels. In 2021, the Programme carried out assessments in Fiji, Papua New Guinea, Samoa, Timor-Leste, Tonga, and Vanuatu, assisting Pacific governments and private-sector partners in identifying key policy and market constraints hindering the development of their inclusive digital economies.

22. The Dialogue on Global Digital Finance Governance, a joint UNDP/UNCDF platform, was established to catalyse governance innovations that take greater account of the impacts of 'big fintechs' and are inclusive of Southern perspectives. In 2021, the Dialogue published seven technical papers and influenced international actors including the Bank for International Settlements, the International Monetary Fund, the World Bank, the Financial Stability Board, and the Group of 20 to apply a stronger development lens into their work with big fintechs. In 2021, UNDP and UNCDF jointly took forward the recommendations from the Secretary-General's Task Force on Digital Financing by advancing several initiatives under the framework of a joint offer on digital financing. A number of governments were supported in conducting digital finance ecosystems assessments so as to integrate fintech considerations into their integrated national financing frameworks and create digital finance strategies. In Bangladesh, UNCDF and UNDP designed an innovative financial instrument to mobilize domestic savings for the financing of green infrastructure projects to be piloted and scaled in 2022. In Zimbabwe, a stock exchange platform was launched to enable access to capital for small and medium-sized enterprises. UNCDF and UNDP will roll it out across 10 countries.

23. The Better Than Cash Alliance, whose secretariat is hosted by UNCDF, is a partnership of nearly 80 governments, companies, and international organizations that accelerates the transition from cash to responsible digital payments to help achieve the global goals. In 2021, the Alliance worked with the Government of Ethiopia to launch its first-ever national digital payment strategy, which is being

implemented by partners to benefit over 100 million people by 2024. Through research and advocacy, the Alliance informed the governments of Senegal and Burkina Faso in making commitments to move towards digitization of wage payments.

24. **Climate and energy finance.** By promoting access to finance across the energy value chain through digital solutions, UNCDF supported Burkina Faso, the Democratic Republic of the Congo, Ethiopia, and Uganda, working with more than 70 partner companies, in selling almost 350,000 clean-energy products and services, benefiting 1.8 million people.

25. In Burkina Faso, UNCDF supported more than 80 energy entrepreneurs through business development support and technical assistance: 3,375 solar units and 766 cook-stoves were sold, while 135 full-time and 247 part-time jobs were created (33 per cent for women).

26. In the Democratic Republic of the Congo, the disbursement of \$343,400 in grant financing supported private-sector partners in selling over 22,000 cook-stoves and 3,300 liquefied petroleum gas starter kits, resulting in the creation of over 100 jobs and serving almost 140,000 people. In Uganda, over 170,000 clean-cooking products and 24,000 solar products were sold by UNCDF-supported partners in 2021.

27. In Fiji, the Pacific Insurance and Climate Adaption Programme launched the first-ever climate and disaster-risk parametric micro-insurance product in the Asia-Pacific region, covering extreme rainfall and wind speed. The programme piloted three new inclusive insurance products: high wind-speed cover, cyclonic cover, and social protection insurance for recipients in Fiji. The inclusive market-development approach ensures that women and vulnerable groups are meaningfully included in climate disaster-risk financing products.

Local development finance – mechanisms for sustainable local infrastructure and services

28. UNCDF serves as a centre of excellence for local economic development finance and local government finance. UNCDF designs and implements locally led public and private financing mechanisms to address the linked challenges of local economic development, inclusive urbanization, and sustainable environmental adaptation and resilience. In 2021 UNCDF supported scalable initiatives through 588 local governments in 42 countries and completed 390 localized investments to demonstrate the effectiveness of decentralized financing mechanisms for climate adaptation, clean energy, women's empowerment, food security, health, and local economic development, creating 42,478 jobs and benefiting 992,058 people (532,401 women).

29. **Financing local climate adaptation through the Local Climate Adaptive Living Mechanism ('LoCAL').** As a country-based mechanism designed to deliver domestic and international climate finance to the local level, LoCAL continued to enable localities to assess risks, plan, implement and monitor climate-resilient development in over 30 countries, including 25 least developed countries and six small island developing States. At the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change, LoCAL was officially recognized by the least developed countries group as one of the initiatives that support implementation and achievement of the 'LDC 2050 Vision', paving the way for further recognition by the Fifth United Nations Conference on the Least Developed Countries and by the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change as a non-market mechanism under Article 6.8 of the Paris Agreement reached at the United Nations Framework Convention on Climate Change. A total of 322 local governments are implementing LoCAL, driving locally led adaptation and building climate resilience for more than 12.5 million people. During 2021, LoCAL raised \$25 million in direct funding, bringing the total of funds mobilized to \$125 million, including direct and parallel funding. UNCDF deployed a total of \$17.6 million through technical assistance, policy support and capacity development, as well as performance-based grants for climate-resilient infrastructure.

30. In the Gambia, UNCDF supported 23 climate adaptation projects (directly benefiting over 27,000 individuals), including solar-powered boreholes to improve access to potable water and

horticultural gardens for enhanced food security and livelihoods. In Bangladesh, 188 climate adaptation investments were undertaken in 72 sub-districts, focusing on the deployment of nature-based solutions supporting locally led agriculture, water, sanitation and hygiene, and adaptive infrastructure efforts.

31. Direct access to sustainable financing for climate resilience, including international climate finance such as the Green Climate Fund and the Adaptation Fund, remains a challenge for subnational actors. LoCAL technical assistance, and its proven method, support member countries in securing access to those funds through national implementation entities. As of 2021, the pipeline of projects for potential funding from these funds stands at approximately \$165 million. Three LoCAL-supported national implementation entities, in Benin, Bhutan, and Cambodia, received accreditation to the Green Climate Fund, with UNCDF support.

32. **Municipal investments and local public financial management.** UNCDF supports local governments and communities on their path towards inclusive, sustainable, and resilient transformation, providing infrastructure investments and assistance for local economic development. Under the Development Initiative for Northern Uganda programme, UNCDF contributed to improved tax administration through the automation of taxpayer registration, assessment, and collection. Fourteen of the 18 local governments in northern Uganda now have fully automated revenue systems using the integrated revenue administration system. As a result, five local governments reported revenue increases of about 32 per cent. Through the Local Government Excellence Fund, local governments, communities and their partners co-financed and invested over \$2.2 million in seven pilot districts through 14 medium-sized economic infrastructure and local economic development promotion projects. Fifty-nine per cent of the investments focused on general trade and merchandise markets; 7 per cent on community primary agro-processing facilities; and 34 per cent on trade and livestock markets. This included rehabilitation of more than 400 kilometres of roads, linking communities to markets and attracting private sector investments.

33. In Somalia, UNCDF supported the creation of the Local Development Fund through the establishment of an intergovernmental fiscal transfer system in 33 districts in the new Federal Member States. In areas where UNCDF technical assistance was more long-standing, during 2021 – for the first time – all supported districts in Somaliland and Puntland deposited one hundred per cent of their committed contributions to the Fund, demonstrating their strengthened financial capacity. UNCDF provides catalytic investments, primarily for roads and social infrastructure, in Somalia, which have increased threefold since 2019 and have proven effective in catalysing additional development finance. For example, in 2019, UNCDF injected \$56,000 for the construction of a road in Burtinle. By 2021, the project had catalysed additional local investments from the private sector and the community equal to \$671,000.

34. In the Lao People's Democratic Republic, UNCDF assisted the Government in completing a decentralized financing mechanism through the delivery of the “leave no one behind” block grant, which has co-financed the commissioning and completion of eight local government infrastructure investments, blending a grant with public sector budgets. The grant targeted the most vulnerable communities in the Republic, testing and institutionalizing a new type of UNCDF block grant category to help continue building a body of knowledge to foster greater financial flows to local governments.

35. In Guinea, the funding mechanism developed by UNCDF in partnership with the Government deploys a percentage of mining royalties towards local government-led investments, reaching over \$9 million in 2021. UNCDF supported local governments in increasing capacities for the accountability and efficient use of such funds.

36. In partnership with the Gambia River Basin Development Organization and the Government of Switzerland, UNCDF co-designed the Blue Peace Financing initiative. This supports the implementation and financing of an integrated development master plan and investment plan for the basin, which includes a pool of complementary infrastructure projects, such as a hydro-power generation plant, a hydro-agricultural dam, and a drinking-water treatment station. An innovative

financing structure, the Blue Peace Bond, enables access to capital markets for the non-sovereign regional basin organization to finance the master plan. In Sierra Leone, the initiative supports the financing of reliable water, sanitation, and hygiene facilities. In 2021, 260 members of the Freetown City Council Local Water Management Committee were trained as part of rolling out the effort.

Addressing the gender gap and supporting women's economic empowerment.

37. UNCDF advances women's economic empowerment by working to narrow the finance gap that limits women's opportunities for advancement. UNCDF addresses the market and agency constraints limiting women's access to markets and services, including by implementing digital solutions and removing structural obstacles to women's economic empowerment at the local level.

38. UNCDF co-chaired the Economic Justice and Rights action coalition of the Generation Equality Forum and presented its 'Equal Economies' commitment framework. UNCDF and partners launched the 'Reaching Financial Equality' campaign to advance financial equality for women.

39. UNCDF launched its 'Inclusive Digital Economies and Gender Playbook', which it used to conduct trainings for internal and external stakeholders in several country programmes. It is being used by the Asian Development Bank and Arab Monetary Fund for capacity-building and training.

40. UNCDF also launched a comprehensive toolkit for women's economic empowerment that guides policy and regulatory support, locally led financing solutions, and technical assistance for women-led businesses. In partnership with UNDP and UN-Women, UNCDF provided support to local governments on gender-responsive policy frameworks, planning and budgeting to overcome structural barriers to gender equality. That support resulted in the development and implementation of more than 20 gender-responsive local strategies, action plans, regulations, and budgets across programme countries.

41. To address growing inequalities, and to promote inclusion in the rapidly growing cities in least developed countries, UNCDF launched an inclusive local financing initiative, 'IncluCity', aimed at promoting resilient, equitable livelihoods and better public services through increased and tailored municipal investment financing. In Senegal, UNCDF supported a municipality to rehabilitate a fish market employing over 200 saleswomen. In Bangladesh, UNCDF partnered with UN-Women and UNDP under the women's empowerment for inclusive growth initiative, establishing a gender-responsive investment platform at the central bank, linking women-led small and medium-sized enterprises and local government institutions, and supporting over 5,000 women with sustainable income-generating activities.

Results against outcome 2. Unlocked public and private finance for the poor

42. In 2021, UNCDF expanded its loan portfolio with the issuance of nine new loans at a value of \$1.7 million. These benefited enterprises in the energy, financial services, agriculture and marine protection sectors in Burkina Faso, Fiji, Malawi, Myanmar and Uganda. In Burkina Faso, UNCDF supported a rice cooperative unable to obtain a bank loan due to lack of collateral. UNCDF provided short-term concessional financing plus a guarantee that allowed a local bank to provide \$206,300 in financing. The financial support enabled the establishment of a new, large-capacity rice mill to market high-quality white rice on the local market.

43. UNCDF catalytic concessional loans and guarantees were provided by the BRIDGE Facility, which targets early-stage enterprises and projects that are not ready to access finance from other financial institutions. UNCDF financing helped them establish an investment track record to attract further finance. The BRIDGE Facility fills a gap in the international development finance architecture. In total, UNCDF has issued 27 loans and three guarantees, with a value of \$5.8 million, in the areas of green economy, food security and nutrition, financial inclusion and innovation, and blue economy, benefiting nine countries.

44. In 2021, UNCDF expanded its loan and guarantee operations through engagement with the Global Fund for Coral Reefs. The Fund provides grant funding and concessional finance to catalyse private capital for activities that prevent coral reef degradation, which jeopardizes one of the richest sources of biodiversity on Earth and the livelihoods of one billion people. UNCDF was appointed to manage the concessional lending window called the Blue BRIDGE. So far, \$8.8 million in concessional capital has been awarded to UNCDF to fund coral reef protection and restoration in five countries. The Blue BRIDGE plans to invest more than \$40 million in support of interventions in over 26 priority coral reef ecosystems around the world.

45. UNCDF continued to support its third-party managed, blended-finance 'BUILD' Fund, which is designed to attract commercial capital to finance small and medium-sized enterprises with strong business and sustainable development potential. BUILD became fully operational in 2021, and made its first investment of \$500,000 in an off-grid solar company in Africa. This transaction was prepared and appraised by UNCDF. Progress was made in mobilizing additional resources for the Fund, with three donors approving a total of \$25 million for first loss and mezzanine financing, which will help attract private-sector investments.

46. UNCDF provides a pipeline of investment opportunities for BUILD, drawing from its programmes and the wider United Nations system. It manages the 'BUILDER' technical assistance facility for the Fund, which offers business development services as pre- and post-investment support for target companies of the Fund. Some 60 potential investees have been identified and have undergone initial pre-screening by UNCDF. Many of these will benefit from BUILDER assistance.

47. In creating *inclusive digital economies*, UNCDF uses performance-based grants and concessional loans to support and incentivize the private sector and other partners to develop and tailor their financial and other products to meet the needs of unbanked and under-banked populations, while remaining financially viable. The expectation is that these investments will be matched with contributions from the partners, and that they will leverage additional external financing. In 2021, UNCDF grants of \$12 million and loans of \$1.5 million were complemented by \$7.7 million in own-equity contributions from private-sector partners, leveraging an additional \$45.3 million in external financing.

48. In the Democratic Republic of the Congo, UNCDF provided concessional loans to two companies in the clean energy sector in late 2020 for a combined value of \$650,000, along with a co-investment of \$500,000 from the Social Investment Managers and Advisors ('SIMA') Bank. In 2021, the two companies raised an additional \$4.5 million from two lenders.

49. In Ethiopia, UNCDF and UNDP established a credit-risk guarantee fund administered and guaranteed by the Development Bank of Ethiopia. The fund provides a 50 per cent partial credit guarantee to enhance the lending of financial institutions to rural energy technology providers. Two energy service companies received loans totalling \$131,250 through this facility, which allowed for 19 partner energy service providers to sell over 566,000 cooking and solar units.

50. In Cambodia, UNCDF supported six financial service providers and fintechs to leverage financing from external sources, including private investors, a government development agency, and private banks. UNCDF is providing a grant of \$650,000 (\$150,000 disbursed in 2021) and technical assistance to the Impact Investment Exchange (IIX) Women's Livelihood Bond (tranches 1 and 2), the first gender lens and impact investing instrument to be listed on a stock exchange. The Bond is part of the \$150 million Women's Livelihood Bond Series, a series of innovative debt securities that support women entrepreneurs across the Asia-Pacific and other emerging markets. At the end of 2021, over \$40 million was raised through the bond series.

51. A key priority for UNCDF in *local development finance* is to unlock financing from domestic and international financial institutions to strengthen local infrastructure and expand local economies. In 2021, 390 localized UNCDF investments of \$24.7 million unlocked some \$7.6 million in international financing, and more than \$37 million in domestic resources.

52. The UNCDF Local Finance Initiative unlocks finance from domestic banks for local infrastructure and local economic development. It combines UNCDF catalytic capital, technical assistance and risk mitigation strategies to structure financeable transactions. In 2021, the global initiative pipeline consisted of 133 investments with a total value of \$170 million. Those projects had the desired catalytic leverage and demonstration effect. For example, in 2021, based on the experience of the Initiative, the Ministry of Finance in Tanzania requested that UNCDF scale up its support to domestic capital market development with infrastructure bonds on the domestic stock market. The initial transaction, a \$23 million water infrastructure bond, is expected to close in 2022.

53. UNCDF supported the Royal Government of Cambodia to approve the policy framework establishing the Credit Guarantee Corporation of Cambodia, which seeks to help diversify the economy from an over-reliance on the garment and tourism sectors towards light manufacturing, electronics, and robotics. UNCDF invested \$150,000 to operationalize the Corporation, which has issued 182 credit guarantees for a total value of \$13 million. Twenty-two per cent of loans were to women owned-businesses.

54. In Bangladesh, UNCDF provided concessional financing to de-risk investment in a social enterprise for orange-fleshed sweet potatoes. This unlocked a commercial loan and a contribution from the local government, providing job opportunities for 5,000 farmers (3,000 women) and increasing farmers' income by 25 per cent. This model will be replicated to expand local fiscal space and drive fixed capital formation through the construction of storage facilities.

55. In Uganda, UNCDF, in partnership with the Uganda Development Bank, manages a blended finance facility, Support to Agricultural Revitalization and Transformation, which provides seed capital and technical assistance to small and medium-sized agri-businesses in Northern Uganda. In 2021, over 70 such enterprises received business advisory support services; three concessional loans; and two received reimbursable grant-support under the small-business recovery fund, benefiting over 2,100 farmers.

56. In 2021 the UNCDF partnership with First Rand Bank was selected as a finalist in the United Kingdom Mobilizing Institutional Capital Through Listed Product Structures ('MOBILIST') competition, which seeks to foster sustainable platforms that mobilize capital in London public equity markets for development. The award was announced at the 26th United Nations Climate Change Conference in Glasgow. The partnership aims to create an exchange-listed investment platform for sustainable infrastructure securitization ('ELIPSIS'), to facilitate an increase in climate-resilient and green infrastructure investments by securitizing, in London, mature exposures in climate/green infrastructure in sub-Saharan Africa, thereby freeing balance sheets for additional investment in the same markets.

57. The International Municipal Investment Fund is an instrument of the UNCDF and United Cities and Local Governments-led Malaga Coalition for a global financial ecosystem that works for cities and local governments. The fund was established in response to a UNCDF-managed competitive process. In 2021, Meridiam, the fund manager, secured capital towards its first close of 290 million Euros. The technical assistance facility of the Fund, managed by UNCDF, supported project development in three cities.

58. ***Unlocking finance for women.*** UNCDF supports and creates innovative financing instruments that address the financing gap for women. UNCDF launched the Women Enterprise Recovery Fund to support women-owned or -led businesses in Asia to battle the pandemic and recover through digital and e-commerce solutions. In Cambodia, UNCDF provided support for more than 27,000 micro, small and medium-sized enterprises and 7,000 borrowers received financing to support recovery. 'SHE' Investments, one of the UNCDF partners in Cambodia, designed and launched the only gender-focused and culturally tailored business support application for women-owned micro-small businesses in Cambodia, and recorded more than 6,000 enterprises registered with the bookkeeping application. The UNCDF Fund partner Boost Capital disbursed 825 loans digitally, totalling more than \$1 million in loan value to support business recovery.

59. In Myanmar, the Women's Economic and Financial Inclusion Project, completed in 2021, worked with savings groups and microfinance institutions to improve the financial inclusion ecosystem. The initiative reached over 165,000 women, almost 15,000 of whom accessed new financial products and services. The gender-smart product design in Myanmar is the first of its kind, and is being replicated in two new countries in Asia and two in Africa.

60. In Senegal, UNCDF assists the Fonds fédérale d'investissements stratégiques ('FONSIS'), the sovereign wealth fund, in managing the Women's Economic Empowerment Fund ('WE!Fund'), providing equity and loans to small and medium-sized enterprises and public-private partnerships, with a focus on women's economic empowerment. The Fund made its first investment in 2021, to a bread manufacturing company connected to local value chains, driving local economic development. Capitalized at \$2 million, the Fund has a pipeline of projects for a total investment need of \$15 million.

61. To support structural transformation for women's economic empowerment, UNCDF invested \$426,505 in local partners in Bangladesh, Mali, and Tanzania, for investments applying UNCDF tools to evaluate local economic development through a gender lens. Since 2018, UNCDF has funded 35 projects benefiting more than 36,000 women and disbursing over \$3 million in grants and loans, which unlocked \$6.06 million from local partners.

Strategic United Nations partnerships for financing the global goals

62. UNCDF saw an increase in demand from other United Nations entities to access its capital mandate and toolbox so as to unlock private capital in support of their objectives, resulting in several new collaborations. UNCDF received \$28 million in funding from the Multi-Partner Trust Fund Office, and \$7.9 million from nine partner United Nations entities. UNDP is the main partner of UNCDF, and the two organizations engaged in 40 joint programmes and numerous joint initiatives.

63. For example, with funding from the Joint Sustainable Development Goals Fund, UNCDF partnered with UNDP and other United Nations entities in 10 countries to support integrated national financing framework approaches enabling mobilization, planning and allocation of financing for the global goals. In Cambodia, the joint initiative aims to develop a framework that responds to the need to grow fiscal space and non-traditional sources of development finance. To inform the framework, UNCDF completed several strategic diagnostics, including a capital markets assessment to inform the future issuance of Cambodian sovereign debt, and an assessment of unsolicited sovereign ratings for the Government as it seeks its first sovereign rating, which will enable new flows of sustainability finance. Under the financing window of the Joint Fund (component 2, on catalysing strategic investments), UNCDF secured the second-largest funding allocation. Approved funding for UNCDF from the Joint Sustainable Development Goals Fund totals \$14.1 million.

64. In Fiji, UNCDF and UNDP launched the Investing in Coral Reefs and the Blue Economy initiative, which creates a pipeline of bankable projects and businesses that protect the marine ecosystem and support them in accessing investment capital. Over 30 transactions and businesses will receive technical assistance, and three blended finance transactions will be funded in the first two years. In 2021, UNCDF gave a first concessional loan and a grant to a shark reef conservation company to improve business operations and expand activities to restore and conserve the marine and coastal ecosystem. UNCDF assisted the Government of Fiji with preparations to issue its first sovereign blue bond in 2022, including by defining a sustainable development bond framework and developing a pipeline of investment-ready marine conservation projects.

65. Since 2018, UNCDF and UNDP have worked together to support the building of a 10.5 megawatt solar power plant in the Gambia, which is being supported by the Nationally Appropriate Mitigation Action Facility. The UNCDF role is to deploy a guarantee mechanism of approximately \$10 million to de-risk private sector investment and attract commercial capital to the project. Implementation commenced in 2021, and a major milestone was achieved with the successful procurement of the independent power producer that will deliver the project. This initiative serves as a replicable model for UNCDF-managed guarantees, helping secure commercial investments in renewable energy.

66. Not only does UNCDF offer United Nations entities access to its unique toolbox of loans and guarantees, but it also offers collaboration with its BUILD Fund, managed by a Geneva-based impact investor. This allows United Nations entities to engage commercial actors and leverage commercial capital for their projects. This has been done in Malawi, where UNCDF supports the BUILD Malawi Fund – which was incorporated in 2021 and received its first anchor investment from UNCDF, funded by the Joint Sustainable Development Goals Fund. UNCDF worked with UNDP and the Food and Agriculture Organization to develop the pipeline and undertake due diligence of potential investments in the agriculture sector.

67. Through its Investment Advisory Initiative, UNCDF expanded its support to the United Nations development system to 10 countries across Africa, providing development finance policy advice, identifying and supporting sustainable investments and exploring innovative development financing initiatives targeting the private sector and investment community, including with UNFPA, the World Food Programme and UN-Women. UNCDF thus puts its unique investment mandate at the service of other United Nations entities, supporting the deployment of financial instruments and blended finance investment vehicles.

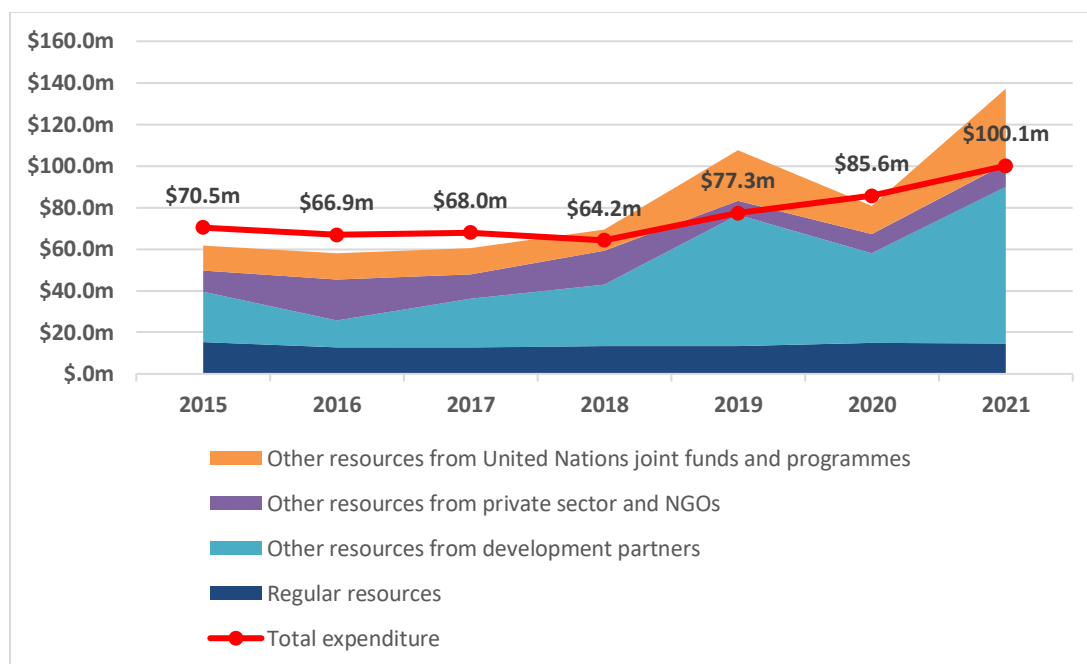
B. How UNCDF achieved it: Analysis of institutional effectiveness

68. Among the 27 institutional effectiveness indicators, 24 are on track or exceeding the targets set for 2021.

69. While exceeding the mobilization target range for its non-regular resources, UNCDF fell short of reaching its overall ideal resource envelope in the Strategic Framework that would allow it to operate meaningfully and with staff presence in 40 least developed countries. UNCDF regular resources⁹ remained more or less stagnant, at \$14.7 million, in 2021 and made up 10.7 per cent of total revenues – well below the Funding Compact, 2023 target of 30 per cent. Regular resources remained below the \$25 million per annum target set in the Strategic Framework. Eleven partners contributed to UNCDF regular resources in 2021, down from 13 in 2020.

70. Revenues from other resources increased by 84.8 per cent, from \$66 million in 2020 to \$122 million in 2021. The five main contributors of other resources were the Multi-Partner Trust Fund Office, the European Union, the governments of Sweden and Switzerland, and the Bill and Melinda Gates Foundation. UNCDF strengthened cooperation with the United Nations development system, and, as a result, the resources received through the Multi-Partner Trust Fund Office increased significantly, now representing around 20.5 per cent of total resources. Contributions from the private sector and non-governmental organizations increased by some 20 per cent in 2021 compared to 2020.

⁹ Regular resources include UNDP contribution. All 2021 revenue and expenditure figures are as of 17 March 2022 and are subject to adjustments until publication of the audited financial statements. Revenue estimates for 2021 were calculated using the same methodology used since the 2018 report to ensure comparison with previous years and include the milestones set in the Strategic Framework, 2018-2021.

Figure 1. UNCDF revenue and expenditures, 2015-2021 (in \$ millions)

71. UNCDF raised capital of more than \$11 million for its least developed countries investment vehicle, the BRIDGE Facility. A total of \$15.5 million has now been raised towards the one-time \$50 million capitalization target of the Facility.

72. The UNCDF Last Mile Finance Trust Fund continues to be an important vehicle for UNCDF to attract lightly earmarked resources, with total contributions of \$15.7 million in 2021. Since its launch in 2016, nine partners have contributed a total of \$56.6 million to the Trust Fund.

73. In terms of delivery, UNCDF expenditures increased 17 per cent, from \$85.6 million in 2020 to a record \$100 million in 2021. The increase was due to improved programme delivery in both the inclusive digital economies and local development finance areas of work. UNCDF has consistently increased its delivery since 2018, with expenditures at \$64.2 million in 2018 and \$77.3 million in 2019.

74. UNCDF delivered its investments and technical assistance support to 37 least developed countries in 2021. However, it maintains a thin presence in six of those countries, with limited programme activities, no regular staff presence, or both. UNCDF continued to support several non-least developed countries, especially where there were opportunities to benefit populations with financial and digital inclusion and municipal finance, and to promote South-South and triangular cooperation. For example, UNCDF worked with UN-Habitat and Regional Economic Commissions to strengthen capacities of local governments in 16 cities globally, supporting sustainable, resilient, and inclusive COVID-19 recovery, with a focus on leveraging digital solutions and green economy opportunities. The initiative provides a platform for sharing good practices to inform pilot cities in their activities.

75. UNCDF policy advocacy, communication and outreach continue to strengthen its strategic positioning in the sustainable development financing space, including as a recognized partner in the Global Investors for Sustainable Development Alliance. UNCDF engaged proactively in the preparatory process for the Fifth United Nations Conference on the Least Developed Countries, the local governments and municipal associations, and global advocacy efforts for local climate adaptation finance. It convened a global two-day sovereign borrowers' conference to explore opportunities and challenges for least developed countries to access capital markets in a time of growing opportunities and constraints. UNCDF continued to achieve strong growth in its digital communications and online properties. There

was a 45 per cent increase in the number of visitors to UNCDF websites for the year, and an 18 per cent increase in social media followers.

76. UNCDF was awarded an unqualified audit opinion on its financial statements for 2021, marking nine consecutive years of unqualified audit opinions. UNCDF has no long-outstanding audit recommendations from the United Nations Board of Auditors.

77. UNCDF performance against the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women shows that the organization met or exceeded 88 per cent of the targets in 2021. Progress was retained on almost all indicators, including gender-related strategic planning, programmatic results, evaluation, knowledge and communication. Expenditures with a significant gender component ('GEN2') and with gender as a principal objective ('GEN3') constituted 69 per cent of total delivery, up from 56 per cent in 2020. However, equal representation of women for staffing, especially at senior levels, needs further attention. Pursuant to the recommendation of the peer review conducted with UNV in 2021 to assess UNCDF performance against the United Nations system-wide action plan, the organization, as part of the new Strategic Framework, will elevate its efforts to invest in gender capacity-building, dedicated gender programming, and gender architecture and staff parity at every level.

78. In formulating its Strategic Framework, 2022-2025, UNCDF defined a new integrated results and resources matrix. The updated version is presented as annex 2 to this report.

C. A strong commitment to evaluation and learning

79. In 2021 UNCDF maintained its commitment to independent evaluation, completing three evaluations and launching four others, spending a total of \$800,000 (0.93 per cent per cent of programmatic expenditure), close to the 1 per cent target set out in the UNDP evaluation policy.

80. Co-financed by the UNDP Independent Evaluation Office, a key evaluation was of the Strategic Framework, 2018-2021, and the accompanying UNCDF gender strategy, which concluded that UNCDF had positioned itself well over the period to respond appropriately to key international policy commitments, including the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, and the Istanbul Programme of Action for least developed countries. UNCDF was found to have effectively adapted its programming to emerging development themes and shifts in public and private finance market systems, and to have leveraged its unique capital mandate to catalyse resources for Sustainable Development Goals-aligned projects.

81. The evaluation highlighted a funding model that was under pressure with regular resources that had remained less than planned and threatened the institutional sustainability of UNCDF. It recommended that UNCDF develop a common vision, mission and integrated set of objectives under its new Strategic Framework to clarify its value proposition and enable a more cohesive approach for institutional funding and resource mobilization. UNCDF was found to have moved forward successfully in mainstreaming a gender approach in its work; however, further resources and expertise would have allowed for improved gender-responsive programming and accountability mechanisms. Last, it was recommended that UNCDF consider a more integrated country-level approach to take advantage of funding and programming opportunities and to conduct a review of its resource mobilization efforts, especially towards the one-time capitalization of its investment vehicle, the BRIDGE Facility.

82. The joint UNCDF-International Trade Centre jobs, skills and finance programme in the Gambia was found to have demonstrated how climate resilience objectives could be incorporated into local development planning, creating a structure through which to channel international climate finance. In parallel, its skills development component had contributed to the improved supply, quality, and relevance of technical and vocational education and training for young people, although to date this had resulted in limited impact on job creation. The evaluation of the Shaping Inclusive Finance Transformation programme, supporting rural micro-merchants, confirmed the relevance and

effectiveness of supporting digital services for micro-merchants, an important and neglected sector of the Bangladesh economy. For example, the project supported the piloting of 10 digital services, engaging 7,000 beneficiaries in the pilot stage and reaching over 2.3 million once scaled up.

83. UNCDF continued its support to the United Nations Evaluation Group and contributed to United Nations system-wide evaluation efforts. UNCDF remains open to strengthened partnerships with United Nations evaluation offices, Member States, and other key stakeholders in the international evaluation system for joint work.

III. UNCDF: Looking ahead

84. After three consecutive years of growth and historical record-breaking in terms of programme expenditure, UNCDF stands at an exciting crossroads. Its value proposition has never been more relevant to the least developed countries, the 2030 Agenda implementation, and the emerging trends of financing for development as the organization lays the foundation for a novel investment proposition and partnership model during its Strategic Framework cycle, 2018-2021. The organization has increased its capacity to manage and deploy concessional debt and other blended finance instruments, enabling it to build an investment portfolio and track record. This is a unique capability that UNCDF intends to continue refining and growing through the implementation of the Strategic Framework, 2022-2025, thus further assisting least developed countries in achieving sustainable and inclusive economic growth and recovering from the effects of COVID-19.

85. UNCDF will continue to evolve into a hybrid development organization and development finance institution by systematically combining the provision of capital and financial advisory services with capacity development, technical assistance, and policy advice in its long-standing areas of work: inclusive digital economies and local transformative finance. In the coming year, it will boost its capital markets and investment expertise at the global and country levels.

86. Building on progress in 2021, UNCDF will deepen partnerships with the United Nations development system to develop scalable financing solutions in key areas such as women's economic empowerment, climate change, energy, biodiversity and food systems. UNCDF will offer its unique financing capabilities as a service for the wider United Nations development system.

87. To enhance its relevance and responsiveness to the priorities of least developed countries, UNCDF will deepen engagement with governments and other representatives of the least developed countries, as well as with United Nations country teams, utilizing its newly established country relationship manager network. In so doing, it will work with countries to accelerate development of investment-ready sustainable development projects.

88. UNCDF recognizes the value of strong evaluation and results management functions to capture and incorporate learning into scaled-up programmes and investments. In the new Strategic Framework period, UNCDF aims to strengthen its capacities and systems for results and impact management and increase investment in corporate and thematic evaluations.

89. As the United Nations development system evolves and responds to emerging global challenges, UNCDF will follow the guidance of Member States in supporting the Secretary-General's call to action in "Our Common Agenda". In so doing, it will seek to leverage its decades-long expertise in making finance work for last-mile support to new approaches to boost Sustainable Development Goals investments.