

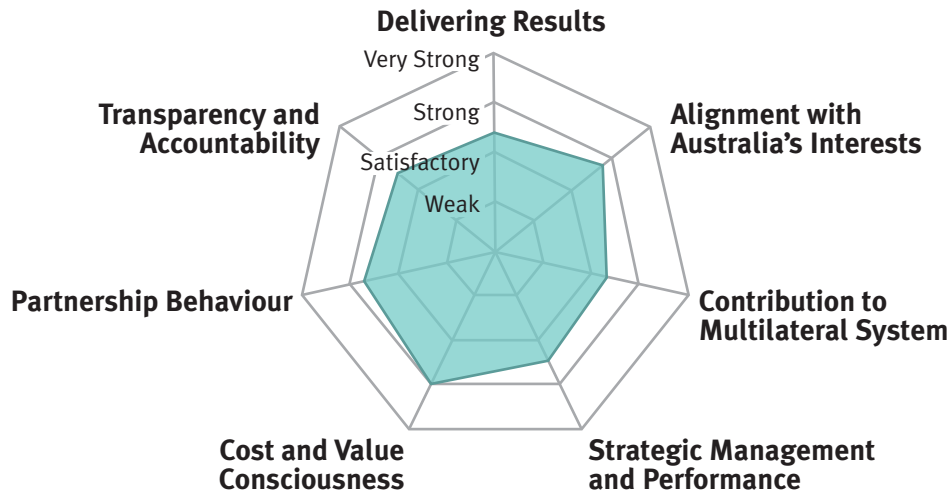


Australian Multilateral Assessment March 2012

United Nations Capital Development Fund (UNCDF)



OVERVIEW OF ORGANISATION RATINGS



ORGANISATION OVERVIEW

The United Nations Capital Development Fund's (UNCDF) mandate is to bring services to people who are underserved or overlooked entirely by the private sector and their own government. UNCDF works as part of the UN system to extend financial services and basic government services to poor people in least developed countries. It focuses on Africa and Asia, often in countries struggling to recover from crisis or conflict, and has a growing portfolio in the Pacific in partnership with Australia. UNCDF provides support in 48 least developed countries and expenditure in 2009 totalled around US\$40 million.

Australia does not provide UNCDF with core funding. In 2010–11, Australia provided UNCDF with \$3.9 million in non-core funding for programs in the Pacific.

RESULTS AND RELEVANCE

1. Delivering results on poverty and sustainable development in line with mandate

SATISFACTORY

UNCDF demonstrates clear outputs from its programs. For example, its mobile money services have reached more than 300 000 people in the Pacific in just over a year. During the Australian Multilateral Assessment field visit to Solomon Islands, stakeholders were positive about the high quality of technical assistance provided by UNCDF.

UNCDF has, however, found it challenging to accurately measure the development results of its activities. It has increased focus on results monitoring and, in addition to publishing an annual report on results achieved, has increased the number of mid-term and final reviews it conducts each year. Still, UNCDF needs to do more to demonstrate development outcomes.

Although UNCDF operates exclusively in least developed countries, it does not systematically ensure that it targets the poorest people within these countries. UNCDF generally works in rural areas, however, where there is often a higher proportion of poorer individuals.

a) Demonstrates development or humanitarian results consistent with mandate

STRONG

UNCDF has achieved strong results against its mandate of promoting financial inclusion and community-level capital investment in 48 least developed countries.

In early 2011, UNCDF attained the highest score ever received in the SmartAid for Microfinance Index, which measures the effectiveness of organisations delivering financial inclusion services.

UNCDF has been extending financial services through microfinance institutions in Africa and Asia for the last two decades, reaching 3.5 million clients globally in 2010 and targeting 6 million by 2013. For example over 300 000 subscribers in the Pacific have been given access to mobile money services through the Pacific Financial Inclusion Program (PFIP). During the Australian Multilateral Assessment field visit to Solomon Islands, stakeholders were positive about the high quality of technical assistance provided by UNCDF.

However, despite UNCDF being able to demonstrate clear outputs and outcomes, work to show development results, such as the social performance impact of the Fund's services, will require further quantitative analysis.

UNCDF can show, for example, how in 2010 it helped financial service providers to mobilise more than US\$360 million in additional savings by poor people around the world, but it cannot yet show the extent to which this may have made the ultimate beneficiaries of its programs more financially resilient.

Australia has previously raised this with the UNCDF Executive Secretary, David Morrison, who has said he is keen to work more on this in the future, together with the wider community of peer organisations facing similar challenges. UNCDF's 2010 annual report

acknowledges the importance of being able to demonstrate results, and notes that UNCDF will work with partners in the Consultative Group to Assist the Poor (CGAP) to attempt to address this.

b) Plays critical role in improving aid effectiveness through results monitoring	SATISFACTORY
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UNCDF has received high SmartAid scores over the last six years, 40 per cent of which is based on ‘accountability for results’. However, ‘performance indicators’ and ‘portfolio reviews’ received the two lowest component scores among the nine components comprising UNCDF’s high rating, indicating that this is one of UNCDF’s weaker areas. Nevertheless, UNCDF received significantly higher ratings across these two components as compared with the 2009 SmartAid scores, indicating its ongoing commitment to improving its performance in this area. UNCDF has published an annual *Report on Results Achieved by the UNCDF* for more than a decade.

While staff shortages meant that just two full evaluations of UNCDF programs were commissioned in 2009, this increased to 11 in 2010. UNCDF’s work in financial services is producing directly quantifiable results against performance indicators in AusAID’s strategy on financial services for the poor. Both the PFIP and financial literacy programs have excellent and timely results monitoring systems, with strong regular reporting of progress provided to AusAID.

Monitoring of individual programs is generally robust and precise, and UNCDF is able to provide accurate figures of individuals provided with financial services whenever it is requested to do so, in addition to regular reporting of progress. UNCDF’s Atlas database can generate a list of all projects at any time.

c) Where relevant, targets the poorest people and in areas where progress against the MDGs is lagging	SATISFACTORY
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UNCDF operates only in the least developed countries, where on average more than 50 per cent of the population lives on less than US\$1.25 a day. Within countries, UNCDF generally focuses on areas which the poorest people are likely to benefit from, although they may not be the exclusive recipients within these areas. For example, UNCDF typically works within rural areas, where government services are often weakest and rates of poverty are higher. UNCDF’s focus on savings products is also consistent with financial services particularly suited to the poorest. All financial service providers supported by UNCDF worldwide must report on quantitative poverty targeting measures of average loan size/GNI per capita and average savings balance/GNI per capita.

2. Alignment with Australia’s aid priorities and national interests	STRONG
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UNCDF makes a small but valuable contribution to the Australian aid program’s strategic goal of sustainable economic development by improving incomes, employment and enterprise opportunities. Its programs are well aligned with AusAID’s financial services for the poor strategy. Approximately one-third of UNCDF resources are allocated to the

Asia-Pacific region, and its efforts to promote private sector growth support Australia's broader interests in regional prosperity and stability.

UNCDF programs are usually implemented jointly with the United Nations Development Programme (UNDP) and so UNDP's sound environment and gender policies are used in UNCDF programming.

UNCDF is an effective actor in fragile states. The Australian Multilateral Assessment field visit to Solomon Islands and feedback from East Timor suggests it adapts its policies and programs to suit these contexts well.

a) Allocates resources and delivers results in support of, and responsive to, Australia's development objectives	SATISFACTORY
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Approximately 35 per cent of UNCDF resources are allocated to the Asia-Pacific region, with the remainder in Africa. The Fund's focus on the Asia-Pacific is increasing, consistent with Australia's objective of improving regional prosperity and stability. Furthermore, views from post and other stakeholders suggest that the UNCDF staff in Asia-Pacific countries are highly competent, professional and effective. The Fund's allocation of financial and institutional resources to areas of key concern to Australia is a strength.

Australia does not provide UNCDF with core funding. In 2010–11, Australia provided UNCDF with \$3.9 million in non-core funding for programs in the Pacific. UNCDF has been responsive to Australian proposals regarding alterations of these programs.

b) Effectively targets development concerns and promotes issues consistent with Australian priorities	STRONG
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UNCDF's geographic and thematic allocation of resources is both supportive of and responsive to Australia's development objectives. UNCDF makes a small but valuable contribution to the Australian aid program's strategic goal of sustainable economic development by improving incomes, employment and enterprise opportunities.

The UNCDF supported PFIP supports all four goals of AusAID's financial services for the poor strategy—policy reform, innovation, capacity building and financial education.

In addition, PFIP support for the rollout of mobile money is producing results against Australia's broader objective of making markets work for the poor through improved rural livelihoods under the food security through rural development budget measure.

c) Focuses on crosscutting issues, particularly gender, environment and people with disabilities	STRONG
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UNCDF programs are usually implemented jointly with UNDP, which ensures that its programs include considerations of crosscutting issues such as gender and the environment. Details of UNDP's policy can be found in the Australian Multilateral Assessment review of that organisation. Like UNDP, UNCDF lacks mainstreaming policies for people with disabilities.

In addition to these policies, UNCDF operates individual programs designed to improve gender equality, environmental sustainability, and living standards for people with disabilities:

- > **Gender:** UNCDF supports joint programs with UN Women and UNDP such as the Gender Equitable Local Development program, which supports mainstreaming of gender considerations by local governments. Approximately 50 per cent of PFIP clients are female. This 50 per cent gender balance is the minimum required by UNCDF policy and is built into all funding agreements with financial service providers.
- > **Environment:** UNCDF is supporting pilot projects designed to improve environmental sustainability. These include the ‘CleanStart’ microfinance program for clean energy solutions, and the ‘LoCAL’ program that promotes international financing of climate change adaptation via local governments.
- > **Disability-inclusive-development:** UNCDF’s government-to-person payments program in Fiji benefitted vulnerable people, including people with disabilities.

d) Performs effectively in fragile states	STRONG
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Approximately 50 per cent of UNCDF’s portfolio is allocated to fragile states, and UNCDF has a range of policies and practices it has developed to assist effective operation in these circumstances. These policies relate to the services provided, as well as modified procedures for offering such services.

UNCDF programs in fragile states are appropriate for the circumstances. For example, it provides increased levels of support for savings-led microfinance institutions in these contexts. UNCDF also uses modified procedures for supporting local governments in circumstances where capacity is low and the risk of fraud is high.

Comments from relevant AusAID areas and Australian overseas missions, as well as the Australian Multilateral Assessment field visit to Solomon Islands, suggest that these policies are effective in practice.

3. Contribution to the wider multilateral development system	SATISFACTORY
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UNCDF plays a niche but useful role within the wider multilateral development system. It supports the coordination of microfinance within the UN system by convening interagency meetings and promoting unified approaches to inclusive finance.

Regionally, UNCDF successfully coordinates a range of government and non-government partners to implement the Pacific Financial Inclusion Program. The program is an example of the sector development approach that UNCDF utilises across Asia and Africa.

UNCDF often develops innovative approaches which are later scaled up by larger multilateral development banks, such as mobile banking in the Pacific. Its policy innovation is supported by the quality of the technical assistance it provides.

a) Plays a critical role at global or national-level in coordinating development or humanitarian efforts	SATISFACTORY
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At global-level, the UNCDF coordinates the work of the UN Secretary-General’s Special Advocate for Inclusive Finance for Development. In this capacity, the UNCDF has supported the convening of the first ever UN interagency meeting on inclusive finance, which included 18 UN agencies. This work also resulted in over 50 investors signing the new Principles for Investors in Inclusive Finance, which is expected to ensure a more consistent and unified approach to inclusive finance.

UNCDF’s coordination at regional level is most visible in its role as the coordinator of the Pacific Financial Inclusion Donor Group. The Pacific Financial Inclusion Program is commonly recognised for bringing together public and private partners, and facilitating new products and partnerships. For example, in Fiji the program supported Fiji Department of Social Welfare, Westpac, and the Central Bank to coordinate their systems, enabling recipients to receive payments directly into their bank account, thereby reducing recipients’ travel time and transaction costs. UNCDF has successfully encouraged new partners to enter the Pacific, such as the Alliance for Financial Inclusion. The PFIP itself is a coordinated program, pulling together AusAID, European Union, UNCDF, and UNDP.

At country-level UNCDF regularly chairs development partner working groups on local development, and establishes inclusive multi-partner investment committees for inclusive finance.

b) Plays a leading role in developing norms and standards or in providing large-scale finance or specialist expertise	SATISFACTORY
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UNCDF demonstrates specialist expertise in the area of ‘financial inclusion and local development’, and applies this expertise to tackling difficult policy issues.

UNCDF’s expertise makes a critical difference to the success of its financial programs in the Pacific. A thorough understanding of the specifics of regulation for financial inclusion, incentives for telecommunications companies, the needs and practices of clients, is required for effective finance programming. UNCDF’s specialist knowledge in these areas is recognised among Australian overseas missions as contributing to the success of its programs in the Pacific, particularly in Solomon Islands.

UNCDF’s expertise in public financial management for local development is widely recognised, for example, in East Timor, and has recently been sought out by Australia in Cambodia, where UNCDF has helped to develop a sub-national financial system now being used nationwide.

c) Fills a policy or knowledge gap or develops innovative approaches	STRONG
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As a small organisation focused on collaboration with the private sector, UNCDF is particularly strong in the areas of policy development and sharing these developments with the wider development community.

Examples of how UNCDF has brought innovation to the Pacific include mobile banking, its work with the Fiji Department of Social Welfare to put social protection payments through the commercial banking system, and its work with central banks to introduce world leading regulation on financial inclusion.

UNCDF facilitates the sharing of these experiences and practices with the wider development community. The Government of Sweden describes UNCDF’s ability to pilot innovative programs and share these with larger development partners as one of its key contributions to the multilateral development system.

ORGANISATIONAL BEHAVIOUR	
4. Strategic management and performance	STRONG

UNCDF’s key strategy document is the *Corporate Management Plan 2010–2013*. This clear and overarching document is framed around four strategic objectives which are closely related to UNCDF’s mandate.

UNDP’s executive board also serves as UNCDF’s governing body and UNCDF has opted into UNDP’s accountability mechanisms and processes. Given UNCDF’s relatively small size and the openness of its senior management to engagement with stakeholders, the lack of a dedicated governing body does not appear to be a major constraint to effectiveness.

UNCDF uses UNDP evaluation policies. Australia’s experience is that UNCDF undertakes effective monitoring but does not adequately evaluate the poverty or other social impacts of its financial service programs.

Leadership at headquarters-level has overseen the successful expansion of UNCDF’s activities in the Asia-Pacific region. Feedback from Australia overseas missions suggests UNCDF exerts strong and effective leadership at country-level, including on the Pacific Financial Inclusion Program in Fiji.

a) Has clear mandate, strategy and plans effectively implemented	STRONG
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The mandate of the UNCDF is very clear. It is to bring services to people who are underserved or overlooked entirely by the private sector and their own government, by working as part of the UN system to extend financial services and basic government services to poor people in least developed countries.

The key UNCDF strategy document is the *Corporate Management Plan 2010–2013*. The Plan is framed around four strategic objectives, a performance scorecard and an action matrix.

b) Governing body is effective in guiding management	SATISFACTORY
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UNDP’s executive board serves simultaneously as UNCDF’s governing body, and UNCDF has opted into UNDP’s mechanisms and processes for ensuring organisational and individual accountability (for example, UNDP’s accountability framework). Given UNCDF’s relatively small size and the openness of its senior management to engagement with stakeholders, the lack of a dedicated governing body does not appear to be a major constraint. Australia’s discussions with UNCDF Executive Secretary Mr David Morrison, and its experience regarding UNCDF/Australia co-funded programs, indicates that senior management is closely involved in supervision of program delivery.

c) Has a sound framework for monitoring and evaluation, and acts promptly to realign or amend programs not delivering results	SATISFACTORY
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UNCDF has steadily been increasing the number of project evaluations undertaken, conducting 11 evaluations in 2010.

UNCDF uses UNDP evaluation policies. Advice from the Australian overseas mission in Suva indicates that the quality of UNCDF monitoring and evaluation of the financial literacy project is very good. Although UNCDF does not adequately evaluate the poverty or other social impacts of its financial service programs, it has acknowledged this in its 2010 annual report, and has committed to addressing this in the future.

d) Leadership is effective and human resources are well managed	STRONG
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David Morrison (Executive Secretary of UNCDF) is providing effective leadership and focusing on providing clear strategic direction for UNCDF and ensuring delivery of results, including in the Pacific region. Feedback from Australian overseas missions suggests UNCDF exerts strong and effective leadership at country-level, including on the Pacific Financial Inclusion Program in Fiji. Tillman Bruett, who manages the PFIP in Fiji, leads a team of capable and effective people who have been appropriately trained for the task.

5. Cost and value consciousness	STRONG
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As an organisation with relatively modest resources, UNCDF’s management pays close attention to cost effectiveness and value for money.

UNCDF uses its scarce resources to leverage capital flows from other partners, governments and the private sector. It makes strong use of analysis on cost efficiencies at activity level, as feedback from the Pacific Financial Inclusion Program confirms.

UNCDF challenges partners to think about value for money through performance-based agreements and grants. Partners who do not meet minimum and performance-based conditions do not receive further investment funding.

a) Governing body and management regularly scrutinise costs and assess value for money	STRONG
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UNCDF’s resources are modest compared to the challenges it is addressing and its governing body and management are aware of the need to maximise cost effectiveness and value for money. UNCDF uses its scarce resources to leverage capital flows from other partners, governments and the private sector.

b) Rates of return and cost effectiveness are important factors in decision making	STRONG
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Quantitative methods in project selection and monitoring, with focus on economic rate of return and cost effectiveness, are standard practice in the UNCDF portfolio. An AusAID analysis on cost efficiencies in PFIP demonstrated that it was a highly cost efficient activity.

Costs per client acquired is a key UNCDF criteria in evaluating grants to financial service providers.

c) Challenges and supports partners to think about value for money	STRONG
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UNCDF funds partners via performance-based agreements and grants. One performance measurement required of financial service providers is cost per active client. Partners who do not meet certain minimum and performance-based conditions do not receive further investment funding. UNCDF may support additional capacity building or re-deploy its resources to where they will be used more cost effectively.

6. Partnership behaviour	STRONG
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UNCDF works effectively with key partners including donors, governments, the private sector and civil society. It often convenes multi-stakeholder groups at country and program-levels to promote stronger partnership between others. It plans to continue to build strategic partnerships, including with non-traditional funders.

UNCDF has placed strong emphasis on partner country ownership and leadership and aligns its work appropriately to partner government priorities given the nature of its mandate.

UNCDF does not typically work with ultimate beneficiaries but expects its partners to understand client needs in delivering financial services and to design products accordingly.

a) Works effectively in partnership with others	STRONG
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UNCDF works effectively with key partners including donors, governments, the private sector and civil society.

Pacific Financial Inclusion Program has led partnerships between public bodies such as Ministries of Finance, Women’s Affairs, Social Welfare and Telecoms; between independent central banks and government ministries; and, between government and the private sector working in financial inclusion.

UNCDF plans to continue to build strategic partnerships (including with non-traditional funders, such as private foundations) as the best means of leveraging its technical expertise in local development and microfinance, of building advocacy, and of increasing its overall impact.

b) Places value on alignment with partner countries’ priorities and systems	STRONG
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UNCDF has placed strong emphasis on partner country ownership and leadership in its operations across 40 countries. Its role in catalysing coordination between Central Banks in the Pacific has been impressive, enabling Governors to take a lead in policy initiatives. In Solomon Islands, Pacific Financial Inclusion Program assisted the central bank in developing a national action plan and a national task force of local stakeholders to oversee its implementation.

c) Provides voice for partners and other stakeholders in decision making	SATISFACTORY
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Under the Pacific Financial Inclusion Program, UNCDF has shown strong skills in ensuring consultative and inclusive methods are used. Program partners such as central banks, mobile network operators, NGOs and commercial banks are fully engaged and consulted in the program. In the program, UNCDF does not typically work with ultimate beneficiaries but expects its partners to understand client needs in delivering financial services and to design products accordingly.

7. Transparency and accountability	STRONG
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UNCDF is a recent signatory to the International Aid Transparency Initiative, but is not yet fully compliant with the standard.

UNCDF adheres to UNDP’s information disclosure policy. It publishes a full list of projects and a broad range of operational reports, including evaluations and strategy documents.

There does not appear to be a publicly available rationale for resource allocation, although UNCDF’s heavy reliance on earmarked funding is a constraint to achieving this.

UNCDF largely relies on effective UNDP processes and systems in relation to accountability and transparency. For example the UNDP accountability framework.

UNCDF promotes transparency in its partners through the nature of its operations. In addition, partners are required to report on a range of financial and social indicators to demonstrate both financial and performance accountability.

a) Routinely publishes comprehensive operational information, subject to justifiable confidentiality	STRONG
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As a fund affiliated with the UNDP, UNCDF adheres to the UNDP Information Disclosure Policy. It is also a recent signatory to IATI, but is not yet fully compliant with the standard.

UNCDF publishes a full list of projects and a broad range of operational reports including evaluations and strategy documents. Many of these are available on the UNCDF website, although some key documents, such as the *Corporate Management Plan 2010–2013*, are not available on the website, or at least could not be readily found there. UNCDF did separately make these documents available to the Australian Multilateral Assessment.

b) Is transparent in resource allocation, budget management and operational planning	WEAK
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There does not appear to be a clear or transparent basis for allocating resources, although UNCDF’s heavy reliance on earmarked funding is a constraint to achieving this.

UNCDF’s corporate plan sets out strategic objectives for its activities in 35 least developed countries. It does not drill down to the level of resource allocation, although some information regarding this is supplied through UNCDF’s *Rolling Action Matrix (2011)*.

c) Adheres to high standards of financial management, audit, risk management and fraud prevention	STRONG
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UNCDF largely relies upon UNDP’s strong processes of financial and risk management, additional details of which are available in the Australian Multilateral Assessment report on UNDP.

An August 2009 audit report, commissioned in 2008 by UNCDF’s new Executive Secretary, pointed to weaknesses in UNCDF’s organisational structure and staffing, the design of its operations, and its monitoring and oversight regimes. Financial and administrative management were judged better, but still needing improvement. Many of these same issues were highlighted in a preliminary operational review also commissioned by the incoming Executive Secretary and conducted by an external consultant. To address these weaknesses, UNCDF prepared *Strengthening UNCDF: Project 2010*, a 20-month operational strengthening initiative. A follow up audit in late 2010 found UNCDF had made ‘significant progress’ as a result of Project 2010, and UNCDF reports that all audit issues have now been cleared.

d) Promotes transparency and accountability in partners and recipients

STRONG

The nature of UNCDF's work promotes transparency among both its partners and recipients. UNCDF's focus on performance based agreements is designed to reward good governance, and to identify and address problems at early stage. Partners are required to report on a range of important financial indicators to show accountability and also to report on social indicators such as gender-disaggregated data to show performance accountability.