

UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

Support to NEPAD

Period of Report: June 2003-June 2004

Orientation of work in support of NEPAD

UNCDF's goal is to help reduce poverty, with a focus on the least developed countries (LDCs) (most of which are in Africa), through programmes and services to support local development and micro-finance. UNCDF supports local development by providing seed capital and technical advisory services and helps local governments build capacities to more effectively manage local public expenditures on basic infrastructure and social services, as well as, ensuring such investments match the demand of local communities actively involved in the planning process.

In the area of micro-finance, UNCDF has recently made a shift away from supporting individual Micro-finance Institutions (MFIs) towards supporting and facilitating the development of inclusive financial sectors in LDCs. UNCDF is a risk-taking piloting organization that operates at the cutting edge with LDCs Governments and their citizens, new ways to address the fundamental problem of poverty.

Through its programmes, UNCDF strives to contribute, in a direct and visible way, to the achievement of the MDGs and to the implementation of the Programme of Action for LDCs.

Areas of support to NEPAD

Political, economic and Corporate governance

Working closely together with the UNDP, UNCDF's Local Governance Unit provides grants and technical assistance to strengthen the capacity of local governments in decentralized planning and financing. UNCDF's Local Development Programmes (LDPs) give newly elected officials the resources to govern and invest. UNCDF also works with NGOs and civil society to develop the checks and balances needed to keep local governments accountable. In doing this, UNCDF tries to create a climate of engagement and dialogue among technical authorities, local government and the people they serve.

UNCDF has introduced its approach (Local Development Programmes) in the following countries in Africa: Benin, Burkina Faso, Burundi, Eritrea, Ethiopia, Guinea, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. In a number of these countries, UNCDF's pilots have been scaled up by other donors, and have become some Governments' chosen model for decentralization.

Building financial sectors; micro-finance

UNCDF Micro-finance directs capital to countries with young or emerging micro-finance sectors. This capital is principally used to build the capacity of micro-finance

providers so they become sustainable and are able to function effectively within an inclusive and competitive financial sector.

In further refining its work, UNCDF Micro-finance has adopted a new model focused on the LDCs. Two or three pilot countries per year are chosen based on the potential and commitment of the government and other key stakeholders to support a sector development approach. With this model, a collaborative national strategy is developed and funds are allocated to micro-finance providers, technical service providers and, in some cases, both the private sector and the government.

- **MicroStart Programme**

MicroStart Programme which was begun in 1997 is a partnership between UNCDF, UNDP and its Country Offices. It is applied more broadly to developing countries. It facilitates small UNDP grants and technical support to individual micro-finance operations that are at an early stage of development but which are clearly moving toward becoming sustainable. The purpose of the MicroStart Programme is to build a new generation of MFIs that have transparent track records and has shown a solid institutional and financial performance, which enable them to reach poor clients while operating on a sustainable basis. The MicroStart Programme also aims to improve the practice of micro-finance within the UN system by establishing guidelines, providing technical assistance and promoting training and learning opportunities that incorporate best practices in the field.

Through MicroStart, UNCDF is partnered with UNDP in 20 countries. The 68 MFIs that received assistance reached more than half a million clients during the period of support. They increased from a baseline

of 141,414 to 543,733 active clients. Ninety-two per cent of these clients are women. The Independent Impact Assessment of UNCDF (completed in 2004) noted the key role UNCDF played in the initial launch and scaling up of MicroSave Africa, which provided new or improved financial services to over 450,000 clients in 2003.

- **MicroSave Project**

Since its inception following the "*Savings in the Context of Micro-finance*" Conference the MicroStart-Africa project has evolved significantly while maintaining its core mission, that is developing market research tools that allow the clients voices to be heard by micro-finance institutions involved in developing new products and services.

During its first phase (October 1998 to December 2000) the MicroSave project was designed to promote secure, high quality savings services for poor people in Africa. To this end, it was involved primarily in action, research and training activities, as well as, the dissemination of best practices, with a relatively modest geographical focus on three East African countries (Kenya, Tanzania and Uganda). During its current phase, the project, which is co-financed by UNDP, DfD and CGAP, has broadened its scope to embrace micro-finance in general (credit, savings, and insurance services). It has also extended its geographical coverage to include additional East African countries and some Southern African countries. They have relocated to Nairobi, Kenya, in order to make optimal use of its strategic partnership with the Micro-finance Capacity Building Programme in Africa (AFCAP).

UNCDF's financial contribution to the implementation of NEPAD

Individual African member states

In UNCDF's Results-Oriented Annual Report of 2003, 36 projects, accounting for an expenditure of US\$17m (79 per cent of total UNCDF programme expenditure) reported their results.

The data show that UNCDF resources are heavily concentrated in Africa, with 26 projects (72 per cent of reporting projects) accounting for about US\$14m (82 per cent of expenditure for reporting projects). UNCDF's 2003 expenditure in support of programmes in Africa is broken down as follows:

UNCDF expenditure in Africa, 2003

Project type	Number of projects	US\$ million
Local Development	15	10.2
Micro-finance	5	1.8
Eco-development	3	1.1
Infrastructure	3	0.8
TOTAL	26	13.9

Source: UNCDF 2003 ROAR

Note: Figures are underestimates, as the data is based on reporting projects that accounted for only 79% of total UNCDF programme expenditure.

Contribution of UNCDF to strengthening the response to NEPAD

Facilitating and promoting South-South cooperation

The MicroStart Programme has served as an important vehicle for UNCDF to support

South-South technical cooperation. MicroStart provides technical assistance to start up and promising institutions by contracting the services of experienced micro-finance service providers, most of them from the South. These technical service providers (TSPs) are organizations that have achieved a level of success in their own countries, and are contracted by UNDP Country Offices to work in the participating programme countries. For example:

- In Nigeria, ASA of Bangladesh has served as the Technical Service Provider (TSP).
- In Togo, ACEP of Senegal has served as the TSP.
- In Ghana, KREP of Kenya has served as the TSP.

Developing and implementing joint programmes in support of NEPAD

UNCDF Micro-finance has been closely associated with the UNDP funded MicroStart-Africa initiative since its inception. In early 2001, UNCDF Micro-finance was instrumental in securing \$0.45m in additional funding from UNDP's Regional Bureau for Africa (RBA) for the second phase of the project, and currently plays an active role as a member of the Project's Advisory and Management Committees, which meets on a bi-annual basis and provides managerial and technical oversight and guidance. UNCDF Micro-finance has also mobilized \$0.45m in complementary resources through UNDP/RBA to fund the development of a sister programme in West Africa and is actively promoting the application of tools and techniques developed and refined by MicroSave-Africa, in the Francophone African context.

UNCDF Micro-finance supports and collaborates with the MicroSave-Africa team, which distinguishes itself by the

quality of its action research and training activities, the analytical rigor and insight it brings to the table, and its capacity to identify and explore some of the cutting edge issues in micro-finance (see www.MicroSave-Africa.com).

Most UNCDF funding (Micro-finance and Local Development Programmes) is undertaken in collaboration with partners which include, UNDP, the World Bank, UN Foundation, African Development Bank, United Kingdom Department for International Development (DFID), Kreditanstalt für Wiederaufbau (KfW), US Agency for International Development

(USAID), the Belgian Survival Fund (FBS), the Governments of the Netherlands, Canada, Finland and Australia, as well as, the host governments and central banks in countries where UNCDF operates.

Recommendations for strengthening NEPAD implementation

Today, UNCDF is facing severe financial constraints and is therefore not able to meet the increasing demand for its services and expertise in LDCs countries.