REFLECTIONS

LESSONS FROM EVALUATIONS: DEVELOPMENT FINANCING

INTRODUCTION

The Sustainable Development Goals (SDGs) are a bold commitment to end poverty in all forms and dimensions by 2030. It is widely acknowledged that current development financing for the SDGs significantly falls short of the estimated needs and that COVID-19 further widened this gap. The mobilization of private sector investments, and consolidation of Overseas Development Assistance (ODA) therefore is seen as a way forward to bridge some of the development financing gaps.

As a central actor in the United Nations Development System, the United Nations Development Programme (UNDP) has a crucial role to play in enabling development financing to reduce poverty and accelerate progress on the SDGs. To support the UNDP response to keeping people out of poverty, the Independent Evaluation Office (IEO) has undertaken a review of lessons from past evaluations of UNDP's work. The purpose is to provide evidence-based advice to UNDP country offices on a few pertinent areas of UNDP work with regard to poverty eradication, focusing particularly on the needs of the most vulnerable.

This paper focuses on development financing lessons crucial for addressing the SDGs and the COVID-19 resource challenges. It is part of a series of knowledge products from the IEO focusing on important areas of UNDP's support to countries. This paper also draws on insights from the work of the United Nations Capital Development Fund (UNCDF) - which is an associated Fund of UNDP with a mandate to support the unlocking of development finance for the poor in the Least Developed Countries (LDCs). The paper is jointly produced, drawing on the evaluation insights from both organizations.

METHODOLOGY

This is a rapid evidence assessment[1], designed to provide a balanced synthesis of evaluative evidence posted to the UNDP Evaluation Resource Centre over the past decade. Country-level and thematic evaluations conducted by the UNDP IEO and UNCDF's Evaluation Unit were an important source, given their independence and high credibility. Additionally, high-quality decentralized evaluations commissioned by UNDP and UNCDF country offices were considered. The lessons broadly draw on 64 evaluations. Within each review, the emphasis was on identifying consistent conclusions and recommendations that capture relevant lessons for UNDP and UNCDF. The analysis seeks to offer practical and timely insights to support UNDP and UNCDF decision-makers for effective programme response.

CONTEXT

UNDP and UNCDF programme support recognizes that progress on the SDGs will require significant additional investment across many thematic and sectoral areas and from a variety of funding sources. In this regard, the commitment by the Addis Ababa Action Agenda on Financing for Development (FfD) and New Way of Working[2] to reverse recent declines in ODA assumes importance. In line with the four priority financing pillars of the Addis Ababa Action Agenda, FfD refers to the resource landscape for countries to invest in national sustainable development and includes Overseas Development Assistance (i.e. bilateral and multilateral funds development, crisis response, and humanitarian grants), concessional sovereign financing, multi-partner thematic and vertical funds, foreign direct investment, and philanthropy. It also includes instruments such as 'blended' finance (combination of concessional and non-concessional financing), impact investment, and various kinds of bonds (green/blue, social impact, Islamic) that focus on catalysing domestic finance to support the development priorities of partner governments.

UNDP and UNCDF under their respective mandates support efforts towards boosting development financing at the national and local levels. Besides specific initiatives, one of the areas of UNDP's integrator role within the UN system emphasizes enabling development financing. UNCDF promotes development financing at the local level, through catalytical financing in both the public and private sectors. The paper discusses development financing lessons across country contexts, with a focus on least-developed (LDCs) and conflict-affected countries.

AT A GLANCE – LESSONS LEARNED

1	**Multi-donor interventions and pooled funding modalities in complex crises enhance compatibility and contribute to coherence.**	2	**International cooperation modalities should prioritize strengthening country-level capacities support to improve avenues of development financing.**	3	**In protracted crisis contexts, there is relevance in simultaneously financing humanitarian as well as development efforts through an integrated framework.**
4	**Political economy analysis enables addressing policy and other bottlenecks and the adoption of concrete development financing options.**	5	**Local development financing mechanisms can catalyse resource mobilization and support capital market development.**	6	**Addressing policy bottlenecks and using new and alternative financial instruments to enhance private sector engagement will increase development financing.**
7	**Aligning the needs of the environment vertical funds and government is essential to catalyse development financing.**	8	**Fragmented COVID-19 responses weakens efforts to address SDGs reversals.**		

LESSONS LEARNED

1 **Multi-donor interventions and pooled funding modalities in complex crises enhance compatibility in responses and contribute to coherence in reconstruction. They can be applied in COVID-19 response in non-crisis contexts as well.**

In crisis contexts with strategic and security interests, bilateral donors have enabled a substantial flow of international assistance (Somalia, Yemen, Iraq, and Afghanistan). The funding structuring has important implications for donor compatibility and applicability. Pooled funding mechanisms were introduced in 2004 with the UNDP-hosted Iraq Trust Fund. UNDP managed a joint World Bank-United Nations mechanism for Iraq reconstruction support, which attracted donor funding and led to other common trust funds.[3] Used in several countries since then, these fund mechanisms are seen as less politicized in politically sensitive contexts than bilateral aid. Joint donor interventions and pooled financing modalities contributed to strengthening existing national structures with investments to strengthen government services. There were opportunities for greater impact through leveraging combined resources, where initiatives yield a greater return from a coordinated, system-wide approach rather than multiple individual donor projects (e.g. elections, rule of law, reconstruction), especially for donors with smaller allocations. They offer a trusted, transparent and lower-risk investment, and a compelling value proposition in contexts with high programming and security risks.[4]

Balancing short-term quick impact interventions with longer-term sustainable and transformational development interventions needs to leverage multi-donor funding to mobilize other investments (Iraq, Afghanistan, Libya). Managing the trade-off between conforming to donor funding conditionalities and engaging government and other actors for longer-term investments is fundamental to the success of multi-donor trust funds and pooled financing mechanism (Iraq, Libya).

Pooled or basket funding modalities can strengthen efforts of the integrated SDGs financing framework embarked upon by the countries.

2 **Strengthening national capacities to access multiple development finance streams can accelerate SDGs progress. International cooperation modalities should prioritize strengthening country-level capacities to improve avenues of development financing.**

Across development contexts, short-term capacity development efforts did not usually succeed in generating national human resource and policy capacities to mobilize development financing. Accessing development financing needs more consistent efforts to address institutional constraints at the national and sector level. International agencies often do not consider the incentives for change within the government for effective development cooperation.

Efforts to address the fragmentation of aid (Somalia, South Sudan, Sudan) were not fully successful, as key stakeholders had incentives to retain areas of control, or political shifts exacerbated the fragmentation and lack of cooperation across government entities and continuity of efforts (Afghanistan, Burundi).[5] In Burundi, the political crisis exacerbated the fragmentation and lack of cooperation across government entities, and the basket fund modality was no longer functional.[6] Also, disparities in financing was more apparent in countries with less donor interest (Gabon,) or where there have been political restrictions on international cooperation (Togo).[7]

While questions about the accuracy and completeness of international aid and other financing data remain a common challenge, aid management databases do not fully incorporate all international funding streams and are often not linked to national budget systems and processes. In several cases, countries have parallel systems for managing humanitarian aid, concessional loans and development funds (Sudan, Sierra Leone).[8] Addressing constraints in coordination between ministries responsible for aid management, budgeting and sector management is central to streamlining external aid as well as leveraging it for other sources of development financing.

3 In protracted crisis contexts, there is relevance in simultaneously financing humanitarian and development efforts through an integrated framework.

The Regional Refugee & Resilience Plan (3RP), which UNDP coordinated jointly with UNHCR in the Syrian refugee crisis response, provided a framework for the activities of the United Nations and other agencies to address humanitarian and development issues simultaneously. It successfully brought together two interrelated dimensions of the Syrian refugee crisis response: humanitarian support and a resilience-based development approach to strengthening institutions, communities, and households under a common framework.[9] Addressing underlying development constraints in host countries is fundamental to comprehensive and conflict-sensitive refugee response.

The 3RP has been successful in mobilizing resources and enabling multi-year funding. Meeting the international commitment of the Grand Bargain, an agreement at the 2016 World Humanitarian Summit in Istanbul between key donors and humanitarian organizations, helped to get more means into the hands of people in need and to improve the effectiveness and efficiency of humanitarian action. The inter-agency appeal for the resilience component has increased over the years. High-level events such as the Resilience Development Forum and continued advocacy for resilience at the regional level by UNDP resulted in an increase of 3RP resilience funding to 44 percent in 2019 (or $1.1 billion of $2.5 billion) from about 27 percent of the appeal in 2015 (or $486 million of the $1.82 billion). While the 3RP framework and financing may not be suitable for all crises, it has important lessons for other protracted crises, where an integrated financing approach can improve humanitarian and development programming synergies. Addressing the development challenges in protracted crises is essential, such a realization did not result in pursuing a coordinated funding framework, for example in the Sahel and the Horn of Africa.[10] A lack of coordinated financing mechanisms to address the complexity of the crisis response that enable refocusing development and crisis response financing continues to be an issue.

In protracted crisis response, an extended humanitarian phase has negative implications for both the host communities and refugees when the response that is needed is medium- to long-term development support. A skewed funding architecture predisposed towards humanitarian support undermines more sustainable development solutions that would benefit host communities and refugees.

4 Political economy analysis of development financing enables addressing policy and other bottlenecks and the adoption of concrete sector options.

Development financing needs to consider the political dynamics of aid and national development trajectories. Donor funding interests, foreign policy considerations, and governance and human rights, are determinants of aid allocations more than development performance, and accelerators of peace and development. Context analysis and periodic review of political economy dynamics should inform development financing strategies.

Unless competing power centres and territoriality between government actors were sufficiently recognized and mitigated projects made some technical advances but did not achieve more ambitious goals of integrated and comprehensive aid coordination. Poor analysis of the political crisis or development trajectories or political shifts that affected associated ministries exacerbated the fragmentation and lack of cooperation across government entities, making dysfunctional well-conceived modalities such as basket fund or pooled funding (Burundi, Afghanistan).[11]

5 Local development financing mechanisms have the potential to catalyse resource mobilization in LDCs as well as MICs. Success of their mobilization in LDCs and fragile contexts depends on policy measures to support the development of capital markets.

Finance remains a challenge for local infrastructure projects in areas such as women's economic empowerment, climate change, clean energy and food security, particularly mobilizing private investment. Evaluations of UNCDF local finance initiatives emphasize the difficulties of mobilizing private finance in LDCs linked to thin financial sectors with scarce long-term funding and an aversion to risk.[12] Limited local capacities in the development of 'bankable' investment projects in micro and small and medium-sized enterprises (MSMEs) impede the opportunities for finance options.

There is also the need for sufficient resources to support simultaneous policy and institutional reforms to strengthen the enabling environment for private finance to make a return on investment.

Local-level private sector partnership on adaptation was challenging in remote rural areas of LDCs, demanding innovative approaches, geographic concentration, and complementariness with other initiatives. The UNCDF Local Climate Adaptive Living Facility for environmental performance grants to local governments has been effective in building capacity and integrating climate change adaptation at the local government level and met many key targets.[13] However, such initiatives did not meet the target of 10 percent increased climate financing from the private sector as envisioned by the UNCDF small business grants. While this was beneficial for MSME start-ups, it remains unsustainable and had limited success in supporting microfinance institutions in fragile and conflict settings.

Significant gaps in the supply of services to developed businesses, notably access to financial services, remain a major constraint in value chain development. Efforts to support microfinance institutions were not successful when institutional frameworks were absent, as was in the case of LDCs, or were not linked with national policy processes in MICs (Jordan, Lebanon).[14] In situations where conflict is widespread, investor confidence is low, limiting opportunities for support to microfinance institutions (CAR, DRC).[15]

Support for the development of market systems for inclusive finance needs to work simultaneously with regulators, financial service providers, telecommunications companies and fintech companies to create new markets for a variety of financial products active in several sectors such as agriculture or clean energy. Such approaches also increase the number of unbanked and underbanked populations having access to financial services, including women, though evidence around how these products are then used is more mixed (Sudan, Uganda, Ethiopia).

6 Addressing policy bottlenecks and using new and alternative financial instruments to enhance private sector engagement will increase development financing.

UNDP and UNCDF are well positioned to facilitate greater private sector participation and galvanize key actors. But the pace and thrust of support to private sector engagement in LDCs as well as MICs needs acceleration. The enabling environment in LDCs in particular needs a more catalytic thrust to de-risk and troubleshooting efforts to blend local and foreign private capital with concessional funds.[16] Given the structural constraints in harnessing market forces, private sector tools should be customized to the LDC contexts. New and alternative financial instruments for facilitating development financing need full government support to be successful. Partnering with financial intermediaries that are expanding their businesses in areas of UNDP support will boost private sector engagement. At the country level, UNDP's integrator role within the UN system is an enabler for facilitating impact investment. Targeting specific gaps in private sector development in select sectors such as service delivery and agri-based sectors enables customised solutions.

Concerted efforts to bolster private sector engagement in employment generation and service delivery in MICs will enable tapping private sector resources for SDGs financing. In several countries, partnerships with the Chamber of Commerce have served as promising channels for support services and to businesses and entrepreneurs and connecting small businesses to markets and value chains, particularly in Europe and CIS states. The Uzbekistan 'Aid for Trade' project supported the Chamber of Commerce's Business Training Centre to provide specialized training and consultancy to start-ups and mature businesses and facilitates contact with government institutions in commerce.[17] In Turkey, UNDP facilitated private sector resources in the areas of tourism, SDGs, competitiveness and energy efficiency.[18] In the competitiveness area, UNDP Turkey partnered with the Ankara Chamber of Commerce in a public-private partnership to build a 'model factory', which is being replicated in other cities. Measures such as establishment of the Impact Investment National Advisory Board (NAB) together with the Presidency Investment Office in Turkey have the potential to increase financing for the SDGs.

7 Adequate consideration of the alignment between the needs of environment vertical funds and government is essential to catalyse development financing.

UNDP has enabled support through vertical funds such as Global Environment Facility (GEF) and Green Climate Fund, provided incentives for government investments, mobilizing sector financing, and strengthening national institutional structures systems. The vertical funds with a longer-term financing framework have largely provided more stable funding than bilateral support. Evaluations point out that this by itself was not always sufficient to consolidate the fragmented sector resources and funding and develop a concrete model for SDG sector financing.

UNDP is a key implementing agency of GEF, GCF and the Japan-funded Africa Programme. While this has enabled mobilizing financing for the national environment, adaptation and mitigation efforts, the potential of these funds is yet to be fully utilized. Better targeting of key sectoral issues is important for increasing environmental and climate financing. Inherent systemic issues are constraining scaling up environmental interventions, for example, underfunding of relevant ministries (often Ministry of Environment) with insufficient budget allocations that limit co-financing, poor coordination with the infrastructure sector, and weak capacities to mobilize private sector financing. UNDP has made efforts to tackle this issue with some success through supporting Public Expenditure Reviews resulting in increased cost-sharing commitments for some key sectors. The pace of improving capacities for mobilizing private sector financing or leveraging other government infrastructure investments remains slow, also impacting the contribution of vertical funds.

UNDP enabled private sector energy efficiency investments in complex contexts that led to transformational outcomes. For example, in Sudan, vertical funds were used to promote solar power (solar pumps for groundwater for irrigation) which, besides substituting fossil fuels and emissions, has created an expansion of agricultural livelihoods, including a second (summer) cropping cycle in rainwater-dependent areas. The creation of a programme implementation ecosystem to facilitate the installation and maintenance of the solar power generation systems and private sector engagement contributed to the success in financing energy efficiency efforts in Sudan. To enable farmers with easy access to finance the solar pumps, a Photovoltaic Fund has been instituted, in a tie-up with financial institutions and microfinance organizations. Solar energy has also been deployed in the healthcare service sector in Darfur. Evidence from both positive examples such as Sudan or not so successful ones point out that Public-Private Partnership should be more systematically pursued and vertical funds have an important role to play.[19]

In LDCs and lower MICs, investment in the energy sector, in general, is impeded by poor access to affordable financing and capital scarcity due to a lack of legal frameworks, underdeveloped economies, and weak financial sectors. This presents a challenge for scaling up sustainable energy solutions, as even small-scale solutions require considerable resources. Developing an enabling environment, such as a policy framework and support to regulators would attract the private sector in energy efficiency efforts.

8 Fragmented COVID-19 responses weakens efforts to address SDGs reversals.

At the country level, the new way of working is yet to take shape as multilateral and bilateral COVID-19 response continues to be fragmented. A coordinated international response can enhance efforts to create new jobs, address social inequities and accelerate social protection measures.

Most socio-economic assessments point to a deficit in both domestic and international financing for achieving SDGs even before the pandemic.[20] The pandemic exponentially increased the development financing needs, while there has been a significant reduction in domestic revenues and external private financing flows coupled with increases in government spending in dealing with the health and socio-economic impacts of the pandemic. Mobilizing short-term aid is not sufficient for UNDP to address the significant development financing gaps. Recent UNDP efforts such as support to national integrated framework for SDG financing can boost national and external resource mobilisation. Concrete areas need to be identified for enabling specific development financing solutions. It is also important to pay sufficient attention to long-term solutions such as increasing domestic revenue as the pandemic provides opportunities to strengthen revenue-generating systems and processes.

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ABOUT THE INDEPENDENT EVALUATION OFFICE

By generating objective evidence, the Independent Evaluation Office (IEO) supports UNDP to achieve greater accountability and facilitates improved learning from experience. The IEO enhances UNDP's development effectiveness through its programmatic and thematic evaluations and contributes to organizational transparency.

ABOUT REFLECTIONS

The IEO's *Reflections* series looks into past evaluations and captures lessons learned from UNDP's work across its programmes. It mobilizes evaluative knowledge to provide valuable insights for improved decision-making and better development results. This edition highlights lessons from evaluations of UNDP response towards keeping people out of poverty.