

**Independent
Impact
Assessment of
the United
Nations Capital
Development
Fund (UNCDF)**

Volume I – Final
Synthesis Report



April 2004

Executive Summary

Universalialia is pleased to submit to the Executive Board of the United Nations Capital Development Fund (UNCDF) this final report on the Independent Impact Assessment (IIA) of UNCDF mandated by the Executive Board of UNCDF in its decision 99/22.

Overview of the Report

The primary objective of the IIA was to assess whether UNCDF is performing as an effective, efficient, and sustainable organisation that has remained relevant in carrying out its mandate to reduce poverty in the Least Developed Countries (LDCs). A second objective was to assess whether UNCDF has responded appropriately to implement the 1995 policy shift, which narrowed the Fund's focus to microfinance operations and local governance programmes. A third objective was to assess the extent to which UNCDF has implemented the recommendations of the 1999 independent external evaluation.

This document (Volume I) is the synthesis report of the Independent Impact Assessment. Volumes II to IV are presented in separate documents, and contain the methodological appendices, UNCDF Portfolio Analysis, and results of the Staff Survey respectively.

The IIA was informed by three distinct processes: the Organisational Performance Assessment (OPA) conducted by Universalialia (Canada); the Programme Impact Assessment (PIA) of UNCDF Microfinance Programmes in Kenya, Nigeria, Malawi and Haiti, conducted by Enterprising Solutions Global Consulting, LLC (USA); and the PIA of UNCDF's Local Development Programmes in Uganda, Mozambique, Mali and Cambodia, conducted by ECIAfrica Consulting International (Pty) Ltd (South Africa).

To assess the organisational performance of UNCDF, Universalialia collected primary data using a mix of qualitative and quantitative techniques which included document review, individual and group interviews at HQ and in the field (147 individuals participated); a project portfolio analysis; field visits to Madagascar, Benin and Niger; and a survey of 170 stakeholders including all UNCDF staff at headquarters and in the field and UNDP Resident Representatives and Deputy Resident Representatives (response rate was 63%). Universalialia integrated the results and findings of the two Programme Impact Assessments of the Microfinance and Local Development programmes with those of the Organisational Performance Assessment to produce the IIA Synthesis Report.

Findings on UNCDF Performance

Effectiveness – UNCDF microfinance and local governance projects are generally aligned with corporate policy and strategy. Corporate policies on pro-poor focus and local participation are being applied in UNCDF, although there is a need to develop strategies that will strengthen the participation of marginalised groups, especially women in participatory processes. UNCDF has made some progress in the application of the gender mainstreaming policy, especially in some projects, but the consistent application of this policy across projects and throughout the project remains a challenge. UNCDF has implemented most of the recommendations of the external evaluation of 1999; others are still being worked on.

The PIAs confirmed that the underlying programme logic of the Local Development and Microfinance Programmes is largely sound. UNCDF Microfinance and Local Governance interventions contribute to poverty reduction at the local level and to participation and empowerment, and there is indication of impacts. Some challenges were noted, such as fully including marginalised groups, particularly women. There is evidence that UNCDF has contributed to impacts on the policy environments in the countries in which it works and it has been successful in leveraging replication of its approaches by a diverse group of donors.

UNCDF's contributions to sustainability of results also emerge in this assessment. UNCDF microfinance programming has improved MFI performance in key aspects of institutional sustainability, such as outreach and efficiency levels. In local governance programming, the LDPs have been embedded in local practice and procedure, which creates a solid foundation for sustainability. There are a number of contextual and capacity issues – both for MFIs and local authorities – that are noted as concerns for the sustainability of results in MF and LG programmes.

Efficiency – UNCDF's modest administrative (HQ) budget reflects an appropriate deployment of resources and has remained constant in nominal terms over the past five years. At the same time, however, the decline in contributions to core resources has led to reductions in programme expenditures. The inevitable result is an overall trend that raises concerns about organisational efficiency: in relative terms, the administrative costs are increasing in relation to programme funding. Important to note, however, is that Technical Advisory Services, which are key elements of UNCDF programmes, are counted as HQ/Admin costs and not programme costs, which serves to distort this measure of efficiency somewhat. UNCDF has improved some work processes, especially those related to response times in parts of the project cycle, but improvements are still required in financial planning, tracking and reporting, and corporate information management.

Relevance – UNCDF programming models in both microfinance and local governance demonstrate a clear and innovative niche (*Finding 27*). It fulfils an important risk-taking, innovation role that other development agencies and LDC Governments are interested in expanding and building on. Furthermore, assessment of UNCDF's programmes confirmed that UNCDF's mission, programmes and goals are relevant to the achievement of the Millennium Development Goals (MDGs). Its programming supports the Programme of Action for the LDCs for the decade 2001-2010 and responds to the local needs of the countries in which it intervenes. UNCDF supports most of the broad goals of UNDP, but there appear to be missed opportunities for collaboration that could enhance UNCDF's relevance. While donors are decreasing their core contributions to UNCDF, they are using UNCDF as a vehicle to implement their countries' international development strategies through non-core funding and parallel financing, which have increased considerably in recent years.

Financial Viability – Although UNCDF's expenditures and income are aligned, indicating a well-balanced budget, this has been achieved by significantly cutting programme budgets and adjusting administrative budgets. The Fund did not meet its 2003 target for core funding and, given that core funding is the principal way in which it funds its activities, the decline and unpredictability in core funding seriously jeopardises UNCDF's ability to fulfil its mission and role within the UN system. Non-core funding is becoming more important in relative terms, but there are issues to consider in assessing its potential contribution in the future. The decline in the project pipeline, together with the current relationship between headquarters expenditures (which includes administration, as well as technical advisory services) and programme expenditures, raises significant issues for UNCDF's viability.

Findings on Factors Affecting UNCDF Performance

Leadership – UNCDF receives a great deal of praise for the leadership exercised by the Executive Secretary and his senior team, particularly from donors and other external stakeholders.

Governance – The Executive Board has an oversight role with respect to UNCDF and has implemented this function with diligence and professionalism. However, some limitations in the governance structure have caused staff to become somewhat disillusioned about the role and contributions of the Executive Board, particularly as concerns the mobilisation of resources.

Niche – UNCDF programming models in both microfinance and local governance demonstrate a clear and innovative niche, although within the UN family, UNCDF's niche in microfinance is better defined than in the local governance area. Various changes in the international development context and the decrease in UNCDF's core resources directly affect its niche. For example, the shift towards programmatic forms of development cooperation may affect UNCDF's approach, which focuses on small-scale pilot projects. Likewise, the shift from downstream funding to upstream funding means that donors are more likely to allocate aid directly to recipient governments, rather than to funding various projects, although there remains an important role in the development financing architecture for innovative, risk-taking organisations such as UNCDF.

Resource Mobilisation – UNCDF has articulated a resource mobilisation strategy that primarily targets core funding resources. The strategy has resulted in some modest gains but is not likely to ensure the viability of the Fund.

Highly Qualified Staff – UNCDF's highly talented staff, one of the Fund's strongest assets, is experiencing a period of low morale as a result of uncertainties about the future of the Fund. Faced with budget cuts that have focused greater attention on efficiency, HQ and field staff are struggling to minimise the effects of the cuts on performance.

Programme Management – UNCDF has made elements of its project cycle more effective, but there is room for improvement. Planning, monitoring and reporting systems that support results-based management are in place. The processes and systems that support further institutionalisation of a "managing for results" culture require additional strengthening. The Evaluation Unit (EU) has developed several approaches to integrating accountability and learning into organisational practice, but resource cuts and some resistance from programme units to respond to the demands of EU affect its overall effectiveness.

Knowledge Management – In spite of recent efforts, UNCDF requires better approaches to manage its knowledge more effectively. It has implemented a number of stand-alone information systems, but these have not improved its efficiency in managing knowledge. The Intranet is still an underutilised resource. However, this area has been flagged internally and steps are being taken to improve substantive knowledge sharing within programmes and across programmes – drawing on both HQ and field experience.

Communication and Branding – UNCDF has developed a variety of effective communication materials to articulate its identity to the external world, but the branding of the Fund remains problematic and does not do justice to the quality of the work undertaken.

UNCDF Structure – The ongoing decentralisation of technical advisory and programme management staff is an appropriate strategy for UNCDF. In spite of some changes, UNCDF's structure still presents challenges with respect to internal communication and coordination within HQ and between HQ and the field.

Partnerships – UNCDF has increased the number of partnerships with various agencies and these are quite positive. It has also developed constructive partnerships with academic and research partners and is appreciated as a strong contributor in building knowledge. Its partnership with UNDP is important and profitable to both organisations, but would be more effective if institutional roles and responsibilities were further clarified. The relevance of UNCDF partnerships could be further enhanced if they fit into a broader partnership strategy.

Conclusions

UNCDF is an effective organisation that has, by and large, organised its existing portfolio according to the 1995 policy shift and responded to the recommendations of the independent external evaluation conducted by ITAD (Information, Training and Agricultural Development) in 1999. The Fund has also contributed to significant results through both its microfinance and local governance programmes in poverty reduction, policy impact, and replication of its projects by donors. UNCDF's areas of expertise are very much in demand in LDCs and respond to the MDGs as well as to country needs. In fact, LDCs are asking for more of UNCDF's services. UNCDF is praised by the majority of its stakeholders as a flexible partner that is active in developing knowledge, effective in implementing projects, and influencing the orientation of the sectors in which it works. Since 1999 UNCDF has achieved generally positive results, as noted in its annual self-assessment reported in the Results-oriented Annual Report (ROAR) and confirmed in this assessment. Moreover, UNCDF has been creative in remaining a relatively efficient organisation, and achieved a balanced budget in 2003. This success – and it is a success – is due to various factors, including a dedicated and talented team of staff and leaders, innovative thinking, a clear niche, and an ability to match its expertise to the needs of the LDCs. Like many organisations, UNCDF has some limitations that were noted in this report, for example in knowledge management, communication and branding.

The real issue for UNCDF, however, is the more fundamental question of its financial viability after 2004, which, at the moment, is questionable. In our view, this dilemma is the result of several factors: the mismatch between the niche of UNCDF and international donor funding trends; UNCDF's governance structure, which is not as enabling as it could be to address these viability questions; and UNCDF's role in the UNDP Group, which should be clarified. The Fund is at a critical stage in its life and, as suggested by the former Executive Secretary, would like to address its future actively rather than dying "a slow death."

Recommendations

Recognising the urgency of the situation, the following recommendations are addressed to the Executive Board, the Administrator of UNDP and the UNCDF Management Team. The IIA team urges stakeholders to fully take into account these recommendations in the on-going discussions about UNCDF's future. We have grouped the recommendations in broad categories that link to the findings on UNCDF's performance.

Positioning, Niche, and Relationship to its Key Partner - UNDP

Recommendation 1

The Administrator of UNDP and the UNCDF Management Team should clarify the role and responsibilities of UNCDF within UNDP and its associated Funds. This clarification would be part of a larger strategy undertaken by the UNDP Group that would support both organisations in positioning themselves to tackle the development problems that are part of their respective mandates.

The niche of UNCDF as an agency is very much linked to its partnership and role within the UNDP Group. As noted in this report, the absence of a clear definition of how UNCDF can/could support the organisational goals of UNDP limits UNCDF's ability to remain viable and does not help UNDP in addressing UNCDF's funding issue. Until now, UNCDF and UNDP have clarified their collaboration only through programming MoUs in microfinance and in local governance. In our view, this is not sufficient, and limits the greater institutional synergy that could emerge from a clearer definition of the role of UNCDF in helping UNDP reach its broad goals.

This discussion and clarification are key at this stage in the life of UNCDF – they could allow UNDP to see UNCDF as an even more strategic partner in reaching some of UNDP's goals. Greater clarity on synergies between the two organisations could also enable UNDP to actively mobilise resources for UNCDF.

This organisational strategy between UNCDF and UNDP could include the following points:

- What is expected from UNDP and its associated Funds (specifically UNCDF) with respect to UNDP's expected results? To what extent should it align with UNDP and its interests/goals? Or, is there an overall framework for the UNDP Group that associated funds should align with?
- Are the mandates and niches of UNDP and its associated Funds (particularly UNCDF) sufficiently robust to support the expected results of UNDP or of the UNDP Group?
- What would be an adequate cost-recovery system for the relationship between UNDP and its associated Funds, particularly UNCDF?

In the context of these strategy discussions, it is critical to address the issue of UNCDF's programme niche (areas of focus/strategic positioning), based on its comparative advantage, the market, its need to access funds, and the interests it shares with UNDP (for example in private sector development). The IIA only begins to identify limitations and possibilities. We recommend that a consultative process be designed in which a broad group of stakeholders beyond UNDP and UNCDF – including donors, programme countries, experts in the subject areas – can contribute in the affirmation, further focusing, or redefining of UNCDF's programme niche. In this process it would be important to take into consideration the recognised expertise, results, reputation, and demand from LDCs that UNCDF has built in its current two programme areas. This would ensure that redefinition is anchored in UNCDF's comparative advantages, contextual demands and opportunities.

Financial Viability, Resource Mobilisation, and Governance

Recommendation 2

The Senior Management Team of UNCDF should establish a team to review and analyse UNCDF's business model and corporate governance arrangements and their strengths and weaknesses, and to propose some alternatives on the future of the Fund in light of the current decision-making process. Some options are provided below.

In the 1960s, UNCDF was created by the General Assembly with the general mandate of assisting developing countries in achieving accelerated and self-sustained economic growth by supplementing their existing sources of capital assistance. Over the past decades the Fund has evolved to some extent in response to the broader context – balancing the reduction in contributions on the one hand with the capital and technical assistance needs of LDCs on the other, but without changing fundamentally its governance structure, mission, management arrangements and funding modality. In analysing the Fund's future, it may now be necessary to analyse the business model and governance structure that provide the foundation for its work.

In this regard, there are several options for the future of UNCDF. Only three main options are discussed below. Each has an orientation that is either market-driven, where financial viability drives the organisation's approach, or mission driven, in which the needs of the LDCs and innovation drive its approach. It should be noted that the evaluation team provided these options as potential illustrations of a way forward. Additional options may be identified once the recommendation is implemented. Similarly, these options should be fine-tuned by the group responsible for addressing the recommendation in order to reflect the feasibility of their implementation.

- **Option 1: Entrepreneurial model**
UNCDF becomes a more entrepreneurial organisation. Its governance structure moves towards a broader representation, and its mandate widens. UNCDF obtains management autonomy from UNDP, and the Executive Secretary (renamed) becomes head of UNCDF. In this option, UNCDF's relationship to the Executive Board would need to be clarified according to the revised management structure. UNCDF would target and market its microfinance and local governance services to all countries and international agencies (CGAP as an example) and develop a cost structure that makes it competitive. This could have implications for UNCDF's current LDC focus. It would become a more demand-driven organisation and less of an innovative instrument of the UN family. The greater demand-orientation limits the extent to which UNCDF can preserve its current mission-driven nature. Funding would be generated primarily through fees for services.
- **Option 2: UNDP Instrument**
UNDP and UNCDF become more strategically aligned and increase the pool of funds. This arrangement would imply no changes to the corporate governance structure. UNCDF's mission would become more closely aligned to UNDP's programme and priorities (i.e., private sector, water). There are many ways for the two organisations to align. For example, the UNDP Administrator suggested that UNCDF and UNDP could combine forces on focused initiatives (i.e. water infrastructure initiative of the MDGs). Such an effort could capture the minds and hearts (and therefore the financial support) of donors around an important goal. The selection of common initiatives, however, would need to be made carefully, based on UNCDF's existing or strategically developed comparative advantage, as well as clear demand from donors and recipients. Funding would be more secure, based on UNDP funding (UNDP provides core resources to UNCDF out of its voluntary contributions) in addition to assessed and/or voluntary contributions from donors.
- **Option 3: Status quo with assessed contribution**
This option would bring no changes to the current corporate governance, mission, and management arrangements. The primary shift would be in developing a more secure and diversified approach to funding. Certain adjustments would be made to the status quo, for example, by moving to assessed rather than voluntary contributions and expanding the range of organisations and the arrangements through which UNCDF seeks resources to carry out its mission (i.e. expanding resources obtained from World Bank, foundations, new private sector partnerships). These changes in practice would be consistent with the original Charter of UNCDF and would provide UNCDF with a more predictable stream of income. UNCDF continues the decentralisation of services that has begun within both programming units, but would focus on countries where there is high demand for its services and a high potential for UNCDF to obtain funds for its services (i.e. countries with a high potential for generating revenues).

All of these options, or possibly a combination of them, should be examined strategically as a matter of the highest priority for UNCDF. The options are meant to illustrate the types of business models and corporate governance arrangements available to UNCDF. Following a decision on this, UNCDF should then proceed with elaborating a complementary partnership strategy.

Summary of Business Model Options

OPTION		IMPLICATIONS			
		GOVERNANCE STRUCTURE	MISSION AND NICHE	MANAGEMENT ARRANGEMENTS	MARKET ORIENTATION AND FUNDING
1	Entrepreneurial Model	Broader representation Redefined relationship between UNCDF and Executive Board	Local governance and microfinance services to all nations and other agencies (who can pay)	Autonomous management with greater decision-making authority	Market-driven Competitive cost structure Funding primarily through fees for services
2	UNDP Instrument	UNCDF continues to be governed by the UNDP/UNFPA Executive Board	More closely aligned to UNDP's Programmes, priorities and geographic focus	UNDP Administrator remains the Managing Director of UNCDF	UNDP-driven UNDP funding, possibly plus assessed and/or voluntary contributions to UNCDF
3	Status quo with Assessed Contribution	UNCDF continues to be governed by the UNDP/UNFPA Executive Board	Support to local governance / decentralization and microfinance / inclusive financial sectors in the LDCs	UNDP Administrator remains the Managing Director of UNCDF	Mission-driven Assessed and/or voluntary contributions Expanded array of options for funding

Recommendation 3

If UNCDF is faced with the continued decline in programme expenditures in the coming years, it will need to make significant reductions in the administrative budget or find alternative sources of funding for this budget item.

If UNCDF cuts programming any further, the staffing complement and infrastructure will be out of line with programme expenditures. At this point, UNCDF will need to look at making cuts in its administrative / HQ budget. However, budget cuts are possible only until they begin affecting the 'critical mass' of people and infrastructure at headquarters that are required to respond to UNCDF's context.

There are options for managing these issues:

- Increase funds available for programme approvals (from core contributions and other sources);
- Reduce administrative expenditures to the level of necessary critical mass of staff;
- Include technical advice as part of programme spending, as is done in other agencies;
- Assess the contribution that non-core funding agreements can make in covering HQ costs;
- Improve cost-recovery for services currently provided to UNDP at a subsidised rate;
- Develop other sources or mechanisms to cover administrative/HQ costs.

- Transform UNCDF's status into an Executing Agency Status, which would allow the agency to execute or implement specific programme components, once funding has been secured from UNDP or other development agencies¹.

Strategic Leadership

Recommendation 4

The UNDP Administrator, as a matter of urgency, should work with the Executive Board and UNCDF Management Team to identify a new Executive Secretary for UNCDF.

The identification of a new leader is an urgent issue for UNCDF. While the Fund is producing good results and has the support of its major stakeholders, uncertainties about funding and how and what decisions will be made about UNCDF's future are affecting staff morale. Senior UNDP officials are undecided about whether to set the direction of UNCDF first and then hire an Executive Secretary, or to appoint an Executive Secretary to lead the change. In our view, the cost of leaving the situation fluid is greater than the cost of making a decision as quickly as possible. The selection process should consider the importance of both intellectual leadership and strategic management competence of a new Executive Secretary.

Effectiveness

Recommendation 5

UNCDF should address the recommendations made in the PIAs and incorporate relevant recommendations into future programming.

The IIA team reviewed the recommendations of the PIA and conducted a field mission in order to look at the extent to which UNCDF had development impacts. Our conclusion is that although UNCDF is generally strategically positioned to achieve its objectives and its activities make a significant contribution to poverty reduction, policy impact and replication, and the sustainability of results, several areas could be strengthened in order to lead to improved results.

In local governance programming, the PIA suggested several recommendations that would help UNCDF achieve better results. Some of the recommendations go beyond what UNCDF can achieve alone but, rather, are to be addressed by the local governments. For example:

- Clarifying the structure and role of various government substructures, as well as the relationship between local government and other tiers of government.
- Ensuring greater cooperation and collaboration between sector ministries and local governments, for example, by extending and institutionalising decentralisation innovations to sector management at a local level
- Addressing the need for structures and systems that contribute to effective downward accountability

¹ In a presentation of the ROAR to the Executive Board, mention was made by the former Executive Secretary that "there was growing demand for UNCDF to act as an executing or cooperating agency" and suggested that UNCDF was preparing a formal proposal to the Executive Board.

However, the following areas for improvement can be addressed by UNCDF:

- Including strategies that explicitly link LDPs to Local Economic Development (LED); LED would be an important pillar of local development in conjunction with, and to support, existing local development interventions
- Improving the integration of natural resource management into the LDP approach
- Working with central governments on the timeliness of fiscal transfers to local governments, as a matter of priority
- Providing greater support and capacity to Local Governments for the generation of own source revenue and for securing a sufficient recurrent budget for maintenance of services and infrastructure
- Investing in capacity building in the area of participatory and strategic planning to ensure that these processes are genuinely empowering and inclusive
- In as much as its funding constraints allow, trying to maintain a significant in-country presence of senior technical advisers, programme managers or regional technical advisers

In microfinance, the PIA suggests that UNCDF could improve results by focusing on three broad areas for improvement:

- Reviewing all microfinance activities to assess the extent to which they are demand-driven and therefore encourage the development of a healthy market/competitive environment
- Move from a passive funder role to step up engagement in networking, collaboration, and partnerships, and continue to contribute to the deepening of financial systems through concerted, high impact interventions.
- Internalising the concept of a 'learning organisation' within the Microfinance Unit, enhancing the existing evaluation culture through more systematic follow-up, monitoring and timely internal and industry-wide dissemination of lessons learned

The PIA report provides more detailed recommendations per Impact Area.

UNCDF should review these recommendations using a process similar to the one used following the 1999 independent external evaluation and, as appropriate, address these recommendations in future programming.

Recommendation 6

UNCDF should continue to implement the actions necessary to achieve its commitment to gender mainstreaming and equality. In so doing, it should consider developing a closer relationship with UNIFEM.

The UNCDF response to the gender mainstreaming study conducted in 2002, which focussed on LG programmes, included a gender mainstreaming action plan for 2002-2004. Some of the steps outlined in that action plan have been completed (for example, ensuring that gender is addressed in the UNCDF Impact Assessment exercise). For others, it is less clear what progress has been made, yet the action areas remain relevant for the whole organisation (both microfinance and LGU programming). For example:

- Clarification of Institutional Arrangement for Gender Mainstreaming
- Review, simplification, and reissuing of Corporate Gender Mainstreaming Policy; these guidelines should be user-friendly and readily accessible to all staff and partners.

- Review of project budget allocations for gender activities; in projects where there are funds allocated to gender activities or designated positions for gender specialists, UNCDF needs to take extra steps to make sure that the activities are carried out and the posts are filled as envisioned in the project design document.
- Gender screening at project formulation, which can be done by integrating the opinion of gender specialists from the UN system in the peer review teams.
- Gender capacity building, including training of staff and the broadening of the pool of gender experts at the local level, with expertise in either microfinance or local governance.
- Incentives for gender mainstreaming incorporated into job descriptions.

However, it is critical that the organisation prioritise among these areas and set reasonable milestones that can be achieved in the context of scarce resources.

UNCDF Branding

Recommendation 7

Regardless of the decisions made with respect to the future directions of UNCDF, the Fund requires clearer brand identification – clearer mission statement, symbols, templates, logos.

Our data suggest that there is relatively little differentiation in the field between UNCDF and UNDP. This could become even cloudier, depending on the decisions made with respect to the future of the relationship between UNDP and UNCDF. A number of elements hinder the branding – the name ‘UNCDF’ itself; the lack of distinction made between the missions of UNCDF and UNDP; and the absence of distinctive symbols. UNCDF is aware of the need to brand the Fund both internally and externally and has developed a Communication Strategy, which is a good first step. It could go further in asking for a better differentiation between UNDP and UNCDF. The Year of Micro-credit (2005), which UNCDF is jointly co-ordinating with UN DESA, could be used to launch the UNCDF brand.

Knowledge and Information Management

Recommendation 8

UNCDF should continue to invest in knowledge sharing, particularly in those knowledge systems that will increase the synergy between operational units and improve knowledge sharing in the field.

Modern organisations are constantly striving to improve their ability to generate and use the knowledge they gain from experience. For UNCDF this occurs within both programmes and the evaluation unit. While UNCDF is constantly improving ways to use and share knowledge in each programme area, our evaluation suggests that it still needs to improve its ability to share information across programmes or operational units. This could be done through cross-programme work groups or teams that could distil and share programming lessons and review the approaches used to disseminate knowledge in the field. The Microfinance PIA also identifies the need to internalise “learning organisation” concepts as a broad area for improvement in the organisation. UNCDF has already begun to implement a series of actions to improve its management of knowledge (including the revamping of its Intranet in March 2004) and we support the pursuit of the recommendations set forth in the 2002 Knowledge Management Report.

Recommendation 9

As the various clusters and modules of Atlas are being deployed, we recommend that UNCDF create a monitoring team to oversee their implementation, to understand if the deployment of these modules has addressed the operational issues raised in the IIA and in other UNCDF Functional Analyses.

UNCDF has great expectations for the implementation of Atlas, which is a system designed to increase the efficiency of the Fund in managing its programmes, people and finances. It is hoped that the new system will lead to improvements, but it may not address all the issues that have been raised about effective resource management.

As the modules of Atlas are being implemented, UNCDF should monitor whether each module addresses the concerns about planning and deployment of resources, results-based management, human resources management, income management, cash management, procurement and the management of fixed assets.

S o m m a i r e E x é c u t i f

Universalia a le plaisir de présenter à l'Unité d'Évaluation (UE) du Fonds d'Équipement des Nations Unies (FENU) son rapport final sur l'Évaluation d'Impact Indépendante (EII) du FENU, commandée par le Conseil d'Administration de ce dernier dans sa décision 99/22.

Aperçu du rapport

L'objectif principal de l'EII consistait à évaluer si le FENU opérait en tant qu'organisation efficace, efficiente et durable, demeurée en accord avec l'exécution de son mandat qui est de réduire la pauvreté dans les Pays les Moins Avancés (PMA). Le deuxième objectif était d'évaluer si le FENU s'était acquitté adéquatement de la mise en oeuvre du changement de politique de 1995, qui avait concentré le rôle du Fonds sur les opérations de microfinance et les programmes de développement locaux. Le troisième objectif était d'évaluer dans quelle mesure le FENU avait mis en oeuvre les recommandations de l'évaluation externe indépendante réalisée en 1999.

Ce document (Volume I) est le rapport de synthèse de l'Évaluation d'Impact Indépendante. Les Volumes II à IV sont présentés séparément et contiennent respectivement les annexes méthodologiques, l'Analyse du Portefeuille de projets du FENU, ainsi que les résultats du Sondage soumis au Personnel.

L'information de l'EII vient de trois sources différentes: l'Évaluation de Performance Organisationnelle (EPO) réalisée par Universalia (Canada); l'Évaluation d'Impact de Programme (EIP) des Programmes de Microfinance au Kenya, au Nigeria, au Malawi et en Haïti, réalisée par Enterprising Solutions Global Consulting, LLC (USA); et le EIP des Programmes de Développement Locaux du FENU en Ouganda, au Mozambique, au Mali et au Cambodge, réalisée par ECIAfrica Consulting International (Pty) Ltd (Afrique du Sud).

Pour évaluer les résultats de performance organisationnelle du FENU, Universalia a rassemblé des données brutes en utilisant à la fois des techniques qualitatives et quantitatives incluant études de documents, rencontres individuelles et de groupe au Siège et sur le terrain (147 participants); une analyse du portefeuille de projets; des visites sur le terrain à Madagascar, au Bénin et au Niger; ainsi qu'un sondage de 170 parties prenantes au développement incluant tout le personnel du FENU au Siège et sur le terrain, les Représentants Résidents et les Représentants Résidents Adjoints du PNUD (le taux de réponse a été de 63%). Universalia a intégré les résultats et les conclusions des deux Évaluations d'Impact de Programme des programmes de Microfinance et de Gouvernance Locale à ceux de l'Évaluation de Performance Organisationnelle pour réaliser le Rapport de Synthèse de l'EII.

Observations sur la performance du FENU

Efficacité – Les projets de microfinance et de gouvernance locale du FENU sont généralement conformes à la stratégie et à la politique de l'organisation. Les politiques du FENU en faveur des pauvres et encourageant la participation locale sont appliquées, bien qu'il soit nécessaire de mettre en oeuvre des stratégies qui renforceront la participation des groupes marginalisés, notamment les femmes dans les processus participatifs. Le FENU a fait quelques progrès dans l'intégration des considérations liées aux sexes, particulièrement dans certains projets, toutefois l'application uniforme de la dite politique tant dans l'ensemble des projets que dans le cadre d'un même projet reste à améliorer. Le FENU a mis en oeuvre la plupart des recommandations de l'évaluation externe de 1999; les autres sont en voie de l'être.

Les interventions du FENU dans la Microfinance et la Gouvernance Locale contribuent à la réduction de la pauvreté au niveau local, à la participation et à l'autonomisation, mais l'existence d'un impact direct n'est pas évidente. Les défis consistent à atteindre et à intégrer pleinement les groupes marginalisés, particulièrement les femmes. Certains signes démontrent que le FENU a contribué aux impacts sur l'environnement de la politique et qu'il a réussi à influencer divers groupe de donateurs à la réplication de ses approches.

La contribution du FENU à la pérennité des résultats ressort également dans cette étude. Le programme du FENU sur la microfinance a amélioré la performance des Institutions de microfinance dans les aspects clés de la pérennité institutionnelle, tels que le rayonnement et les niveaux d'efficacité. Dans les programmes de gouvernance locale, les PDL ont été intégrés aux pratiques et procédures locales, créant de ce fait une solide base pour la pérennité. Il existe un certain nombre de problèmes liés contexte et à la capacité—à la fois pour les autorités locales et les IMF— qui sont considérés comme des obstacles à la pérennité des résultats dans les programmes de MF et de GL.

Efficiace – Le modeste budget d'administration (Siège) du FENU reflète une utilisation adéquate des ressources et est resté constant en termes monétaires au cours des cinq dernières années. Parallèlement, toutefois, la diminution des contributions affectées aux ressources de base a entraîné une réduction des dépenses de programme. La tendance globale qui en résulte inévitablement soulève l'inquiétude sur l'efficiace de l'organisation: en termes relatifs, les coûts administratifs augmentent par rapport au financement des programmes. Chose importante à noter par contre, est que les Services de conseil technique, qui sont des éléments clés dans les programmes du FENU, sont calculés comme des frais administratifs (Siège) et non comme des frais de programmes, ce qui vient, en quelque sorte, fausser cette mesure d'efficiace. Le FENU a apporté quelques améliorations à ses méthodes de travail, en particulier celles liées au délai de réponse dans certaines parties du cycle de projets, mais il est nécessaire d'en apporter encore d'autres en matière de planification, de repérage et de rapports financiers, ainsi qu'en gestion de l'information de l'organisation.

Pertinence – Les modèles de programmation du FENU relatifs à la fois à la gouvernance locale et au microfinance constituent un créneau distinct et innovateur (*Findings 27*). Ces modèles remplissent un rôle important en matière d'innovation et de goût du risque que d'autres agences de développement et PMA aimeraient développer. De plus, l'évaluation des programmes du FENU a confirmé que les objectifs, les programmes et la mission du FENU concordent avec la réalisation des Objectifs du Millénaire pour le Développement. Ses programmes appuient le Programme d'Action pour les PMA pour la décennie 2001-2010 et répondent aux besoins locaux des pays dans lesquels il intervient. Le FENU soutient la plupart des grands objectifs du PNUD, mais il semble y avoir des occasions manquées de collaboration qui pourraient améliorer la pertinence du FENU. Alors que les donateurs diminuent leurs contributions de base au FENU, ils utilisent ce dernier comme un moyen de mettre en oeuvre les stratégies de développement international de leurs pays au moyen de financements parallèles et de fonds autres que les fonds de base, qui ont augmentés considérablement au cours des dernières années.

Viabilité financière – Bien que les dépenses du FENU correspondent à ses revenus, preuve d'un budget bien équilibré, ce résultat n'a été atteint qu'en coupant de façon importante les budgets de programme et en ajustant les budgets administratifs. Le Fonds n'a pas atteint son objectif pour les ressources de base en 2003 et, étant donné que celles-ci sont le principal moyen de financer ses activités, le déclin et l'incertitude reliés au financement de base mettent sérieusement en péril la capacité du FENU de s'acquitter de sa mission et de son rôle à l'ONU. Les fonds autres que ceux de base deviennent plus importants en termes relatifs, mais l'évaluation de leur rôle possible à l'avenir soulève des questions. La diminution du nombre de projets en cours, de même que le rapport actuel entre les dépenses du Siège (incluant l'administration, ainsi que les services de conseil technique) et les dépenses de programme, pose des problèmes importants pour la viabilité du FENU.

Observations sur les facteurs influençant la performance du FENU

Leadership – Le FENU reçoit de nombreuses félicitations pour le leadership exercé par le Secrétaire Exécutif et son équipe de hauts fonctionnaires, de la part principalement des donateurs et autres parties prenantes de l'extérieur.

Gouvernance – Le Conseil d'Administration exerce un rôle de surveillance sur le FENU et s'acquitte de cette fonction avec diligence et professionnalisme. Toutefois, certaines restrictions dans la structure de la gouvernance ont entraîné une certaine désillusion parmi le personnel sur le rôle et la contribution du Conseil d'Administration, notamment en ce qui concerne la mobilisation des ressources.

Créneau – Les modèles de programmation du FENU relatifs à la fois à la gouvernance locale et au microfinance constituent un créneau distinct et innovateur, quoique, au sein de l'ONU, le créneau du FENU en matière de microfinance soit mieux délimité que celui de la gouvernance locale. Les changements divers qui se produisent dans le domaine du développement international et le déclin des ressources de base du FENU ont un impact direct sur ce créneau. Par exemple, le changement vers des formes programmatiques de coopération en matière de développement peut avoir une incidence sur la démarche du FENU, qui se concentre sur les projets-pilotes à petite échelle. De même, le passage d'un financement en aval à un financement en amont signifie que les donateurs sont davantage enclins à fournir une aide directe aux gouvernements bénéficiaires qu'à financer divers projets, bien qu'il reste un rôle important dans la structure de financement pour des organismes innovateurs et prêts à prendre des risques tel que le FENU.

Mobilisation des ressources – Le FENU a élaboré une stratégie de mobilisation des ressources qui vise en premier lieu celles du financement de base. Cette stratégie s'est soldée par de modestes gains, mais elle ne semble pas en mesure d'assurer la viabilité du Fonds.

Personnel hautement qualifié – Le personnel hautement qualifié du FENU, un de ses actifs les plus importants, traverse une période de découragement résultant des incertitudes pesant sur l'avenir du Fonds. Confrontés à des coupures budgétaires qui ont davantage concentré l'attention sur l'efficacité, le personnel du Siège et le personnel sur le terrain s'efforcent d'en atténuer les effets sur la performance.

Gestion de programme – Le FENU a rendu certaines parties de son cycle de projet plus efficaces, mais il y a encore matière à amélioration. Les systèmes de planification, de suivi et de rapport à la base de la gestion axée sur les résultats sont en place. Mais il faut renforcer les systèmes et procédures qui aident à une institutionnalisation plus poussée de cette culture de la “gestion axée sur les résultats”. L’Unité d’Évaluation (UE) a mis au point plusieurs méthodes visant à intégrer l’imputabilité et l’apprentissage dans la pratique organisationnelle, mais les coupures dans les ressources et certaines résistances venant d’unités de programme à répondre aux demandes de l’UE entravent son efficacité globale.

Gestion des connaissances – Malgré les efforts récemment déployés, il faut que le FENU trouve une façon de gérer plus efficacement ses connaissances. Un certain nombre de systèmes d’information décentralisés ont été mis en oeuvre sans toutefois améliorer son efficacité à gérer les connaissances. L’Intranet est encore une ressource sous-utilisée. Toutefois, ce point a été signalé à l’interne et des mesures sont prises pour améliorer le partage des connaissances fondamentales tant à l’intérieur d’un programme que d’un programme à l’autre – en se basant à la fois sur l’expérience acquise au Siège et sur le terrain.

Communication et image – Le FENU a rédigé un certain nombre de documents de communication efficaces pour bien s’identifier vis-à-vis le monde extérieur, mais l’image du Fonds demeure problématique et ne rend pas justice à la qualité du travail accompli.

Structure du FENU – La décentralisation en cours du personnel de gestion des programmes et du personnel de conseillers techniques est une stratégie valable pour le FENU. Malgré certains changements, la structure du FENU requiert encore des améliorations en ce qui concerne la coordination et les communications internes au Siège même et entre le Siège et le terrain.

Partenariats – Le FENU a augmenté le nombre de ses partenariats avec divers organismes et ceux-ci se sont révélés entièrement positifs. Il a également développé des partenariats constructifs avec des partenaires du secteur universitaire et de la recherche, et on reconnaît sa forte contribution à l’accroissement des connaissances. Son partenariat avec le PNUD est important et profite aux deux organisations mais gagnerait en efficacité si les rôles et les responsabilités institutionnelles étaient mieux précisées. La pertinence des partenariats du FENU pourrait encore être améliorée si elle s’insérait dans une stratégie de partenariat plus vaste.

Conclusions

Le FENU est une organisation efficace qui a, généralement parlant, organisé son portefeuille actuel conformément aux changements de politique de 1995 et appliqué les recommandations de l’évaluation externe effectuée en 1999 par le DIFA (Développement de l’Information, de la Formation et de l’Agriculture). Le Fonds a également contribué à l’obtention de résultats importants grâce à la fois à ses programmes de microfinance et de gouvernance locale, en matière de réduction de la pauvreté, d’impact de la politique et de répliation de ses projets par les donateurs. Les domaines d’expertise du FENU sont très en demande dans les PMA et répondent tant aux Objectifs du Millénaire pour le Développement qu’aux besoins des pays. En fait, les PMA réclament davantage de services du FENU. Ce dernier est loué par la majorité de ses parties prenantes comme étant un partenaire flexible, actif en matière de développement des connaissances, efficace pour mettre en oeuvre des projets et influencer l’orientation des secteurs dans lesquels il travaille. Depuis 1999, Le FENU a, en général, obtenu des résultats positifs, comme le mentionne son auto-évaluation annuelle incluse dans le RAAR et confirmé par la présente Évaluation. De plus, le FENU a fait preuve de créativité en restant une organisation relativement efficace et a atteint un budget équilibré en 2003. Ce succès – car ç’en est un – est dû à divers facteurs, notamment une équipe de dirigeants et d’employés dévoués et talentueux, une

pensée innovatrice, un créneau précis et la capacité d'adapter son expertise aux besoins des PMA. Comme de nombreuses organisations, le FENU connaît certaines limitations qui ont été mentionnées dans le présent rapport, par exemple, en matière de gestion des connaissances, de communications et d'image.

Cependant, le vrai problème pour le FENU est la question fondamentale de sa viabilité financière après 2004 laquelle, en ce moment, est discutable. À notre avis, ce dilemme résulte de plusieurs facteurs: la disparité entre le créneau du FENU et les tendances de financement des donateurs internationaux, la structure de la gouvernance du FENU qui ne lui donne pas la latitude nécessaire pour s'attaquer aux questions de viabilité; et les besoins de clarifier le rôle du FENU au sein du PNUD. Le Fonds est à une étape critique de son existence, et tel que l'a suggéré l'ancien Secrétaire Exécutif, devrait aborder activement la question de son avenir plutôt que de mourir "de mort lente".

Recommandations

Devant l'urgence de la situation, les recommandations suivantes s'adressent au Conseil d'Administration, à l'administrateur du PNUD et à l'Équipe de Gestion du FENU. L'équipe de l'EII presse les parties prenantes de bien prendre en considération lesdites recommandations au cours des discussions présentes sur l'avenir du FENU. Nous avons groupé ces recommandations en grandes catégories correspondant aux observations sur la performance du FENU.

Positionnement, Créneau, et Relations avec son partenaire clé – le UNDP

Recommandation 1

L' Administrateur du PNUD et l'équipe de gestion du FENU devraient préciser le rôle et les responsabilités du FENU au sein du PNUD et de ses Fonds associés. Cette clarification s'inscrirait dans le cadre d'une stratégie plus large entreprise par le groupe du PNUD dans le but d'aider les deux organisations à se positionner elles-mêmes pour s'attaquer aux problèmes de développement qui font partie de leurs mandats respectifs.

Le créneau du FENU en tant qu'organisme est étroitement lié à son partenariat avec le Groupe du PNUD et au rôle qu'il y joue. Comme on le fait remarquer dans le présent rapport, l'absence d'une claire définition de la façon dont le FENU peut ou pourrait soutenir les objectifs organisationnels du PNUD entrave sa viabilité et empêche le PNUD de s'attaquer au problème du financement du FENU. Jusqu'à maintenant, le FENU et le PNUD n'ont précisé leur collaboration que dans le cadre de la rédaction de Protocoles d'Entente (PE) en matière de microfinance et de gouvernance locale. À notre avis, c'est insuffisant, et cela empêche qu'une plus grande synergie institutionnelle ressorte d'une définition plus claire du rôle joué par le FENU pour aider le PNUD à atteindre ses grands objectifs. À cette étape de l'existence du FENU, ce débat et cette clarification sont essentiels – ils pourraient permettre au PNUD de voir le FENU comme un partenaire encore plus stratégique pour l'atteinte de certains de ses objectifs. Une plus grande clarification des synergies entre les deux organisations permettrait également au PNUD de mobiliser activement des ressources pour le FENU.

Cette stratégie organisationnelle entre le PNUD et le FENU pourrait inclure les points suivants:

- Qu'attend-on du PNUD et de ses Fonds associés (en particulier le FENU) en ce qui concerne les résultats que doit atteindre le PNUD ? Dans quelle mesure le FENU devrait-il s'aligner sur le PNUD, ses intérêts et ses objectifs ? Ou existe-t-il pour le PNUD un cadre global dans lequel les fonds associés devraient s'insérer ?

- Les mandats et les créneaux du PNUD et de ses Fonds associés (en particulier le FENU) sont-ils suffisamment forts pour soutenir les résultats que doit atteindre le PNUD ou le Groupe du PNUD ?
- Qu'est-ce qui constituerait un système adéquat de recouvrement des coûts pour les relations entre le PNUD et ses Fonds associés, en particulier le FENU ?

Dans le contexte de ces discussions d'ordre stratégique, il est essentiel d'aborder la question du créneau du programme du FENU (secteurs ciblés / positionnement stratégique) en tenant compte de ses avantages comparatifs, du marché, de ses besoins de financement, des intérêts qu'il partage avec le PNUD (par exemple, le développement du secteur privé). L'EII commence seulement à identifier les limitations et les possibilités. Nous recommandons la mise en place d'un processus consultatif auquel participerait un vaste groupe de parties prenantes extérieures au PNUD et au FENU – incluant les donateurs, les pays de programme, les experts dans ces domaines – pour aider à la confirmation, à un meilleur cadrage, ou à la redéfinition du créneau du programme du FENU. Dans cette mesure, il serait important de prendre en considération l'expertise reconnue, les résultats et la réputation que le FENU a développés dans ses deux programmes en cours. De plus, la demande de la part des PMA pour les programmes offerts par le FENU n'est pas à négliger. Cela assurerait que cette redéfinition soit rattachée à des demandes et des possibilités contextuelles.

Viabilité Financière, Mobilisation des Ressources, et Gouvernance

Recommandation 2

L'Équipe des Gestionnaires Supérieurs du FENU devrait constituer un groupe pour étudier et analyser son modèle de gestion, les ententes de gouvernance de l'organisation, leurs forces et leurs faiblesses, et proposer des solutions compte tenu du processus de décision actuel sur l'avenir du Fonds. Quelques options sont proposées ci-après.

En 1960, le FENU a été créé par l'Assemblée Générale avec pour mandat global d'aider les pays en voie de développement à atteindre une croissance économique accélérée et autonome, en augmentant leurs sources existantes d'aide financière. Au cours des quatre dernières décennies le Fonds a, dans une certaine mesure, évolué en réponse au contexte plus large – équilibrer la diminution des contributions d'une part avec du capital et d'autre part avec l'assistance technique pour répondre aux besoins des PMA, mais sans toutefois modifier de façon significative sa structure de gouvernance, sa mission et ses modalités de gestion et de financement. En se penchant sur l'avenir du Fonds, il pourrait être nécessaire maintenant d'analyser le modèle de gestion et la structure de la gouvernance qui sont le fondement de son travail.

À cet égard, il y a plusieurs options pour l'avenir du FENU. Seules trois sont proposées. Chacune étant soit axée sur le marché, lorsque l'approche de l'organisation est guidée par la viabilité financière, ou axée sur la mission, lorsqu'elle l'est par l'innovation et les besoins des PMA. Notons que l'équipe d'évaluation a mis de l'avant ces options afin d'illustrer des voies possibles pour le futur. D'autres options pourront être identifiées lors de l'exécution de cette recommandation. De la même façon, les trois options proposées devront être nuancées par le groupe responsable de la mise en œuvre des recommandations afin d'explorer la faisabilité de l'option.

- **Option 1: Le modèle basé sur l'esprit d'entreprise**
Le FENU devient une organisation davantage basée sur l'esprit d'entreprise. Sa structure de gouvernance évolue vers un mandat et une représentation plus large. Le PNUD accorde l'autonomie de gestion au FENU, et le Secrétaire Exécutif (nouveau) assume la direction du FENU. Dans cette option, les relations entre le FENU et le Conseil d'Administration devraient être clarifiées en fonction de la structure de gestion révisée. Le FENU devrait cibler ses services de microfinance et de gouvernance locale et les offrir dans tous les pays et à tous les organismes internationaux (tel que le GCAP par exemple), et élaborer une structure de coûts qui le rende compétitif. Ceci pourrait avoir des implications quant à l'accent mis par le FENU sur les PMA. Il deviendrait une organisation plus axée sur la demande et moins un véhicule d'innovation de la famille onusienne. L'orientation plus grande sur la demande limiterait la façon dont le FENU pourrait poursuivre son action actuelle basée sur la mission. Le financement proviendrait principalement des frais facturés pour ses services.
- **Option 2: L'instrument du PNUD**
Le PNUD et le FENU deviennent stratégiquement plus alignés et élargissent leurs sources de financement. Cette entente n'entraînerait aucun changement dans la structure de gouvernance de l'organisation. La mission du FENU s'alignerait plus étroitement sur les priorités et les programmes du PNUD (c-à-d, le secteur privé, l'eau). Cet alignement des deux organisations pourrait se faire de plusieurs façons. Par exemple, l'Administrateur du PNUD pourrait suggérer que le FENU et le PNUD combinent leurs forces sur des initiatives ciblées (par ex. l'initiative des OMD sur les infrastructures hydrauliques). Un tel effort pourrait rallier les esprits et les cœurs des donateurs (et par conséquent leur aide financière) en vue d'un objectif important. Le choix d'initiatives communes, toutefois, devrait être fait soigneusement en tenant compte des avantages comparatifs actuels ou stratégiques établis par le FENU, de même que des demandes précises des donateurs et des bénéficiaires. Le financement serait davantage assuré et axé sur le marché, basé sur le financement du PNUD (le PNUD fournit au FENU les ressources de base à partir de ses propres contributions volontaires) et sur des quotes-parts établies plutôt que volontaires provenant des donateurs.
- **Option 3: Le statu quo en ce qui concerne les quotes-parts fixes.**
Cette option ne modifierait pas les dispositions actuelles régissant la gouvernance, la mission et les ententes de gestion. Le principal changement consisterait à élaborer une approche plus sûre, davantage axée sur le marché, pour ce qui est du financement. Certains ajustements pourraient être apportés au statu quo, par ex. passer à des quotes-parts fixes plutôt que des contributions volontaires et élargir la gamme des organisations et des ententes par l'intermédiaire desquelles le FENU cherche à obtenir les ressources lui permettant de remplir sa mission (par ex. élargir les ressources en provenance de la Banque Mondiale, des fondations, des nouveaux partenariats avec le secteur privé). Ces changements en pratique seraient compatibles avec la Charte initiale du FENU et assureraient à ce dernier un flux de revenus plus prévisible. Le FENU poursuivrait la décentralisation des services qui a commencé dans les deux unités de programme, mais se concentrerait sur les pays où la demande pour ses services est élevée et où il y a un fort potentiel pour obtenir des fonds pour ces derniers (par ex. les pays qui ont une grande capacité de générer des revenus).

L'ensemble de ces options devrait être étudié d'un point de vue stratégique comme étant de la plus grande priorité pour le FENU. Elles sont destinées à illustrer les types de modèles de gestion et d'ententes de gouvernance organisationnelles accessibles au FENU. Suite à une décision à ce propos, le FENU devrait procéder à l'élaboration d'une stratégie de partenariat complémentaire.

Résumé des options de modèles de gestion

OPTION		IMPLICATIONS			
		STRUCTURE DE GOUVERNANCE	MISSION	ENTENTES DE GESTION	ATTITUDE FACE AU MARCHÉ ET FINANCEMENT
1	Modèle axé sur l'esprit d'entreprise	Mandat et représentation plus large Relations redéfinies entre le FENU et le Conseil d'Administration	Gouvernance locale et services de microfinance pour tous les pays et les autres organismes (qui peuvent payer)	Gestion plus autonome avec un plus grand pouvoir de décision	Axée sur le marché Basé sur la compétitivité des coûts Financement principalement par les frais de service
2	Instrument du PNUD	Le FENU continue à être gouverné par le conseil d'administration du PNUD/FNUAP	Alignement plus étroit sur les programmes et les priorités du PNUD	L'administrateur du PNUD demeure l'administrateur délégué du FENU	Axée sur le PNUD Financement du PNUD Quotes-parts fixes plutôt que contributions volontaires au FENU
3	Statu quo avec quote-part fixe	Le FENU continue à être gouverné par le conseil d'administration du PNUD/FNUAP	Support à la gouvernance locale / décentralisation et microfinance / tous secteurs financiers dans les PMA	L'administrateur du PNUD demeure l'administrateur délégué du FENU	Axée sur la mission Quotes-parts fixes plutôt que contributions volontaires Gamme élargie d'options pour le financement

Recommandation 3

Si le FENU fait face à une diminution constante des dépenses de programme au cours des prochaines années, il devra effectuer d'importantes coupures dans son budget d'administration ou bien trouver d'autres sources de financement pour ce poste budgétaire.

Si le FENU coupe davantage dans ses programmes, le personnel et l'infrastructure ne seront plus alignés avec les dépenses de programme. À ce moment-là, le FENU devra envisager d'effectuer des coupures dans son budget administratif et dans celui du Siège. Cependant ces coupures budgétaires sont possibles tant qu'elles n'affectent pas la "masse critique" des effectifs et les infrastructures du Siège nécessaires pour répondre aux besoins du FENU dans ce contexte.

Il y a plusieurs façons de gérer ces problèmes:

- Augmenter les fonds disponibles pour l'approbation de programmes (à partir des contributions de base et d'autres sources);
- Réduire les dépenses administratives jusqu'au niveau de la masse critique d'effectifs nécessaires;
- Inclure des frais de conseils techniques dans les coûts de programme, comme cela se fait dans d'autres organismes;
- Évaluer de quelle façon des accords de financement avec des fonds autres que les fonds de base peuvent couvrir les frais du Siège;
- Améliorer la récupération des coûts pour les services actuellement fournis au PNUD à taux réduits;
- Trouver d'autres sources ou mécanismes pour couvrir les coûts administratifs et du Siège;

- Transformer le statut du FENU en celui d'un organisme d'exécution, ce qui lui permettrait d'effectuer ou de mettre en oeuvre des éléments particuliers de programme, une fois que le financement aurait été mis en place par le PNUD ou d'autres agences².

Leadership Stratégique

Recommandation 4

L'administrateur du PNUD, par mesure d'urgence, en collaboration avec le Conseil d'Administration et l'Équipe de gestionnaires supérieurs du FENU devrait chercher un nouveau Secrétaire Exécutif pour le FENU.

La recherche d'un nouveau dirigeant est une question urgente pour le FENU. Bien que le Fonds obtienne de bons résultats et bénéficie de l'appui de ses principales parties prenantes, les incertitudes créées par le financement et par les décisions qui seront prises au sujet de son avenir nuisent au bon moral du personnel. Les hauts dirigeants du PNUD hésitent entre régler en premier la question de l'orientation du FENU et ensuite engager un Secrétaire Exécutif, ou nommer d'abord un Secrétaire Exécutif qui aura pour tâche d'effectuer le changement. À notre avis, il est plus coûteux de rester dans l'indécision que de prendre une décision dans les plus brefs délais. Leadership intellectuel et compétence en gestion stratégique sont des qualités importantes qui devraient être prises en considération dans le processus de sélection d'un nouveau Secrétaire Exécutif.

Efficacité

Recommandation 5

Le FENU devrait suivre les recommandations faites dans les EIP et inclure des recommandations pertinentes dans les futurs programmes.

L'équipe de l'EII a examiné les recommandations de l'EIP et a effectué une mission sur le terrain afin de constater quels impacts l'action du FENU avait sur le développement. Nous en concluons qu'en dépit de l'importante contribution des activités du FENU à la réduction de la pauvreté, à l'impact et à la réplique de sa politique, à la pérennité des résultats et au positionnement stratégique, plusieurs domaines pourraient être renforcés pour amener de meilleurs résultats.

En ce qui concerne le programme de gouvernance locale, l'EIP suggère plusieurs recommandations pour améliorer la performance du FENU. Certaines de ces recommandations vont au-delà de ce que le FENU pourrait modifier seul mais sont plutôt du ressort des gouvernements locaux comme par exemple :

- Clarifiant la structure et le rôle des diverses infrastructures gouvernementales locales, ainsi que les relations entre les gouvernements locaux et les autres niveaux de gouvernement
- S'assurant d'une plus grande coopération et collaboration entre les ministères sectoriels et les gouvernements locaux, par exemple en étendant les innovations en matière de décentralisation à la gestion sectorielle au niveau local et en les institutionnalisant

² Dans un rapport du RAAR au Conseil d'Administration, l'ancien Secrétaire Exécutif a mentionné "qu'il était de plus en plus demandé que le FENU agisse comme un organisme de coopération ou d'exécution" et a indiqué que le FENU préparait une proposition officielle au Conseil d'Administration.

- Considérant le besoin de structures et de systèmes qui contribuent à l'imputabilité efficace des échelons inférieurs

Cependant, le FENU peut apporter des correctifs à sa programmation en :

- Incluant des stratégies qui relient explicitement les PDL au Développement Économique Local (DEL); le DEL serait un pilier important du développement local conjointement avec les interventions existantes de développement local, qu'il appuierait également.
- Améliorant l'intégration de la gestion des ressources naturelles dans le PDL
- Travaillant avec les gouvernements centraux sur l'opportunité d'effectuer des transferts aux gouvernements locaux de façon prioritaire
- Apportant une plus grande aide et capacité aux gouvernements locaux pour générer leurs propres revenus et pour assurer un budget récurrent suffisant pour le maintien des services et des infrastructures
- Investissant dans le renforcement des capacités dans les domaines de la planification stratégique et participative pour s'assurer que ces processus soient véritablement intégrateurs et promoteur d'autonomisation.
- Essayant, dans la mesure où les contraintes de financement le permettent, de maintenir dans le pays un nombre important de conseillers techniques supérieurs, de gestionnaires de programmes et de conseillers techniques régionaux.

En matière de microfinance, l'EIP pense que le FENU pourrait obtenir de meilleurs résultats en se concentrant sur trois vastes secteurs à améliorer en:

- Passant en revue toutes les activités de microfinance afin d'évaluer dans quelle mesure elles sont déterminées par la demande et, par conséquent, encourager le développement d'un marché sain et d'un environnement compétitif
- Cessant d'être un bailleur de fonds passif pour s'engager dans le réseautage, la coopération et les partenariats, et en continuant à participer à l'approfondissement des systèmes financiers au moyen d'interventions concertées ayant un impact élevé
- Intégrant le concept d'un "organisme favorable à l'apprentissage" au sein de l'Unité de Microfinance, en rehaussant la culture actuelle de l'évaluation par des activités plus systématiques de suivi, de contrôle et de divulgation opportune des leçons apprises, tant à l'interne qu'à la grandeur du secteur.

L'équipe du EIP fait des recommandations plus détaillées par Secteur d'Impact.

Le FENU devrait examiner ces recommandations en utilisant un processus semblable à celui utilisé après l'évaluation externe indépendante de 1999 et, le cas échéant, inclure ces recommandations dans les futurs programmes.

Recommandation 6

Le FENU devrait continuer à prendre les mesures nécessaires à la réalisation de son engagement envers l'équité entre les sexes et la politique d'intégration des considérations liées aux sexospécificités. Ce faisant, il devrait envisager d'établir des relations plus étroites avec UNIFEM.

En réponse à l'étude sur l'intégration des considérations liées aux sexospécificités effectuée en 2002, et qui s'est concentrée sur les programmes de GL, le FENU a inclus un plan d'action pour l'intégration d'une démarche sexospécifique pour 2002-2004. Quelques-unes des étapes exposées dans ce plan d'action ont été complétées (par ex., s'assurer que la démarche est prise en considération dans l'Évaluation d'Impact du FENU). Pour les autres, même si les progrès réalisés sont moins évidents, les domaines d'action restent pertinents pour l'ensemble de l'organisation (à la fois les programmes des USM et des UGL).

Par exemple:

- Clarification de l'Entente Institutionnelle pour l'intégration des considérations liées aux sexospécificités
- Étude, simplification et remise au point de la Politique d'Intégration des considérations liées aux sexospécificités de l'organisation; ces lignes directrices devraient être faciles à utiliser et rapidement accessibles à l'ensemble des partenaires et du personnel.
- Études des affectations budgétaires projetées pour les activités sexospécifiques; dans les projets où il y a des fonds alloués aux activités sexospécifiques ou des postes destinés aux spécialistes d'équité entre les sexes, le FENU doit prendre des mesures supplémentaires pour s'assurer que lesdites activités ont bien lieu et que les postes sont pourvus tel qu'envisagé dans le document de conception du projet.
- Sélection basée sur la démarche sexospécifique dans la formulation des projets, en faisant appel à l'opinion de spécialistes de l'ONU en la matière dans les équipes de révision par les pairs.
- Renforcement des capacités en matière d'équité entre les sexes, incluant la formation du personnel et l'élargissement au niveau local de la banque d'experts en matière d'équité entre les sexes possédant une compétence soit en microfinance soit en gouvernance locale.
- Incorporation de mesures incitatives pour l'intégration d'une démarche sexospécifique dans les descriptions de postes.

Toutefois, il est essentiel que l'organisation détermine la priorité à accorder à ces domaines et fixe des étapes réalistes à atteindre dans un contexte où les ressources se font rares.

Définition de l'image du FENU

Recommandation 7

Quelles que soient les décisions prises concernant l'évolution future du FENU, le Fonds doit s'identifier de façon plus claire – déclaration de mission, symboles, modèles et logos.

D'après nos données, il y a relativement peu de différenciation entre le FENU et le PNUD sur le terrain. Cela peut même s'accroître encore davantage, suite aux décisions prises sur l'avenir des relations entre les deux organismes. Plusieurs éléments constituent un obstacle à la définition de l'image – le nom même du FENU, l'absence de distinction entre les missions du FENU et du PNUD et le manque de symboles distinctifs. Le FENU est conscient de la nécessité de donner une image de marque au Fonds que ce soit à l'interne ou à l'externe et a élaboré à cet effet une

Stratégie de Communication, ce qui est déjà un bon début. Il pourrait aller plus loin en demandant une meilleure différenciation entre le FENU et le PNUD. L'Année du Micro-Crédit (2005) pourrait être l'occasion de lancer son image distinctive.

Gestion de l'Information et des Connaissances

Recommandation 8

Le FENU devrait continuer à investir dans le partage des connaissances, en particulier dans les systèmes de connaissances qui augmenteront la synergie entre les unités opérationnelles et amélioreront le partage des connaissances sur le terrain.

Les organisations modernes s'efforcent constamment d'améliorer leur capacité à identifier et à utiliser les connaissances tirées de leurs expériences. Pour le FENU cela se fait à la fois dans les programmes et dans l'unité d'évaluation. Bien que le FENU améliore constamment la façon d'utiliser et de partager les connaissances dans chaque secteur de programme, notre évaluation nous amène à penser qu'il lui faut encore améliorer son partage de l'information entre les programmes ou entre les unités opérationnelles. Ceci pourrait se faire par des groupes ou des équipes de travail inter-programmes, lesquels pourraient diffuser et partager les leçons tirées des programmes et passer en revue les méthodes utilisées pour répandre les connaissances sur le terrain. L'EIP de la Microfinance identifie aussi le besoin d'intégrer les concepts "d'organisme qui encourage l'apprentissage" comme un vaste secteur à améliorer dans l'organisation. Le FENU a déjà commencé à mettre en oeuvre une série d'actions visant à améliorer sa gestion des connaissances (y inclus le renouvellement de son Intranet en mars 2004) et nous appuyons l'application des recommandations mises de l'avant dans le Rapport 2002 sur la Gestion des Connaissances.

Recommandation 9

Au fur et à mesure de la mise en place des groupes et des modules d'Atlas, nous recommandons que le FENU crée une équipe de suivi pour en assurer la supervision et vérifier si, dans le cadre de ce déploiement, on a tenu compte des questions opérationnelles soulevées dans le EII et dans d'autres analyses fonctionnelles du FENU.

Le FENU espère beaucoup de la mise en marche d'Atlas, qui est un système créé pour accroître l'efficacité du Fonds dans la gestion de ses programmes, de son personnel et de ses finances. On s'attend à ce que le nouveau système amène des améliorations mais il peut ne pas s'attaquer à tous les problèmes qui ont été soulevés concernant la gestion efficace des ressources.

À mesure que les modules d'Atlas seront mis en place, le FENU devrait voir à ce que chaque module aborde les questions soulevées par la planification et le déploiement des ressources, la gestion axée sur les résultats, la gestion des ressources humaines, des revenus, des fonds, des approvisionnements et des immobilisations.

A c r o n y m s

ASA	Association for Social Advancement
AWP	Annual Workplan
BDP	Bureau for Development Policy (UNDP)
CCF	Country Cooperation Framework
CGAP	Consultative Group to Assist the Poor
DAC	Development Assistance Committee (OECD)
DDP/KDDP	District Development Project /Kotido District Development Project (Uganda)
DFID	Department for International Development (UK development agency)
EBS	Equity Building Society (MFI, Kenya)
ERP	Enterprise Resource Planning (now renamed Atlas)
ES	Executive Secretary (UNCDF)
EU	Evaluation Unit (UNCDF)
FGDs	Focus Group Discussions
FIM	Financial Information Management (UNCDF database)
GA	United Nations General Assembly
HQ	Headquarters
ICT	Information and Communication Technology
IFI	International Financial Institution
IIA	Independent Impact Assessment
Inf/RD	UNCDF Infrastructure and/or Rural Development Project Type
IRD	Integrated Rural Development
ITAD	Information, Training and Agricultural Development (1999 Evaluation Consultants)
JPO	Junior Professional Officer
LAPO	Lift Above Poverty Organisation (MFI, Nigeria)
LDC	Least Developed Country
LDF	Local Development Fund (UNCDF local governance programme instrument)
LDP	Local Development Programme (UNCDF programme type)
LFA	Logical Framework Analysis
LGDP	Local Government Development Programme (Uganda)
LICUS	Low-Income Counties Under Stress
M&E	Monitoring and Evaluation
MAMN	Malawi Microfinance Network
MDG	Millennium Development Goal
MF	Microfinance
MFI	Microfinance Institution

MFU	UNCDF-Microfinance
MoU	Memorandum of Understanding
NGO	Non-governmental Organisation
OECD	Organisation for Economic Co-operation and Development
OPA	Organisational Performance Assessment
OU	Operations Unit (UNCDF HQ Unit)
PD	Participatory Development
PIA	Programme Impact Assessment
PIR	Policy Impact and Replication
PM	UNCDF Programme Manager
PO	UNCDF Programme Officer (country office staff)
POM	Programme Operations Manual
POP	Plan of Operations (UNCDF programming tool)
RBM	Results-Based Management
ROAR	Results-oriented Annual Report
RR	UNDP Resident Representative
RTA	Regional Technical Advisor
SIDA	Swedish International Development Agency
SRF	Strategic Results Framework
SUM	Special Unit for Microfinance (UNCDF, renamed UNCDF-Microfinance)
SURF	Sub-Regional Resource Facilities, UNDP
TA	Technical Advisor
TAS	Technical Advisory Services
Team	The IIA Evaluation Team
ToR	Terms of Reference
TSPs	Technical Service Providers
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
UNV	United Nations Volunteers

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1. Introduction

Universalialia is pleased to submit to the Executive Board of the United Nations Capital Development Fund (UNCDF) this draft report on the Independent Impact Assessment (IIA) of UNCDF mandated by the Executive Board of UNCDF in its decision 99/22.

Purpose

The primary objective of the IIA was to assess whether UNCDF is performing as an effective, efficient and sustainable organisation that has remained relevant in carrying out its mandate to reduce poverty in the Least Developed Countries (LDCs). More specifically, with respect to UNCDF's achievement of impacts, the purpose of the IIA was to assess the extent to which UNCDF, through its local development programmes and microfinance operations, is: a) contributing to alleviating poverty; b) having an impact on policy and demonstrating replication of its projects and approach by other agencies; c) whether programme results and institutions supported are sustainable; and d) whether UNCDF is positioning itself strategically in-country.

A second objective was to assess whether UNCDF has responded appropriately to implement the 1995 policy shift, which narrowed the Fund's focus to microfinance operations and local governance programmes and concentrated its investments in the LDCs.

A third objective was to assess the extent to which UNCDF has implemented the recommendations of the 1999 independent external evaluation conducted by ITAD.

Organisation of the Report

This document (Volume I) is the synthesis report of the Independent Impact Assessment. Following this introduction, the report is organised as follows:

- Section 2 describes the methodology for carrying out the IIA
- Section 3 provides background on UNCDF and its current portfolio
- Section 4 presents an assessment of UNCDF performance and is organised around the following themes: effectiveness, efficiency, relevance, and financial viability of UNCDF
- Section 5 identifies the key factors that affect UNCDF's performance
- Section 6 provides our overall conclusions
- Section 7 presents the recommendations.

Volumes II to IV are presented in separate documents. Volume II contains the appendices to the report, including the TORs, methodological instruments, and a description of the IIA team. Volume III contains the UNCDF Portfolio Analysis; and Volume IV provides the results of the Staff Survey.

2. Methodology

2.1 Overall Approach

The IIA was informed by three distinct processes: the Organisational Performance Assessment (OPA) conducted by Universalialia (Canada); the Programme Impact Assessment (PIA) of UNCDF Microfinance Programmes, conducted by Enterprising Solutions Global Consulting, LLC (USA); and the PIA of UNCDF Local Development Programmes, conducted by ECIAfrica Consulting International (Pty) Ltd (South Africa). This synthesis report of the Impact Assessment integrates the results and findings of these three evaluation initiatives³.

The methodology for conducting the IIA was driven by an evaluation matrix that included the key evaluation questions, data sources, and data collection methodologies (Volume II, Appendix II).

2.2 Key Approaches to Data Collection

To assess the organisational performance of UNCDF, Universalialia collected primary data using a methodological mix of qualitative and quantitative techniques which included document review, individual and group interviews, a project portfolio analysis, field visits, and a staff questionnaire survey. The following provides a description of those methods.

Document Review: The team reviewed a wide range of pertinent documents related to the themes and projects under consideration. A list of documents consulted and reviewed is presented in Volume II, Appendix IV.

Questionnaire: a Web-based questionnaire survey was administered to 180 stakeholders, including all UNCDF staff (HQ and field) and UNDP Resident Representatives and Deputy Resident Representatives. Of these, 107 completed questionnaires were received (the response rate was 59%). The full results of the survey are presented in Volume IV.

Interviews: Face-to-face individual and group interviews were conducted at UNCDF Headquarters (HQ) in New York, in Washington D.C. and at three country offices. Telephone interviews were conducted with specific stakeholders who could not be met in person. In total, 147 individuals participated in interviews (see Volume II, Appendix VI).

Project Portfolio Analysis: To support the IIA, the team conducted a portfolio analysis of UNCDF's programmes in Microfinance and Local Development. The team used UNCDF database information to describe the 2003 portfolio and compare (where equivalent data was available) the characteristics of the overall portfolio at three points: December 1995, December 2000, and October 2003.⁴ In addition, the documentation available for 21 projects in the portfolio (approximately 20% of ongoing projects as of October 2003) was analysed in greater depth to assess quality issues in UNCDF projects. The projects selected included poor, average, and strong performers in terms of achievement of planned outputs and outcomes. The complete Portfolio Analysis is presented in Volume III.

³ Full separate reports on the Programme Impact Assessments for Microfinance and Local Development Programmes were developed and presented to UNCDF.

⁴ The dates were selected to reflect the timing of significant policy shifts and availability of data.

Field Visits: Universalialia visited Madagascar, Benin and Niger to verify the results of its portfolio review and to deepen its understanding of the management and organisational performance of UNCDF's local development programmes and microfinance operations. The criteria used for country selection for IIA field visits included: a) countries other than those where the PIAs were taking place; b) projects that were "good", "average" and "poor" performers in terms of achieving results; c) geographical distribution that reflected the overall portfolio, yet clustering countries, to the extent possible, for efficiency; d) countries for which project information (evaluations) existed; e) projects that started up after 1995; f) UNCDF Programme Managers' analyses; f) timing and other issues in the country context (crisis situations, security issues, etc.); g) ability of the IIA Team members to collect data in the local language. After applying these criteria, and discussing with UNCDF staff, the three countries identified as final candidates were all in francophone Africa. Nonetheless, it was agreed that these countries were suitable for the purposes of the field visits.

Integration of results and findings of the two Programme Impact Assessments of UNCDF microfinance and local governance programmes. Based on case studies of eight better performing UNCDF programmes⁵ (in Haiti, Nigeria, Malawi and Kenya for Microfinance programmes and Cambodia, Uganda, Mozambique and Mali for Local Development Programmes), the PIAs tested whether UNCDF's microfinance and local development programme logic was sound with reference to: a) contribution to poverty reduction (through improved access to basic social services, infrastructure and financial services); b) impact on policy and demonstration of replication of projects by other agencies; c) sustainability of programme results and institutions supported; d) strategic positioning of UNCDF in-country. Unless otherwise noted, the references to specific page numbers in the PIAs are taken from the drafts dated December 22, 2003 (for Local Governance) and January 12, 2004 (Microfinance).

2.3 Methodological Limitations

There were some limitations to conducting the IIA, particularly the Portfolio Analysis. (The specific limitations of the Portfolio Analysis are reported in Volume III.) Among these, the most important were the small size of the sample (due to resource and time constraints) and the difficulties in assembling a set of project documentation that would allow for judgment on all of the quality criteria. These factors limit the generalisability of the analysis. Although the IIA team visited three countries in which UNCDF operates, the purpose of these visits was not to assess project impacts. The IIA relied heavily on the PIAs – carried out by two other firms – to assess the impacts and results of the UNCDF programming. The three studies were carried out concurrently, which meant that draft PIA reports were being finalised at the time that the Synthesis Report was being drafted.

⁵ Refers to those programmes that have performed better in achieving intended outputs/outcomes.

3. Background on UNCDF

3.1 Overview and Milestones

UNCDF is a member of the United Nations Development Programme (UNDP) Group. Since its inception in 1966, the Fund has worked to assist developing countries in achieving accelerated and self-sustained economic growth. The nature of this assistance has evolved over the Fund's 38-year history, with a major refocusing occurring in the 1990s as a result of decreases in core donor support and a series of internal assessments. As a result, the Fund's mission was further refined, and now is: to contribute to poverty reduction in the world's LDCs through the achievement of the following sub-goals⁶:

- 1) To increase sustainable access of the poor to basic infrastructure and public services, as well as to productive livelihood opportunities through good local governance and enhanced natural resources management;
- 2) To increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment; and
- 3) To promote a financially sound organisation that develops and implements quality programming in local governance and microfinance.

The Fund, governed by the UNDP/UNFPA Executive Board (EB), currently has two main operational units: UNCDF-Microfinance (MFU) and the Local Governance Unit (LGU). These units direct capital financing to small-scale investment projects that are designed to test new approaches to produce direct benefits for specific low-income groups in the LDCs, and that will have wider policy influence and be replicated by other agencies if successful. UNCDF's programming model is based on the use of seed capital to pilot innovative operations. It is an organisation known to accept the greater relative risk that is associated with innovation.

Since a policy shift in 1999, MFU has been supporting the growth of microfinance institutions in order to extend financial services to low-income and poor clients, and is considered the lead technical unit on all matters pertaining to microfinance in the UNDP Group. It offers five main products and services: Capital Investments; Support to UNDP-funded MicroStart programmes; Technical Advisory Services; Capacity Building; and Best Practice Dissemination. The unit provides technical advice by fostering an understanding of microfinance best practices and assists programme countries, UNDP and other development partners in the incorporation of those elements into their programmes. In 2003, UNCDF adopted a new sector strategy that envisages advancing microfinance as an integral component of the financial system. This approach will include support for national policy and strategy, as well as MFI institutional strengthening, second-tier financing, and a range of other initiatives. (Microfinance PIA, p. vii)

LGU comprises four main initiatives: Programme Development; Management & Support; Distilling & Disseminating Lessons; and Technical Advisory Services. UNCDF Local Development Programmes promote a decentralised, participatory approach to the provision of basic infrastructure (health, education, transportation, markets, water and sanitation, etc) and the management of natural resources. The development of partnerships with programme country governments, local authorities and communities is emphasised to ensure that local investments match local needs, are managed efficiently, and are sustainable. The Fund uses seed capital to develop local institutional capacities in planning and financial management by coupling real resource management responsibilities with capacity-building support services.

⁶ Sub goals defined in the 2000-2003 strategic results framework (SRF).

UNCDF was founded with the expectation that its efforts would complement the activities of the UNDP and existing international financial institutions (IFIs). It was therefore charged with the support of development and investment activities targeted towards strengthening economic and social infrastructure in rural areas of LDCs. In the 1990s, in response to changes in Overseas Development Assistance (ODA) and renewed interest in decentralisation, the Fund began to shift the interpretation of its mandate to combat rural poverty. A 1995 policy paper entitled *Poverty Reduction, Participation and Local Governance: The Role for UNCDF* confirmed the overall policy goal to be poverty reduction, but specified that participation and local governance were to become integral components of its approach. While continuing to provide investment resources for economic and social infrastructure, the Fund's capital assistance was slotted into the four main areas of (a) "blueprint" infrastructure projects, (b) micro-credit and/or loan guarantee schemes; c) local development funds; and (d) participatory eco-development programmes.

By 1999, a series of strategic assessments and a reduction in core resources from donors required the Fund to begin targeting resources more carefully. The Fund reorganised activities to sharpen its focus on support to decentralisation and local governance, and microfinance initiatives. In spite of these internal reforms, donor contributions continued to drop. Although in 2003, core contributions reached the highest level since 2000 (US\$26.9 million), they fell short of the agency's US\$30 million target. The decline in ODA has required the Fund to reduce its expenditures significantly, which has severely affected programme delivery and contributed to growing uncertainty about the viability of the Fund in coming years. The following table (Exhibit 3.1) presents UNCDF's major milestones.

Exhibit 3.1 UNCDF Milestones

DATE	KEY EVENTS
1960	In December 1960, the United Nations General Assembly (GA) agreed in principle to establish a UN capital development fund (GA 1521) as an organ of the GA, and as an autonomous organisation within the UN (GA 2186). Six years later, the Fund was established to assist developing countries in achieving accelerated and self-sustained economic growth, by supplementing their existing sources of capital assistance.
1973	UNCDF's mandate is sharpened so that UNCDF activities better complement UNDP and existing international financial institutions' (IFIs) initiatives. Development and investment activities are aimed at strengthening the economic and social infrastructure of the least developed countries (LDCs).
1995	The 1995 policy paper, "Poverty Reduction, Participation and Local Governance: The Role for UNCDF," confirmed poverty reduction as the overarching policy goal for the UNCDF. While continuing to provide investment resources for economic and social infrastructure, the Fund's capital assistance was to be slotted into the four main areas of (a) "blueprint" infrastructure projects, (b) micro-credit and/or loan guarantee schemes; c) local development funds; and (d) participatory eco-development programmes. This document became the foundation of the Fund's mission and strategy.
1996	The 1996 paper, "Capacity Assessment of UNCDF," concluded that for UNCDF to live up to the expectations of the 1995 policy paper, the Fund needed to concentrate its efforts on a smaller number of countries.
1998	UNCDF commissioned an internal review of its core product lines in 1998. As a result of the internal reviews of the microfinance and participatory eco-development portfolios, eco-development projects were incorporated into the local governance unit.
1999	UNCDF was subject to an independent external evaluation that concluded that UNCDF had enhanced its distinctive identity by developing competence in the fields of decentralisation and local governance, as well as microfinance. The capacity of the institution had been improved and the preliminary judgment was that the new approach had a positive effect on field operations. UNCDF's capacities in microfinance were strengthened by the UNDP Administrator's decision to locate the Special Unit for Microfinance (SUM) within UNCDF. Now called UNCDF-Microfinance (MFU), it supports UNDP's microfinance portfolio, including those countries outside of UNCDF's geographic focus.

DATE	KEY EVENTS
2000	UNCDF adopted a Strategic Results Framework for the period 2000-2003. On this basis, UNCDF has presented three Results-Oriented Annual Reports (ROARs) for 2000, 2001, 2002 to the Executive Board. At the time of the IIA, the 2003 ROAR was under preparation.
2002	The operational activities of the UNCDF were severely affected by the low level of contributions from donors to its core resources. With donor contributions in the order of US\$22.2 million, far short of the annual target of US\$30 million, UNCDF was obliged to reduce its expenditures significantly. The consequences were severe for the programme countries affected.

3.2 UNCDF Portfolio

The purpose of this section is to provide a brief description of the characteristics of UNCDF's project portfolio. The focus is on 2003 and how the portfolio compares, in certain aspects, with the portfolio in 2000 and 1995. These years were chosen because they represent milestones in the evolution of UNCDF policy and programming.⁷ A full review of the portfolio, including the methodology used and a qualitative assessment of a small sample of projects is presented in Volume III.

General Characteristics

In October 2003, UNCDF had a portfolio of 99 projects with planned programme expenditures of US\$24 million.⁸ Actual programme expenditures in 2003 reached US\$21.6 million. Programme investments are focused on the LDCs – all but seven of the projects are in countries classified by the UN as LDCs.⁹ Africa continues to be the region of emphasis for UNCDF investments, with 70% of the total projects and 75% of the programme funding allocations in 2003. Most projects in the portfolio are well into the implementation stage (see Exhibit 3.2), with operations that began between four and ten years ago¹⁰.

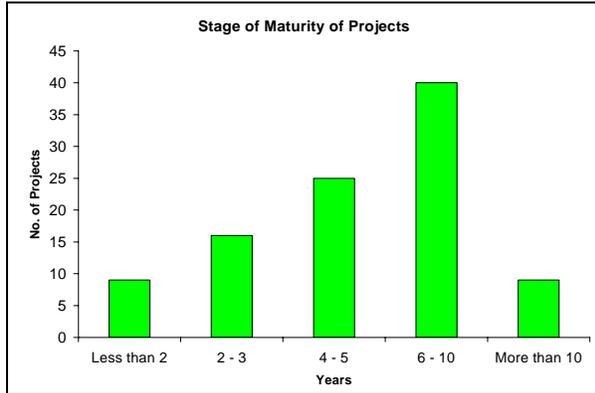
⁷ Initially, the team planned to look at 1999 data, but due to changes in the financial system and recent archiving, the data for that year was not available in either electronic or print format. It was agreed to use data from 2000.

⁸ The primary source for this project data is UNCDF's financial database (FIM) – October 2003. UNCDF Data Tables for the 2003 ROAR, produced in March 2004, reflect a total of 74 projects. The total number of projects is lower because it reflects only the number of projects that actually made expenditures in 2003 and were determined as active in consultation with Programme Managers. In addition, a number of projects were in the process of being closed in 2003.

⁹ The exceptions are the 7 projects in Vietnam, Nicaragua, and Palestine.

¹⁰ Planned project investments were to reach US\$24 million in 2003 based on FIM data in October 2003, but March 2004 figures from the UNCDF Finance Unit show that actual programme expenditures in 2003 were US\$21.6 million.

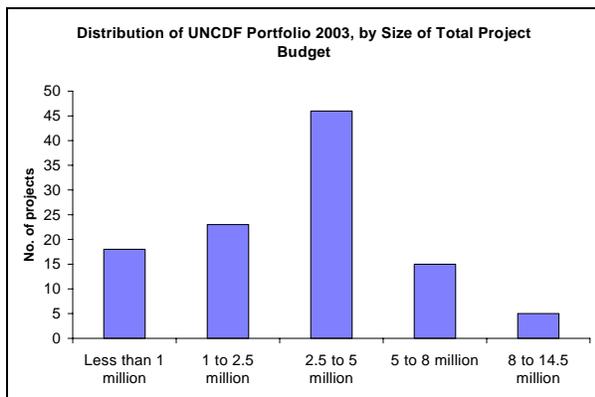
Exhibit 3.2 Stage of Maturity of Projects



Source: FIM Data Base

UNCDF projects represent small to medium-size investments, and total project budgets are generally in the range of US\$1 million to US\$5 million (see Exhibit 3.3). The data for 2003 shows a minimum total project budget of US\$162,539 and a maximum total project budget of US\$14.4 million.

Exhibit 3.3 Distribution of UNCDF Portfolio, by Size of Project Budget

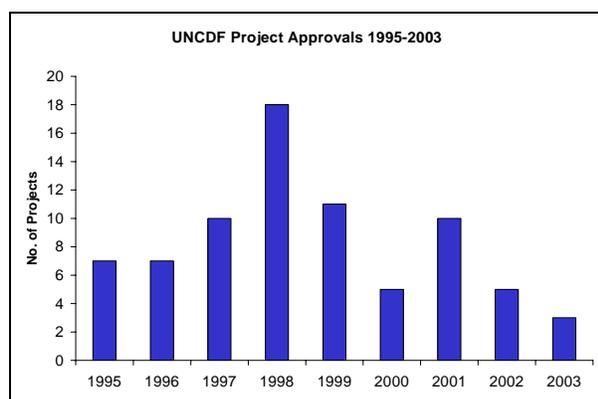


Source: FIM Data Base

UNCDF's portfolio has been decreasing in size in recent years, both in terms of number of projects and amount invested. In 1995, UNCDF had 183 projects on the books with actual programme expenditures of approximately US\$40 million. By 2003, the total number of projects had dropped to 99, with actual programme expenditures down to US\$21.6 million. Furthermore, more than half of the projects currently on the books will have closed by the end of 2004.

In addition to the large number of project closings in 2003-2004, there has also been an overall decline in project approvals since 1998 (see Exhibit 3.4)¹¹. These factors raise concerns about the sustained contribution of the UNCDF portfolio to results on the ground in each of its programme areas. If both trends continue, at the end of 2004 the portfolio (both in terms of funding and number of projects) will be much less than half of what it was in 1995. UNCDF's mission, however, has not been reduced in scope over this same period of time. Given that microfinance and local governance projects are the primary means for UNCDF to achieve its goal of poverty reduction in LDCs, this trend is a factor that limits organisational effectiveness.

Exhibit 3.4 UNCDF Project Approvals, 1995-2003



Source: FIM Data Base

Local Governance

The majority of UNCDF programme investments are in the area of local governance. In 2003, 80% percent of projects and US\$19.4 million of planned allocations were in local governance initiatives (see Exhibit 3.5). The actual programme expenditures in local governance was US\$18.5 million. The local governance portfolio data generally reflects the policy shifts that have influenced programming in this area,¹² with Local Development Programmes (LDPs) gaining strength in relation to infrastructure and eco-development projects.¹³ In 2003, infrastructure projects still represent 22% of the UNCDF portfolio. Further clean-up and focusing of the portfolio is evident from the planned project closings in 2003 and 2004, which encompass most of the older infrastructure projects (see Exhibit 3.6).

¹¹ The year in the project number is used as a proxy for approval date. In practice, there can be a lag between the year the project number was assigned and the year the project was formally approved.

¹² "Poverty Reduction, Participation and Local Governance", 1995 and "Taking Risks", 1999

¹³ Classification of LG interventions has changed since 1995 and projects evolve at different rates in response to policy shifts. Name changes may sometimes lag behind project redesign or vice versa. For 2003, the IIA team classified local governance projects based on the classification done by the Evaluation Unit in preparation for the 2003 ROAR. The classification of projects from 2000 and 1995 is based on various sources (see Vol. III).

Exhibit 3.5 Planned Allocations in Local Governance and Microfinance

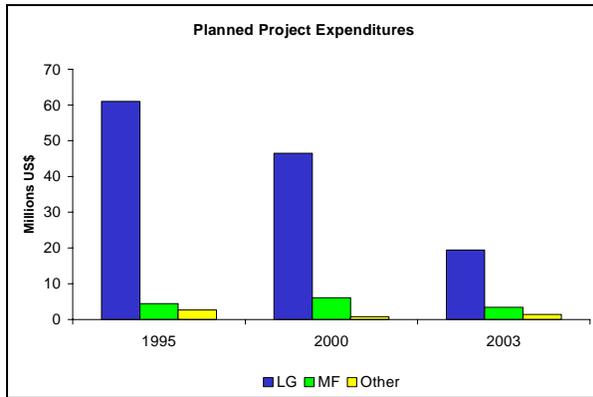
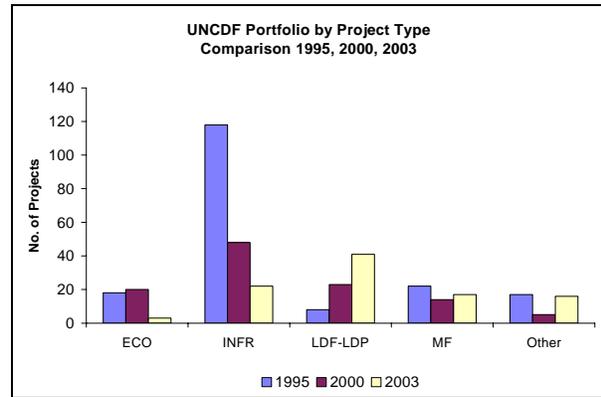


Exhibit 3.6 UNCDF Portfolio by Project Type – 1995, 2000, 2003



Source: FIM Data base and UNCDF Data Tables for 2003 ROAR (March 16, 2004)

Microfinance

For 2003, planned Microfinance programme expenditures were close to US\$3.4 million, spread across 16 projects. Actual programme expenditure in 2003 was US\$ 2.6 million. As stated in the 2002 ROAR, some of the reasons for the low number of microfinance projects include natural attrition (i.e. completion of project support) and portfolio management decisions to wind down support to microfinance institutions (MFIs) with chronic poor performance and design new interventions that focus on building inclusive financial sectors in LDCs.

Although not reflected in the financial database, which is the primary source for the portfolio data, UNCDF-Microfinance (MFU) also has partnered with UNDP to provide technical assistance to 22 additional projects that form part of the MicroStart Programme. These also form a part of the overall portfolio of the Fund.¹⁴ Approximately one-third of the MicroStart projects supported by MFU are in LDCs.

¹⁴ UNCDF reports to the Executive Board on both CDF investments and MicroStart initiatives in its ROAR. In discussions with MFU, it was agreed that MicroStart should also be considered in the portfolio analysis.

4. UNCDF Performance

4.1 Introduction

As mandated in the IIA Terms of Reference, and in accordance with our own approach to organisational assessment¹⁵, in this chapter we explore UNCDF's performance in terms of its effectiveness, efficiency, relevance and financial viability. Specifically, we have examined:

- UNCDF effectiveness: the extent to which the objectives of UNCDF development interventions were achieved;
- UNCDF efficiency: how UNCDF resources/inputs (funds, expertise, time, etc.) have been converted into results;
- UNCDF relevance: the extent to which the objectives of UNCDF development interventions and of UNCDF as an organisation are consistent with beneficiaries' requirements, country needs, MDGs and other global priorities and partners' and donors' policies; and finally,
- UNCDF financial sustainability: the extent to which UNCDF is a financially viable organisation that can sustain its programming and results achievement.

4.2 Effectiveness

This section on the effectiveness of UNCDF focuses on three dimensions that are noted in the Terms of Reference for the IIA (paragraph 9): a) Did UNCDF align its activities to reflect the 1995 policy shift?; b) Did UNCDF implement the recommendations of the 1999 independent external evaluation conducted by ITAD?; and c) Do UNCDF's two main programmes have an impact on the development goals of the LDCs?

4.2.1 Alignment of Activities with Policy Shifts

Since 1995, UNCDF has undergone several policy shifts, all with the continuing aim of sharpening the focus of its activities and maximising the use of its resources to client groups. In its 1995 policy shift, UNCDF made participation and support to local institutions a central component of its efforts to reduce poverty. This new approach was set out in a policy document entitled *Poverty Reduction, Participation and Local Governance: The Role for UNCDF*.

In this document the overall policy goal was poverty reduction, and the Fund's capital assistance was allocated to four main areas: blueprint infrastructure projects; micro-credit and loan guarantee schemes; local development funds; and participatory eco-development programmes.

Two years later, in 1997, UNCDF narrowed its focus to a smaller number of countries and initiated projects in two areas of expertise, local governance and microfinance, gradually moving away from the blueprint approach to infrastructure provision. A year later, following an internal portfolio review of its projects, UNCDF included eco-development in its local governance approach.

¹⁵ Lusthaus, C.; Adrien, M.H.; Anderson, G.; Carden, F. (1999), *Enhancing Organisational Performance: A Toolbox for Self-Assessment* - International Development Research Centre

In 1999, a new refined focus emerged in the two areas of expertise. In local governance, the Local Development Programme was created, with a strategy that included refined operating parameters (i.e. anchoring all project activities in local institutions, encouraging institutional partnerships, scaling financing to local and sustainable levels, etc.) and new methodologies (i.e. new funding instruments, new development funds supporting natural resources management, etc.).

In microfinance, the policy shift (articulated in the *UNCDF Working Paper on Microfinance*) maintained the broader goal of poverty reduction and identified financial sustainability of MFIs as the core emphasis of microfinance projects. It continued to promote risk-taking innovations in especially rural areas, but emphasised relaxing of this geographical focus in view of MFI financial sustainability as needed. Since 2003 MFU has shifted its approach towards providing support to building inclusive financial sectors in LDCs.

Finally, as put forward in the mandates and objectives of its overall policy, UNCDF has defined several principles of work for both its microfinance and local governance projects – these include empowerment, pro-poor focus (including targeting the poorest groups, such as women), participation, replication, sustainability, partnerships, capacity building, and policy impact.

In this section we examine the extent to which UNCDF's existing operations are in line with the policy shifts in 1995 and 1999, as well the extent to which UNCDF has incorporated the operating principles noted above.

Finding 1: UNCDF microfinance and local governance projects are generally aligned with corporate policy and strategy.

Based on a review of project documents from the portfolio, the IIA team found that UNCDF projects are generally aligned with the Fund's major policy shifts of 1995 and 1999. According to portfolio data available as of October 31, 2003 (which may not accurately reflect all project closings), it is clear that UNCDF has almost completed the clean-up of its portfolio to ensure that it is more fully aligned with the policy shifts in microfinance and local governance. There are 22 infrastructure projects and 3 eco-development projects remaining, but out of these 25 projects, 22 were to be closed by the end of 2004. Some projects in the portfolio were redesigned to match the latest policy changes. For example, eco-development projects in Haiti and Burkina Faso were redesigned to be congruent with the *Taking Risks* policy paper (1999).

The large number of project closings in 2003 and 2004 also indicates that both MFU and LGU are striving to close projects that are unaligned, poorly designed, or performing below expectations. Natural attrition also plays a role as projects come to the end of their cycle. As noted in its Unit Management Plan 2003, MFU will also close projects that are considered irrelevant to the development of an inclusive financial sector, in line with the Unit's most recent shift in focus.

Local Governance: The Local Governance PIA report indicates that, in the four case study countries, *"There is no question that UNCDF-supported interventions have had significant impact in the area of policy and poverty reduction and that it has complied with the policy shift of 1995."* (Local Governance PIA, p.4) The *Analytic Review of UNCDF Evaluations (2002)* indicates that, *"In essence the evaluations would seem to support UNCDF's reinforced policy focus on local governance and decentralised development."*

The Local Governance PIA also states that interventions boost local capacities and systems for managing development in a decentralised manner.

Microfinance: In the area of microfinance, UNCDF has incorporated the 1999 policy orientations into its programming. As noted in the Microfinance PIA conducted in four countries, UNCDF's relatively rapid introduction of the 1999 policy change influenced the choice of interventions in Nigeria and Malawi; the approach to project design in Malawi, Kenya, Haiti; and the mode of implementation, with an emphasis on performance indicators in all four PIA case study countries. One significant change that resulted from the 1999 policy shift was being able to offer support at the microfinance retail level, an area in which UNCDF had not been active previously and in which impact was quite direct and palpable. The 1999 policy shift reoriented resources to build institutional sustainability among partner microfinance institutions (MFIs), which significantly increased their outreach, generally improved client impact, and helped UNCDF to capitalise on one of its unique comparative advantages and strengths in microfinance in terms of sector contribution.

"The policy shift was relatively swiftly internalised and acted upon within the case study countries. This could indicate that UNCDF, certainly compared to some other UN Agencies, is an organisation that can be steered and is effective in changing course." (Microfinance PIA, p. 37)

The *UNCDF Strategy for Policy Impact and Replication in Local Governance and Microfinance, May 2002* (see details in Exhibit 4.2) is not yet specifically addressed in projects designed prior to 2002. As noted in the *Analytic Review of UNCDF Evaluations (2002)*, project planning in local governance did not adequately reflect the pilot nature of interventions, which may have limited the extent of the policy impact. Despite this, the PIA in Local Governance does indicate that UNCDF has made a difference at the policy level. The *2002 ROAR* also noted that the outcome of "results attained in policy impact and replication" was only partially achieved (65%).

Finding 2: Corporate policies on pro-poor focus and local participation are generally being applied.

Pro-poor focus

UNCDF describes its work as 'investing with the poor.' In this context, a 'pro-poor focus' is taken to mean the extent to which UNCDF has targeted, involved, and had a positive impact on the poor through its operational activities. In this section we address issues of targeting and participation (an assessment of the results of UNCDF programming is found in Section 4.2.3).

UNCDF operations in microfinance and local governance use UNCDF's core resources to focus the delivery of their respective products and services on poor and low-income people, primarily in LDCs.¹⁶ All but 7 of UNCDF's 99 current projects are located in LDCs.

In the area of microfinance, a review of UNCDF documents and the Microfinance PIA shows that UNCDF has targeted the poor. In three of the four case study MFIs, 60 - 90% of the clients have an income level of under US\$2/day. The Microfinance PIA underlines that microfinance serves the poor but is not intended to serve the poorest, who are generally too destitute to help themselves through access to financial services and are better served by other means. (Microfinance PIA, p. 12) The *Synthesis of 2002 Microfinance Evaluations* notes that the information about poverty targeting is inconclusive and that there is often a lack of data on the poverty level of beneficiaries. This lack of data on poverty levels of beneficiaries also emerges from our review of a small number of projects in the MF portfolio.

¹⁶ The Microfinance Unit specifies "low income" and "poor" in their 2003 Unit Management Plan.

The Local Governance PIA finds that most projects are perceived to be pro-poor, but notes that *“while participatory planning processes have enhanced access to LDP projects, in many countries, groups of the poor, most vulnerable, or marginalised are still not reached or may not enjoy major benefits.”* (Local Governance PIA, p. 4) Furthermore, the report notes that the strength of the UNCDF model is that it is sensitive to local conceptions of poverty, in that communities participate in the choice of services and facilities to be provided through the programme. Several of the evaluation reports reviewed as part of the portfolio analysis indicate that LDP projects face a number of challenges in targeting poor and very poor people. A related issue in these projects is the scarcity of data on poverty (including lack of project baselines in most cases) that would allow for more precise characterisation and quantification of poverty in the project areas.

The data available in this area do not suggest major deviations from policy, but rather areas where the pro-poor focus could be further sharpened. Gathering of baseline data including poverty profiles would assist in refining the targeting of interventions and measuring their impact.

Participation and Empowerment

UNCDF’s approach to participation and empowerment is based on the belief that greater results in poverty reduction are achieved when local beneficiaries are directly involved in all aspects of an intervention. UNCDF has incorporated a number of strategies in its projects in order to improve participation and contribute to empowerment. This policy is generally being applied, although there are some challenges in ensuring that participation is real, sustained, and truly empowering.

As described in *Investing with the Poor* (a UNCDF brochure), participation means securing local commitment through the participation of the local population, particularly women, and a strengthened civil society. Efforts at broadening and democratising participation have been a key feature of the present generation of local governance/development projects. The Local Governance PIA reports that in the four case study countries, mechanisms and procedures were developed for enabling community participation and for cascading lower-level needs or plans upward to higher levels. Both the IIA team’s review of selected projects in the portfolio and the *Analytic Review of UNCDF Evaluations (2002)* also indicate that projects are generally successful in implementing participatory planning processes. In the ROARs, UNCDF reports ‘satisfactory’ achievement of results in 2001, and ‘partially achieved’ results in 2002 for the indicators related to capacities of local communities and civil society organisations to participate in local development planning and the institutionalisation of participatory planning processes by local authorities.

Nonetheless, the degree to which the processes are genuinely inclusive and empowering may vary from one project to another, often influenced by the socio-cultural context. In many countries, the groups of the very poor, most vulnerable or marginalised are less likely to be involved in these processes. The PIA suggests this may be due to a *“lack of the necessary skills or know-how [of local authorities] to ensure that processes are equitable, fair and truly empowering.”* (Local Governance PIA – March 2004, p. 33) The PIA team also found that involvement in participatory processes was not necessarily linked to real participation in decision-making, since the final selection of projects did not always reflect the expressed priorities of communities (Local Governance PIA, p. 54). Nonetheless, the involvement in these processes often triggered important changes in the lives of local people – by strengthening social capital and perceptions of an improving quality of life, especially for the next generation. Thus, in moving forward, one of the challenges for LDPs is to reach and fully include marginalised groups, particularly women and the very poor.

Microfinance projects are also meant to contribute to empowerment of the clients that benefit from access to financial services. The surveys conducted by the PIA team could establish no clear relationship between empowerment of MFI clients and their participation in the programme. The team's qualitative research reveals already high levels of empowerment among the people who became clients of three of the case-study MFIs. The qualitative evidence also shows that there are processes of empowerment that occur among *some* clients through programme participation, which become manifest in the increased self-esteem of individuals. (Microfinance PIA, p. 14)

Both programmes could improve their effectiveness by taking additional steps to ensure the participation of women. In microfinance, the PIA confirms general tendencies related to women's access to microfinance services – mainly, that the outreach to women has increased, but that in some cases the larger loans are predominantly in the hands of men. (Microfinance PIA, p. 20) For local governance, problems with the participation of the poor and women in community and local government decision-making processes exist to a greater or lesser degree in all countries. The low participation of women is also identified in the *Analytic Review of UNCDF Evaluations (2002)*. The Local Governance PIA team recommends a more sustainable process that actively encourages the poor and women to participate in decision-making.

Finding 3: Although gender is taken into account in all UNCDF projects, there is room for improvement in how gender considerations are integrated into project design and implementation. There are still factors that limit gender mainstreaming in UNCDF.

Gender mainstreaming is a challenge faced by all development cooperation agencies and UNCDF is no exception. UNCDF's gender guidelines, set forth in 1998, were intended to ensure accountability and provide an incentive to promote gender equality as a central aspect of the organisation's work.¹⁷ At the time of the IIA, these documents were not readily available, through either the Internet or the Intranet. This was surprising, given that other corporate policies are accessible through these media.

In their responses to the IIA survey, UNCDF staff indicated their satisfaction with UNCDF's inclusion of gender (67% agree or strongly agree with the statement that UNCDF integrates gender issues into its projects). One survey respondent commented, "*The integration of gender into projects does not seem systematic, but I believe that most staff members are committed to it.*"

Factors that have limited gender mainstreaming are identified in a 2002 study of gender mainstreaming in local governance programmes¹⁸, and the UNCDF response to that study. Some of these factors also emerged in the portfolio review, recent evaluations, and the PIAs. The IIA team's review of a selected number of project documents from UNCDF's portfolio indicates that gender dimensions are not consistently integrated into projects. This means that there are positive examples, such as evidence of greater attention being paid to gender equality in the selection of districts to work in (using the UNDP gender equality index in the case of one project), or as performance measures for local governments. It also means that there are areas that could be improved. In the design stage, project logframes are inconsistent in their use of gender integration. Although there are sections in the project documents on the situation of women at the national and local levels, and some gender analysis, it is not clear that gender issues are systematically targeted and monitored throughout the project.

¹⁷ The Guidelines consist of a letter from the Executive Secretary to all staff on April 17, 1998.

¹⁸ Petritsh, Mechtild, "Gender Mainstreaming in UNCDF Projects and Programmes for Local Governance"

In implementation, most projects have difficulty achieving their planned results for women's participation. This was also noted in the above finding on UNCDF's pro-poor and participatory policies. Many project evaluations indicate that women are underrepresented in training and planning activities. UNCDF management and staff have also indicated that, *"It is relatively easier to ensure gender mainstreaming in the design of the project than in the implementation and practice."*¹⁹

The Local Governance PIA reported mixed results on the integration of gender into local governance programming. The assessment team found that problems exist, to a greater or lesser degree, with the representation of the poor and women in local decisions in all four case study countries. In Cambodia, although the household surveys and the FGDs (Focus Group Discussions) indicated limited women's participation in taking leadership roles and expressing themselves in commune/village meetings, the UNCDF-supported programmes provided opportunities for participation that encouraged greater participation by women (Local Governance PIA, p.57). In Mozambique there was strong evidence that women were the key beneficiaries of certain forms of pro-poor infrastructure projects that *"affords a basis for linking UNCDF's interventions to the promotion of gender equality."* (Local Governance PIA, p. 60) But the report also concludes that *"While women and the poor may have opportunities to participate in the decision making process, they are often reluctant to do so and their interests may not be sufficiently considered."* (Local Governance PIA, p.45) This is also identified in the *Analytic Review of UNCDF Evaluations (2002)*. Although gender mainstreaming was not an element of the pilot LDPs, it emerged as a key issue that is now being addressed more fully in subsequent programmes (this varies across countries). The second District Development Programme in Uganda, for example, has introduced a focus on gender mainstreaming that should provide lessons for other LDPs.

"It is absolutely impossible to have a one-size-fits-all approach on gender in UNCDF." (Survey respondent)

Microfinance programming also has mixed results in this area. The Microfinance PIA reports that MFIs sampled demonstrated awareness of the special needs of female clients; three of the four case studies show that MFIs paid special attention to ensuring that their products and methodologies meet those needs. In addition, women in Haiti, Nigeria and Malawi seemed highly empowered in decisions on the use of programme loans. In the four case study countries, women made up an equitable or considerable percentage of clients (31% in Haiti, 48% in Kenya, 49% in Malawi and 100% in Nigeria.) However, the 2002 ROAR indicates that 46% of borrowers from all MFIs were women and that only half of the MFIs had more than 50% female clients, despite a focus on women being an objective of UNCDF microfinance programmes. The PIA study also points to the fact that there is little difference on most impact indicators of client gender in the programmes of mixed clientele. This may be due to a combination of factors: lack of targeted promotion of economic participation of women, and lack of financial products to address their needs. (Microfinance PIA, p. 16). For instance, in Kenya, women encountered obstacles to borrowing because of collateral requirements. Our review of MFU project documents also indicated that gender issues were not at the forefront, even when women are targeted by the MFIs selected. The evidence suggests that although there are achievements, more could be done to support partner MFIs in designing products and processes that include poor women. (Microfinance PIA, p. 39)

¹⁹ UNCDF Response to "Gender Mainstreaming in UNCDF Projects and Programmes for Local Governance"; a study prepared by Dr. Mechtild Petritsh, 2002. (Note: Although the study focused on local governance, it made a brief reference to MF projects. In the debriefing session for the report, UNCDF staff also pointed to MF experience with incorporating a gender focus in its programmes.)

4.2.2 Implementation of 1999 Evaluation Recommendations

Finding 4: UNCDF has implemented most of the recommendations of the independent external evaluation of 1999; others are still being worked on.

The 1999 independent external evaluation carried out by ITAD made 14 recommendations, 11 of which were directed to UNCDF, addressed in an action plan, and monitored in subsequent years. UNCDF has been diligent in ensuring the implementation of these recommendations, all of which have been fully implemented or are being addressed, as illustrated in Exhibit 4.1.

In judging UNCDF's progress in implementing the recommendations we assessed the extent to which each recommended action had been completed, and whether the issue had been addressed.

Exhibit 4.1 Implementation of Recommendations from the 1999 Evaluation

RECOMMENDATIONS	COMMENTS
1. UNCDF should move rapidly to finalise a short, clear, policy statement of goals and then concentrate on dissemination of that policy and the strategy to implement it. The statement should resolve outstanding issues about policy impact, replication and innovation and have clear objectives for quality of projects, efficiency and effectiveness.	Done UNCDF Developed a Strategic Results Framework for 2000-2003 UNCDF presented three Results-Oriented Annual Reports (2000, 2001, 2002, to the Executive Board. The preparation of the 2003 ROAR was underway at the time of the IIA.
2. UNCDF will develop a strategy specifying the means by which it will achieve impact on national government policy and encourage replication by other multilateral and bilateral donors.	Done "UNCDF Strategy for Policy Impact and Replication in Local Governance and Microfinance" finalized in 2002.
3. UNCDF should review all projects in its portfolio with a view to closing all old, delayed, over-budget or non-performing projects by an agreed date.	Ongoing: UNCDF is actively pursuing the review of the portfolio and that recommendation should be fully implemented by the end of 2004
4. UNCDF should adopt an organisational structure to bring together the skills and authority required for project identification, formulation and supervision.	Done- results are inconclusive The structural changes recommended by the evaluation have been made. The technical & operational units under local governance have been merged. MFU (formerly SUM) has been incorporated as second product line of UNCDF. In addition, the evaluation function has been separated from policy support, and a Directorate established. Decentralisation of technical assistance and programme management has also begun. It is unclear at this stage and with the evidence at hand whether or not project management has improved as a result.
5. UNCDF should continue to seek closest possible relationship with UNDP at headquarters and country level, and notably with the regional bureaux responsible for UNCDF concentration countries.	Done at programme levels – issues still remain Signed MoUs between UNDP and UNCDF MFU Signed MOU between UNDP Bureau for Development Policy and UNCDF LGU Some issues still remain with respect to institutional MoUs (see section on Partnerships in this report) More broadly, the role of UNCDF within the UNDP Group needs clarification.

RECOMMENDATIONS	COMMENTS
6. UNCDF should continue to increase the devolution of financial and implementation responsibility to country offices.	Ongoing- UNCDF has begun to address the devolution of financial and implementation responsibilities to country offices. Results are inconclusive at this stage.
7. UNCDF should take immediate action to create a database of its entire portfolio of open projects. The design criterion of the MIS should be 'minimum essential' not 'maximum desirable'.	Although there is no corporate-wide database, the LGU is in the process of implementing its MIS (which is not yet used by all project teams) and the MFU has a database for the MicroStart project.
8. UNCDF should monitor and publish annually an analysis of direct project expenditures and of the fixed and variable costs of project formulation, project support, supervision, evaluation etc, including missions financed under project budgets.	UNCDF has introduced a performance budgeting approach. It also developed ROARs, which were greatly appreciated by the Executive Board, but which do not report on the breakdown of such costs as project formulation.
9. UNCDF should introduce procedures to ensure that all formulations meet best practice international standards for quality of analysis and conciseness. A new set of short, clear guidelines for formulators for each project type will be required. Consideration should be given to the establishment of an external Project Appraisal Panel of experienced country and development specialists, and commissioning views from selected individuals on the Panel on new formulations, prior to UNCDF approval.	UNCDF adopted a peer appraisal approach of the "project concept phase" before the project formulation phase, but there is no evidence of external project appraisal panels. UNCDF set efficiency targets for initial stages of project cycle and reports on these indicators in its ROAR. UNCDF reports indicate that some short formulation guidelines were developed. However, the overall revision of the Programming and Operations Manual is ongoing.
10. The mid-term and final evaluations should continue to be led by independent external specialists.	Done
11. Donors should continue to support UNCDF. Future funding should be linked to performance targets geared to project design quality, and results performance with arrangements for objective verification and annual performance reporting.	UNCDF has done its part, but donors have not. UNCDF has presented its results to the Executive Board, and each year the results have been achieved. However, donor contributions have not matched the achievement of results.

4.2.3 Programme Results

In this section we examine the extent to which UNCDF's programmes have achieved results (outcome and impact) in three areas: poverty reduction, policy impact and replication, and sustainability of UNCDF's programme results.

This assessment relies largely on available evaluation reports and technical review reports, as well as on the findings of the PIAs conducted in selected countries. To obtain a more in-depth picture of programme results, we suggest that the reader consult the full PIA reports.

Three limitations in the following assessment of UNCDF programme results are important to note. First, assessment of programme impact was constrained in several instances by limited baseline data, particularly in the area of poverty reduction. In the case of the Programme Impact Assessment of LDPs there were also difficulties in establishing control groups, requiring the assessors to develop alternative methods to assess impact.

Secondly, due to resource constraints, only eight of UNCDF's close to 100 programmes were assessed for impact in a rigorous way. Furthermore, since the primary purpose of the impact assessments was to assess the underlying programme logic of UNCDF programmes, to enable the assessors to do this most effectively, the eight programmes selected for the PIA were some of UNCDF's more successful programmes. While limiting the generalisability of the PIA findings and conclusions, this enabled the evaluators to test the LDP impact hypothesis.

Lastly, the Portfolio Analysis carried out by Universalia was based on a sample of 21 programmes and relied on secondary data to assess programme results (output achievement and progress towards outcomes). As a result, this analysis must be considered indicative rather than conclusive.

Poverty Reduction

Poverty reduction is the overall goal of UNCDF programmes in local governance and microfinance. *“The theory underlying the local governance interventions is that there is a link between decentralisation, good local governance and poverty reduction. The reason is that local government’s proximity and permanence potentially gives it a comparative advantage in delivering development and services that increase the sustainable access of the poor to the resources needed to improve their lives. According to this theory, this potential is most likely to be realized where local populations, notably the poor and marginalised, are empowered through participation in all stages of development and service delivery.”* (Local Governance PIA, p.1)

In UNCDF’s local governance programmes, poverty is addressed through *increasing the sustainable access of the poor to basic infrastructure and public services (e.g. health, education, water and sanitation, etc.), as well as to productive livelihoods, through good local governance and enhanced natural resources management.*

Within the framework of microfinance projects, poverty is addressed through *“increasing access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment.”*²⁰ *“The underlying theory of UNCDF microfinance programmes and its TA is that, by making financial services available to a previously excluded section of society, microfinance institutions provide poor clients with capital for investments, extra liquidity to allow them to take advantage of economic opportunities as they arise, and the opportunity to accumulate assets and gain access to savings to help protect against shocks in times of need. At the same time, for these microfinance services to be available over the long run, the microfinance institutions must be viable and sustainable in the long term. This, in turn, may necessitate influencing the overall microfinance policy environment.”* (Microfinance PIA, p.3)

The measurement of poverty reduction is a demanding and complex activity, and is more difficult in a project context in which many variables can influence the poverty levels of individuals, households, and communities. Most UNCDF projects reviewed²¹ do not generate the baseline data that can help to later evaluate impacts of the intervention. Given the resource requirements for baseline studies, this limitation is shared by other UN and donor agencies.

Finding 5: UNCDF Microfinance and Local Governance interventions address key factors that contribute to poverty reduction at the local level.

²⁰ “UNCDF, A Conceptual Framework for the UNCDF Impact Assessment”. EU, February 2003. p.8.

²¹ Projects reviewed in the context of the IIA, in the “Synthesis of 2002 Microfinance Evaluations” as well as the 2003 Microfinance PIA report by Enterprising Solutions.

Microfinance

It is generally accepted that financial services play a key role in the lives of the poor. This generalisation is confirmed by the results of the Microfinance PIA, which studied UNCDF impact on poverty at the level of the household, enterprise, and the individual.

As noted in the section below on Sustainability (see page 27), UNCDF has expanded access to microfinance in a number of countries around the world. Selected MFIs have not only increased client outreach, but have successfully targeted largely poor and very poor populations and appear to be increasing women's access to financial services. Between 25% and 60% of the clients of the four UNCDF-supported MFIs evaluated in the Microfinance PIA earn less than US\$1 per day, which places them in the category of 'very poor', using World Bank standards. (Microfinance PIA, p. 12)

A positive impact on households is observed consistently across the four case studies of UNCDF-supported microfinance programmes in terms of household assets and welfare. In the case of assets, the acquisition and investment in land as a household asset has been noted in the four case study countries. The studies also suggest a welfare-maximising role played by the financial services provided by UNCDF-supported programmes. The findings indicate a positive association between secondary education of children and participation in UNCDF-supported MFIs in Nigeria, Malawi and Kenya, especially among mature clients, and positive associations between participation in MFIs in Malawi and Kenya and the primary education of children. This illustrates how access to financial services from UNCDF-supported MFIs can enable poor people to invest in important social assets such as the education of their children. Examples of impact on poverty are provided in the overview of the client impact results from the Microfinance PIA (Exhibit 4.2).

Exhibit 4.2 Summary of Client Impact of Four UNCDF-supported MFIs

CLIENT IMPACT	COUNTRY			
	Malawi	Nigeria	Haiti	Kenya
MFI is successful in reaching poor populations	■	■	■	
Positive impact on access to financial services, in terms of providing additional sources of credit and savings	■	■	■	■
Positive impact in terms of acquisition and investment in land as a household asset	■	■	■	■
Acquisition of other assets such as radios and refrigerators	■	■		
Higher enrolment in secondary education among children of mature clients	■	■		■
Positive impact in the levels of enterprise income		■		■

Source: Microfinance PIA, p.12-15

At the household level, there is evidence that MFI loans may help households cope with vulnerability and periods of crisis. In all countries, the loans provided are one of the main ways clients overcome food security issues and address sickness, disease, and other emergencies. The case for microfinance services improving household income is less clear. There is little evidence of impact on household income in the Malawi and Haiti case studies compared to the control group, but among LAPO (Lift Above Poverty Organisation) clients in Nigeria, the data suggests a correlation between increased income and participation in the UNCDF-supported programme.

A country's macroeconomic situation has a great deal of influence on the impact of microfinance services, especially on the small-scale enterprises of clients. The programmes in Nigeria and Kenya demonstrate positive impact on enterprise income, whereas the programmes in Haiti and Malawi show no impact in this area. The differences in the macroeconomic environment – level of diversification and stability – have had adverse effects on the profitability of enterprises and *“can therefore swamp any potential positive impact of the programmes themselves.”* (Microfinance PIA, p. 13) These factors in the macroeconomic environment (and in the political context) are part of country risk, which is generally higher in LDCs than in developed countries, and is part of the risk taking that is inherent in UNCDF's work. In order to minimise risk to its overall portfolio, MFU's approach has been to carefully analyse each country situation and diversify its portfolio.

Local Governance

Although the ultimate aim of LDPs is poverty reduction, the means for achieving this is improving access to infrastructure, services, and resources and participatory decision-making. UNCDF helps to facilitate the conditions (systems, institutions and capacity) for local governments to deliver in these areas. The challenge is to identify the observed positive changes and impact that can be linked to increased access to relevant and good quality basic social infrastructure and services, provided through more effective, pro-poor, participatory and accountable mechanisms.

The increased delivery of infrastructure and services that can help reduce poverty is evident in all case studies. Indeed, the PIA finds that *“LDPs support the effective delivery of and access to (mostly) good quality, demand-responsive, basic social and economic infrastructure and services, which lead to a healthy life and impact on household incomes.”* (Local Governance PIA, p. 4) In other words, it validates the core LDP hypothesis that positive changes and impacts on poverty reduction can be linked to communities' increased access to relevant and good quality infrastructure and services. This was also confirmed in the IIA field visits, where stakeholders indicated that UNCDF projects address locally recognised problems and are considered to contribute to key factors for poverty reduction.

Other conclusions from the PIA indicate that LDPs have a positive effect on the ability of the poor to benefit from good health and education, and to access the resources needed for a decent, secure standard of living. For example, the provision of primary schools, health posts and improved water supplies emerge in all cases as core pro-poor forms of rural infrastructure. In addition, the majority of households perceive that incomes have improved and that households are more food secure since the inception of the LDP intervention. (Local Governance PIA, p. 54)

Nonetheless, as noted earlier, the access to participation provided through LDPs is more ambiguous. It is ambiguous because the processes exist, but may not be used to guarantee that poor people – especially marginalised groups, including women—have voice or are empowered.²²

²² Feedback on draft report provided by ECIAfrica Consulting, 16 February 2004.

The PIA further indicates that while participatory planning processes have enhanced access to LDP projects, in many countries *“the groups of the very poor, most vulnerable, or marginalized are still not reached or may not enjoy major benefits.”* (Local Governance PIA, p. 54)

Examples of poverty reduction impact of LDPs are shown in Exhibit 4.3.

Exhibit 4.3 Examples of Poverty Reduction Impact of UNCDF Local Development Programmes

COUNTRY	POVERTY REDUCTION IMPACT
Summary:	<ul style="list-style-type: none"> - Positive changes and impacts on poverty reduction can be linked to increased access of local communities to good quality basic social infrastructure and public services. - The majority of households perceive their incomes to have been improved and that households are more food secure - The groups of the very poor and marginalized are still not systematically reached since the use of new services and infrastructure is some differentiated by social group and gender. Some LDP project offer more pro-poor forms of infrastructure such as primary schools, health posts, and improved water supply.
Cambodia	<ul style="list-style-type: none"> - Increase in the economic returns to the village from road and irrigation/drainage projects - - Better access to schools for village children stemming from road projects - Agricultural production enabled during the dry season due to irrigation projects (especially for rice farmers)
Mali	<ul style="list-style-type: none"> - Women frequently ranked wells and hydraulic pumps amongst the most important interventions - Projects considered successful in providing useful services, but the benefits were perceived as least accessible to poorer households because of user fees. Social solidarity schemes helped to mitigate this effect. - Access to services was not negatively affected by gender, household composition, status, distance and nomadic lifestyle
Mozambique	<ul style="list-style-type: none"> - A primary school project and the market appear to be the types of projects that will have both short-term and longer-term positive impacts for local communities, including the poor - Health and water projects appear also as pro-poor
Uganda	<ul style="list-style-type: none"> - Increase in the delivery or availability of social and economic infrastructure and services in the project areas, followed by significant escalation in use of facilities - Perception that projects had significant impact on household and community, with examples such as increased enrolment in school, improved health, and overall improvement in the quality of life. - - With the exception of production schemes (which may exclude the very poor by design) , other projects considered to be pro-poor, having positive effects on household income and potential to create employment

Source: Local Governance PIA, pages 43-50
 DDP1: District Development Programme 1
 KDDP: Kotido District Development Project

Policy Impact and Replication

In this section we review the extent to which UNCDF programmes in Local Governance and Microfinance have led to policy impact and/or to replication of UNCDF models.

One of the *raison d'être* of UNCDF is the extent to which its “*pilot operations in the areas of local governance and microfinance can exert wider influence and leverage (...) the extent to which they can impact policy and provide a viable, tried and tested model for replication by national government and other development-assistance organisations.*”²³

The 1999 independent external evaluation called for an explicit, comprehensive and consistent strategy to achieve policy impact and replication in the two areas of programming. UNCDF complied with this request by developing a *Strategy for Policy Impact and Replication in Local Governance and Microfinance (May 2002)*. In this strategy UNCDF defines policy and replication in specific terms, as shown in Exhibit 4.4 below.

Exhibit 4.4 Definitions of Policy Impact and Replication

TERM	DEFINITION	TYPES
Policy Impact	Actions taken by national governments that imitate UNCDF procedures	Changes in: National political stance and broad policy direction (macro-policy) Legislation and the statutory framework Regulatory framework Norms, systems, procedures, guidelines (micro-policy)
Replication	Actions taken by donors as a result of being influenced by UNCDF	Country-level replication (private sector, sequential up-scaling, ad hoc influence, etc.) Replication in the wider community (donors, researchers, advocacy groups, universities, etc.)
Mechanisms of influence used by UNCDF	Downstream pilot operations Upstream advocacy or advisory services	

Source: UNCDF Strategy on PIR

Finding 6: In the eight countries in which case studies were conducted for this review, there is strong evidence that UNCDF has contributed to impacts on the policy environment.

According to the PIA case studies conducted in eight countries, as well as the results of the staff survey, UNCDF activities have a substantial impact at the policy level (according to the four-tier definition of policy impact in Exhibit 4.3), although there are some differences between the impact of the microfinance and the local governance programmes.

Examples of UNCDF policy impact and replication in the areas of local governance and microfinance are shown in Exhibit 4.5 and Exhibit 4.6 below.

²³ Foreword by former UNCDF Executive Secretary Normand Lauzon – UNCDF Strategy for Policy Impact and Replication in Local Governance and Microfinance, May 2002, p.1

Local Governance

The Local Governance PIA report suggests that the policy impact of UNCDF can be seen in Cambodia, Mali, Mozambique and Uganda, particularly at the level of fiscal transfer systems. The report notes that the Royal Government of Cambodia has expanded the UNCDF LDP approach to the entire country through the Seila Programme. The UNCDF piloted approach has also been adopted as the national model for decentralized public expenditure management by the Government of Uganda.

Similarly, the actions of the UNCDF Nampula LDP in Mozambique acted as reference points and anchors for the emergence of a legal framework. UNCDF interventions influenced the regulatory framework of the Government of Mozambique (GOM) in the four spheres of its Rural Development Strategy. Ultimately, the GOM clearly anchored its strategy for public sector reform in a decentralised participatory planning process, which donors, government officials, and community members interviewed attribute to the influence of UNCDF's Nampula LDP.

Policy impact is evident in Uganda where there is strong indication that the Local Government Financial and Accounting Regulations (1998), the revisions of the Local Tender Regulations (1995/20201) and the Local Government Ratings Regulations (2003) emerged as a result of the UNCDF District Development Project (DDP) and Kotido District Development Project (KDDP).

In Mali, UNCDF has had significant impact in improving the country's financial management approaches and policies. The Fund has influenced the Mali Government in creating innovative policies: a) encouraging donors and other aid agencies to work in and through the institutions of the state; b) encouraging the pooling of donor funds in a single account and c) pursuing consistency and efficiency in the cycle of financial management.

Exhibit 4.5 Examples of UNCDF Policy Impact and Replication in the area of Local Governance

COUNTRY	POLICY IMPACT & REPLICATION	
	POLICY IMPACT	EVIDENCE OF REPLICATION
Cambodia	<p>Royal Government of Cambodia formally adopted LDP approach and expanded to cover entire country</p> <p>An effective system for managed general-purpose fiscal transfers has been created</p> <p>Mechanisms and procedures have been developed for enabling community participation</p> <p>Mechanisms for monitoring and accountability have been developed</p>	<p>Agencies such as SIDA, DFID and UNDP are funding Government's Seila Programme, which integrates the LDP approach</p>
Mali	<p>Significant role in institutionalizing decentralization at level of commune and facilitating fiscal transfers</p> <p>Constitutional provisions for "free administration" of territories</p>	<p>PACR-T has been replicated in Mopti</p>

COUNTRY	POLICY IMPACT & REPLICATION	
	POLICY IMPACT	EVIDENCE OF REPLICATION
Mozambique	Emergence of incipient legal framework for district planning & investment financing Government of Mozambique is currently developing a National Strategy for Decentralised Planning and Finance The Nampula pilot has been extended to all 18 districts of Nampula as well as replicated in the province of Cabo Delgado	World Bank now core funder of subsequent programmes, although deviates from LDP model of intergovernmental fiscal transfers to work through parallel structures
Uganda	UNCDF-piloted model adopted by national government for implementing its policy of decentralisation Other government projects and programmes have adopted elements of LDP approach (e.g. Programme for the Modernisation of Agriculture)	World Bank now core funder of subsequent Local Government Development Programme DDP1 has been up-scaled in the remaining districts of Uganda under the Local Government Development Programme. Supported by donors in nationwide replication

Source: Local Governance PIA (March 2004), pages 31-36

Microfinance

The Microfinance PIA report portrays the impact of UNCDF’s activities on policy as “*reasonably successful*.” (Microfinance PIA, p.22) Although the assessment found that UNCDF’s programme generally had little direct impact on macro-policy frameworks, there were two notable exceptions: In Malawi, UNCDF²⁴ *contributed to the development of the national microfinance policy to promote a sustainable microfinance industry*, and in Haiti UNCDF co-funded (with CIDA and USAID) the initiative to pass the savings and loans cooperative law. . These initiatives provide a more enabling regulatory framework (Malawi) and legal framework (Haiti) for the microfinance industry. Much stronger impact was found at the downstream level in the development of norms and microfinance systems, for example: in Nigeria, UNCDF supported the introduction of ASA (Association for Social Advancement) standards for microfinance; in Malawi, the Fund supported the dissemination of best practices and key performance standards; in Haiti, the Fund provided support for the development of systems for local financial intermediaries, and the development of standards such as cost covering non-subsidised interest rates; and in Kenya, UNCDF influenced the development of systems and reporting on key performance indicators.

²⁴ Please note, however, that interviews often quoted UNCDF/UNDP as a key actor in the policy impact.

Exhibit 4.6 Examples of UNCDF Policy Impact and Replication in the area of Microfinance

COUNTRY	POLICY IMPACT	REPLICATION
Malawi	In general, there were few opportunities for impact. However: <ul style="list-style-type: none"> - UNCDF played a major role in the development of the sector, through the support of the development of a microfinance policy - UNDP and UNCDF played a role in the organization of debates on a preferred Legal and Regulatory framework; - UNCDF was instrumental in stimulating the undertaking of studies on a number of laws. 	Sequential scale-up: <ul style="list-style-type: none"> - PRIDE may attract a socially responsible investor; and - MAMN was funded by UNDP.
Nigeria	In general, there were few opportunities for impact. However, UNCDF-supported Association for Social Advancement (ASA) standards for microfinance are accepted as best practices	Co-financing: Total: US\$3,022,938 Sequential scale-up: Total: US\$1,828,000
Haiti	Microfinance as a whole is contributing to financial sector deepening in Haiti, in particular within the cooperative sector. UNCDF funding sponsored Développement International Desjardins (DID) initiatives to pass the cooperative law. UNCDF impacted on the development of systems for local financial intermediaries. UNCDF supported the development of best practice standards for microfinance.	Co-financing: Total: US\$1,379,000 Sequential scale-up : Microstart Phase I ACME and FONKOZE now accessing commercial credit lines.
Kenya	In general, there were few opportunities for impact. However, UNDP funded workshop on microfinance legal environment and regulation.	Co-financing: Total: US\$ 4 million Sequential scale-up: , Indirect: total US\$ 5 – 6.5 million

Source: Microfinance PIA, p.24 & 26

Finding 7: Through its Local Governance and Microfinance programmes UNCDF has been successful in leveraging replication of its approaches by a diverse group of donors and civil society.

In both local governance and microfinance, there is considerable evidence that UNCDF programmes are replicated by donors and other stakeholders. In Cambodia, as stated in the Local Governance PIA report, *“One can state unequivocally that the donor community (...) has replicated the LDP on a major scale to the extent that UNCDF’s efforts have been leveraged on an impressive scale.”* (Local Governance PIA, p. 26) Indeed, although UNCDF is no longer involved in the financing of the LDP or the subsequent Seila programme, agencies such as SIDA, DFID and UNDP are presently funding these programmes. In Mozambique, the success of the Nampula LDP project is viewed by donors and the development community as a core element in the extensive decentralisation process that the country has experienced in the last years. Some would rightly argue that the decentralisation approach is more widely implanted in the development approaches of an increasing number of development agencies, and not only UNCDF.

However, as the PIA report underlines, lessons and best practices from the Nampula LDP have been upstreamed through the operations of other development projects. Similarly, in Uganda, UNCDF decentralisation concepts and models are being championed by the donor community, through their support of the country-wide replication of the Local Government Development Programme, and by civil society, particularly the Ugandan Local Authorities Association. Interviews in Madagascar and Niger reveal that UNCDF-supported pilot projects in local governance provide a tested model for replication in these two countries. As indicated by a donor in Madagascar, *“We (the donor community) have a very good opinion of UNCDF projects and they often lead the donor community to seek consultation, coordination and, in some cases, joint implementation in local development interventions.”* (Interview quote)

Data collected in the field, in Benin and Niger, as well as at the World Bank in Washington support these findings as they point out the high credibility of the UNCDF local governance group and confirmation that the work of LGU was *“often inspiration points to the project design of donors”* (IIA interview quote). At the World Bank, for example, one respondent confirmed that he had replicated the UNCDF local governance approach in Niger and was about to *“replicate it again in Bhutan, and in any other country where I will intervene because the work I saw from LGU is the best in the field”* (IIA interview quote).

The microfinance initiatives of UNCDF are also appreciated and replicated by donors. Replication is most evident in the co-financing of some UNCDF projects. For example, in Nigeria MicroStart Phase II received an additional US\$3.02 million financing from USAID, UNDP, and others; in Kenya, the MicroSave Phase I project received US\$880,000 co-financing from UNDP; in Haiti, the MicroStart Phase I was co-financed for the amount of US\$1.38 million by the Netherlands. The sequential scaling up of projects, (e.g. US\$1.83 million of sequential scale-up in Nigeria) is further evidence of replication in microfinance. Thirdly, replication of UNCDF approaches is evident in the influence it has on other forms of initiatives. The Microfinance PIA study reports that the UNCDF-supported ASA standards for microfinance have become the widely accepted best practice among a variety of MFIs in Nigeria, and that other MFIs are installing MIS in Kenya.²⁵

Finding 8: There are some limitations to UNCDF’s ability to maximise the achievement of policy impact and the replication of results.

In spite of the evidence of progress, in the PIAs, in the review of documents and in the survey responses, several observations were made on how UNCDF could leverage more policy impact and replication. First, UNCDF would need to focus its interventions more strategically to maximise the use of its limited resources and presence in the field, in order to scale up policy impact and replication (PIR) results. This would mean, for example, integrating and *resourcing* PIR activities and results in its workplans. As noted by the Microfinance PIA team, appropriate and adequate human resource capacity is critical in order to seriously pursue PIR goals.

Second, UNCDF would be able to achieve greater results if it managed its knowledge better. Section 5.9 of this report explores the issue of knowledge management in more depth, but it is worth mentioning that our observations in the field and the PIAs point to the absence of efficient mechanisms to disseminate lessons learned. In Madagascar, Niger and Benin, representatives from the donor community were pressing for more opportunities to share and exchange approaches with UNCDF, while recognising that with limited personnel in the field it was sometimes difficult to transfer know-how.

²⁵ For full summary of the replication of UNCDF microfinance initiatives, see Microfinance PIA, Table 12, p. 25.

The Microfinance PIA provides examples of lost opportunities due to inefficient sharing of successful experiences to date – for instance the sharing of experiences from MicroStart and MicroSave programmes between MFIs. The PIA suggests that Malawi’s microfinance industry could have benefited from learning about the success in neighbouring Kenya in innovative product development through the MicroSave programme. (Microfinance PIA, p. 34) Similarly, if the UNCDF experience implemented in the northeast of Haiti had been better shared, it could have led to more replication of the initiative in other parts of the country.

Finally, UNCDF could achieve greater results through *“more disciplined networking and engagements with national and international agencies.”* (Microfinance PIA, p. 28) The Microfinance PIA calls for *“requirement of highly competent, skilled, knowledgeable personnel in the field to represent the agency as well as strategic partnerships.”* However, as highlighted in our interviews with HQ and with UNDP/UNCDF office staff in the IIA field visits, it remains difficult to network when there is limited staff in the UNDP office able to sell the vision and the products of UNCDF. *“The UNDP staff has a greater visibility, but, do they know how to sell our model? Probably no.”* (IIA interview quote) Similarly, senior UNDP HQ staff who were interviewed gave numerous examples of the catalyst role played by the UNCDF TAs when *“they have the opportunity to be in front of national and local partners it makes all the difference in the world. Immediately, they (the TAs) are able to convince and promote the UNCDF approaches and the replication or the policy impact is accelerated.”* (IIA interview quote).

Sustainability of Results

Given the different nature of the interventions and strategies in UNCDF’s two programme areas, the definition of sustainability also varies. Thus, the Microfinance PIA team was tasked with identifying UNCDF’s impact on the *institutional sustainability* of supported MFIs, which corresponds to the post-1999 emphasis in microfinance programming. The Local Governance PIA team, on the other hand, was given the mandate of exploring the *sustainability of results*, that is the extent to which the desirable changes that have been achieved through LDPs are sustainable. Two separate summary findings – one for each programme area – are presented below.

Finding 9: UNCDF microfinance programming has improved MFI performance in key aspects of institutional sustainability, such as outreach and efficiency levels, but several areas require further attention in order to develop truly sustainable operations.

The 1999 policy shift focused the microfinance programme on helping MFIs to achieve institutional sustainability, with financial sustainability as the core objective of UNCDF microfinance projects (*UNCDF Working Paper on Microfinance, 1999*). MFU refocused resources to address the lack of institutional capacities at the retail level and to improve the financial sustainability of MFIs through the contracting of leading Technical Service Providers (TSPs). Since 1999, activities have included the development of reliable management information systems and appropriate management and staffing policies, and maintaining high quality loan portfolios.

The PIA assessed three dimensions of sustainability of the four case study MFIs: client outreach, financial sustainability, and institutional and capacity development. Their findings show that the focus on institution building was a sound and productive orientation. In these cases, UNCDF-supported MFIs incorporated more transparent reporting processes, and in some cases showed dramatic increases in efficiency and progress towards operational self-sufficiency.

MFIs supported by UNCDF in the four case study countries improved their performance in the following areas:

- Increasing the breadth of client outreach, which expanded microfinance services in all of the case-study MFIs since the beginning of the UNCDF/UNDP programmes – savings clients grew by 105% and credit clients by 568%; there is evidence that the selected partners have the capacity to reach out to the poor or the very poor on a large scale. (Microfinance PIA – February 2004, p.18)
- Developing more reliable supporting systems, such as MIS – The results of stronger systems have ranged from the institutions’ abilities to produce financial statements (Kenya, Haiti) to dramatic improvements in almost all key performance indicators (Kenya).
- Generating gains in productivity and overall administrative efficiency in most of the MFIs assessed.
- Reaching operational self-sufficiency, at least in the MFIs in Haiti and Kenya, thus demonstrating movement toward financial sustainability.
- The factors that appear to limit MFI advancement towards institutional sustainability are their degree of financial sustainability and their limited capacities, especially in the areas of human resources, internal controls and customer orientation.
- The MFIs assessed in the PIA fall short of being financially self-sufficient. Portfolio reviews (2002 and present) support the finding that UNCDF-supported MFIs have varied results in terms of financial sustainability. Whereas outreach performance was impressive in four case study countries, this could in some cases have been to the detriment of the portfolio quality; none of the four case study MFIs met PaR industry standards at the end of 2002. This finding is further supported by the *Synthesis of 2002 Microfinance Evaluations* (p.5), which reports that “*Institutional sustainability is positively affected by capacity building while financial sustainability is harder to achieve and is further negatively affected by external factors (for example, economic conditions, climatic conditions, competition).*” The PIA team notes that the element of time plays an important role in achieving this target of financial sustainability – three years is a relatively short period, and some of the supported MFIs could achieve self-sufficiency in the near future.

A summary of impact on institutional sustainability of the four MFIs included in the PIA is presented in Exhibit 4.7 below.

The findings suggest that capacities still need to be developed in the process of building MFIs that are fully sustainable institutions. The PIA team emphasised that UNCDF interventions with MFIs could be more effective if they directed attention to the underlying factors that determine sustainability in the organisation – such as human resources, internal controls and promoting a customer orientation. (Microfinance PIA, p. vi)

Exhibit 4.7 Summary of UNCDF Impact on Institutional Sustainability of Four MFIs

INSTITUTIONAL SUSTAINABILITY	COUNTRY			
	Malawi	Nigeria	Haiti	Kenya
UNCDF has been successful in helping the MFI to expand their client outreach	■	■	■	■
- MFI meets PaR industry standards for portfolio quality				
- MFI has achieved operational sustainability			■	■
- Investment in Management Information System (MIS) has important impact on the MFI ability to produce financial statements			■	■

Source: Microfinance PIA, p.18-22

Finding 10: In local governance programming, the LDPs have been embedded in local practice and procedure, which creates a solid foundation for sustainability. Nonetheless, there are a number of contextual and capacity factors that are of concern for sustainability of results.

Stakeholders in the field indicate that local development programmes and participatory planning and accountability practices generate empowerment and involve citizens in local public expenditure management, so that local authorities respond more adequately to the demands and needs of their citizens. This speaks to the strength of the UNCDF model, which is anchored in the community and is sensitive to local conceptions of poverty.

The local governance PIA assessed three aspects of sustainability for LDPs: the enabling environment; the sustainability of systems, institutions and human capacities built; and the sustainability of the services and infrastructure provided. The study shows that progress is uneven in each of these areas across the four case-study countries.

In Cambodia, Mali and Uganda, LDPs have been introduced in contexts that strongly support decentralisation and service delivery by local governments. In these countries, there is evidence that the policy, legal and regulatory environments support sustained implementation of LDP innovations. The PIAs point to some gaps that still exist in policy areas – such as gender equity; mainstreaming decentralisation across sectors; and the norms (systems and procedures) that would ensure timely disbursement of funds. These gaps may limit the reform process, functioning of government units, and the definition of relationships with other governmental entities.

The administrative structures for decentralisation appear to be viable for all countries and, for the most part, the procedures to implement various aspects of decentralisation have been effective.

There are sustainability concerns with respect to the capacity of the actors to continue the local development activities and use the systems that have been put into place. Local authorities appear to have mastered the systems introduced for budgeting and planning for development projects, but the system for fiscal transfers presents problems for local governments in some countries, where delays in payments from central to local governments weaken the predictability and reliability of funds. (Local Governance PIA, p. 44 and Presentation of PIA results, January 14, 2004) More important, however, is the inability to date of local governments to achieve greater funding self-sufficiency. The mobilisation of local revenue by local authorities is a key factor in determining the sustainability of the innovations in local public expenditure management piloted by the LDPs.

The PIA team concludes that sustainability of the services and infrastructure delivered remains the weakest aspect of the programme. The maintenance of services and infrastructure delivered through the LDP-supported system is a significant problem area in all four countries, yet local authorities may never generate sufficient revenue to finance the repair and maintenance of capital assets. The study also illustrates that when local governments have the funds, they seem to lack the will to use them for operations and maintenance, preferring to focus on new projects. The PIA team recommends that UNCDF pay more attention to the sustainability of the services and facilities provided through LDPs, for example by including a strategy for local economic development which would build a broader local tax base and thereby generate greater local revenues necessary to sustain decentralised service delivery. (Local Governance PIA, p. 68)

A summary of sustainability of results for the four case studies included in the Local Governance PIA is presented in Exhibit 4.8 below.

Exhibit 4.8 Summary of the Sustainability of Results of Four LDP case studies

INSTITUTIONAL SUSTAINABILITY	COUNTRY			
	Cambodia	Mali	Mozambique	Uganda
Development of local sources of finance for local government remains weak	■	■	■	■
Revised systems and institutions are well integrated with higher-level planning processes	■			■
Ownership of LDP results and high level of commitment to sustaining achievements are expressed	■	■	■	■
Qualified personnel are used for purposes of accounting and reporting on budget performance	■	■		■
Need for technical skills to be made available at local level	■			■

Source: Local Governance PIA, p.58-65

Finding 11: The overall impacts and results of UNCDF could be increased with some specific actions in planning, implementation and supervision of future projects.

As noted in the PIAs, UNCDF has achieved results and contributed to impact in its two programme areas. However, the PIAs and IIA noted several areas in which UNCDF could enhance its results:

- Improved coordination with UNDP and other donor agencies to ensure a greater potential for replication, and in order to multiply possibilities for policy impact (*both MF and LDPs*)
- Better alignment between UNCDF LDP approaches and sectoral/line ministry approaches (*LDPs only*)
- Continuing with the already very strong participatory approaches evidenced in the projects and ensuring that in all cases the participation goes beyond mere representation (*LDPs only*)
- Ensuring that all projects are pro-poor, including roads and production schemes that have been subject to debate (*LDPs only*)
- Increase the ownership of projects by including (where tender regulations permit) small contractors in projects and by involving the local communities in the management of the project to ensure transparency (*LDPs only*)

- Ensuring that all projects have a monitoring and evaluation process embedded at the outset (*both MF and LDPs*)
- Increasing the visibility of UNCDF in the field (see section 5.10 for details) (*both MF and LDPs*)
- Renewing efforts to mainstream gender (*both MF and LDPs*)
- Assess the demand-driven nature of proposed microfinance programme areas, activities, and implementation activities and their contribution to the development of a market/competitive environment. (*MF only*)

4.3 Efficiency

Efficiency refers to the way in which UNCDF uses its resources (financial, human, technology and others) to achieve results. Efficiency is a key dimension in assessing performance, yet it also requires the systematic compilation and analysis of appropriate data. In past years, UNCDF has had difficulty tracking and assessing some efficiency measures because of data limitations. The experience of the IIA team in this study was no different. The team recognises, however, the expectations that lie in the full integration of the Atlas system (formerly Enterprise Resource Planning – ERP), the MIS system, and performance budgeting. If these systems are implemented and operate according to plan, the assessment of efficiency should become a more reasonable task in the future. Despite the limited data, the IIA team’s findings support the perception of external stakeholders that the UNCDF is an efficient organisation in the UN system.

Finding 12: UNCDF’s modest administrative budget reflects an appropriate deployment of resources. However, increases in HQ expenditures relative to total raise concerns about efficiency.

One of the indicators in UNCDF’s Strategic Results Framework (SRF) tracks the percentage of administrative costs as compared with project or programme expenditures, and the Fund has reported on this in each ROAR since 2000. In the 2002 ROAR, it revised the indicator to read “headquarters expenditures as a percentage of total UNCDF expenditures” in order to reflect the fact that administrative costs do not distinguish technical costs from standard administrative support. The relation between headquarters and total expenditures is a standard key ratio, used to assess efficiency. In the case of UNCDF, however, it is important to note the staff functions that are incorporated into the total HQ expenditure budget are largely programme related – technical advice and programme management. The table in Exhibit 4.9 disaggregates the percentage of HQ expenditure into the amounts spent on Management and Administration and Programme Support.

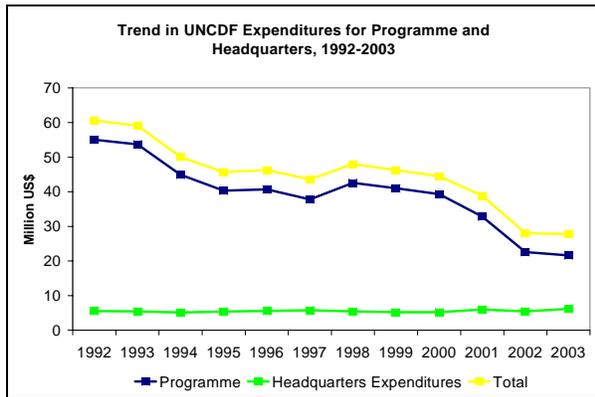
Exhibit 4.9 HQ and Management Expenditures in Perspective

YEAR	HQ EXPENDITURES AS A PERCENTAGE OF TOTAL EXPENDITURES	OF WHICH MANAGEMENT AND ADMINISTRATION	OF WHICH PROGRAMME SUPPORT
2000	11 %	US\$2.7 million	US\$2.5 million
2001	15 %	US\$3.2 million	US\$2.8 million
2002	18 %	US\$2.7 million	US\$2.8 million
2003	22%	US\$3.2 million	US\$3.0 million

Source: Data tables prepared by UNCDF for the 2003 ROAR

For 2003, the proportion of headquarters expenditures (22%) is higher than in previous years. Although it is true that UNCDF programming has evolved towards more staff-intensive models, such as LDPs, that require a greater amount of technical advisory services as part of the project’s implementation, the higher ratio in 2003 is mostly due to the deep cuts in programme expenditures that were necessary in order to align expenditures with the income from core resources. In every year between 2000 and 2003, if HQ expenditure is broken down, in fact just less than half of HQ expenditure has been for programme support as opposed to management and administration – in real terms then, even in 2003 just 11.5% (US\$3.2 million) of UNCDF’s expenditure went to Management and Administration.

Exhibit 4.10 UNCDF Expenditures for Programme and HQ



Source: Data from Annex III, 2002 ROAR; Data tables prepared by UNCDF for the 2003 ROAR

By reducing its overall programme expenditures from a high of US\$55 million in 1992 to a low of US\$ 21.6 million in 2003 (due to reductions in core contributions over the same period), the ratio of UNCDF programme expenditures to HQ expenditures (has gone from approximately 10:1 (10 programme dollars for each HQ dollar) to approximately 3:1. In 2003, however, the ratio of Programme expenditures to the component of HQ expenditures allocated to Management and Administration was 7:1.

Finding 13: UNCDF has improved some work processes, especially those related to response times in parts of the project cycle. Improvements are still required in financial planning, tracking and reporting, and corporate information management.

As noted in the section on the programme management cycle (Section 5.8), UNCDF set targets in its Strategic Results Framework (SRF) 2000-2003 for reducing two key periods in the cycle: a) from initial field mission to formulation within one year; and b) from approval to implementation within six months. The organisation has reported satisfactory progress on both of these in the past two years. A review of a small number of project evaluations and documents from earlier years confirms that timelines for these processes have indeed been shortened.²⁶

²⁶ The timelines for four earlier projects (1997, 1998 and 1999) were mapped out, from identification mission to the moment when project staff was in place. Although dates were not available for each step, it revealed time lags of up to two years between identification and approval, and up to 11 months from approval to implementation.

Financial planning, tracking and reporting have been identified as a limitation for UNCDF in many documents and stakeholder interviews. One issue raised has been the interface between financial systems and the project management needs of operating units (2002 Functional Analysis, p. 24). Parallel systems, ranging from databases or project lists in MS Excel to UNDP FIM, are currently used to manage the portfolio. At the end of the day, the best source for identifying if a project is operationally or financially closed, for example, is the Programme Manager. The full implementation of Atlas, the new resource management system, is expected to improve management and administration efficiency.

4.4 Relevance and Strategic Positioning

In this section we examine how UNCDF meets the needs of its various stakeholders on an ongoing basis. The IIA team focused on the relevance of UNCDF in the overall context of development assistance, its relevance to the MDGs and the Programme of Action for the LDCs, as well as its relevance to the LDCs, donors and the UNDP Group.

Finding 14: UNCDF's mission, programmes and goals are relevant to the achievement of the Millennium Development Goals.

UNCDF projects contribute to the national targets and goals set forth in Poverty Reduction Strategies (PRS) in each of the PIA case study countries and the Millennium Development Goals²⁷. Replication is the key to securing contributions of the small scale and pilot projects because it can multiply the impact on the MDGs. Both PIA reports indicate that UNCDF's contribution varies between and within countries, according to the types of projects that are implemented. LDP projects generally support the MDGs of reducing poverty and hunger, improving access to universal primary education, improving health, and gender equality. In some cases, LDPs contribute to impacts on environmental sustainability.

As discussed earlier in Section 4.2.3 (page 17), UNCDF projects in microfinance contribute to poverty reduction through positive impacts on household assets and welfare. Part of this contribution includes the improved access of children to primary and secondary education.

The IIA team's review of a sample of projects in the portfolio and consultations with stakeholders in the field suggest that UNCDF projects are usually supportive of national poverty reduction strategies, when these exist at the country level. Furthermore, in the case of local governance, stakeholders interviewed in the field indicate that UNCDF projects are implemented in poor areas (communes) where few other international donors intervene.

Interview respondents point to four ways in which UNCDF project interventions are relevant to these national and international priorities. First, UNCDF invests with the poor and supports decentralised public investments while achieving tangible results for local populations. In particular, UNCDF is reported to have contributed to universal primary education, reduction of child mortality, improvement in the overall health of populations, including prevention and treatment of malaria and HIV/Aids. Secondly, UNCDF has adopted a participatory approach in its projects (participation of the poorest and participation of women) that is aligned with the MDGs and that contributes to the sustainability of development results. Thirdly, some LDPs promote and support local initiatives for the management of natural resources and, as such, contribute to

²⁷ Millennium Development Goals: 1) eradicate extreme poverty and hunger; 2) achieve universal primary education; c) promote gender equality and empower women; 4) reduce child mortality; 5) improve maternal health; 6) combat HIV/Aids, malaria and other diseases; 7) ensure environmental sustainability; 8) develop global partnership for development.

environmental sustainability. Finally, UNCDF has allowed local administrations to acquire practical knowledge of good practices in decentralised public investments.

The PIAs also report that UNCDF is aligned with the MDGs. It is specifically noted in the Microfinance PIA that in Haiti, Malawi, Nigeria and Kenya, *“UNCDF support has been in line with the Millennium Development Goals (MDGs) adopted by each country. The depth of outreach, in particular, was beyond expectation. The case study partners, in general, successfully targeted largely ‘poor’ and ‘very poor’ populations. Results include evidence of increased assets, notably the acquisition of land as an asset at the household level in all four case study countries. There is also compelling evidence of the welfare-maximising role played by the financial services provided by the CDF-supported programmes at the household level. As such the support contributed in particular to the MDG goal of poverty reduction.”*(Microfinance PIA, p. 31)

In addition, the Local Governance PIA makes the case that most of the LDP-supported interventions of UNCDF are pro-poor. They have facilitated enhanced income at the level of the household, contributed to improvements in health and school enrolments, and have benefited women significantly (Local Governance PIA, p. 65) – thus supporting achievement of the MDGs.

Our interviews with government authorities in Niger and in Madagascar confirm the alignment of UNCDF’s interventions with the countries’ priorities. In 2001, Niger developed its PRSP with primary education as a key focus, and a specific target to increase the rate of literacy amongst school-age girls. The UNCDF activities in local governance were reported to be aligned with the decentralisation trends of the country in the area of education where empowerment of the decentralised Ministries are key to the implementation of the country’s strategy.

These findings are well supported by survey respondents, 92% of whom agree that the work of UNCDF is aligned with country strategies and priorities, and 91% who indicate that UNCDF significantly contributes to the MDGs.

Finding 15: UNCDF’s programming supports the Programme of Action for the LDCs²⁸ for the decade 2001-2010 and responds to the local needs of the countries in which it intervenes.

At the Third Conference of the LDCs in Brussels in 2001, The Programme of Action for the LDCs was adopted. It highlighted the two programming axes of UNCDF as key elements in the sustainable development of the LDCs. UNCDF is active in 29 of the 50 LDCs and is overwhelmingly perceived as an organisation that puts a special emphasis on responding to the needs of the LDCs. In field visit interviews and statements by various LDC ambassadors in New York, the support for UNCDF was impressive. Microfinance and local governance are seen as two important factors contributing to poverty reduction: *“The two programming foci of UNCDF are crucial elements of the LDCs’ strategies to alleviate poverty. Each of us here today could testify that microfinance and local governance are vital to the development of our regions, and to allowing our fellow citizens to take charge of their destiny. It is unfortunate that UNCDF cannot respond to the big demand out there.* (Focus group quote, New York)

²⁸ See http://www.uncdf.org/english/news_and_statements/current/lauzon-statement_06Aug-02eng.html for Statement of Executive Secretary referring to the Programme of Action for the LDCs 2001-2010.

The IIA team was particularly impressed with the evidence that LDC demand for UNCDF services consistently surpassed the supply, and that LDCs were pressing hard for donors to increase their financing to UNCDF. The results of the PIAs converge in the same direction, and both reports put forward the fact that UNCDF was generally successful in meeting the needs of government, one of its key clients. For example, in Uganda and in Mozambique, two of the cases studies for the Local Governance PIA, the relevance and significance of UNCDF's intervention is high. The UNCDF's interventions have provided mechanisms for implementing national strategies as well as support for government priorities and national needs (e.g. Poverty Eradication Action Plan in Uganda, and the Action Plan for Poverty Reduction in Mozambique). *"In relation to Government priorities as expressed in the Action Plan for Poverty Reduction, the UNCDF supported project responds to these government priorities and national needs."* (Local Governance PIA, p. 60)

UNCDF's contributions specifically support Commitments 3 (Building human and institutional capacities) and 4 (Building productive capacities) of the Programme of Action for the LDCs by providing access to finance, including new and innovative forms of financing to micro, small and medium-sized enterprises, and also providing improved access to basic social infrastructure and services by building the capacities of local governments and MFIs. The Microfinance PIA report notes that UNCDF successfully innovated in Haiti by increasing outreach in rural areas; it pushed sector innovation in Kenya; and in Nigeria demonstrated the successful replication of microfinance methodologies in distinct regional settings (creating a critical mass of credible MFIs). In addition, according to the PIA study, UNCDF affected sector development at large by building the capacity of highly decentralised financial intermediaries and supporting the institutional capacity building of a number of promising MFIs. In all four case study countries (Malawi, Haiti, Nigeria and Kenya), UNCDF has made significant contributions to the development of the microfinance sector and there is evidence of its instrumental role in key changes in microfinance sectors in all four countries (see Exhibit 4.6)

Finding 16: While UNCDF supports most of the broad goals of UNDP, there appear to be missed opportunities for collaboration that could further enhance UNCDF's relevance to UNDP.

Data collected on the relevance of UNCDF to UNDP suggest that UNCDF is perceived as contributing to the goals of UNDP – 90% of the IIA survey respondents agree or strongly agree that, by and large, UNCDF supports the broad development goals of UNDP. According to the UNDP Global Staff survey (2002), 87% of UNCDF staff are proud to work for UNDP and 90% indicate that they are motivated to make UNDP successful.

The Results-Oriented Annual Report (ROAR) for 2001 highlights the efforts made by UNCDF to cement its relationship with UNDP (as well as with other donors) so as to continuously secure a complementarity in the field. Interviews in the field, and telephone interviews with Resident Representatives, support this data. There is a strong sense within UNDP that, through its downstream work and expertise in technical areas, UNCDF brings specificity to UNDP (even where its interventions operate in the same sectors as UNDP). The PIA notes the success of joint initiatives driven by UNCDF and UNDP – in Kenya, for example, the cooperation between UNCDF and UNDP's MicroStart programme resulted in a true 'breakthrough' organisation being able to advance the sector. The tie between UNCDF and UNDP allows both organisations to influence policymakers and beneficiaries. As the Microfinance PIA points out, emerging tendencies in the Microfinance Sector (increasing number of informed decision makers) could facilitate upstream work, where "UNCDF has a comparative advantage because of its UN status and ties to the UNDP global network." (Microfinance PIA p. 36).

The UNDP-UNCDF relationship has several dimensions, and may differ enormously from project to project and country to country. Our review of project documents in the portfolio does not raise any major issues in the coordination with UNDP on the ground. The relationship also varies from the field to headquarters, where the primary point of interaction with the Bureau for Development Policy (BDP) drives the nature of the relationship with UNCDF's two programme units. Tensions have sometimes arisen between the LGU and the Governance/Decentralisation and Local Governance section of BDP because of perceived overlap of mandate, especially in the provision of technical advice.

At the same time however, interviews with senior staff from UNDP indicate that the relevance of UNCDF to UNDP could be enhanced if the two organisations were able to forge institutional alliances to tackle areas such as the support of public and private partnerships, the financing of small and medium size enterprises, or in larger initiatives geared at supporting the Millennium Development Goals.

Our observation at this stage is that this perceived limitation emerges from a lack of clarity of the UNDP strategy at an institutional level. Several respondents insisted quite forcefully that the time has come for an institutional MoU between UNDP and UNCDF. However, this cannot be developed in the absence of an overall framework that articulates the UNDP Group's strategy, the relevance of each organisation (UNV, UNIFEM and UNCDF) to the strategy, and the roles and responsibilities of each in support of the strategy. UNCDF has been able to develop MoU at the levels of its two programmes, but the onus is now on UNDP to frame a strategy and to determine how it can increase UNCDF's relevance to the UNDP Group.

In this process, the uniqueness of UNCDF needs to be reaffirmed and clarified for all stakeholders. Its niche as a fund that makes capital investments is what distinguishes it from UNDP. A second mark of distinction is its role as a piloting, risk-taking, innovative agency. Both organisations, however, engage in the technical assistance and upstream work. These areas of overlap require further clarification in terms of respective mandates, competencies, and priorities. The PIA in local governance supports these observations – it rates the relevance of UNCDF to UNDP as less strong than its relevance to other donors or government. The report concludes that, *“while both UNDP and UNCDF acknowledge the mutuality of their role, the perception by the donor community is that there has been unnecessary duplication of roles; the opportunity exists for the development of a clear division of labour between them as well as a constructive collaboration and development of a strategy.”* (Local Governance PIA, p. 63)

Finding 17: While donors are decreasing their core contributions to UNCDF, they are using UNCDF as a vehicle to implement their countries' international development strategies through non-core funding and parallel financing.

It is sad to report that in spite of the donor community's strong admiration of UNCDF and its recognition of the Fund's high quality, donors are moving away from supporting UNCDF-type organisations through core funding. Although this finding is supported by more detailed evidence in the financial viability section of this report (section 4.4) certain points are worth noting here.

In our interviews for this review, donor agencies recognised the excellence of the work of UNCDF but pointed out two limitations of UNCDF that affect its relevance. First, unlike other agencies such as UNIFEM, UNCDF appears to have a more modest constituency in donor countries, and most donors are requested to justify their aid budgets to their home-based constituencies. Despite the declared Year of Microcredit (2005), there appears to be less empathy for the microfinance and local governance agendas in donor countries. Support for women and children are supported more strongly, and yet agencies that intervene in these areas have also experienced funding cuts.²⁹

Secondly, the *modus operandi* of the development community has changed and the shift in the aid effectiveness paradigm does not work in favour of UNCDF. First, aid is increasingly channelled through programmes as opposed to projects; second, donor agencies are increasingly choosing to finance countries directly; and third, as reported by the donors interviewed in the field and at HQ, support is going to a smaller number of large agencies rather than being “*scattered through a multiple number of smaller agencies*” (quote from a donor respondent). UNCDF has addressed these changes to some extent and has begun to work within a programme approach, but these efforts have not proven sufficient to elicit additional support from the donor community.

The donor community has, nevertheless, increased its contributions to UNCDF through non-core funding. This is a sign of donor recognition of the relevance of UNCDF, but also a long-term limitation for UNCDF, as the non-core contributions do not support the full costs of UNCDF.

Section 5.5 describes more fully the elements of the donor context that are limiting UNCDF’s ongoing relevance.

4.5 Financial Viability

To perform well, an organisation must pay attention to its ability to generate the resources it requires. Financial viability is a critical performance criterion and one that UNCDF has focused on intensively since the 1999 external evaluation. The analyses and strategies emerging from the Executive Board and staff efforts in this area have been a key reference point for the IIA team.

Finding 18: For the first time in more than a decade, UNCDF’s expenditures and income are aligned, indicating a well-balanced budget. This has been achieved by significantly cutting programme budgets and adjusting administrative budgets.

As stated by the Executive Secretary, as of 2003, UNCDF expenditures and incomes are aligned, thus ensuring the continuing financial health of the Fund. For 2003, the total core resources amounted to US\$27.9 million and total programme expenditures were US\$21.6 million. With the small increase in core contributions in 2003, UNCDF will be able to increase its programme approvals in 2004. However, in order to achieve the balanced annual operating budget, UNCDF cut back on its existing programme commitments by approximately US\$55 million in 2003. The cuts were achieved primarily by reducing active project budgets and cleaning up the portfolio of inactive or poor performing projects. UNCDF then added US\$5.1 million in new approvals, down from a high of US\$58 million in 1999.

²⁹ In spite of a strong constituency in donor countries, UNIFEM is experiencing a similar situation in terms of its ongoing relevance and viability.

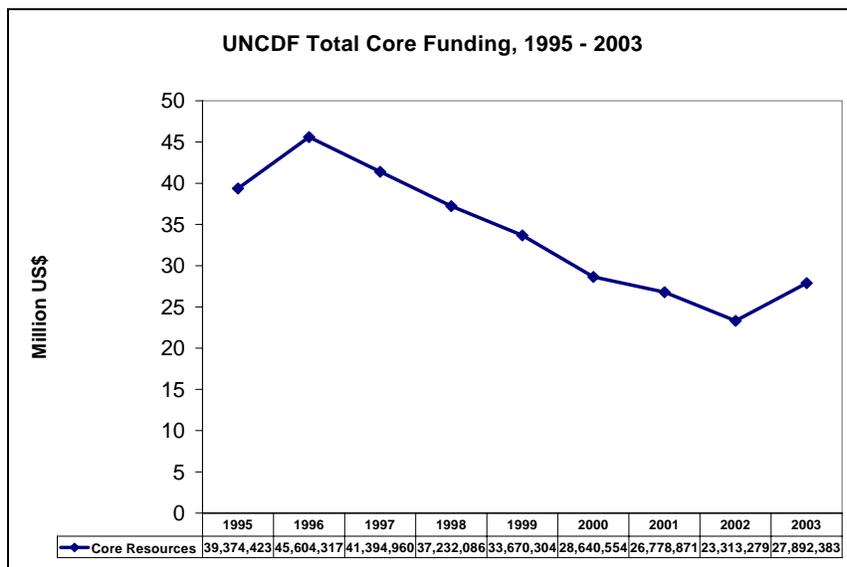
UNCDF's high levels of new programme commitments in previous years (beyond its level of income) was possible because of a partial funding formula. This formula allowed UNCDF to enter into commitments within a financial ceiling determined by its year-end total of accumulated resources (money in the bank), net of an operational reserve plus five times its current annual pledge estimates. The formula was developed at a time of relative stability in UNCDF resources. The Board agreed to the formula because it noted UNCDF's growing accumulation of resources committed but unspent; it was felt that if UNCDF were allowed to increase its overall level of commitments (in terms of approved projects), its disbursements would rise as a consequence. Total expenditures would exceed income and resources would cease to accumulate; rather, they would be drawn down. Only then could donor governments (who questioned the wisdom of contributing to a Fund that could not spend what it already had) justify the contribution.

UNCDF is considering submitting a proposal to the Executive Board for the downward revision of its partial funding formula (which has not been reviewed since 1987).³⁰ This would be a positive step in terms of UNCDF's financial health and its responsibility vis-à-vis programme countries.

Finding 19: UNCDF did not meet its 2003 target for core funding.

UNCDF's income is composed of core funding (voluntary contributions from OECD/DAC countries and programme countries, as well as interest income) and non-core funding. Contributions to core funding are sought on an annual basis (multi-year funding frameworks are not in place for core funding). The steady decline of core funding is of great concern to UNCDF stakeholders. In 2003, twelve DAC Countries made contributions of US\$26.9 million to UNCDF's core funding. This was complemented by US\$64,000 from programme countries as well as interest income of US\$957,000, for a total of US\$27.9 million. Total core funding declined steadily since 1996. It rebounded in 2003, although it still falls below the US\$30 million target set by the Executive Board (see Exhibit 4.11).

Exhibit 4.11 UNCDF Total Core Funding, 1995 – 2003



Source: Finance Unit and UNCDF Data Tables for 2003 ROAR

³⁰ UNDP: Update on the implementation of the recommendations of the Board of Auditors for the biennium 2000-2001, Note by the Administrator, p. 2 and Chief of the Finance Unit.

The pattern of DAC country contributions and interest income is shown in Exhibit 4.12. Although four additional OECD/DAC countries have joined the group of contributors to UNCDF since 1999, the lack of diversification of the funding base is still a matter of concern³¹. Since 1992, eight countries have made almost continuous annual contributions to UNCDF. Among these, the largest contributors have been Netherlands, Norway, Denmark, and Sweden; UNCDF receives more than 80% of its core funding contributions from these donors. Three of these countries have cut their level of funding for UNCDF since 1995, one of them by over 50%.

Staff survey respondents are split in their perception of donor willingness to support UNCDF in the medium-term – approximately half believe that donors are willing to support the Fund, 12% disagree, and 37% say they don't know. One respondent commented, *"I think donor countries are not willing to support the sustainability of CDF. If they are willing, why budget cuts?"* Another respondent noted the difference between being *willing* and being *able* to continue funding the organisation.

Exhibit 4.12 Core Funding – DAC Country Contributions and Interest, 1995 – 2003

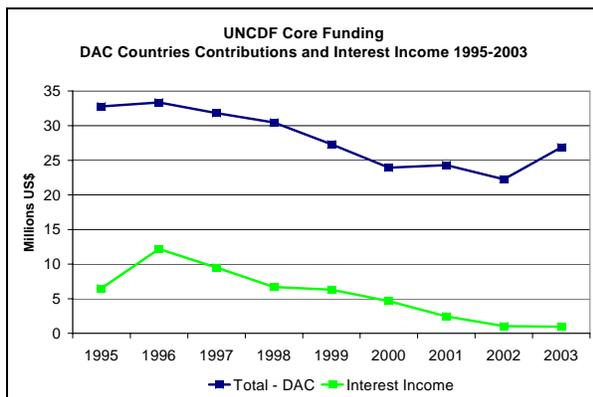
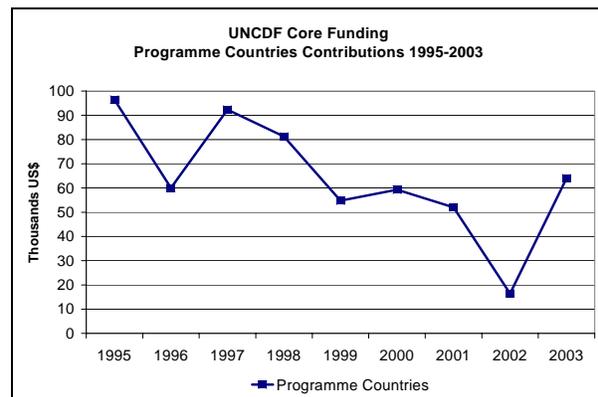


Exhibit 4.13 Core Funding – Programme Country Contributions, 1995 - 2003



Source: UNCDF Finance Unit

Programme country contributions (see Exhibit 4.13), while not significant in terms of volume, provide a vote of confidence in the work of UNCDF. In 1995, 14 programme countries made contributions of amounts ranging from US\$150 to US\$30,000. In 2003, seven countries made contributions ranging from US\$1,000 to US\$30,000. The programme countries also have a critical role in informing the donor community about UNCDF's results and its need for additional support. As noted by the former Executive Secretary, Normand Lauzon, *"Programme countries have constantly – in various fora and bilateral meetings – indicated that UNCDF needs to have more resources to reduce the gap between their demands for its investments and capacity-building services and its ability to respond."*³²

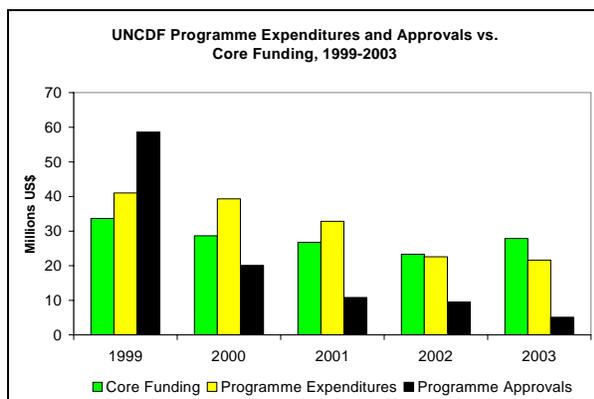
³¹ Canada, Finland, Ireland, and Luxembourg are new contributors since 1999. Source: Finance Unit list of contributions 1992-2003.

³² Normand Lauzon, Statement to the Executive Board, "Informal Consultations Funding Situation and Strategy of the United Nations Capital Development Fund," New York, 11 September 2003, p. 5

Finding 20: Given that core funding is the principal way in which UNCDF funds its activities, the decline and unpredictability in core funding seriously jeopardises UNCDF's ability to fulfil its mission and role within the UN system.

In the past, UNCDF was able to maintain a level of annual programme expenditures averaging US\$40 million, by drawing on its accumulated liquid assets. Today, UNCDF is no longer able to draw on these and has made a concerted effort to align annual programme approvals and expenditures with its cash flow (see Exhibit 4.14). This has resulted in a significant reduction in UNCDF's operational activities over time. If core contributions are the decisive factor in being able to respond to the demands for small-scale investments from programme countries, then UNCDF will be unable to continue to fulfil its mandate if current trends continue.

Exhibit 4.14 Expenditures and Approvals vs. Core Funding



Source: UNCDF, Financial Situation 1992 – 2003 (December 2003) and UNCDF Data Tables for 2003 ROAR (March 2004)

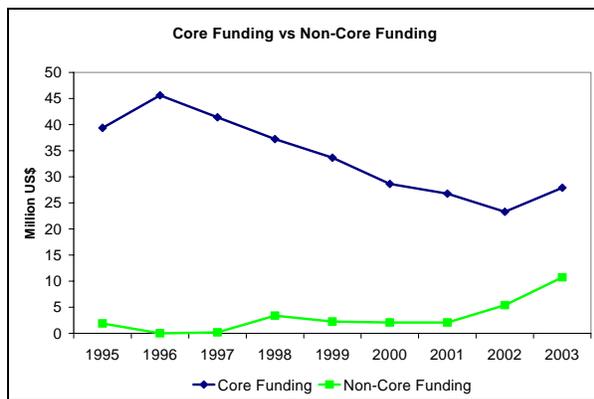
As reported in the ROAR 2002, UNCDF's operations and its results on the ground have been affected negatively by reductions in core resources. Project teams were forced to either re-phase funds or cancel prior commitments, which delayed outputs or narrowed the scope of UNCDF's interventions. The effects of the decline in resources are compounded by the unpredictability of the annual fundraising process. Predictability is a critical element in UNCDF's ability to plan and manage programmes that can deliver planned results over a period of time.

Finding 21: Non-core funding is becoming more important in relative terms, but there are issues to consider in assessing its potential contribution in the future.

Non-core resources generally refer to the cost-sharing and trust fund arrangements that UNCDF sets up with development partners on a case-by-case basis, and are usually linked to specific project investments. Non-core funding serves two purposes for UNCDF. First, it forms part of UNCDF's strategy for replication, in that it allows for the scaling up of UNCDF's pilot initiatives. The non-core funding is a vote of confidence in UNCDF's ability to generate results on the ground. Second, non-core funds also represent programming resources that complement the core.

As donors have decentralised the management of aid budgets to field representatives, the mobilisation of resources in country for specific project investments has presented strategic opportunities for UNCDF. UNCDF's resource mobilisation strategy aimed to increase the level of non-core funding for 2003 to US\$10 million, and this target was actually exceeded. The data show that, over time, non-core contributions are indeed becoming more important in relative terms. Over US\$10 million of non-core funding was raised for 2003, close to ten times what was raised in 1995. Despite the increase, these non-core resources cannot compensate for the shortfall in core contributions (see Exhibit 4.15).

Exhibit 4.15 Core Funding vs. Non-Core Funding



Source: UNCDF Finance Unit, December 2003 and UNCDF Data Tables for 2003 ROAR

The responsibility for raising the majority of non-core funds rests with the operational units – LGU and MFU – since they relate to donors at the field level. Most UNCDF cost-sharing arrangements and/or trust funds are with bilateral aid agencies.³³

As it continues to raise non-core funds, there are a number of issues that UNCDF may wish to consider. It may want to track and assess the additional transaction costs that these funds represent, which include the fundraising time that is required from staff and any donor-specific reporting requirements. It may also need to reflect on the extent to which it competes more directly with local institutions – either governmental or non-governmental entities—when it seeks funding from bilateral aid agencies. Is this appropriate for a Fund of its nature that is intended to provide additional capital? There is the further risk that donor governments will begin to prioritise the channelling of funds through these non-core mechanisms – where they can see tangible results in a given country – over their contributions to the pool of UNCDF's core resources. This does not appear to be the case at the moment, since most of the countries with cost-sharing or trust fund arrangements also contribute to UNCDF's core funding.

The in-house team that conducted UNCDF's Functional Analysis in 2002 notes that the Belgian Survival Fund (BSF) model will be the format for bilateral donor contributions to UNCDF in the future. This model is a hybrid of several arrangements: a trust fund with the option of a Multi-Year Funding Framework (MYFF) in a sub-set of countries (2002 Functional Analysis, p. 88).

³³ Exceptions in 2003 include IBRD/CGAP and UN Foundation.

UNCDF has operated on the principle that non-core resources should serve as a complement and not a substitute for core resources, and that these resources should not be used to perform the core functions of the organisation (2002 Functional Analysis, p. 85). This principle should be maintained. The increase in non-core funding is only a temporary stop gap that can help to alleviate some short-term financial pressures. In the long run, only core funding can allow UNCDF to be an innovative organisation, piloting small-scale projects and achieving its mission.

Finding 22: UNCDF has increased efforts to recover costs of the services it provides to its partners, such as UNDP. There still are challenges to address in this area, such as the adequate levels of cost recovery and subsidy.

In the past two years, one of the ways in which UNCDF has attempted to increase revenues and begin to finance staff positions at HQ is by recovering costs from the technical advisory services (TAS) it provides to its development partners. It is one of the ways in which UNCDF has become increasingly entrepreneurial in its approach. According to the ROAR 2002 (p. 41) a target of 50% cost-recovery was set for the first year of implementation, and 24% was attained. UNCDF fine-tuned its cost-recovery policy in 2003 to move closer to full cost recovery. For that year, UNCDF fell just short (US\$900,000) of its US\$1 million target for TAS cost recovery.

The lending of technical advisors responds to visibility, learning and resource mobilisation objectives of both operational units. Although TAS may contribute to credibility, UNCDF staff has noted that it may *“not generate any significant revenues and may even divert resources away from our own programmes”* (2002 Functional Analysis, p. 87). This initiative is still in early stages of implementation, and its potential contribution and limitations are still being assessed.

A related issue is UNCDF’s provision of microfinance services to UNDP. A significant portion of MFU’s work is in support of UNDP microfinance activities, yet UNCDF is not adequately compensated for this support. In effect, UNCDF is providing a subsidy to UNDP. An analysis of the costs (salaries, overhead, time) of supporting UNDP’s activities and the funding received (from BDP, SemFin and TAS income) shows that UNCDF provided over US\$900,000 in subsidy to UNDP between 2001 and 2003, equivalent to US\$300,000 a year. (See Exhibit 4.16). UNCDF staff indicate that with the real prospect of the cessation of contributions from UNDP to cover for MFU services rendered, in 2004 the subsidy for microfinance services provided by UNCDF to UNDP stands to increase to almost US\$900,000, assuming the same level of support is maintained.

Exhibit 4.16 UNCDF Subsidy to UNDP Microfinance Activities

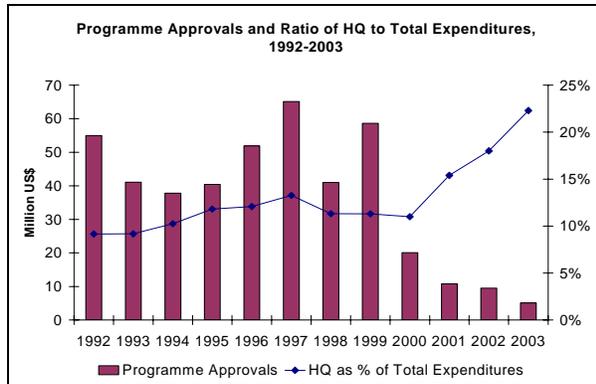
THREE-YEAR PICTURE 2001-2003	
Total Costs (44% of MFU staff time)	\$2,124,016
Total Paid by BDP	\$900,000
Total Paid by SemFin	\$74,159
Total Received from TAS income	\$306,903
Subsidy provided by UNCDF	\$917,113

Source: UNCDF Microfinance, with calculations based on pro forma costs and percentage time based on an analysis of 2003 time allocation of staff

Finding 23: The decline in the project pipeline in relation to UNCDF's expenditures on administration and infrastructure raises viability issues.

As noted in Section 3.2, which describes the current portfolio, there is a worrisome trend emerging with respect to project approvals. New approvals have declined from more than US\$40 million in 1998 to US\$5.1 million in 2003. Such a reduction in the pipeline reduces UNCDF's potential to fulfil its mandate of reducing poverty in the LDCs.

Exhibit 4.17 Programme Approvals and HQ Expenditures as a Percentage of Total Expenditures, 1992 - 2003



Source: FIM data and UNCDF, Financial Situation 1992 – 2003 (December 2003)

Because of the limited annual allocations to new programmes, UNCDF must be more selective in project scoping and conceptualisation. Although external stakeholders (such as donors and programme countries) continue to perceive that it does good work, UNCDF runs the risk of undermining the explicit demands that are channelled its way. Fewer countries and partners may seek out UNCDF, because its credibility as a “donor” is weakened. The issue here is that these ‘pipeline processes’ will be difficult to start up again, if greater programme funds become available.

The relationship between headquarters and programme expenditures raises another concern with respect to UNCDF's viability. Based on the financial information from the ROARs in 2002 and 2003, headquarters expenses as a percentage of total expenditure have risen from 11% in 1999 to 22% in 2003.

The current breakdown of HQ expenditures into administrative support and programme support yields a reasonable level of efficiency in terms of programme to management expenditure ratio. If programme expenditures decline, the ratio, however, may increase. For 2004, we expect that this will not be the case since UNCDF plans to increase programme expenditures and new approvals. Nevertheless, 2003/2004 is a bit of an aberration due to the large portfolio clean-up underway. For subsequent years, programme approvals and programme expenditures will need to start increasing again. If not, it is possible that UNCDF's infrastructure and administration expenses will be out of line with its programming, and the organisation will be faced with making serious budget cuts. Yet budget cuts are possible only to the extent that they don't affect the ‘critical mass’ of staffing and infrastructure required to respond to UNCDF's context (e.g., manage projects. be an integral part of the UN system, etc.), and there are indications that UNCDF is already at this critical level.

5. Factors Affecting UNCDF Performance

5.1 Introduction

As demonstrated in the previous section, UNCDF faces the difficult situation of an organisation that is demonstrating both effectiveness and efficiency and yet has become less relevant to its main financial supporters. As a result, its future and its financial viability are seriously at risk. One staff member summarised the frustration that the organisation is facing, *“We are discouraged because (...) the organisation has responded to all the requests of its Executive Board (that represents the donor community)... has done all its homework and puts itself in order and, yet, is being told that it is not good enough.”*

In this section we examine the various elements that have led to this situation, and identify the key factors that are affecting the performance of UNCDF. Many of these factors are supporting factors, and have helped UNCDF remain an effective and efficient organisation. Some factors have had both a positive and a limiting effect on UNCDF. Unfortunately, some factors are clearly posing a threat to the organisation.

5.2 Strategic Leadership

Finding 24: UNCDF receives a great deal of praise for the leadership exercised by the Executive Secretary and his senior team.

In our examination of the leadership exercised by the Executive Secretary of UNCDF, we defined leadership as the ability to:

- establish a clear vision for the organisation,
- articulate a strategy for implementing the vision,
- create the appropriate climate, structure, and incentives to support the implementation of the strategy, and
- establish appropriate dialogue with external stakeholders to gather their support and resources for achieving the vision.

The Executive Secretary, who fulfilled his term and took on a new assignment in December 2003, had a great deal of credibility and was able to establish strong support from the Fund's constituencies. Interviews with donors, UNDP representatives, local government representatives and ambassadors of LDCs have highlighted a leadership style that was appreciated by most and that was based on transparent exchanges, mutual respect, true support for the mission of UNCDF, an open-door policy, and a constant desire to obtain support from the countries in which UNCDF operates. Although the IIA survey did not have a specific question on leadership style, 89% percent of respondents believe that the senior management of UNCDF is committed to developing a high performance organisation. In interviews, however, staff expressed some discontent with the leadership exercised by the Executive Secretary; in particular they noted that he did not address internal, operational issues.

The results of the UNDP Global Staff Surveys in 2001 and 2002 indicate that the management and senior management of UNCDF are very much respected. In fact, on all questions related to the management and supervision of their agency, the surveys report higher scores for UNCDF than for UNDP overall: 76% (in 2001) and 88% (in 2002) think that UNCDF management acts with honesty and integrity; 81% express confidence in their Executive Secretary (compared with 67% for all UNDP in 2002). The UNDP Global Staff Surveys (2001 and 2002) are similarly positive for the supervisory level of UNCDF – 94% of UNCDF staff feel that their supervisor treats them with respect, and 82% have confidence in their supervisor.

Worth noting, however, is a decrease in staff confidence in the ability of the Management Team to provide direction and leadership. In 2001, 82% of UNCDF staff expressed such confidence whereas in 2002, only 65% believed that UNCDF Management Team provided direction and leadership. Similarly, in 2001, 75% of the UNCDF staff was confident that the Management Team understood the things that affected the success of UNCDF; that percentage dropped to 65% in 2002. This trend was echoed in interviews at HQ where some respondents were unsure if the Executive Secretary's approaches to solving the questions of UNCDF's future were realistic. Also, the absence of an Executive Secretary and the Fund's financial situation, are making some HQ staff members uncertain about the future.

5.3 Governance and the Executive Board

Finding 25: The Executive Board has an oversight role with respect to UNCDF and has implemented this function with diligence and professionalism.

The Executive Board has 36 members, represents five geographic areas, and has a general mandate to provide inter-governmental support to and supervision of the activities of UNDP and UNFPA (United Nations Population Fund) in accordance with the overall policy guidance of the General Assembly and the Economic and Social Council. The roles and responsibilities of the Executive Board are primarily of an oversight nature, as described in Exhibit 5.1 below.

Exhibit 5.1 Functions of the Executive Board – GA 48/168

- To implement the policies formulated by the General Assembly and the coordination and guidance received from the Economic and Social Council
- To receive information from and give guidance to the head of each fund or programme on the work of each organisation
- To ensure that the activities and operational strategies of each fund or programme are consistent with the overall policy guidance set forth by the General Assembly and the Economic and Social Council
- To monitor the performance of the fund or programme
- To approve programmes, including country programmes
- To decide on administrative and financial plans and budgets
- To recommend new initiatives to the Economic and Social Council, and through the Council, to the General Assembly, as necessary
- To encourage and examine new programmes and initiatives
- To submit annual reports to the Economic and Social Council which could include recommendations, where appropriate, for improvement of field-level coordination

According to data collected throughout the IIA review, the Executive Board has demonstrated overwhelming support for UNCDF and has accomplished its oversight function with dedication. The Executive Secretary of UNCDF appreciated the ongoing support received from the Executive Board, and provided many specific examples of how the Executive Board had made efforts to raise the profile of UNCDF both at HQ and in their home countries. The Executive Secretary indicated a good level of satisfaction and good dialogue with the Executive Board, and remarked on the diligence of the Executive Board in all aspects of its mandate. Our interviews with nine of the Executive Board members bolster that image of a dedicated group of individuals who respect UNCDF and consider it “a jewel” in the UN family.

Finding 26: Some limitations in UNCDF’s existing governance structure have caused staff to become somewhat disillusioned about the role and contributions of the Executive Board and to raise some important governance questions.

Although the Executive Board has acted with diligence in executing its mandate, in our interviews we noted a growing level of staff dissatisfaction with the Executive Board, particularly with its inability to mobilise resources. Feedback received through the IIA survey also shows a profound disillusionment with respect to the role of the Executive Board (Volume III, Staff Survey Results).

The Executive Board approves UNCDF programmes and, since 1998, has praised the results achieved by UNCDF. Each year, the Executive Board decides on administrative and financial budgets for UNCDF. Over the past few years, recognising the decline in core funding, the Executive Board decided with the Executive Secretary that a target of US\$30 million in non-core funding would be needed for UNCDF to remain sustainable.

The frustration among staff arises from the apparent disconnect between results and resource mobilisation. They expect the Executive Board to reward the Fund for results achieved through a more direct role in the resource mobilisation strategy:

“The Executive Board has given UNCDF a fairly clear mandate, but has not pressed for a clearer relationship with the UNDP, nor has it been effective at encouraging members to follow-up on their frequent praise of UNCDF with increased contributions.” (IIA staff survey quote)

“The Executive Board appears to play a very weak role (...) ultimately there is limited accountability for (UNCDF’s) results and performance.” (IIA staff survey quote)

This situation is the result of several limitations in the existing governance structure. First, the Executive Board does not have a mandate for resource mobilisation, and consequently is not in a position to reward UNCDF, in spite of its recognition of the Fund’s achievement of good results. The Executive Board can advocate for increased financial support for the Fund, and it has done so with some modest success (see Section 5.6 on Resource Mobilisation).

A second structural limitation is the fact that the Executive Board acts as a Board for UNDP and UNFPA as well as their administered funds (including UNCDF), and would be in a potential conflict of interest if it were to mobilise resources for UNCDF alone. Since an ongoing review of the UN architecture is under way, these limitations are being played out in a context of change, and UNCDF does not yet know how these changes will affect its governance structure. In our view, the issue of governance is critical for UNCDF at this stage and requires a serious review within the ongoing UN Operational review.

Another governance issue brought to our attention during the IIA is the lack of alignment between the existing governance structure and the resource mobilisation strategy for core funding. In this regard, there is a question about the appropriateness of the roles and responsibilities of the Executive Board, the Executive Secretary, the UNDP Administrator, as presently defined and executed.

At the moment, the UNDP Administrator delegates operational responsibilities for UNCDF – including resource mobilisation and addressing the organisation’s viability issues. In most organisations this would be inappropriate, as the person ultimately responsible for the organisation would need to play a key role in ensuring its ongoing relevance and survival. The UNDP Administrator has not played a significant role in guiding UNCDF through these exceedingly difficult times and, from the perspective of UNCDF Senior Team, this represents a critical governance question, especially with respect to resource mobilisation. This situation requires clarification, but we would also argue that clarifying how UNCDF as an organisation can contribute to UNDP’s organisational objectives would stimulate a greater incentive for the Administrator to engage in the resource mobilisation strategy of UNCDF.

5.4 UNCDF’s Niche

The niche of an organisation is defined by the characteristics that differentiate it from other organisations, and that allow it to remain competitive and in high demand. The various policy reorientations of UNCDF have helped it define a concise programming model that consists of policy-piloting through small-scale projects and technical advisory services in microfinance and local governance, intended to pave the way for upstream replication in order to reach large numbers of the poor in 29 LDCs. In this section we assess the extent to which UNCDF’s programming model has proven to be innovative, and the degree to which it is recognised as unique best practice by its partners.

Finding 27: UNCDF programming models in both microfinance and local governance demonstrate a clear and innovative niche.

The two Programme Impact Assessments leave no doubt that, in all eight countries assessed, UNCDF has established a unique niche. This niche is seen in at least three ways.

First, UNCDF is innovative in its thinking – in the Cambodia case study, for example, there is evidence that UNCDF advisors added value to the project through their conceptual (and financial) input, and the Seila Programme and the LDP programmes are good examples of the UNCDF ‘learning by doing’ approach that allows for adaptation to local conditions. The intellectual and innovative contributions of UNCDF have also allowed a shift of *modus operandi* in Mali and increased the importance of the role of the state. According to the PIA, in Mali UNCDF is taken very seriously for its ability *“to innovate conceptually”*, and in Mozambique as an expert agency *“with a distinct niche in terms of innovation concerning decentralised planning and financing.”* (Local Governance PIA, p. 61) Thus, UNCDF is recognized for its research and conceptual inputs into development.

Second, UNCDF is innovative in its approach and methodology for taking risks – UNCDF walks the talk when it comes to learning by doing. This means that its analytical and advisory work both generates new practice and, in turn, is shaped by the experiences of “riskier” investments. The approaches developed in UNCDF’s 1999 *Taking Risks* publication have been integrated into several local governance projects reviewed in the PIA. The methodologies were also integrated into the Seila and LDP programmes in Cambodia. In addition, as reported in a review of the microfinance programmes in Haiti, UNCDF invested in expanding rural finance in one of the most difficult areas in Haiti; and made a significant investment in a difficult and complex country, Nigeria. *“UNCDF’s unique comparative advantage and strength in microfinance in terms of sector contribution (is) its openness to accept the greater relative risk of supporting innovative pilot projects.”* (Microfinance PIA, p. 31) UNCDF has carved out a policy-piloting role, fulfilling an R&D function in the development financing system where most other agencies emphasize sector approaches and general budget support.

Third, UNCDF has a specific niche in providing support for local governance and microfinance for capital investment projects in the range of US\$500,000 to US\$5 million, which is below the lending threshold of international development banks but beyond the financial means of most NGOs and local administrations. It is an appropriate level of funding for the piloting of policy initiatives.

The Microfinance PIA also suggests that UNCDF’s relationship to the UN family is another area of comparative advantage. *“UNCDF brings to the sector something that few or arguably, no other microfinance support institution can offer. The simple fact of being a UN agency, has the potential to ‘open doors’, influence and even coordinate the activities of actors of all levels, particularly those somewhat removed from the sector, such as governments, multilateral and bilateral agencies.”* (Microfinance PIA, p. 34)

In interviews in Benin, Madagascar and Niger, local partners and beneficiaries remarked on the uniqueness of UNCDF’s overall approach, and cited UNCDF as an innovative player in the donor community. According to the Local Governance PIA, UNCDF’s expertise in Mali is widely credited as being unmatched and the Fund’s reputation unparalleled.

IIA survey respondents firmly believe that UNCDF’s two programming areas have a well-anchored niche. Indeed, 89% of respondents consider that UNCDF’s work is recognised as best practice; 68% believe that UNCDF is sought out as a partner because of its distinctiveness; 74% are confident that UNCDF has a comparative advantage in providing technical advisory services in microfinance; and 82% think the same about UNCDF technical advisory services in local governance.

Finding 28: Within the UN family, UNCDF has a clear niche in microfinance but while its niche in the local governance area exists in practice, it is not as well defined and communicated.

Although 83% of IIA survey respondents agreed that UNCDF programming complements the work of UNDP, the complementarity is seen as much stronger for the microfinance programme than for the local governance programme. This situation is due, in part, to the more complex nature of local governance issues.

In the area of microfinance, the relationship between UNCDF and UNDP is complementary and mutually supportive. Interviews show that UNDP respondents, UNCDF staff and external stakeholders recognise UNCDF's distinctiveness in this programming area and welcome its added value to the UNDP Group. In fact, many UNDP respondents are looking forward to the Year of Microcredit (2005) as an opportunity to demonstrate the expertise of the UNDP Group through the leadership exercised by UNCDF in this area.

With respect to local governance, the perception is that there is a potential overlap between UNCDF's Local Governance Unit (LGU) and UNDP's Bureau for Development Policy (BDP). As noted earlier in this report, the perception of overlap and lack of clarity on the niche is what prevails at headquarters. At the local level, the UNCDF niche is more clearly defined. However, a close analysis of the mandates and areas of intervention of UNCDF-LGU and UNDP-BDP, as well as a review of the MoU between these two units, supports their distinctiveness. The PIA report also confirms that UNCDF, among all other agencies, has a niche and comparative advantage in the area of local governance and decentralisation, stemming primarily from its focus on rural areas and the LDCs, and its policy-piloting role.

Nevertheless, the following elements contribute to an external perception that the line between the two agencies is somewhat blurred:

- Both UNDP-BDP and UNCDF-LGU provide technical assistance on local governance issues, the former to all countries and the latter directed to LDCs.
- Both UNDP-BDP and UNCDF-LGU define themselves as knowledge producers and are developing knowledge management.
- Within the UNDP Group, BDP is recognised as the mainstream organisation on local governance policy issues.
- Beyond the different country foci, it is not clear how the TAs of the UNCDF-LGU and of UNDP-BDP differ. However, UNCDF LGU staff, who typically specialised in advisory services to projects in LDC countries, are beginning to sell their services on a demand basis outside the LDCs. This may be creating potential redundancy of mission and scope between the BDP and the UNCDF-LGU, particularly at the level of policy advice.
- At the HQ level and in discussions with the BDP, some felt that it is important to clearly define functions and improve synergy in local governance issues inside the UNDP Group.

In the IIA survey, several comments suggest a lack of clarity between the local governance work carried out by the UNCDF-LGU and the UNDP-BDP:

- *"If a bold initiative is not taken to finally recast UNCDF as the 'UN Agency for local authorities' it is unlikely that a justification can be found for having a UNCDF-LGU outside of UNDP."* (IIA staff survey quote)
- *"UNCDF had the opportunity to redefine itself as the 'multilateral aid agency for local governments... Today, it's hard to see why the UNCDF Local Governance Unit is not just a unit of UNDP helping UNDP Country Offices to develop programmes and projects in the areas of Decentralization, Local Governance and Local Development."* (IIA staff survey quote)
- *"In the case of Local Governance (the relationship between UNCDF and UNDP) has become increasingly competitive at HQ level; in the programme countries it's a mixed experience of complementarity and competitive/unsupportive relationships."* (IIA staff survey quote)

UNCDF-LGU has taken several steps to define its focus and objectives and has recently developed some strategic documents to address this issue. The challenge is twofold: to clarify for external stakeholders the areas that are creating confusion; and, internally, to ensure compatibility and take advantage of the synergies that exist between the two mandates. Among some of the ideas proposed by UNDP-BDP and LGU: clearer definitions of complementarities in the production of knowledge and policy on local governance, and an institutionalised mechanism for improving UNCDF-LGU and UNDP-BDP work on local governance issues.

Finding 29: UNCDF’s rubric “Capital Development Fund” is unique and could be useful in clarifying UNCDF’s niche, but the term is not clearly understood.

Capital development is defined in terms of development in relation to capital – for example, the support provided to capital markets for financial institutions, or the development and use of markets to generate needed capital.

As stated in its charter, UNCDF was established to assist developing countries in the development of their economies by supplementing existing sources of capital assistance. It was to do this through the provision of grants and loans, particularly long-term loans that were free of interest or at low interest rates.³⁴ From the outset, the emphasis was one of “capital assistance.” Today, the bulk of UNCDF’s projects and core resources are channelled through LDPs to local authorities and, in the area of microfinance, to MFIs. Grants are the principle form of capital assistance provided by UNCDF.

Our data suggest that UNCDF has not defined itself as an agency that specialises in “capital development.” In part, this may be due to the lack of a clear and common definition of the term. However, as UNCDF moves into the future, it will need to decide how important a role “capital development” will play in its project and programme work. There may be opportunities for it to move further into this area. For example, as MFU continues implementation of its new sector approach, it will inevitably need to address the issue of capital markets for small financial institutions. Capital development, in a more traditional sense, may become a part of its advisory services to clients. Similarly, in local governance, there are opportunities to focus on the generation of capital for local authorities to be able to meet their future infrastructure needs.

Finding 30: UNCDF’s niche is directly affected by the decrease in core resources.

The more control UNCDF exercises in its allocation of resources, the more it will be able to retain its niche. Both interviews and field visits confirm that UNCDF’s comparative advantage has been supported by its ability to have both core and non-core funding. At the moment, UNCDF has maintained its competitive advantage by making conscious decisions to invest its core funding in pilot projects and innovative projects, and by taking more risks than other agencies. UNCDF needs core funding for overhead, innovation, and global knowledge management. Non-core funding is required to support project work. If current trends continue – i.e. decreasing core funding and increasing non-core funding – we are concerned that UNCDF’s ability to maintain its niche will be affected.

³⁴ UN General Assembly, 2186(XXI). Establishment of the United Nations Capital Development Fund, Article 1.

5.5 Changes in the International Development Context

Finding 31: Various changes in the international development context have affected the UN family in general and the UNCDF in particular.

UNCDF has suffered from and responded to several recent shifts in the development environment. As mentioned in the *2002 Functional Analysis*, in the 1990s, most donors started putting conditions on their aid to developing countries. Freestanding grants were replaced by pre-packaged funds designed to address specific objectives. Upstream earmarking of grants, coupled with disbursement follow-up, introduced a new form of tied aid with significantly less leeway given to grant-based multi and bilateral agencies. UNCDF was considerably affected by this trend. *“As predictable non-tied contributions dropped significantly over the last decade, its targeted resource allocation from core resources declined precipitously.”* (Functional Analysis, p.13)

UNCDF's declining financial resources can be explained partly by the fact that the organisation's approach is based on the development of small-scale pilot projects. As stated in a recent CIDA corporate document, *“Development programming has recently shifted from traditional project-based approaches towards more programmatic forms of development cooperation.”* (Canada Making a Difference in the World; CIDA, September 2002). The shift in donor policy does not seem to differentiate the R&D, piloting type of programmes – which are necessarily small-scale projects – from other unfocused, ad hoc projects.

The increasing shift from community-based funding to upstream funding has also affected UNCDF. This shift is based on a consensus within the development community that allocating aid directly to recipient governments is more effective than funding various projects, at least in terms of coordination. From this perspective, LGU's local government-focused programme approach is probably an obstacle to further resource mobilisation. However, recipient government weakness in absorbing aid flows, and the slow and inadequate transfer of resources to the local level, seem to validate the relevance of UNCDF's approach for the time being.

On a brighter note, The Programme of Action for the LDCs for the decade 2001-2010 and the recent International Conference on Financing for Development have recognised the vital importance of the two areas of focus in which the UNCDF is working (Microfinance and Local Governance), and the need to increase investments in these areas. (Functional Analysis p.16) These commitments might lead to an increase in core funding for UNCDF. Furthermore, UNCDF projects are consistent with the Millennium Development Goals, set-out by UN General Assembly as a response to the challenges in the developing world and the disequilibrium created by the North-South divide. (2002 Functional Analysis, p.13)

For UNCDF to remain relevant, the organisation must try to secure complementarities with other development players. UNCDF responded to this necessity by reinforcing its working relationships with a number of partners such as UNDP, the donor community, and the World Bank. The signing of a Memorandum of Understanding between UNCDF and UNDP in the areas of Local Governance and Microfinance illustrates this endeavour towards a renewed synergy. (2002 Functional Analysis p.15)

5.6 Resource Mobilisation Strategy

The resource mobilisation strategy of an organisation includes all the mechanisms and approaches implemented in order to replenish resources and remain a viable organisation. Given the concerns about UNCDF's financial viability, the Executive Secretary of UNCDF, at the request of the Executive Board, put forward a resource mobilisation strategy (Decision 2003/09). In this section we review the adequacy of that strategy.

Finding 32: UNCDF has articulated a resource mobilisation strategy, based on four key components, that primarily targets core funding resources.

Between 1992 and 2002, UNCDF's core contributions declined by nearly 45%. Concerned about this decline, the Executive Board and the Executive Secretary put forward a resource mobilisation strategy articulated around four dimensions.

The first axis of the strategy is the continuous appeal for ongoing core and non-core resources. To that effect, UNCDF has pledged its Executive Board and the LDCs to appeal to the donor community for additional core and non-core resources. Our interviews and meetings with these two groups of stakeholders revealed the diligence of both the Executive Board and the LDCs (through their ambassadors at HQ and in the field) in increasing their appeals. The ambassadors have taken numerous opportunities to meet with the IIA team and donors to report the quality of the work of UNCDF, its relevance to their needs, and the importance of ongoing financial support.

A second axis of the strategy is the demonstration of good results on the ground. In a statement to the Executive Board, the Executive Secretary spelled out how, in order to mobilise resources, UNCDF "will continue to do our very best to produce concrete and useful results on the ground in our two areas of focus. Through these concrete results on the ground we will continue to demonstrate that UNCDF has a role to play in support of the LDCs within the international development financing architecture."³⁵

A third axis of the strategy is an increase and/or modification of communications about UNCDF's good results through various means. UNCDF assumes that the lack of support for their business model is due to insufficient marketing. The *2002 Functional Analysis* (p. 16) recommends the appointment of a full-time marketing specialist to market to donors.

The final component of the resource mobilisation strategy is to manage resources more efficiently; the results of this approach were described in Section 4.3 of this report.

In addition to its actual resource mobilisation strategy, UNCDF is also planning to advocate more strongly through an increased interface with donor and partners. The draft *Communication and Advocacy Strategy (2004-2006)* proposes several actions aimed at increasing donor and partner support, such as multiplying visits to donors, engaging representatives of donor countries in UNCDF activities in the field, more frequent meetings at HQ with donors, and a newsletter to donors and partners.

Finding 33: UNCDF's resource mobilisation strategy has resulted in some modest gains, but is not likely to ensure the viability of the Fund.

The resource mobilisation strategy has generated some positive results: Appeals by the Board led to an increase of more than US\$4 million in core contributions from 2002 to 2003; new donors have joined the existing group of donors (Canada, Finland, Ireland, and Luxembourg) and are investing in UNCDF; many countries have made contributions to UNCDF through their JPO programmes; and non-core contributions have increased.

From our perspective, however, the potential success of this strategy is limited as it is based on two questionable assumptions: first, that having a good programme model and showcasing good results will lead to more support, and second, that a business model that is based on effective and efficient work will lead to sustained funding (Draft Communication and Advocacy Strategy, 2004-2006, p. 4).

³⁵ Statement to the Executive Board by Normand Lauzon UNCDF Executive Secretary. *Informal Consultations Funding Situation and Strategy of the UNCDF*, New York, 11 September 2003

These assumptions do not take into account the fact that programming models must be compatible with what donors want to invest in. It is increasingly evident that donors are not interested in investing in small, innovative, downstream projects (despite the multiplier effects they achieve through programme replication, and despite their upstream impact on policies). At the moment, not enough donors see UNCDF as a strategic vehicle to support their own development objectives.

Our meetings with some donors and Executive Board members reinforced our scepticism. Recent actions on the part of countries like the Netherlands (which cut all funding to UNIFEM and reduced by 50% its funding to UNCDF) seem to contradict UNCDF's assumption. Also, our interviews with UNDP senior staff indicate that donors are less interested in funding organisations like UNCDF, regardless of the success of the programming model. Although UNCDF has done effective and efficient work, it has not been able to convince donors that it plays an important role in the international financing architecture – and this is UNCDF's biggest challenge.

5.7 Highly Qualified Staff

Finding 34: UNCDF's highly talented staff, one of its strongest assets, is experiencing a period of low morale as a result of uncertainties about the future of the Fund.

One of UNCDF's greatest strengths is its talented and highly skilled staff. UNCDF staff members pride themselves on being competent – 85% of IIA survey respondents agree that staff members have the skills necessary for the organisation to be effective. A review of the last two *UNDP Global Staff Surveys (2001 and 2002)* shows how UNCDF staff compares with UNDP – 94% of UNCDF staff in 2001 and 97% in 2002 get a sense of personal accomplishment from their work (compared to 77% and 79% for UNDP in 2001 and 2002 respectively). Similarly, the *UNDP Global Staff Survey* shows that 88% (2001) and 94% (2002) of UNCDF staff agree that the day-to-day decisions people make demonstrate that quality service is important, and 100% (in both 2001 and 2002) indicate that the overall quality of the work done in their unit is good.

In the field, at HQ and in Washington, the talents, skill sets and competence of UNCDF staff, programme officers and technical advisors were highly praised:

“UNCDF has exceedingly talented people who are very competent in their areas of work and add value to our work. (...) We go back to them all the time because the quality of their work is quite remarkable compared to other technical people we have been involved with.” (IIA interview quote)

“We have worked and will continue to work with UNCDF's very qualified staff. For us, they complement our skills, continue to bring to the table very credible experts. Unfortunately there are not enough qualified TAs to do all the work required in this area in the LDCs.” (IIA Interview quote) The 2002 ROAR demonstrates that UNCDF has been able to attract, develop and retain high-quality personnel³⁶. The ratio of planned to actual staff at HQ has been met, with a 92% level of success. Although the majority of the jobs are filled through the internal rotational system, a review of the selection process for those positions advertised externally shows that UNCDF was able to retain the most competent from a wide, qualified pool of potential candidates from all over the world who applied for any given position. With respect to the investments in professional development, the UNCDF Functional Analysis report indicates that the actual number of staff days assigned to formal learning events surpassed the planned days (120% level of achievement), which supports the notion that UNCDF prides itself on nurturing its people.

³⁶ Some caution needs to be exercised in interpreting this indicator, which is not clearly linked to the outcome it claims to measure.

Examples of the quality of UNCDF staff are numerous: CGAP mentioned the quality of this unique partner in delivering training in microfinance and World Bank respondents were impressed by the quality of the collaboration with UNCDF Task Managers in local governance work in Niger.

Highly talented, the UNCDF technical staff is also characterised by a desire to be relatively autonomous in making decisions about their work and projects, and to not be burdened by a high level of organisational bureaucracy. Indeed, for many of the professional staff, UNCDF offers the right balance of independence that allows them to be responsive to the needs of their clients. The unique organisational characteristics of UNCDF – small, relatively flat, relatively independent of UNDP – are factors that have allowed UNCDF to attract high calibre individuals.

At this stage, however, UNCDF staff are experiencing a period of low morale. Our observations during visits to HQ indicate that staff is concerned about the future of the organisation. They were unanimous in attributing low morale to three factors: a) staff reductions in the last two years, due to limited resources, which led to work overload and increased feelings of job insecurity; b) concerns about the departure of the Executive Secretary; and c) overall concern about the future of the Fund – Will it remain the same? Will it continue to be an attractive place to exercise technical talents? Will it change and become just another bureaucracy? What will be the future programme focus of UNCDF? Indeed in the IIA survey, the question on staff morale generated the highest level of negative responses, with 42% of staff reporting low morale:

“We are currently going through a period of extreme anxiety as a result of dwindling financial resources in UNCDF and the departure of the Executive Secretary.” (IIA staff survey quote)

“Staff morale has certainly suffered recently due to funding problems.” (IIA staff survey quote)

Finding 35: The excellent quality of UNCDF Technical Advisors is praised by the majority of respondents. However, their role within the overall UNCDF sustainability strategy deserves some attention.

UNCDF’s Technical Advisors are competent, do high quality work, and play leadership roles in their respective sectors. This was confirmed by all data collected and by our review of their publications.

“Technical Advisors are the strength of UNCDF.” (IIA staff survey response);

“The quality of the TAs of UNCDF is well above other technical advice we have received from UN agencies or other bilateral agencies.” (IIA interview quote)

The IIA team reviewed the publications produced by the TAs, and discussed the quality of these publications with UNCDF university partners. Their comments about TAs in both local governance and microfinance are fairly summed up in the following quote from a university partner with respect to LGU, *“The experts (TAs) in local governance are truly contributors in their field. They have pushed the thinking and are often pioneering new approaches and new ideas to support decentralisation and empowerment of local groups.”* (IIA interview quote, university partner)

The PIAs and our interviews with UNDP staff indicate the quality and the appropriateness of TAs' contribution to work in the field. More than 70% of IIA survey respondents agree or strongly agree that UNCDF provides cost effective technical advice in both microfinance (71%) and in local governance (72%). The quality of work and contribution of TAs to the effectiveness of UNCDF programming are not in question. However, some questions were raised that deserve UNCDF's attention:

- Is the present use of TAs strategic? In addition to their roles and responsibilities, UNCDF TAs have a role in UNCDF's financial viability strategy, in the sense that the TAs provide technical advice for fees to groups such as UNDP and the World Bank. The question is whether TAs' time is balanced appropriately between supporting UNCDF initiatives and selling their services to other agencies for the purpose of generating revenues and supporting their costs. We would argue that the TAs' consulting time should be reviewed within a larger perspective to ensure that UNCDF's use of TAs for revenue generation does not become a financial survival strategy, leading to what some have referred to as a "consulting firm within the Agency" rather than the legitimate provision of technical advice that supports UNCDF mandates, programmes (local governance and microfinance), and its targeted group of LDCs.
- Is the present use of TAs appropriate as compared to the use of RTAs and POs? UNCDF has field-based RTAs and national POs whose competence and skill set are perceived to be not fully exploited. *"CDF ought to re-calculate the cost of its field-based RTAs, vis-à-vis the cost of its programmes (...) National POs have a known potential to deliver which is not always exploited either because they are not given a chance or (because) systems and procedures (for calculating costs of using POs, RTAs and TAs) are not conclusive enough."* (IIA staff survey quote) CTAs are another resource that could be considered in the system for providing advisory services. In fact, the Local Governance PIA notes that the role of in-country senior technical staff is crucial to success in policy impact and replication. The scope of their role, however, may be limited by the demands of project management.
- Is the role of TAs supporting UNCDF's country focus (the specific groups of LDCs targeted)? Will the use of TAs to respond to consulting requirements outside the given country focus of UNCDF lead to a perception of duplication of roles between UNCDF's LGU TAs and UNDP-BDP TAs?

Finding 36: Faced with budget cuts that have focused greater attention on efficiency, staff (both at HQ and in the field) are struggling to minimise the effects of the cuts on performance.

In this period of budget cuts, UNCDF units have been faced with the challenge of doing the same or more work, with less support, and without sacrificing quality. A high percentage of staff (83%) indicate that managers are held accountable for using resources wisely (*IIA Staff Survey*). Over the years, and particularly in 2002, budget cuts implied the re-phasing of project expenditures, and this had effects on operations in the field. The budget cuts have had a direct effect on project teams, who had to scale back the scope of their activities after making commitments to respond to stakeholder needs. Clearly, the cuts have had implications for UNCDF's credibility and impact. They also have had implications for work processes such as monitoring – as units postponed or limited field supervision missions.

The gains in efficiency have had severe impacts on staff workload and morale. UNCDF's administrative budget proposal for 2004-2006 represents a reduction of more than 16% of the current administrative budget in real terms. *"Streamlining of functions and improved efficiency allowed us to reduce our core posts from 38 to 32."*³⁷ This has been achieved by additional staff reductions that, in the long run, will affect the quality of the delivery of services. At present, the rate of vacancy of HQ and country offices is approximately 8%. Although this decision supports the reduction of HQ costs, it also increases the pressure on individual staff members.

5.8 Programme Management

5.8.1 Overview

The UNCDF 1997 Programme Operations Manual (POM) describes the policies and procedures for the project cycle. The cycle consists of project identification/selection, formulation, appraisal, approval, execution (including monitoring and reporting), completion (including end-of project review and final report), and project evaluation.

The 1999 independent external evaluation conducted by ITAD raised particular concerns about the first steps in the cycle, concluding that the quality of *"project documents lagged behind the examples of good work taking place on the ground."* (ITAD Evaluation 1999, p. 62) The study recommended that procedures be introduced to ensure that UNCDF formulations meet best practice international standards for quality of analysis and conciseness. Other recommendations from the 1999 evaluation touch on different dimensions of the project cycle, including Recommendation 11, which links funding with design quality and results performance at the project level.

Finding 37: UNCDF has made elements of its project cycle more effective, but there is room for improvement and greater integration of these processes.

UNCDF has been systematic in planning and monitoring its follow through on the recommendations of the 1999 evaluation. One example of this is its incorporation of a specific outcome (3.1.2) and corresponding indicator in its *Strategic Results Framework (2000-2004)* that address operational results and quality assurance through improvements in the project cycle. The 2002 ROAR, which is based on self-reported data, signals progress on many fronts. Furthermore, 80% of IIA survey respondents (96 responded in this section) agree or strongly agree that projects in UNCDF are managed efficiently.

5.8.2 Design

For the purposes of this report, 'design' encompasses the stages in the cycle from identification to approval.

Recommendation 9 from the 1999 independent external evaluation specified that UNCDF should consider establishing an external 'Project Appraisal Panel' of experienced country and development specialists. The information available to the IIA team suggests that this panel was not established, but that the organisation did introduce peer appraisal of the concept phase (preceding the formulation phase).

³⁷ UNCDF Executive Secretary Normand Lauzon, Statement to the Executive Board, "Informal Consultations Funding Situation and Strategy of the United Nations Capital Development Fund," New York, 11 September 2003, p. 3

In 2002, UNCDF generally met its targets for maintaining a standard of less than one year for project formulation (from fielding of mission to approval) and reducing the time lag between approval and implementation. (ROAR 2002, p. 18) Some stakeholders, however, expressed concerns about continued bottlenecks in the process. A review of selected project documentation (as part of the portfolio review) found examples of time lags, although these may be attributed in part to external factors such as shifts in the political context that lie outside programme management's control.

Although UNCDF's *Action Plan 2000* included the development of "short, clear guidelines for staff and consultants on the formulation process" and an update of the POM, these revised tools were not available at the time of the IIA.³⁸ Nonetheless, organisational practice has continued to evolve and there is evidence of standardisation and consistency across project documents. For example, at least 15 of the 21 projects reviewed by the IIA team as part of the portfolio analysis included logframes as part of the project document, which is the standard set by UNCDF for projects designed after 1998.³⁹ Of these, about half were redesigned during implementation, even as early as the inception mission. The redesign of the logframes was usually driven by the need to operationalise, reduce ambiguities, and improve linkages, in favour of a more manageable objectives and results structure. Although this highlights some need to focus on quality in the design of logframes, it is also important to recognise, as noted in the *Analytic Review of UNCDF Evaluations (2002)*, that, "project documents need to become more of a living instrument rather than a monument to how a project was originally designed." (Analytic Review of UNCDF Evaluations, 2002, p. 20) The project design can provide sufficient elements to guide project activities and results achievement, while allowing for flexibility in implementation.

"Due to the heavy emphasis on results, UNCDF projects are carefully planned out - with often very complex LogFrames and exact Project Implementation Plans, with specific timeframes and indicators. This can make a project very difficult to manage and very inflexible - flexibility is often key in a developing country context." (IIA Staff Survey Respondent)

In addition, operational units (LGU and MFU) are involved in the revision of programme management procedures and tools, in efforts to improve efficiency and the design of projects so that they reflect both corporate policy and current unit strategy. LGU planned to review and streamline programme identification guidelines in 2003, while MFU planned to develop tailored tools to guide the design and implementation of their new microfinance sector strategy, such as a country assessment format and examples.⁴⁰

Furthermore, the introduction of an RBM system (discussed below) has added tools that should complement the existing cycle and contribute to greater effectiveness. For example, the Project Operations Plan (POP), a planning instrument to facilitate measurement of project performance over the entire implementation period, introduced in 2001, is becoming part of project design documents.⁴¹

³⁸ LGU Management Plan 2003 indicates that the target for 2002 was not achieved because priority was given to MIS development and the organisation faced delays due to the introduction of Atlas.

³⁹ In the Action Plan 2000, the UNCDF identifies 3 broad categories of project documents and indicates that those designed since 1998 are based on "logical frameworks and defined M&E requirements."

⁴⁰ LGU Management Plan 2003 p. 23 and SUM Management Plan 2003, p. 11.

⁴¹ UNCDF, Corporate Guidelines for the Preparation of the Project Operations Plan and the Annual Workplan, section 2.

In terms of project design, UNCDF still needs revised guidelines that simplify the formulation process and reflect current organisational practice, as it is emerging from both operational units. This could further ensure consistency and learning across programmes.

5.8.3 Implementation

Implementation encompasses coordination, supervision, M&E systems and other aspects that are critical during project execution.

There is a high degree of complexity in the institutional arrangements for implementing UNCDF projects. As noted in the *Analytic Review of UNCDF Evaluation in 2002*, on average, projects and managers showed proper flexibility in responding to project-critical occurrences. It is also positive to note that close to three-quarters of respondents to IIA staff survey respondents indicate that project decision-making is timely. However, both the IIA's review of selected project evaluations/reviews, and the *2002 Analytic Review of UNCDF Evaluations*, signal levels of ambiguity, complexity and confusion about roles that have, at times, hampered decision-making and efficient implementation. A second issue affecting implementation noted across several projects is the disbursement mechanism.

More important, however, is the weakness in monitoring and evaluation systems. This has been a recurrent issue for UNCDF and one that management is aware of.⁴² The IIA team recognises that steps have been taken to improve M&E of UNCDF projects, including introduction of the logical framework, budgetary support for M&E systems in projects, the design and early implementation of Programme MIS, and the development of RBM. Accountability for results is relatively new for UNCDF and for the UN system. As a result, the use of M&E for accountability, and as a support tool for decision making, is not yet a fully institutionalised management practice. Furthermore, the mandate for piloting new innovations is extremely challenging for cost-effective M&E.

"Overall the heavy emphasis on project planning, with exact logframes and POPs is still preferable, as it makes it harder to 'stray' from the original project objectives. It also makes it much easier to monitor and evaluate - something which is often missing in UNDP projects." (IIA staff survey respondent)

In its 2002 ROAR, UNCDF reports results that are below expectations on only one of the eight indicators for the outcome on operational results and quality assurance – precisely the indicator which refers to the number of ongoing projects with monitoring and evaluation systems in place (40 projects out of a target of 93).

Since management prioritised M&E investments in projects formulated after 1999 (UNCDF Evaluation Results, 2001), it is not surprising that progress in this area is not evident in a large number of UNCDF projects. As shown in the annual reviews of evaluations and the portfolio review, issues of capacity, complexity of process (too many indicators to track), resources, ownership, and roles and responsibilities affect development of monitoring systems. Lack of baseline information is also noted as a limitation for evaluation of impact. A discussion of the use of evaluation and learning as critical aspects of the evaluation function is found in Section 5.8.

⁴² The issue was flagged in the review of Evaluation Results 2001. The Management response to this report indicated that the area was first identified as a weakness in 1992.

Finding 38: Planning, monitoring and reporting systems that support effective and efficient results-based management are in place, but are not fully institutionalised or used for management purposes.

One of the recommendations made by ITAD in 1999 was to encourage UNCDF to manage for results, increasing its accountability at all levels. It is fair to say that UNCDF has taken that challenge seriously and 80% of survey respondents agreed or strongly agreed that UNCDF is an organisation that manages for results. However, many respondents noted that the implementation of RBM was complex and taxing on local managers and local governments and, in some instances, preventing the flexibility necessary for effective project management.

“This heavy emphasis on monitoring, reporting, etc. is very taxing on local project managers and particularly local government counterpart staff who are used to less rigorous procedures from other organisations.” (IIA staff survey quote)

“The implementation of Results-based-management tenets is too process-oriented for a small investment agency like UNCDF (...) the process itself takes a toll on HQ staff’s responsiveness or pro-active support to field activities.” (IIA staff survey quote)

In 2000, UNCDF introduced a corporate *Strategic Results Framework (SRF) for 2000-2003*, which is reported upon annually through project Annual Work Plans (AWP) aggregated into the Results Oriented Annual Report (ROAR). Three ROARs have been presented to the Executive Board and the organisation receives high praise from the Board, UNDP and other UN stakeholders for the quality of these reports. UNCDF has, to an extent, begun to set the standards for results reporting in the UNDP Group.

The organisation has made continuous adjustments and improvements to the ROAR system, fine-tuning indicators in the SRF and introducing guidelines (2001) to facilitate the process. These have brought changes to the tools and mechanisms used for project planning and reporting. Over 70% of respondents to the staff survey indicate that project planning has improved since 1999. Close to 90% indicate that project reporting supports a results-oriented approach. Given the time that the system has been in place, progress has been reasonably good.

The institutionalisation of the results-based management system is in process. In the ROAR, UNCDF reports on results and resources (core and non-core expenditures) by sub-goals in the SRF. In the 2002 ROAR, it was noted that further work is required to establish direct relationships between results and the utilisation of human and financial resources, through performance budgeting and direct links between the SRF and the unit and individual performance plans. Performance budgeting assessments were planned for 2003, to be included in that year’s ROAR (Evaluation Unit Management Plan, 2003).

Furthermore, up until the generation of the 2003 ROAR, there was little efficiency gain in the process of compiling information for the ROAR. The compilation and analysis of data from the AWP’s was still done manually for the 2002 report, despite the fact that 20 project teams used MIS to submit their AWP’s in 2002. The 2003 ROAR will, for the first time, be generated by each of the operational units, using their automated systems.

UNCDF has introduced a number of new systems and tools in a relatively short period of time (RBM, MIS-LG, MIS-MF, and more recently Atlas). It is unclear how these all link to each other, and to the cycle and processes that are used to manage projects. Thus, RBM tools have been used primarily for reporting and accountability purposes, and still need to be fully integrated with other systems used for management decisions. In the search for efficiency, it is also crucial to streamline the time and effort allocated to planning, monitoring, and reporting on projects through these various systems. In other words, UNCDF still has to make the transition to “managing for results.”

“Annually based reporting of results has encouraged an annual focus on results, and this focus should grow with the transfer of managing and aggregating results reporting from the Evaluation Unit to the Operational Units. However, RBM still used more for accountability reporting to the Board versus as an ongoing management tool.” (IIA staff survey respondent)

5.8.4 Evaluation

The UNCDF Evaluation Unit emerged from what was previously known as the Policy, Planning and Evaluation Unit. This unit had multiple roles, including responsibilities for evaluations, communications, publications and external relations, strengthening project monitoring systems, and developing a UNCDF project data-base. It also acted as a secretariat for the Executive Secretary.⁴³ In 1999, the organisation made changes in UNCDF’s structure that resulted in, among other things, the establishment of an Evaluation Unit with overall responsibility for the evaluation function. The Unit reports to Senior Management, rather than directly to the Executive Board, as in agencies such as IFC, World Bank, and IFAD. This arrangement may compromise, to some extent, the independence of the Unit.

Finding 39: The Evaluation Unit (EU) has developed several approaches to institutionalise accountability and learning, but its overall effectiveness is affected by resource cuts and some resistance from programme units to respond to the demands from the EU

Modern evaluation units include both accountability and learning components. As a service unit, the EU has the triple role of overseeing the conduct of a given number of project evaluations, compiling and disseminating evaluation results for organisational learning, and providing support for RBM, particularly in the preparation of the SRF and the ROAR.

With a budget of US\$400,000 in 2003 and a staff forecast of five it has operated on average with two or three professionals and one administrative staff.⁴⁴ Since the 1999 external evaluation, significant efforts have been made to develop an evaluation culture that supports accountability and learning.

UNCDF has overseen an average of 14 evaluations per year since 1999,⁴⁵ but in recent years has not met its target for planned evaluations. The ROAR data shows 65% (2001) and 71% (2002) of evaluations were implemented according to plan. The reasons for partial achievement often have to do with project, country, or international contexts – the timing of the evaluation is simply not appropriate. Budget cuts, however, also affected the ability to meet targets as long as evaluations were funded through project budgets. The Unit must often prioritise among the projects that are candidates for evaluations. For example, of the 31 projects due for an evaluation in 2003, the EU prioritised 15 because of capacity issues. Insufficient resources and capacity, therefore, limit UNCDF’s ability to be in full compliance with its evaluation policy of ensuring mid-term and final evaluations for all projects with budgets of over US\$1 million. The Unit’s database indicates that some 43 projects closed without mid-term evaluations, and 25 without final evaluations.⁴⁶

⁴³ ITAD, Evaluation of the UNCDF, Synthesis Report, August 1999, p. 50

⁴⁴ Note that i2003 is the first year that the Unit has its own budget to manage evaluations and other learning and operations support activities. In the past, evaluations were financed from project budgets.

⁴⁵ Evaluation Results 1999, 2000, 2001 and ROAR 2002: These indicated: 10 in 1999, 16 in 2000, 15 in 2001, and 15 in 2002. The EU Management Plan projects 15 evaluations for 2003.

⁴⁶ Based on cumulative data for all projects, including those with start dates prior to 1990.

In 2001, as part of its efforts to identify the types of improvements that need to be made in the performance of the evaluation function, UNCDF introduced the practice of conducting meta-evaluations (i.e. evaluation of evaluations), using an in-house survey tool to assess 48 evaluation 'standards'. As evidenced in more recent plans and reports, the practice has continued, although the Unit has not attained its goal of meta-evaluating all evaluations conducted in a given year.

The Unit works with PMs and project staff to develop Terms of Reference for Evaluations. In several documents, there is evidence that they have revised guidelines for TORs and mid-term evaluations, but these guidelines are not easily accessible to UNCDF staff through the Intranet, and the Programme Operations Manual (1997) appears to be the sole source of direction on the expectations for TORs and evaluation reports. The IIA team's portfolio review also revealed a lack of standard format and content for evaluation reports.

Since 1999 the Unit has produced annual Evaluation Results Reports – these provide a more in-depth look at UNCDF performance on the ground through a summary and analysis of project evaluations that have taken place in the past year. Interviews support the perception that the EU is a major contributor to project quality control and corporate memory for significant project results.

Performance Assessment

The EU has also spearheaded UNCDF's efforts to implement RBM and report on its performance. It contributed to the development of the corporate SRF in 2000, which is currently being updated for 2005-2007. The EU has trained staff on results-based planning and reporting, and has led the effort in developing the methodology for and preparing the ROAR for 2000-2002, which is presented annually to the Executive Board. Three ROARs have been presented thus far, and have been praised as 'a model for other UN agencies.' From 2004 (i.e. ROAR 2003) EU will hand over the responsibility for preparation of the ROAR to the Operational Units in the interests of institutionalising results-based management and making the ROAR a more useful and applied management tool. EU will retain a support and verification role.

Learning

The EU has attempted to help UNCDF become a knowledge-based organisation that learns from its work, but the results are less than convincing. Despite some concrete improvements in creating an evaluation culture, evidenced by a good appreciation of the evaluation function in the agency, lessons learned are said to be rarely used for future project formulation, and some question the need for such a process which appears to be used by very few professionals.

"Project evaluations may be useful in theory but are not sufficiently "owned" and taken on board by the Operational Units to make them truly useful as a learning tool." (IIA staff survey respondent)

The *Evaluation Results Report for 2002* concludes that although some lessons have been learned from the past, UNCDF could be drawing on lessons more systematically and that greater learning could occur in and between projects. The Microfinance PIA confirms this and recommends that UNCDF's capacity as a learning organisation should be enhanced. (Microfinance PIA, p. 37)

Clearly, evaluation's contribution to learning depends on the use of evaluations. UNCDF has recognised this in its *Evaluation Guidelines 2000*. In a diagram on the 'Use of Evaluation Findings', it is clear that findings are intended to feed into project operations, new project programming, national policy, UNCDF policy refinement, and the international debate on decentralisation and microfinance (UNCDF Evaluation Guidelines, July 2000).

Although more than 80% of IIA survey respondents agree that UNCDF project evaluations are useful, some stakeholders point out that they require greater follow through and ownership by project teams. To increase the support for evaluation follow-up, the EU developed an 'evaluation follow-up matrix', but interviews indicate that most PMs do not use the instrument for lack of time. It is unclear whether programme and project management are held accountable (through the individual work planning and performance review process) for following up on evaluation results.

Furthermore, some of the processes and tools used for facilitating learning from evaluation may need to be re-assessed. The annual systematic reviews of evaluations (Evaluation Results Reports), conducted by external consultants, are an indicator of the value placed on learning within UNCDF. However, as one of the authors in 2002 pointed out, the approach to conducting the review of evaluations could provide a better platform for learning if staff and possibly others were involved (Analytic Review of UNCDF Evaluations, p. 36).

"We need to separate the 'audit role' of the independent mission, from the 'learning' role, which would entail much more involvement of both operations unit staff and project teams, and less focus on one-off missions, and more on research processes." (IIA survey respondent)

The learning agenda has been, admittedly, a tall order for the Unit in a time of resource scarcity. Some of the shortcomings in achieving results in this area can be further explained by the following factors: a) the EU has focused its attention on doing evaluations rather than extracting and disseminating lessons learned; b) there is some tension reported between the EU and the programme units as to the rationale for allocating time and efforts to developing lessons learned precisely at a time when UNCDF is experiencing a rationalisation of its resources; and c) the monitoring and evaluation systems (M&E) on the ground still remain weak.

In such a context, the EU made some decisions with respect to its future concentration of efforts. The EU *Functional Analysis* and workplan indicate that, given the added responsibility of the EU to manage the IIA in 2003-2004, and the very drastic staff cuts, it will focus its attention on project evaluations rather than on learning. As the ROAR process becomes automated and handed over to the Operational Units, and the IIA is completed, the EU will be able to refocus efforts on evaluation clients in operational units, both in the field and HQ, specifically on the learning agenda. This shift in focus is clearly articulated in the 2004 EU Plan.

5.9 Knowledge Management

Knowledge management is commonly defined as *"the process of capturing the collective knowledge of the organisation, analysing it and transforming it into easily recognisable forms for mass consumption and communicating the results to the organisation by means of readily available vehicles."* (Knowledge Management at the UNCDF, 2002, p. 6)

Generating, using and managing knowledge as well as maintaining a learning culture are essential functions for an organisation like UNCDF for at least two reasons. First, as was put forward in the analysis of UNCDF's innovativeness, the Fund is praised for its analytical thinking and creative approaches to local governance and microfinance issues. This cannot be sustained in the absence of a learning culture. Second, since UNCDF projects are implemented with a view to being replicated by donor agencies or other stakeholders, it is essential that lessons learned from practical experiences are shared appropriately, internally and externally, so that they can be transferred to future projects.

Finding 40: In spite of recent efforts to manage knowledge in a more effective way, UNCDF requires better approaches to do so in order to fulfil its mission more adequately.

UNCDF is well aware of the importance of managing knowledge effectively and should be commended for several attempts to address this issue already put forward in the *UNCDF 2000 Action Plan*. Since then, UNCDF has commissioned a study, *Knowledge Management at the UNCDF, 2002* to set the stage for a knowledge management strategy; MFU has also appointed staff with the responsibility to identify, collect and disseminate knowledge in its programme units; it has invested in the development of publications capturing best practices (such as *SUM: A Guide to Best Practices; Increasing Access and Benefits for Women; Supporting Women's Livelihood*; and the *LGU Best Practices Report*); and finally, it has developed mission reports and evaluation results reports, both aimed at increasing the sharing of information.

In spite of these efforts, evidence drawn from UNCDF reports and our observations suggest that UNCDF still falls short in managing the knowledge that it produces. The study *Knowledge Management at UNCDF, 2002* identified both supporting and limiting factors to knowledge management at UNCDF. On a positive note, it concluded that the existence of a supportive culture in which successes and failures were shared in an open way was a strength of UNCDF.

It also identified several weaknesses in the system, such as the absence of clear roles and responsibilities for managing knowledge, the lack of incentives, the absence of a strategy and of an organising entity to manage knowledge, poor management of staff transition, the absence of standard mission report formats, and the limited use of Evaluation Results reports. In its review of knowledge management in UNCDF, the *Functional Analysis of UNCDF* (September 2002) concluded that, in the absence of an underlying epistemology to condition the generation of new knowledge, UNCDF is not doing itself justice in conveying its knowledge to the external world.

Our own assessment concurs with these findings. In spite of some positive responses to the survey with respect to knowledge management (84% of respondents agree that best practices and lessons learned are used to improve the work of the UN), our observation at HQ, in the field as well as the results of the PIA, indicate that UNCDF could be more effective if it did this more systematically.

With respect to the quality of the information and knowledge generated by UNCDF⁴⁷, interviews with UNCDF stakeholders are positive overall. Local partners as well as donor agencies working in the sector appreciate the quality of these publications and, as one respondent mentioned, *"The information that the programmes distil through publication is first rate and well designed. It is also practical."* However, there is little indication that the lessons drawn from available publications are being incorporated into future UNCDF projects.

The PIAs as well as the field visit to Benin point to the need for UNCDF to share knowledge better in order to leverage its impacts. For example, in microfinance it is suggested that UNCDF could share more widely the success of its MicroStart projects, the experiences of the project in Mongolia, the Zakoura project in Morocco, and the EBS project in Kenya, among others, in order to *"promote more sector-wide collaboration among key actors nationally and internationally,"* (Microfinance PIA, p.33) Furthermore, the PIA report recognises the leadership exercised by UNCDF to establish the national policy for microfinance in Malawi, but suggests that UNCDF could have leveraged its support to the sector by disseminating in Malawi its success in Kenya.

⁴⁷ For this report, 'information' is relevant qualitative and quantitative data used to inform decision-making. 'Knowledge' is information rooted in context and drawn from personal (individual) experience.

The situation holds true inside the projects themselves. Interviews with project staff and MFIs in Benin suggest that, by better managing the lessons learned from its MFI clients, the impact and the sustainability of the MFIs results could be improved. The PIA report on microfinance comes to a similar finding and concludes that, *“the effects of this omission (learning from clients) includes low customer retention rates which delay the path towards institutional sustainability and reduce client impact.”* (Microfinance PIA, p.33) These observations illustrate the absence of a culture and incentives for sharing what the organisation knows, especially from projects that have worked and those that haven't.

The operational units have taken steps to improve in this area. LGU, for example, responded to the KM report by strengthening its knowledge management function, particularly its knowledge-sharing with external stakeholders. Efforts have included organising meetings and workshops, presenting papers at conferences, and publishing concept papers. For example, in 2003 it coordinated two regional meetings for Asia and Africa on local governance and decentralisation. Internally, the Unit has integrated substantive components into the weekly management meetings and has periodically scheduled special-focus meetings to address topical issues (such as private sector development).

We recognise that knowledge management at UNCDF is inextricably linked to the practices and systems of UNDP. For example, the LGU interacts with several UNDP practice areas (e.g., Democratic Governance). Likewise, as a service provider to UNDP, MFU uses UNDP's Intranet and discussion fora as much as possible, often more than it uses UNCDF's own systems.

We would encourage UNCDF to pursue its analysis of the generation and management of its knowledge in order to ensure greater use. This may require improving the incentives to manage the part of knowledge that is internal to UNCDF and part of the organisation's assets.

Finding 41: UNCDF has implemented a number of stand-alone information systems, but these have not improved its efficiency in managing knowledge and information. Although Atlas is expected to integrate these and resolve some shortcomings in operational knowledge management, it is not the only tool available.

One complaint about the lack of efficiency in managing knowledge in UNCDF is the existence of parallel systems throughout the agency. For example, when it comes to information management, each Unit has developed systems in a way that best suits its needs. UNCDF acted quickly on the recommendation of the external evaluation to develop an MIS and, to its credit, developed the system in a participatory manner. This resulted in some delays, but the initiative is almost fully operational (15 of 20 targeted project teams were using it for reporting by the end of 2002 and it is accessible through the Intranet). The challenge will be to develop the habit of using the system. This MIS, however, is focused on local governance. MFU, on the other hand, uses the MicroStart on-line database and other approaches to manage information on its portfolio. Elements of a corporate MIS were also designed, but the IIA team did not see evidence of an overall, corporate system in place, probably due to Atlas taking over as a priority in that regard.

In the absence of a corporate system to manage this information, the organisation has sacrificed efficiency in the efforts required to ensure that information and knowledge from all of these places feeds into and facilitates decision-making and reporting at the corporate level. (In 2002, the compilation of the ROAR is an example of a process where little efficiency gains have been made, as noted in the EU Management Plan 2003. However, UNCDF staff reports that with the automation of the ROAR data analysis process in 2003, there are signs of significant efficiency gains. Although UNCDF has responded to the recommendation to develop MIS, problems with information and knowledge management persist.

A related issue, noted in the 1999 external evaluation, is the way that documents are stored and shared with staff. Making information accessible to headquarters and field staff is a challenge for any international organisation. This is especially critical in the context of greater decentralisation. The Intranet and its portals are potential tools, but they still seem to be underutilised as a resource for sharing information. Project documentation, for example, is not consistently available through the Intranet platform. There are some documents that appear only to be in paper format, with no electronic versions (for example, the gender mainstreaming policy and guidelines). The Communications Strategy for 2004-2007 begins to address this, through upgrades and training on more strategic uses of the ICT tools at UNCDF's disposal.

Our attempts to obtain data for the IIA were frustrated at times, as documents were not well organised or well maintained. Staff interviews at HQ indicate that they tend to develop their own parallel systems for managing the information they need rather than relying on the efficiency of a central system: *"Sometimes we feel that there are too many attempts or people trying to set up systems and nothing gets used...too many reports and tools...it is a symptomatic of techies."* (IIA interview quote)

An overall impression of the IIA team is that UNCDF may be suffering from system overload – too many systems being put in place at the same time, possibly without sufficient support, incentives, and motivation for their use. And it is only with the effective and efficient use of these systems that the problems can be addressed.

5.10 Communication and Branding

A clear concern for any organisation is its ability to articulate its mission and niche to its stakeholders, and to make itself easily recognisable from other agencies in the same field. For UNCDF the challenge is even greater. As a small centralised agency with a very limited number of staff posted in LDCs, UNCDF gets lost in a field of numerous bilateral and multilateral agencies. Similarly, at HQ, in the large bureaucracy of the UN family, it needs to reaffirm its presence and show its distinctiveness. In a routine check of UN reports and UN and UNDP family documents, the IIA team noticed that the word "UNCDF" is rarely mentioned. As the need for mobilising resources increases, UNCDF has taken some actions to make itself better known to the outside world. In this section we will review some of the communication and branding issues.

Finding 42: UNCDF has developed a variety of effective communication materials to articulate its identity to the external world.

UNCDF recognises the importance of communicating what it is, what it does and its added value. Following the 1999 independent external evaluation conducted by ITAD, UNCDF wrote a Communication and Advocacy Strategy (covering 1999-2002) and recently drafted a new Communication and Advocacy Strategy for 2004-2006.

Over the past four years, UNCDF has published and developed numerous documents targeting a wide range of stakeholders (including universities, central governments, donor representatives in New York and various capital cities, local governments, the media, partner agencies and internal UNCDF staff) and has used multiple media. Several articles were written on UNCDF operations in Madagascar, Bhutan, Niger and Mozambique in magazines such as Choice, UNDP News, and NewsFront. UNCDF produced three Country Programme Documentary Videos, and published various publications and pamphlets such as *Empowering the Poor*, *Local Governance for Poverty Reduction*, *Economic Development of Local Governance Guidelines*, *Supporting Women's Livelihoods*, *Increasing Access and Benefits for Women*, *Innovating from Experience*, and *Distance Learning Programmes*. The Communication Unit has also continued to produce calendars and collaborated on the dissemination of the results of the Evaluation Unit.

Our review of these communication and advocacy products is very positive. They are of high quality, well-presented, and reflect UNCDF's intellectual contribution. Several stakeholders in the field commented on the professionalism of UNCDF publications, arguing that many of these polished, professional documents can be presented to any audience. UNCDF is to be commended for these excellent products from a one-person unit.

The draft 2004-2006 Communication and Advocacy Strategy seeks even greater quality and focus, and proposes the establishment of a Communications, Information and Public Affairs Unit to coordinate and be responsible for all related activities within UNCDF. Actions to create the unit were taken in early 2004.

Finding 43: In spite of ongoing communication efforts, the branding of the Fund remains problematic and does not do justice to the quality of the work undertaken.

Several significant elements limit UNCDF's capacity to express clearly its identity. First, given its structural relationship with UNDP, UNCDF is rarely visible in the field, and this limits its capacity to showcase its results and spread the word about the nature of its business. Several LDC government officials working with UNCDF and direct beneficiaries involved in UNCDF projects could not distinguish UNCDF from its sister agency UNDP. Ambassadors of LDCs reported that in their countries, the blurring of these two agencies has a negative effect on UNCDF's work. As one stakeholder indicated, echoing several similar statements, *"UNCDF has an identity problem that, in the long run, will damage its ability to be seen as a strong organisation."*

Among other concerns expressed about UNCDF's identity, was the issue of its name, which, according to many, does not adequately reflect its mission and programming axis. Some of the microfinance institutions (MFIs) supported by UNCDF and contacted in Benin could not articulate the mission or describe UNCDF's orientation, or distinguish it from UNDP. Our visits in Benin and Niger showed that beneficiaries identify their projects with their project officers rather than with UNCDF. The only organisation mentioned as part of the project was UNDP, for the simple reason that they see the UNDP logo on vehicles, and the UNDP flag and other symbols.

"In the field, we see UNDP vehicles, UNDP logos, UNDP signs in front of buildings and although UNCDF may be behind the good work being done we attribute these results to UNDP." (interview quote)

In Madagascar and Niger, government level organisations had limited knowledge of UNCDF. Some knew of UNCDF, but few could establish the difference between UNCDF and UNDP. However, a couple of government officials who had worked directly with UNCDF LDP projects were able to identify the niche of UNCDF.

The IIA field visits revealed that embassies and donors do not have a deep knowledge of UNCDF. At best, they were able to locate it inside the UNDP umbrella, but the majority of respondents interviewed understood UNCDF to be a type of 'trust fund'. In UNDP country offices, at the Resident Representative level, there is clear understanding of the mission and objectives of UNCDF. Beyond that, however, UNDP employees are often unclear as to the exact orientation of UNCDF and have reported in interviews that *"UNCDF does similar projects as UNDP."* This is of concern because UNDP country staff are largely responsible for UNCDF's branding in the field.

5.11 UNCDF Structure

The operational structure refers to the way the Fund organises its people, its processes, its activities and flow of work to accomplish its mission. Since the 1999 independent external evaluation conducted by ITAD, UNCDF has made several changes to its operational structure, some at HQ, and a significant attempt to decentralise part of its programming. In this section we review the appropriateness of UNCDF's structure in light of the existing context and issues that still deserve attention.

Finding 44: The ongoing decentralisation is an appropriate strategy for UNCDF programming.

The 1999 independent external evaluation made several references to the need to increase UNCDF's presence in the field. This recommendation was and is still aligned with the overall trends in the development field in which donors and NGOs are establishing stronger links with country clients with a view to better responding to their needs. UNCDF has taken seriously the challenge of decentralising its programming operations and has done so using slightly different approaches in LGU and MFU. The present configuration is illustrated in the UNCDF organigram, which is included in Volume II.

LGU has opted for a deconcentrated regional model of Regional Technical Advisors (RTAs). There are 3 Regional Technical Advisors (one based in Senegal, one in South Africa, and another in Thailand). The regional configuration—Western Africa, Eastern and Southern Africa, and Asia—was adopted in order to better serve the programme countries that make up the majority of the LG portfolio and to structurally align with UNDP SURFs⁴⁸ and Regional Bureaus. A fourth cluster manages projects from HQ in countries that do not fit into the regional configuration (e.g., Nicaragua, Yemen, and Haiti).

MFU has opted for two approaches to the decentralisation process. On the one hand they have, like LGU, appointed two senior staff in the field, called Senior Technical Managers, who, in addition to providing advice, have responsibilities for managing projects. Furthermore, MFU is also piloting a decentralised unit—Microfinance Counter for West Africa—that provides financial and institutional support to UNDP Country Offices and implements the MFU programme “Guichet Microfinance pour l’Afrique de l’Ouest.” The 2003 management documents and plans of both LGU and MFU indicate their intentions to pursue the decentralisation process.⁴⁹

MFU has indicated its intent to decentralise with regional advisors in Senegal (for West and Central Africa) and in Johannesburg (for South and West Africa) for its own investments and for UNDP investments in collaboration with the UNDP Regional Bureau for Africa. This is expected to be more cost effective. The unit also believes that this will make it easier to mobilise non-core resources because of increased contacts with the (decentralised) donors and other partners and a better understanding of the market. MFU will also explore partnerships with the other UNDP Regional Bureaus. Part of the costs are expected to be paid by the Regional Bureaus, and additional income is expected from fees and non-core funding. The unit intends to investigate whether other donors are interested in their decentralised services, given that many donors do not have decentralised expertise on the ground. In that way MFU could expand its staff on the ground.

⁴⁸ Geographically organized Sub-Regional Resource Facilities (SURFs) work for specific clusters of country offices, and have advisory and research capacity to address substantive issues in greater depth. (Source: UNDP web site)

⁴⁹ The Functional Review of Local Governance, (2003), MFU Management Plan (2003), and LGU Management Plan (2003) demonstrate actions to be taken towards decentralisation.

In our view, this trend is positive; the testing and piloting of these various approaches have led to good results. Interviews in the field allowed the IIA team to understand the strengths of this structure, which addressed some of the problems encountered by the country clients. First, decentralisation addresses the issue of proximity to the client and therefore increases the understanding of the policy context. The two-year experience of LGU with the RTAs, and of MFU with its Technical Managers, are considered essential to the relevance of the programming activities. The Local Governance PIA shows a correlation between presence and level of UNCDF staff in a country, profile and visibility in terms of the role they assume, and the impact and replication achieved as a result. They also indicate that the level of staffing needs to respond to the context – level and complexity of the change required, stage of programme, and intensity and nature of intervention. (Local Governance PIA, p. 83-84)

“Through RTAs UNCDF is now in a better position to appreciate the trends, the knowledge and the idea of regional local governance. It is crucial that they acquire that understanding to forge more relevant projects for the countries.” (IIA interview quote)

The MFU decentralisation pilot is praised for having the *“ability to respond rapidly to the needs of the region and to be a visible presence able to disseminate best practices.”* (IIA interview quote)

These efforts have also led UNCDF to provide closer project supervision, an issue that had been raised by programme countries and, in addition to increasing understanding of local issues, decentralisation has allowed UNCDF to be more visible, and nearer to its client system. Finally, decentralisation has provided some financial efficiency gains, by diminishing the costs of travel.

Chief Technical Advisors (CTA) lie at the heart of UNCDF’s work since they are responsible for overseeing the day-to-day implementation of projects on the ground. Interviews with staff at HQ and in the field reveals that their role vis-à-vis other staff (POs, PMs, TAs, RTAs) is not always clear in the structure and in the decentralisation strategy.

From the perspective of the IIA Team, UNCDF’s programming decentralisation should continue, as it supports global trends, the demands of the countries, and promotes UNCDF. The issue now is to understand which of these models is more likely to support the generation of adequate resources for UNCDF. Whatever strategy UNCDF adopts to decentralise its operations, it should be implemented in concert with the resource mobilisation strategy and financial viability strategies. We would also argue that UNCDF’s efforts to explore the costs and benefits of these various models decentralisation should be coordinated rather than conducted independently by each unit.

Finding 45: In spite of some changes, UNCDF’s structure still presents challenges with respect to internal communication and coordination between HQ and the field and within HQ.

UNCDF’s relatively autonomous structure has allowed the organisation to create an organisational culture that attracts quality staff. UNCDF continues to be a flat organisation with little hierarchy. It has made numerous changes to its operational structure with a view to improving the flow of work while keeping costs at reasonable levels. Our review of these changes and the feedback received suggest that most of these changes were for the better. However, the following ongoing issues were raised during the IIA data collection and continue to be irritants to organisational performance.

First, there are still numerous complaints with respect to the coordination and communication between HQ and the field. In June 2002 during an MIS Training Workshop in Tanzania, a discussion of the Field–HQ relationship took place with several POs. This discussion highlighted a number of areas of dissatisfaction which were very similar to those that emerged in our field visits to Niger, Madagascar, and Benin and to the comments in the IIA survey responses. Essentially there are three areas of dissatisfaction. The first relates to field officers feeling that they do not understand the rules, regulations and policies that relate to UNCDF projects, and to the ambiguity that continues to exist with respect to UNDP and UNCDF rules. Secondly, field staff feel that they are lacking some important project information (on work planning, projects results, lessons learned). Thirdly, interviews with POs and survey responses continue to flag the difficulty in having a matrixed reporting relationship, with the local UNDP Resident Representative and a UNCDF HQ PM.

“Reporting arrangements vis-à-vis day to day work is complicated, i.e. POs report to UNDP CO staff while on a daily basis respond mainly to UNCDF HQ based Programme Manager. Assessment of performance is thus ineffective.” (IIA staff survey quote)

“Regarding clear lines of communication, the situation could be improved. The issue of POs supervision and channels of communication between PO, PM, and TA, and, moreover representativeness of RR in country versus UNCDF visiting mission from HQ can be problematic at times.” (IIA staff survey quote)

Concerns were also raised about the deployment of Regional and HQ personnel, more specifically with the definition of their roles and responsibilities. The LGU Regional and HQ personnel configuration includes a) three RTAs (2 in Africa, 1 in Asia); b) the RTAs form part of three regional clusters that have a full technical staff complement composed of TA, PM and RTAs c) a fourth cluster is for projects that lie outside of the regional configuration, which are managed by the Deputy Director, who is also a Senior PM. The unit has a relatively flat structure with all staff reporting directly to the Director. Some respondents feel that there is a duplication of roles between RTAs and TAs. They see the need for increased roles and responsibilities of RTAs – in favour of more devolution of responsibilities. The IIA team sensed some frustration from the RTAs who miss opportunities to be involved in the thinking that goes on at HQ, and miss having the necessary decision-making authority to *“make change happen fast enough.”* (IIA interview quote) Our document review and interviews also highlight the need to further clarify the role and empower the CTAs in UNCDF’s structure. The CTAs bring a wealth of local knowledge, as well as technical expertise, that complements TA and RTA inputs to the project. In some cases, UNCDF has not used this combination of staff in the most effective manner.

Finally, other structural issues were reported within HQ. The two programming units have been referred to as silos, working quasi-independently from one another and need much more coordination and communication than presently exists.

“There is limited demand between the two operational units which is not always conducive to organisational unity and effectiveness.” (IIA staff survey quote)

Although the IIA team did not conduct a full review of the appropriateness of the existing structure⁵⁰, that would have required job analyses, review of job descriptions and work distribution, the interviews with the staff at HQ suggest some discontent with respect to the implementation of the structure. For some, the existing structure is not conducive to appropriate communication, problem solving around project issues and does not support the learning culture that UNCDF strives to implement.

5.12 Financial and Human Resources Management

At the time of the IIA, the financial and human resources management systems at UNCDF were being renewed, so it may be premature to assess their relevance and adequacy. Nevertheless, it is worth noting some observations that emerged from the data collected through the IIA survey, the UNDP Global Staff Survey and interviews in the field and at HQ.

Human Resources Management

Human resources management refers to the ability of UNCDF to attract, retain, develop and reward its human resources with a view to optimizing their performance, in support of the organisation's strategy. The UNCDF operates within the regulations of UNDP human resources management and has limited scope for implementing changes.

Although the IIA survey reports that close to 40% of respondents are unsatisfied with the way human resources are managed at UNCDF, the degree of satisfaction of UNCDF staff with respect to various items of HR management is consistently higher than for all other UNDP staff (for supervision, HR management, empowerment, , human resources policy). In addition, many of the areas of dissatisfaction are related to a UNDP or UN policies that UNCDF cannot change.

In the *UNDP Global Staff Survey (2002)* certain aspects of human resources management were cited as well-managed, including opportunities for learning on the job or outside the job and empowering supervision⁵¹. However, two aspects of human resources management appear to be problematic: conflict resolution (43% of UNCDF staff were unsatisfied in 2002, and reward for performance where only 8% (2001) and 28% (2002)) of UNCDF staff express some satisfaction. The greatest level of dissatisfaction on a number of HR issues comes from the field.

Another area of frustration is the allocation of resources (time, effort, etc.) between UNCDF and UNDP to manage human resources. The *2002 Functional Analysis* demonstrates that although 7 out of 10 of the key tasks of human resources management show UNCDF as a key decision-maker, (with close to 2/3 of total time on these tasks performed by UNCDF, the rest being done by UNDP)⁵², it is UNDP who gets paid for the service rendered through the global management fee. The *Functional Analysis* recommended that an MoU between UNCDF and UNDP be completed to improve the system of human resources management.

At the time of this study, interviews with the HR Specialist of UNCDF indicated that the MoU had been developed, but not yet introduced. There were also strong hopes that the introduction of Atlas (ongoing) would improve UNCDF's human resources management.

⁵⁰ This was beyond the Terms of Reference of the IIA team.

⁵¹ 88% of UNCDF staff felt that their job made good use of their skills, compared to 73% in UNDP.

⁵² These tasks include recruitment, JPO matters, secondment of staff, consultant and special service agreements, entitlement management advice, career management; policy, organisational development and compensation; HR information analysis; learning and training, office administration

Financial Management

In the area of financial management, the IIA team was not able to review the adequacy of UNCDF systems since the whole financial system was being revised, with implementation commencing in January 2004. The new financial system is meant to address some of the bottlenecks identified and reported during the IIA data collection. These included:

- Lack of interface between accounting and project management, more specifically, as reported in interviews, discrepancies in financial data and the information that each of the programme units maintain.
- Inability to provide timely financial information to key stakeholders, particularly in the field
- Variance in project expenditure reporting as understood by the finance unit and the programme units
- Alignment between the financial data emerging from the direct project reporting to the POs and PMs and the financial data that comes from UNCDF HQ through other channels

As mentioned above, UNCDF has high hopes for the results of the Atlas system which aims at improving planning of project expenditures based on a more accurate financial planning.

5.13 Partnerships

In order to carry out its mission and mandate, UNCDF links with various partners, most often in the field but also at HQ and in Washington, and at academic institutions worldwide. In reviewing the documentation and interview data on these relationships, the IIA team clustered them into four broad categories (delivery partnerships, knowledge partnerships, sector partnerships, and resource mobilisation partnerships) – although no such typology formally exists within UNCDF.

The first, largest category of partnerships are those created in the field to support the work of UNCDF and with a view to leveraging more resources for a project, scaling up an existing project, or collaborating on execution. UNCDF's key partners in this category are UN agencies, donors, other bilateral agencies, and sometimes local organisations. Within this category, UNCDF's partnership with UNDP was important enough to deserve our focused assessment.

A second type of partnership is the range of relationships, individual or institutional, that UNCDF creates and sustains to generate ideas, remain intellectually active in its field of programming, and lead the thinking in programming sectors. These 'partnerships for building knowledge'⁵³ have been established with various universities around the world, some of which the IIA team was able to interview, and bodies such as the Consultative Group to Assist the Poor (CGAP), the Asian Development Bank, the African Development Bank, etc.

A third category of partnerships includes the relationships that UNCDF may establish with a view to leading or influencing change in a given programming sector. Evidence of such partnerships was reported in the PIA reports, in particular when UNCDF plays a coordinating or networking role amongst other institutions or agencies with the objective of promoting ideas or creating a change in a sector.

A fourth category of partnerships are those forged to mobilise resources, at this stage, primarily the donor agencies. The issues emerging from these partnerships have been addressed in the financial viability section of this report.

⁵³ Defined also as «partnerships for knowledge sharing» in the *LG Unit Management Plan (2003)*

This section reviews the appropriateness of these partnerships in helping UNCDF achieve its goals and objectives.

Finding 46: With respect to partnerships established for delivery of programmes and projects, UNCDF has increased the number of partnerships with various agencies and the overall assessment of these partnerships is positive.

Since the last external evaluation, one of UNCDF's objectives has been to maximise its comparative advantage through strengthened and expanded strategic partnerships. Since 2000, the number of programmes, projects and joint activities with replication partners has increased: In 2001 UNCDF had two partnerships and two signed MoUs; in 2002 it targeted four partnerships and one signed MoU and in 2003 was able to implement eight partnerships and one signed MoU.

Some of UNCDF's most notable recent partnership activities include:

- The two MoUs that were signed with UNDP, covering UNCDF's two programme areas
- UNCDF-MFU and the UNDP Regional Bureau for Africa provided a loan to support the Africa Microfinance Fund, the first equity fund to support microfinance in Africa,
- UNCDF-LGU provided technical support for a World Bank initiative, Low-Income Countries Under Stress (LICUS),
- UNCDF and CGAP working together on microfinance training, knowledge services, and UNDP portfolio review,
- UNCDF and the Belgium Survival Fund signed a strategic framework for programme cooperation, and
- UNCDF, the European Union and the African Development Foundation worked together on a formulation mission for the World Bank.

UNCDF has forged close partnerships with governments and donor agencies, although closer partnerships could be established with civil society. The overall data is positive (from the PIAs, our interviews with donors, and field visits to Niger, Madagascar and Benin). In addition, Section 4.2.3 of this report, which addresses policy impact and replication, is also a tribute to UNCDF's results in partnering with donors and governments to leverage their presence in the field.

IIA survey respondents were positive with respect to the quality and the added value of UNCDF partnerships – 83% agreed that UNCDF has developed mutually beneficial partnerships with international agencies; 75% felt that UNCDF managed its partnerships efficiently; and 66% think that UNCDF is sought after as a partner because of its distinctiveness in the field.

Finding 47: UNCDF's partnership with UNDP is important and profitable to both organisations. However, to be more effective, the partnership requires clarification of institutional roles and responsibilities.

Documents reviewed as part of the IIA demonstrate the strong links that exist between UNCDF and UNDP. The 1999 independent external evaluation and the PIAs both suggested that UNCDF and UNDP strengthen their relationship to increase their joint performance. The Microfinance PIA stresses the importance of UNCDF's alliance with UN agencies (and UNDP in particular) in terms of achieving policy impact and replication (Microfinance PIA, p. 31) and showcases the multiple links in projects developed by UNCDF and UNDP in the MicroStart and MicroSave initiatives. The PIA even suggests the formation of a UNCDF/UNDP Group for marketing purposes to yield better results. The advantages of a coordinated UNCDF/UNDP entity to interface with stakeholders is also noted in a 2003 document, *Strengthening Synergies and partnerships between UNDP, UNIFEM, UNCDF and UNV: Background Note for GRRM Working Group*.

The UNCDF–UNDP partnership is important to both agencies. UNCDF complements the programmes and mandates of UNDP through its activities and expertise in microfinance and local governance. Similarly, as reported in the field and the PIAs, the ultimate goals of UNCDF can be reached more effectively if they are reinforced by UNDP’s upstream activities to support national goals and poverty reduction strategies, and influence policy. A summary finding from the Microfinance PIA states that UNCDF could consolidate its niche (in microfinance) as a result of the sector tendency of increasing number of informed decision makers. This tendency eases upstream work, “where UNCDF has a comparative advantage because of its UN status and ties to the UNDP global network.” (Microfinance PIA, p.37) Data from the *UNDP Global Staff Survey* indicate that over 90% of UNCDF staff in 2001 and 2002 felt that their office actively supports UNDP’s goals.

Other sources, however, point to the need for greater clarification of the institutional contributions, roles and responsibilities of UNCDF and UNDP. This need was expressed most forcefully in the field, where both UNCDF staff and donors report a lack of understanding of UNDP and UNCDF differences and their respective added value.

“We have been able to have an MoU for our programmes but we are in real need of clarifying how we can be better instrumental to help each other fulfil its mandate.” (IIA interview quote)

The document *Strengthening Synergies and Partnerships between UNDP, UNIFEM, UNCDF and UNV: Background Note for GRRM Working Group* (p. 1) argues for an increase in synergies between the two agencies which would allow the UN to gain effectiveness in fighting poverty. If UNDP made “greater use of the substantive capacity of its associated funds and programmes particularly at the country and regional levels....The range of expertise contained in the funds and programmes could significantly improve capacity to respond effectively to country needs if the Resident Representatives more regularly and consistently involved and mobilised resources for associated funds to support the planning and implementation of programmes, based on their areas of comparative advantage.” The paper brings forward several ideas to increase the dialogue, including joint programme development and formulation, sharing of expertise and knowledge, clarity on respective roles and responsibilities, development of incentives for collaboration, clarity on principles of cost recovery for services provided.

From the perspective of the IIA team, a more explicit UNDP strategy is required – one that would define the roles of its associated funds to fulfil its broad mandate. Discussions with the Administrator of UNDP highlighted some missed opportunities for a stronger partnership between UNCDF and UNDP. These were primarily in large initiatives geared at reaching the MDGs – such as access to water for municipalities, and financing of SMEs and financing of the private sector. Indeed, UNCDF could play a significant role in private sector development initiative that is gaining momentum in UNDP. Given the rethinking going on within the UN system with respect to the various UN organisations and their roles, functions and operations, there is an opportunity for UNCDF to enhance the effectiveness of its partnership with UNDP. In this regard, UNDP is thinking about the type of support it will need as the lead UN agency in supporting poverty reduction through the use of development assistance. UNCDF must consider where it will fit and whether its mandate is appropriate.

Finding 48: UNCDF has developed constructive partnerships with academic and research partners and is appreciated as a strong contributor in building knowledge.

Throughout the years, UNCDF has developed partnerships with various universities and institutes worldwide. The IIA team had the opportunity to explore UNCDF partnerships with New York University, the Université de Ouagadougou, the Michelsen Institute and the Université de Paris XII. Some of these relationships were institutional, and some were based on individual collaboration. They were developed to conduct activities such as the review of the *Local Governance for Poverty Reduction: UNCDF/LGU Paper on Poverty*, the 1999 Conference on Decentralisation in Asia, the 2001 Conference on Decentralisation and Local Governance in Africa at the University of the Western Cape in Cape Town; collaboration on specific projects on decentralisation, notably in Niger.

Academic and research partners have collaborated with UNCDF as consultants, and in the organisation of regional conferences on local governance and decentralisation. The partners interviewed were generally very satisfied with their relationships with UNCDF and have a very positive opinion of the organisation. In the field of local governance, UNCDF is described as an important player in policy development and as an organisation capable of influencing national debates. UNCDF is also praised for being a relevant organisation, intervening efficiently in two crucial areas of work, and for remaining flexible in its approach. Finally, academic and research partners described UNCDF as an open and innovative organisation, less self-centred and willing to work in a truly collaborative way.

“UNCDF has been a good partner (...) They have been an active partner in joint efforts for delivering workshops, and always flexible, willing to make changes to activities as the needs for doing so emerge.” (IIA interview quote, university partner)

“I cannot think of any international development agency that has done such interesting and influential work in decentralisation, blending the development of local government with the larger public sector and civil society reforms.” (IIA interview quote, university partner)

In the area of microfinance, UNCDF has a partnership with CGAP (among others) which is also an organisation that generates knowledge and know-how. We visited CGAP and were impressed by the overwhelmingly positive opinion that CGAP has of UNCDF. They described UNCDF as a contributor in leading new ways of engaging in microfinance activities, and as a good stimulant to the thinking in the sector through innovative training.

UNCDF is clearly seen by the universities that were surveyed as an agency that has the potential for leading action research on local governance and microfinance. UNCDF is currently forging an initiative with the Institute of Social Studies (ISS) in The Hague where the two organisations are developing a partnership for knowledge through which UNCDF programme officers and HQ staff, together with researchers from ISS will systematically evaluate and engage in knowledge production so as to improve the performance of Local Development Programmes.

Finding 49: The relevance of UNCDF partnerships could be further enhanced if they fit into a broader partnership strategy.

UNCDF has worked well with partners and has been able to gain results from its various collaborations. Our interview data as well as the PIAs suggest that UNCDF’s partnerships could be enhanced if they were part of a more focused strategy that would identify, among other things:

- The purpose of the partnerships – UNCDF could explore and expand on the typology of partnerships that it is building, identifying for each category the purpose, the comparative advantage, the targeted results.

- An approach for targeting partners – the Microfinance PIA suggests that UNCDF could enhance the effectiveness of its partnerships if it did some upfront work, prior to the start-up of a project, to identify potential partners. We would call this a partnership mapping, done by the POs in the field and capturing the range of potential partners for either microfinance or local governance, their comparative advantage (technically, financially, and institutionally) to better leverage any given UNCDF intervention. This could also help increase the efficiency of UNCDF, as was pointed out by several in the IIA survey. *“The partnerships could be more efficient if focused on a small number of partners but who are important in the sector we are dealing with.”* (IIA staff survey quote)
- A review mechanism to identify the strengths and weaknesses of existing partnerships and to review results achieved.

6. Conclusion

In concluding this Independent Impact Assessment, the IIA team would like to applaud UNCDF for remaining a very effective organisation that has, by and large, organised its existing portfolio according to the 1995 policy shifts and responded to the recommendations of the 1999 independent external evaluation conducted by ITAD. UNCDF has also contributed to significant results in both microfinance and local governance in poverty reduction, policy impacts, and replication of its projects by donors. Our review confirms that UNCDF's areas of expertise are very much in demand in LDCs and respond to the MDGs as well as to country needs. In fact, LDCs are asking for more of UNCDF's services. UNCDF is praised by the majority of its stakeholders as a flexible partner that is active in developing knowledge, implementing projects, and influencing the orientations of the sectors in which they work. Year after year since 1999 UNCDF has met its results and has been able to deliver the planned activities approved by the Executive Board. Moreover, UNCDF has been creative in remaining a relatively efficient organisation, and achieved a balanced budget in 2003. This success – and it is a success – is due to various factors, including a dedicated and talented team of staff and leaders, innovative thinking, a clear niche, and an ability to match its expertise to the needs of the LDCs. Like many organisations, UNCDF has some limitations that were noted in this report, for example in knowledge management, and communication and branding.

The real issue for UNCDF, however, is the more fundamental question of its financial viability after 2004, which, at the moment, is questionable. In our view, this dilemma is the result of several factors: the mismatch between the niche of UNCDF and international donor funding trends; UNCDF's governance structure, which is not as enabling as it could be to address these viability questions; and UNCDF's role as a UNDP fund, which should be clarified. The Fund is at a critical stage in its life and, as suggested by the former Executive Secretary, would like to address its future actively rather than dying “a slow death.”

7. Recommendations

Recognising the urgency of the situation, the following primary recommendations are addressed to the Executive Board, the Administrator of UNDP and the UNCDF Management Team. The IIA team urges stakeholders to fully take into account these recommendations in the on-going discussions about UNCDF's future. We have grouped the recommendations in broad categories that link to the findings on UNCDF's performance. A set of secondary recommendations, addressing operational and programme-specific issues noted in the report, are included as an Annex in Volume II.

Positioning, Niche, and Relationship to its Key Partner - UNDP

Recommendation 1

The Administrator of UNDP and the UNCDF Management Team should clarify the role and responsibilities of UNCDF within UNDP and its associated Funds. This clarification would be part of a larger strategy undertaken by the UNDP Group that would support both organisations in positioning themselves to tackle the development problems that are part of their respective mandates.

The niche of UNCDF as an agency is very much linked to its partnership and role within the UNDP Group. As noted in this report, the absence of a clear definition of how UNCDF can/could support the organisational goals of UNDP, limits UNCDF's ability to remain viable and does not help UNDP in addressing UNCDF's funding issue. Until now, UNCDF and UNDP have clarified their collaboration only through programming MoUs in microfinance and in local governance. In our view, this is not sufficient, and limits the greater institutional synergy that could emerge from a clearer definition of the role of UNCDF in helping UNDP reach its broad goals. This discussion and clarification are key at this stage in the life of UNCDF – they could allow UNDP to see UNCDF as an even more strategic partner in reaching some of UNDP's goals. The greater clarity on synergies between the two organisations could also enable UNDP to actively mobilise resources for UNCDF.

This organisational strategy between UNCDF and UNDP could include the following points:

- What is expected from the UNDP and its associated Funds (specifically UNCDF) with respect to UNDP's expected results? To what extent should it align with UNDP and its interests/goals? Or, is there an overall framework for the UNDP Group that associated funds should align with?
- Are the mandates and niches of UNDP and its associated Funds (particularly UNCDF) sufficiently robust to support the expected results of UNDP or of the UNDP Group?
- What would be an adequate cost-recovery system for the relationship between UNDP and its associated Funds, particularly UNCDF?

In the context of these strategy discussions, it is critical to address the issue of UNCDF's programme niche (areas of focus/strategic positioning), based on its comparative advantage, the market, its need to access funds, and the interests it shares with UNDP (for example in private sector development). The IIA only begins to identify limitations and possibilities. We recommend that a consultative process be designed in which a broad group of stakeholders beyond UNDP and UNCDF— including donors, programme countries, experts in the subject areas—can contribute in the affirmation, further focusing, or redefining of UNCDF's programme niche. This would ensure that redefinition is anchored in contextual demands and opportunities.

Financial Viability, Resource Mobilisation, and Governance

Recommendation 2

The Senior Management Team of UNCDF should establish a team to review and analyse UNCDF's business model and corporate governance arrangements and their strengths and weaknesses, and to propose some alternatives on the future of the Fund in light of the current decision-making process. Some options are provided below.

In the 1960s, UNCDF was created by the General Assembly with the general mandate of assisting developing countries in achieving accelerated and self-sustained economic growth, by supplementing their existing sources of capital assistance. Over the past four decades the Fund has evolved to some extent in response to the broader context – balancing the reduction in contributions on the one hand with the capital and technical assistance needs of LDCs on the other. In analysing the Fund's future, it may now be necessary to analyse the business model and governance structure that provide the foundation for its work.

In this regard, there are several options for the future of UNCDF. Only three main options are discussed below. Each has an orientation that is either market-driven, where financial viability drives the organisation's approach, or mission driven, in which the needs of the LDCs and innovation drive its approach. It should be noted that the evaluation team provided these options as potential illustrations of a way forward. Additional options may be identified once the recommendation is implemented. Similarly, these options should be fine-tuned by the group responsible for addressing the recommendation in order to reflect the feasibility of their implementation.

- **Option 1: Entrepreneurial model**
UNCDF becomes a more entrepreneurial organisation. Its governance structure moves towards a broader mandate and representation. UNCDF obtains management autonomy from UNDP, and the Executive Secretary (renamed) becomes head of UNCDF. In this option, UNCDF's relationship to the Executive Board would need to be clarified according to the revised management structure. It would target and market its microfinance and local governance services to all countries and international agencies (CGAP as an example) and develop a cost structure that makes it competitive. It would become more of a demand-driven organisation and less of an innovative instrument of the UN family. The greater demand-orientation limits the extent to which UNCDF can preserve its current mission-driven nature. Funding would be generated primarily through fees for services.
- **Option 2: UNDP Instrument**
UNDP and UNCDF become more strategically aligned and increase the pool of funds. This arrangement would imply no changes to the corporate governance structure. UNCDF's mission would become more closely aligned to UNDP's programme and priorities (i.e., private sector, water). There are many ways for the two organisations to align. For example, the UNDP Administrator suggested that UNCDF and UNDP could combine forces on focused initiatives (i.e. water infrastructure initiative of the MDGs). Such an effort could capture the minds and hearts (and therefore the financial support) of donors around an important goal. The selection of common initiatives, however, would need to be made carefully, based on UNCDF's existing or strategically developed comparative advantage, as well as clear demand from donors and recipients. Funding would be more secure and market-oriented, based on UNDP funding (UNDP provides core resources to UNCDF out of its voluntary contributions) and on assessed rather than voluntary contributions from donors.

- **Option 3: Status quo with assessed contribution**
 This option would bring no changes to the current corporate governance, mission, or management arrangements. The primary shift would be in developing a more secure and market-oriented approach to funding. Certain adjustments would be made to the status quo, for example, by moving to assessed rather than voluntary contributions, and expanding the range of organisations and the arrangements through which UNCDF seeks resources to carry out its mission (i.e. expanding resources obtained from World Bank, foundations, new private sector partnerships). These changes in practice would be consistent with the original Charter of UNCDF and would provide UNCDF with a more predictable stream of income. UNCDF continues the decentralisation of services that has begun within both programming units, but would focus on countries where there is high demand for its services and a high potential for UNCDF to obtain funds for its services (i.e. countries with a high potential for generating revenues).

All of these options should be examined strategically as a matter of the highest priority for UNCDF. The options are meant to illustrate the types of business models and corporate governance arrangements available to UNCDF.

Exhibit 7.1 Summary of Business Model Options

OPTION		IMPLICATIONS			
		GOVERNANCE STRUCTURE	MISSION	MANAGEMENT ARRANGEMENTS	MARKET ORIENTATION AND FUNDING
1	Entrepreneurial Model	Broader mandate and representation Redefined relationship between UNCDF and Executive Board	Local governance and microfinance services to all nations and other agencies (who can pay)	More autonomous management with greater decision-making authority	Market-driven Competitive cost structure Funding primarily through fees for services
2	UNDP Instrument	Remains the same	More closely aligned to UNDP's Programme and priorities	Remain the same	UNDP funding Assessed rather than voluntary contributions to UNCDF
3	Status quo with Assessed Contribution	Remains the same	Remains the same	Remain the same	Assessed rather than voluntary contributions Expanded array of options for funding

Recommendation 3

If UNCDF is faced with the continued decline in programme expenditures in the coming years, it will need to make significant reductions in the administrative budget or find alternative sources of funding for this budget item.

If UNCDF cuts programming any further, the staffing complement and infrastructure will be out of line with programme expenditures. At this point, UNCDF will need to look at making cuts in its administrative / HQ budget. However, budget cuts are possible only until they begin affecting the 'critical mass' of people and infrastructure at headquarters that are required to respond to UNCDF's context.

There are options for managing these issues:

- Increase funds available for programme approvals (from core contributions and other sources);
- Reduce administrative expenditures to the level of necessary critical mass of staff;
- Include technical advice as part of programme spending, as is done in other agencies;
- Assess the contribution that non-core funding agreements can make in covering HQ costs;
- Improve cost-recovery for services currently provided to UNDP at a subsidised rate
- Develop other sources or mechanisms to cover administrative/HQ costs.
- Transform UNCDF's status into an Executing Agency Status, which would allow the agency to execute or implement specific programme components, once funding has been secured from UNDP or other development agencies⁵⁴.

Strategic Leadership

Recommendation 4

The UNDP Administrator, as a matter of urgency, should work with the Executive Board and UNCDF Senior Management Team to identify a new Executive Secretary for UNCDF.

The identification of a new leader is an urgent issue for UNCDF. While the Fund is producing good results and has the support of its major stakeholders, uncertainties about funding and how and what decisions will be made about UNCDF's future are affecting staff morale. Senior UNDP officials are undecided about whether to set the direction of UNCDF first and then hire an Executive Secretary, or to appoint an Executive Secretary to lead the change. In our view, the cost of leaving the situation fluid is greater than the cost of making a decision as quickly as possible. The selection process should consider the importance of both intellectual leadership and strategic management competence of a new Executive Secretary.

⁵⁴ In a presentation of the ROAR to the Executive Board, mention was made by the former Executive Secretary that "there was growing demand for UNCDF to act as an executing or cooperating agency" and suggested that UNCDF was preparing a formal proposal to the Executive Board.

Effectiveness

Recommendation 5**UNCDF should address the recommendations made in the PIAs and incorporate relevant recommendations into future programming.**

The IIA team reviewed the recommendations of the PIA and conducted a field mission in order to look at the extent to which UNCDF had development impacts. Our conclusion is that although UNCDF's activities make a significant contribution to poverty reduction, policy impact and replication, the sustainability of results, and strategic positioning, several areas could be strengthened in order to lead to improved results.

In local governance programming, the PIA suggested several recommendations that would help UNCDF achieve better results. Some of these recommendations go beyond what UNCDF can achieve alone but, rather, are to be addressed by the local governments. For example:

- Clarifying the structure and role of various government substructures, as well as the relationship between local government and other tiers of government.
- Ensuring greater cooperation and collaboration between sector ministries and local governments, for example, by extending and institutionalising decentralisation innovations to sector management at a local level
- Addressing the need for structures and systems that contribute to effective downward accountability

However, the following areas for improvement can be addressed by UNCDF:

- Including strategies that explicitly link LDPs to Local Economic Development (LED); LED would be an important pillar of local development in conjunction with, and to support, existing local development interventions
- Improving the integration of natural resource management into LDP
- Working with central governments on the timeliness of transfers to local governments, as a matter of priority
- Providing greater support and capacity to Local Governments for the generation of their own source revenue and for securing a sufficient recurrent budget for maintenance of services and infrastructure
- Investing in capacity building in the area of participatory and strategic planning to ensure that these processes are genuinely empowering and inclusive
- In as much as its funding constraints allow, trying to maintain a significant in-country presence of senior technical advisers, programme managers or regional technical advisers

In microfinance, the PIA suggests that UNCDF could improve results by focusing on three broad areas for improvement:

- Reviewing all microfinance activities to assess the extent to which they are demand-driven and therefore encourage the development of a healthy market/competitive environment
- Move from a passive funder role to step up engagement in networking, collaboration, and partnerships, and continue to contribute to the deepening of financial systems through concerted, high impact interventions.

- Internalising the concept of a 'learning organisation' within the Microfinance Unit, enhancing the existing evaluation culture through more systematic follow-up, monitoring and timely internal and industry-wide dissemination of lessons learned

The PIA report provides more detailed recommendations per Impact Area.

UNCDF should review these recommendations using a process similar to the one used following the 1999 independent external evaluation and, as appropriate, address these recommendations in future programming.

Recommendation 6

UNCDF should continue to implement the actions necessary to achieve its commitment to gender mainstreaming and equality. In so doing, it should consider developing a closer relationship with UNIFEM.

The UNCDF response to the gender mainstreaming study conducted in 2002, which focussed on LG programmes, includes a gender mainstreaming action plan for 2002-2004. Some of the steps outlined in that action plan have been completed (for example, ensuring that gender is addressed in the UNCDF Impact Assessment exercise). For others, it is less clear what progress has been made, yet the action areas remain relevant for the whole organisation (both MFU and LGU programming).

For example:

- Clarification of Institutional Arrangement for Gender Mainstreaming
- Review, simplification, and reissuing of Corporate Gender Mainstreaming Policy; these guidelines should be user-friendly and readily accessible to all staff and partners.
- Review of project budget allocations for gender activities; in projects where there are funds allocated to gender activities or designated positions for gender specialists, UNCDF needs to take extra steps to make sure that the activities are carried out and the posts are filled as envisioned in the project design document.
- Gender screening at project formulation, which can be done by integrating the opinion of gender specialists from the UN system in the peer review teams.
- Gender capacity building, including training of staff and the broadening of the pool of gender experts at the local level, with expertise in either microfinance or local governance.
- Incentives for gender mainstreaming incorporated into job descriptions.

However, it is critical that the organisation prioritise among these areas and set reasonable milestones that can be achieved in the context of scarce resources.

UNCDF Branding

Recommendation 7

Regardless of the decisions made with respect to the future directions of UNCDF, the Fund requires clearer brand identification – clearer mission statement, symbols, templates, logos.

Our data suggest that there is relatively little differentiation in the field between UNCDF and UNDP. This could become even cloudier, depending on the decisions made with respect to the future of the relationship between UNDP and UNCDF. A number of elements hinder the branding – the name ‘UNCDF’ itself; the lack of distinction between the missions of UNCDF and UNDP; and the absence of distinctive symbols. UNCDF is aware of the need to brand the Fund both internally and externally and has developed a Communication Strategy, which is a good first step. It could go further in asking for a better differentiation between UNDP and UNCDF. The Year of Micro-credit (2005) could be used to launch its brand.

Knowledge and Information Management

Recommendation 8

UNCDF should continue to invest in knowledge sharing, particularly in those knowledge systems that will increase the synergy between operational units and improve knowledge sharing in the field.

Modern organisations are constantly striving to improve their ability to generate and use the knowledge they gain from experience. For UNCDF this occurs within both programmes and the evaluation unit. While UNCDF is constantly improving ways to use and share knowledge in each programme area, our evaluation suggests that it still needs to improve its ability to share information across programmes or operational units. This could be done through cross-programme work groups or teams that could distil and share programming lessons and review the approaches used to disseminate knowledge in the field. The Microfinance PIA also identifies the need to internalise “learning organisation” concepts as a broad area for improvement in the organisation. UNCDF has already begun to implement a series of actions to improve its management of knowledge (including the revamping of its Intranet in March 2004) and we support the pursuit of the recommendations set forth in the 2002 Knowledge Management Report.

Recommendation 9

As the various clusters and modules of Atlas are being deployed, we recommend that UNCDF create a monitoring team to oversee their implementation, to understand if the deployment of these modules has addressed the operational issues raised in the IIA and in other UNCDF Functional Analyses.

UNCDF has great expectations for the implementation of Atlas, which is a system designed to increase the efficiency of the Fund in managing its programmes, people and finances. It is hoped that the new system will lead to improvements, but it may not address all the issues that have been raised about effective resource management.

As the modules of Atlas are being implemented, UNCDF should monitor whether each module addresses the concerns about planning and deployment of resources, results-based management, human resources management, income management, cash management, procurement and the management of fixed assets.