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United Nations Capital Development Fund

United Nations Capital Development Fund Strategic Framework, 2026-2029

Executive summary

The United Nations Capital Development Fund (UNCDF) enters its sixtieth year at a moment of profound urgency and possibility. The global development finance landscape is under strain: fiscal space is narrowing, official development assistance is declining, debt burdens are rising, and the poorest and most fragile economies receive only a fraction of global financial flows. Yet it is precisely when markets are shallow, risks high and institutions fragile that the international community must be most ambitious in delivering impact.

The UNCDF mandate – established in 1966, updated in 1973, and reaffirmed at the Fourth Conference on Financing for Development – is uniquely suited to this task. While the Bretton Woods institutions will remain essential in driving larger financial flows, the underused ability of UNCDF to deploy risk-tolerant capital is critical to closing systemic financing gaps in the least developed countries (LDCs), small island developing States (SIDS), fragile settings and other countries facing similar early-stage and last-mile market conditions.

Supporting the United Nations system through performance-based, reimbursable grants, concessional loans, and risk-absorbing guarantees, UNCDF mobilizes and catalyses private and public finance in markets where traditional financial institutions face constraints. Its niche is to demonstrate investment viability, quantify risks and deploy financial instruments so that larger flows from credit-rated multilateral development banks, development finance institutions and, critically, domestic finance can follow and scale impact.

The Strategic Framework, 2026-2029, sharpens the UNCDF catalytic mandate around three capabilities that directly support country development priorities and investment pathways:

- **Micro, small and medium enterprises (MSME) finance:** expanding access to capital for MSMEs – especially those led by women and youth – to generate jobs and drive local growth;
- **Subnational finance:** targeting local governments, cities, municipalities, public development banks and non-state actors to unlock capital for locally inclusive economic growth – enabling resilience and prosperity; and
- **Digital finance:** advancing inclusive digital solutions that reduce costs, improve transparency and extend financial services.

To achieve this, UNCDF will strengthen domestic resource mobilization, deploy innovative risk-absorbing instruments, and accelerate action for countries facing liquidity constraints and debt distress. The growth potential of early-stage and last-mile markets is immense – but only if institutions exist to assume risk, unlock liquidity and expand fiscal space. The *Compromiso de Sevilla*

highlights the path forward: concessional finance scaled, debt relief delivered, liquidity flowing, and an international financial architecture that recognizes the vulnerabilities of LDCs, SIDS and fragile settings.

The new Strategic Framework presents an investment opportunity for partners – programme and funding governments, foundations, philanthropies and private investors – to join the UNCDF catalytic mission within the United Nations system. Every dollar invested in UNCDF helps de-risk, mobilize and leverage more than four times as much in domestic and international public and private finance. As the 2030 Agenda for Sustainable Development enters its decisive years, the Strategic Framework stands as a call to action: that no locality – however small, vulnerable, or fragile – be excluded from the capital flows essential for sustained economic development, job creation, and the advancement of resilience and human security.

I. Introduction

1. The *Compromiso de Sevilla*, adopted at the Fourth International Conference on Financing for Development in July 2025, calls on UNCDF to “support LDCs as an early-stage provider of catalytic concessional first-loss capital to de-risk investments and change the risk profile of early-stage markets in countries in special situations, creating the conditions for subsequent crowding in of private sector through scaled-up financing from D[evelopment] F[inance] I[nstitution]s and M[ultilateral] D[evelopment] B[ank]s”.¹ This reaffirmation of the UNCDF mandate – first enshrined in General Assembly resolution A/RES/2186 (XXI) – comes as the global development finance landscape reaches a critical inflection point.

2. Six decades after its creation, UNCDF has continuously adapted to shifting challenges by reaffirming its core identity as a *fund* – true to its original mandate of crowding in capital to early-stage and last-mile markets, first and foremost in LDCs, where capital needs are greatest and risks challenge larger financial players. The Fund’s value proposition lies in financing “white spaces” – the earliest and riskiest segments where traditional financiers cannot yet operate due to structural constraints.² As a grant-funded, non-credit rated entity, UNCDF has a unique mandate that enables it to align capital with impact and combine the credibility of the United Nations with the agility and pragmatism of a financial institution: operating in early-stage and last-mile markets where larger, credit-rated institutions cannot reach.

3. The strategic focus of UNCDF has evolved over decades from small-scale local development and financial inclusion to three interlinked capabilities: MSME finance, subnational finance, and digital finance. These capabilities foster localized growth and drive economic development, job creation and livelihoods that contribute to resilience and human security.

II. Strategic context

4. The global development finance landscape shaping UNCDF work in 2026-2029 is marked by uncertainty, widening inequality in capital allocation, and mounting pressures across official development assistance, multilateral development finance, and the broader international financial architecture. LDCs, SIDS and fragile settings face converging vulnerabilities: geopolitical pressures, macroeconomic and fiscal challenges, and systemic risks that weaken local markets and exclude underserved populations. Despite decades of global financial institution growth, private finance largely bypasses LDCs, SIDS and fragile settings. In 2024, only 2 per cent of global foreign direct investment reached LDCs, while concessional finance remains stretched thin across competing priorities.³ At the same time, official development assistance continues to decline. As a result, developing countries face an annual shortfall of \$4 trillion – including \$300 billion per year in LDCs alone – to achieve the global goals by 2030. This gap reflects persistent structural constraints in fiscal space, capital market depth, and risk perception, all of which continue to limit the scale and flow of finance where it is needed most.⁴

5. The Fourth International Conference on Financing for Development acknowledged that the international financial architecture must be strengthened and that innovative approaches are needed to leverage private capital, improve debt sustainability, and unlock domestic resources. Without such reforms, the cost of being poor – especially for women and youth – will continue to rise, while the root causes of migration, human insecurity, conflict and lost opportunity remain unaddressed.

6. Responses from traditional financiers, such as multilateral development banks and development finance institutions, are indispensable but tend to concentrate on sovereign-level, credit-rated markets and large transactions. The private sector, meanwhile, remains cautious about entering early-stage and

¹ A/RES/79/323.

² ISF Advisors (2025). *The Case of Missing Middles: Gaps in the Development Finance Landscape, and UNCDF’s Positioning in It*.

³ United Nations Conference on Trade and Development (2025). *World Investment Report 2025*. Geneva.

⁴ United Nations (2024). *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads*. New York.

last-mile markets in the absence of robust regulatory frameworks, policy incentives and financial de-risking mechanisms. At the same time, funding partners increasingly demand greater value for money and demonstrable leverage from their contributions. Yet these efforts rarely reach subnational entities, local financial institutions, or MSMEs – leaving vulnerable populations, especially women and youth, facing persistent financing gaps. These gaps expose the structural shortcomings of a fragmented system that remains ill-equipped to respond to the urgency, scale and complexity of today’s development challenges.

7. These constraints manifest in two interconnected financing deficits: (a) the “missing middle”, including enterprises beyond microfinance but outside institutional investors’ risk appetite due to size, stage, or business model; and (b) perceived/real risk, sub-investment grade conditions and uncertainties, at subnational and community levels where mainstream finance seldom reaches early-stage and last-mile markets.

8. Bridging this gap requires catalytic, risk-absorbing finance that fosters localized investment, buffers crises, and preserves economic and social gains, even under severe fiscal strain. During 2026-2029, UNCDF will extend the reach of development finance into underserved markets, positioning itself as a pragmatic, multilateral, complementary platform designed to close systemic financing gaps – particularly in LDCs, SIDS and fragile settings.

III. From lessons to leverage

9. The previous Strategic Framework, 2022-2025, yielded critical lessons on UNCDF strengths and areas for improvement, directly informing its strategic orientation for 2026-2029.

10. **Focus and clarity of mandate.** In 2022-2025, the UNCDF portfolio spanned inclusive digital economies, local transformative finance, women’s economic empowerment, climate, energy and biodiversity finance, and sustainable food systems finance. This breadth reflected adaptability but diluted the UNCDF core value proposition. Evaluations conducted in 2023-2024 underscored the need to sharpen focus on its comparative advantage: deploying catalytic capital – including grants, concessional loans, guarantees and blended finance structures – across sectors. Accordingly, the Strategic Framework, 2026-2029, prioritizes capital deployment and complementary advisory services in MSME, subnational and digital finance, where the Fund’s additionality is strongest and most valued by partners. With this focus, UNCDF reclaims its identity as a capital-deploying United Nations fund, amplifying the collective impact of United Nations country teams and complementing multilateral development banks, development finance institutions and private investors.

11. **Scale and leverage.** The UNCDF investment footprint from the last Strategic Framework cycle demonstrated that small amounts of concessional capital, strategically deployed, can unlock significant private finance. MSME guarantee schemes, blended finance facilities, and local infrastructure pilots mobilized private finance at ratios of 1:4 or higher when UNCDF assumed early-stage risks. Effective mobilization depends on risk-contextual pipeline development, alignment with private sector incentives, risk-absorbing capital deployment, and the ability to demonstrate proof-of-concept. Acting as a first-mover, UNCDF shifts risk profiles and demonstrates viability for subsequent scale-up by larger financiers. Its on-the-ground presence – leveraging the United Nations, particularly UNDP, operational backbone (at cost), and supported by dedicated financial rules for loans and guarantees – enables the structuring, deployment, crowding-in and impact validation of capital in early-stage and last-mile markets.

12. **Institutional systems and resources.** Chronic underfunding of regular (core) resources has historically constrained the ability of UNCDF to fully deploy its financial capabilities in support of the wider United Nations system. This has limited its potential to transform official development assistance-funded schemes into scalable, financially sustainable models while maintaining fiduciary oversight and risk management. Lessons learned emphasize the importance of a disciplined investment focus, robust oversight, streamlined operations, enhanced capital allocation, and integrated risk, monitoring, and evaluation frameworks to reinforce the Fund’s credibility as a development and risk-absorbing institution. In response, the 2024 restructuring – informed by audits and evaluations –

has made UNCDF fit-for-purpose to deliver on its founding mandate: mobilizing capital; where it is needed most.

13. A distinct role in the United Nations system and the international financial architecture. Independent assessments and the Fourth International Conference on Financing for Development reaffirmed the UNCDF mandate to deploy risk-absorbing capital in LDCs, SIDS and fragile settings. Three themes from the conference stand out: (a) global finance must translate into investable opportunities at the subnational and community level; (b) instruments must de-risk private capital and encourage entry into early-stage and last-mile markets; and (c) innovation is vital in domestic resource mobilization, including through national development banks. In response, this Strategic Framework, 2026-2029, defines the Fund's niche relative to larger institutions. Within the United Nations system, UNCDF complements other entities by financing the "missing middle" – the space that policy, advocacy, pooled funding and technical assistance alone cannot close. Positioned at the crossroads of the United Nations system, multilateral development banks and development finance institutions, UNCDF bridges the gap by investing in local innovation and de-risking pipelines for scale-up. When acting as a first-mover, risk-absorber and pipeline builder, UNCDF secures stronger engagement, as demonstrated through ongoing and planned collaborations with United Nations entities, development finance institutions, multilateral and regional development banks.

14. Fragility and conflict-sensitive operating model. Drawing on its track record in fragile settings, the UNCDF Strategic Framework codifies a ready-to-deploy operating model that integrates risk analysis into investment design and deployment – particularly for populations affected by human mobility and displacement. This model can be rapidly activated to maintain services, bridge liquidity gaps and sustain jobs during crises. Through this approach, UNCDF applies a systems lens to lay the foundations for recovery and build confidence for larger financial actors to engage. Over the years, UNCDF has deployed resilience financing tools, such as parametric insurance and liquidity buffers, as pre-emptive measures in climate-vulnerable contexts, including SIDS.

Institutional positioning for 2026-2029

15. Drawing on these lessons, UNCDF positioning is sharper and rooted in local development needs.

16. Focusing on underserved market segments. UNCDF concentrates on segments of the economy that remain underserved by capital markets where perceived and actual risks exceed prevailing investor appetite and constrain capital flows despite strong development potential. Aligned with its founding mandate to deploy grants and loans – expanded in the previous Strategic Framework, 2022-2025, to include guarantees and blended finance instruments – UNCDF will deploy risk-absorbing, concessional capital and complementary advisory services to catalyse capital mobilization and foster market development. This approach targets segments such as MSMEs and the subnational level, where persistent gaps in the international financial architecture – the so-called "missing middle"⁵ – continue to limit access to finance. Core resources will focus first and foremost on LDCs, as well as on SIDS and fragile settings; other (non-core) resources, in response to Member State and United Nations system requests, will address these same challenges in other developing countries.

17. Reinforcing the UNCDF catalytic role. UNCDF reinforces its identity as a catalyst of public and private capital, driven by the goals of eradicating poverty, strengthening resilience, and promoting human security in support of national development priorities. It will leverage limited official development assistance and philanthropic capital to absorb risk, enhance impact, and unlock financial flows – from microfinance institutions, domestic banks and impact investors, and eventually from multilateral development banks and development finance institutions, including through South-South and triangular cooperation. This role reflects the priorities of the 2024 quadrennial comprehensive policy review of operational activities for development of the United Nations system, which reaffirmed the importance of blended finance, pooled financing and risk mitigation instruments.⁶

⁵ Centre for Strategic and International Studies (2019). *The New Missing Middle in Development Finance*.

⁶ A/RES/79/226.

18. **Applying an integrated portfolio approach.** UNCDF concentrates on high-impact interventions that demonstrate proof-of-concept and enable replication. Early partner co-design enables successful investment case development. Building on UNCDF historical strengths in local development and financial inclusion, mainstreamed – rather than siloed – interventions allow UNCDF to act across levels, work adaptively, and target results for systems change. This approach integrates catalytic capital, enabling business models, and policy reforms to ensure sustained transformation. UNCDF embeds its interventions within broader United Nations systemic levers, empowering local actors to drive ownership and scale.

19. **Connecting global finance to local implementation.** UNCDF positions itself as a connector across scales, linking global finance commitments to implementation in early-stage and last-mile markets. Through blended finance solutions targeting underserved segments and priority sectors – such as sustainable water, energy, health, nature, and agrifood systems – UNCDF leverages market intelligence to structure financing solutions tailored to local conditions, crowding in both public and private financing. In collaboration with the United Nations system, multilateral development banks and development finance institutions, UNCDF designs and implements transformative solutions that deliver scale and impact.

IV. Targeted markets

20. UNCDF focuses on developing countries – first and foremost LDCs – where catalytic interventions are most urgently required and yield the highest marginal impact. Alongside SIDS and fragile settings, LDCs remain underserved by the international financial architecture owing to small scale, high transaction costs, limited market depth and perceived risk. For countries graduating from LDC status, UNCDF will accompany their transition through tailored, time-bound support to safeguard development gains, address vulnerabilities, and prevent reversal of progress. Consistent with its mandate, UNCDF will continue to direct capital where it is most urgently needed but least able to flow. When requested by governments or United Nations entities, UNCDF will also engage in other settings with systemic gaps, as reflected in approaches such as the multidimensional vulnerability index.

21. As reaffirmed in the *Compromiso de Sevilla*, UNCDF work aligns with nationally defined strategies and public policy priorities. In LDCs, UNCDF is fully committed to the Doha Programme of Action for the Decade 2022-2031, preparing robust project pipelines, and deepening financial sectors to channel resources for impact. In SIDS, guided by the Antigua and Barbuda Agenda for SIDS, UNCDF will deploy blended finance solutions that unlock public and private flows for priority sectors such as the blue economy, sustainable tourism, renewable energy and resilient infrastructure. In Africa, aligned with the African Union’s Agenda 2063, UNCDF partners with governments, public development banks and private actors to mobilize African public and private capital for local infrastructure, resilience, food and water security and youth-led enterprises, among others.

22. UNCDF operates at the intersection of public mandate and private capital, partnering with ministries of finance, subnational authorities, regulators and investment promotion agencies, while engaging MSMEs, fintechs, non-bank financial institutions and impact investors. It seeks to strengthen cooperation with national/subnational development banks and regional/subregional institutions – a largely untapped resource despite their local knowledge and smaller ticket size capacity. UNCDF interventions will reach the most marginalized and vulnerable populations, including youth, migrants, refugees, internally displaced persons, smallholder farmers, coastal communities, informal entrepreneurs and persons with disabilities. Guided by a human-rights based approach, UNCDF ensures financial flows expand choices, protect dignity, and foster inclusive prosperity.

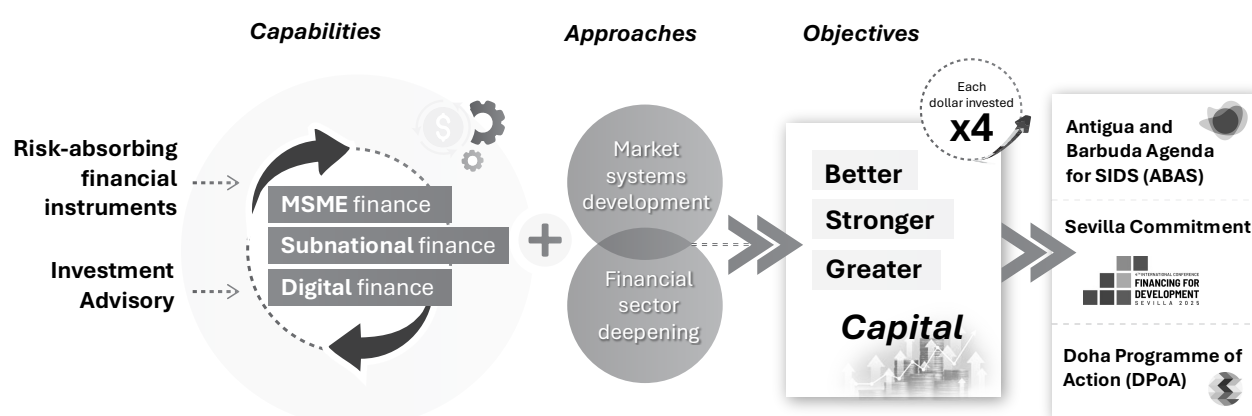
23. UNCDF targeted markets represent not only the largest financing gaps, but also the greatest potential for transformative impact. With the youngest, fastest-growing populations and rapid digital adoption, these economies are poised to shape the future of inclusive and sustainable growth. By focusing on the “missing middle”, and on early-stage and last-mile markets, UNCDF ensures that capital reaches those who need it most.

V. What UNCDF offers in 2026-2029

24. The **UNCDF vision** is to mobilize and catalyse capital flows for impactful investments in high-risk markets, especially in LDCs, SIDS and fragile settings, to foster job creation, sustained economic growth and equitable prosperity.

25. The **UNCDF mission** is to crowd in public and private capital by deploying risk-absorbing financial instruments and mechanisms, alongside investment structuring and advisory services, to strengthen the financial sector and market systems. In partnership with United Nations entities, multilateral development banks, development finance institutions, domestic and international financial intermediaries and impact investors, UNCDF operates with speed and agility to structure and deploy blended finance solutions that drive systemic change and pave the way for scaled domestic and commercial finance.

Figure 1. Pathways to change



Strategic objectives

26. To realize its vision and mission, UNCDF will pursue the achievement of the following three interlinked strategic objectives:

- (a) **Better capital: expanding inclusive access so capital reaches underserved communities.** Affordable, available and accessible finance is extended to underserved households and MSMEs in early-stage and last-mile contexts through instruments and advisory services tailored to local realities. More inclusive access to affordable credit, including through digital finance, enables individuals – especially women and youth – and businesses to invest in energy, water, local infrastructure and essential services, strengthening community resilience and human security. As financial health improves, local entrepreneurship expands, generating jobs and mobility. UNCDF contributes by absorbing early-risk and crowding-in partners, ensuring that inclusive access is feasible through domestic financial intermediation, reducing inequality and supporting locally driven development.
- (b) **Stronger capital: building resilient domestic financial systems.** Enhancing the performance and resilience of domestic financial systems in LDCs, SIDS and fragile settings is critical for long-term economic stability. When national development banks, regulators and local financial institutions operate predictably and transparently, they build trust among citizens and investors, anchor confidence in public institutions, enable governments to maintain fiscal space, and attract domestic and international capital. By improving prudential safeguards and digital public infrastructure, these systems become better equipped to manage risk and withstand shocks. Through catalytic risk-sharing and advisory support, UNCDF strengthens the institutions that channel domestic savings and resources, creating more stable, inclusive and accountable

financial ecosystems. Where relevant, UNCDF advisory and structuring support will help governments pilot instruments, such as debt swaps linked to resilience and local investment, easing short-term fiscal pressures and redirecting resources to national development priorities.

- (c) **Greater capital: mobilizing and catalysing public and private capital to national and local priorities.** The defining challenge in early-stage and last-mile markets is not only access or systems, but the scale of capital flows. Mobilizing global and domestic capital into LDCs, SIDS and fragile settings requires catalytic entry points that reduce perceived risk and demonstrate investability. UNCDF contributes by originating investment pipelines in underserved sectors, structuring blended finance vehicles that lower barriers for larger financiers, and convening public-private platforms around investable opportunities. These catalytic interventions create the enabling conditions for multilateral development banks, development finance institutions, institutional investors and domestic pools to enter earlier, with greater confidence and at larger scale. Over time, as confidence builds, the UNCDF share of risk absorption declines, allowing larger actors to assume financing on commercial or near-commercial terms. The result is greater, more diversified flows – both international and domestic – directed toward nationally owned priorities.

Capabilities

27. To achieve these interlinked strategic objectives, UNCDF leverages its institutional capabilities, which define *how* it delivers impact in the world’s most capital-constrained environments. A capability is understood as the integrated combination of financial advisory and structuring support with the deployment of financial instruments – including guarantees, zero or low-interest loans, and/or investment grants – that enable countries, especially at the subnational and private sector levels, to identify and structure investment opportunities, mobilize and crowd in finance (especially domestic capital), and deepen capital markets to advance development priorities.

28. In 2026-2029, UNCDF will focus on three interconnected capabilities: MSME finance, subnational finance, and digital finance. These capabilities reflect the UNCDF mission and vision and respond to the evolving development priorities of LDCs, SIDS and fragile settings. They reinforce one another, enhancing UNCDF additionality and complementarity within the wider international financial architecture, by focusing on a narrow but specialized pathway where concessional finance delivers the greatest catalytic effect. Together, they form the institutional foundation through which UNCDF operationalizes its strategic objectives of better, stronger and greater capital. They also ensure that capital is aligned with sustainability imperatives, channelling investment toward enterprises, local infrastructure, and essential services that foster prosperity while sustaining natural assets

MSME finance

29. MSMEs form the backbone of UNCDF targeted markets, employing most of the global labour force and serving as key engines of innovation, job creation and stability. Yet they remain chronically underfinanced; this exclusion constrains growth, exacerbates vulnerability, and weakens societies.

30. The financings gap is structural, stemming from information asymmetries, lack of collateral or steady revenues, risk perceptions, and limited local currency, among others. When policy and regulatory frameworks are not effectively designed or implemented, opportunities to foster the conditions for MSMEs to thrive remain untapped. In early-stage and last-mile markets, MSMEs remain underserved at the most granular and risk-prone levels, resulting in a financing vacuum for small businesses in the “missing middle” and for microenterprises operating at the early-stage and last-mile. The unique value of UNCDF lies in its ability to bridge this structural gap.

31. Building on lessons from the previous cycle and the refined segmentation of MSME capital needs, UNCDF will pursue four lines of action:

- (a) **Pre-market readiness investments.** Many aspiring entrepreneurs – especially women and youth – struggle to launch viable businesses, while informal business owners face challenges stabilizing cash flows and operations. UNCDF will deploy reimbursable grants and advisory

support to strengthen pre-market-ready businesses, helping them formalize, stabilize and scale toward sustainable growth;

(b) **Blended capital deployment.** UNCDF will expand the use of investment grants, loans, guarantees and other subordinated instruments designed for uncertain risk environments. These instruments increase private lenders' and investors' risk appetite. Targeted credit lines and blended finance instruments will be structured through national development banks and other local financial intermediaries;

(c) **Financing ecosystem strengthening.** Complementary advisory services will improve creditworthiness assessments, investment readiness, regulatory frameworks and financial literacy, in collaboration with UNDP and other partners. Digital finance tools – including credit scoring, electronic Know Your Customer (eKYC), and mobile payments – will help reduce information asymmetries and transaction costs, while safeguarding consumer protection and market integrity;

(d) **Partnership platforms.** UNCDF will crowd in multilateral development banks, development finance institutions, impact funds, banks and local financial institutions through blended finance structures and solutions where UNCDF assumes first-loss positions, absorbs currency risk, provides longer tenures, and reduces high capital costs. This de-risking role will enable credit-rated institutions to follow with larger and more sustained capital flows.

Subnational finance

32. Local governments and cities are at the frontline, delivering local infrastructure and services that underpin resilient and inclusive economic growth. Yet weak credit worthiness, limited fiscal autonomy, and lack of direct access to capital markets prevent them from mobilizing resources at scale. The *Compromiso de Sevilla* reaffirmed that without unlocking subnational finance, strengthening domestic capital markets, and removing regulatory bottlenecks, national commitments cannot be effectively translated into local results.

33. UNCDF will concentrate on five lines of action, with public development bank-anchored intermediation at the core:

(a) **Systemic reforms and policy frameworks.** UNCDF will support reforms to improve policy, regulatory and institutional frameworks for subnational finance, in cooperation with UNDP and other partners. This includes enabling responsible subnational borrowing, improving fiscal transfer systems, introducing value capture financing models, and advancing transparent and accountable budgeting. For instance, the Local Climate Adaptive Living Facility will expand its instruments to attract private capital.

(b) **Public development bank-focused domestic resource mobilization.** By leveraging their sovereign relationships and development mandates, national development banks can provide medium and long-term local-currency financing, aggregate project pipelines, and mobilize concessional finance for local infrastructure and services. UNCDF will strengthen local revenue systems and enhance public financial and asset management to boost repayment capacity and reduce default risk. It will explore guarantees to underpin debt swaps and restructuring, unlocking urgent financing for development priorities while other institutions work to expand fiscal space. Advisory and performance-based grants will enhance municipal creditworthiness and investment readiness. UNCDF will help national development banks expand capitalization, clarify mandates, and build capability for project appraisal, risk assessment and portfolio management. Through blended finance structures, UNCDF will enable national development banks on-lend to municipalities on favourable terms and deploy de-risking instruments that crowd in private capital – positioning them as primary conduits for channelling sustainable finance to local governments, utilities and territorial entities.

(c) **Guarantees, insurance, co-financing and capital market instruments.** UNCDF will de-risk subnational borrowing in priority sectors, including water, energy, resilient infrastructure

and nature-based solutions. Support will include structuring municipal bonds, special purpose vehicles and pooled platforms that aggregate pipelines for scale-up by institutional investors. Credit enhancement will follow a disciplined cascade: from performance-based grants and first-loss tranches to pari-passu co-lending and partial credit guarantees linked to target credit ratings and debt service coverage ratio thresholds. This approach will structure blended finance solutions and build on pioneering UNCDF resilience financing vehicles to deliver disaster-risk financing, especially in SIDS. Where appropriate, carbon revenues or resilience-linked incentives will be integrated to attract private sector participation;

(d) **Local currency financing mechanisms.** UNCDF will minimize foreign exchange exposure through local currency on-lending, liquidity lines to local intermediaries and, where feasible, foreign exchange risk-sharing, or hedging facilities calibrated to municipal flows, including intergovernmental transfers. For LDCs and SIDS, UNCDF will explore pooled facilities and securitization of small municipal and MSME initiatives to overcome deal sizes too small for larger institutional investors and asset managers;

(e) **Partnership platforms.** UNCDF will pilot multi-city and multi-country platforms that align fiscal policy, investment planning, pipeline development and project structuring. These platforms will foster inter-municipal cooperation and pooled financing, lowering transaction costs, improving investment readiness, and achieving scale. Its pillar six accreditation under the European Union's European Fund for Sustainable Development Guarantee Window enhances the capacity of UNCDF to deploy guarantees at scale, with a primary focus on LDCs.

Digital finance

34. Digital finance represents a transformative enabler of structural change, expanding opportunity and inclusion in early-stage and last-mile markets, particularly for women and youth. Making capital more accessible, affordable and inclusive requires ecosystem-level interventions. Digital finance solutions lower barriers by enabling access to capital, remittances, payments and accounts. Financial institutions increasingly use alternative and non-traditional data to assess credit risk before extending services. As a result, it connects people and enterprises to formal systems, creating liquidity and trust essential for inclusive, investable digital economies. This ecosystem expansion drives structural transformation, raises MSME productivity, generates jobs, and enhances household well-being.

35. Building on its history promoting financial inclusion and digital innovation, UNCDF will focus on two lines of action that reinforce the MSME and subnational finance capabilities:

(a) **Policy advisory and market intelligence.** UNCDF will generate market intelligence through an ecosystem scan – covering connectivity, scale and inclusion – to identify structural constraints for digital finance implementation. This approach addresses systemic market failures and strengthens the enabling environment, prioritizing the closure of regulatory gaps, consolidating interoperability and competition, and operationalizing digital public infrastructure frameworks – including eKYC and instant retail payments – and efficient cross-border payments. Complementary assessments will pinpoint local needs, shaping solutions responsive to and sustainable for MSME and financial institutions. Combined with the UNCDF commitment to consumer protection and market integrity, this intelligence will guide the investment decisions of financial intermediaries (multilateral financial institutions, local banks, mobile network operators) to better serve MSMEs and clients in early-stage and last-mile markets. UNCDF, working in partnership with UNDP and others, will leverage interoperable, cost-effective digital public infrastructure and digital public goods to unlock new solutions.

(b) **Catalytic financial instruments.** UNCDF will deploy investment grants, loans, guarantees and blended finance structures to advance digital finance solutions and maximize ecosystem catalysation through two investment categories:

(i) *Capital for digital integration and innovation.* UNCDF will scale proven solutions, supporting financial institutions, cooperatives and MSMEs to integrate digital components that enhance investment readiness. It will deploy de-risking instruments

and patient, non-dilutive growth capital to high-impact fintechs and innovators, demonstrating the viability of new digital business models. In fragile settings, UNCDF will also explore crypto and blockchain solutions to strengthen access, transparency and trust for economic recovery; and

- (ii) *Capital for systemic change.* UNCDF will accelerate the adoption of critical digital public infrastructure and advance key policy reforms. To catalyse private capital, it will de-risk large-scale interventions in connectivity and digital public infrastructure, offering high-leverage risk mitigation instruments to crowd in institutional investors.

Approaches

36. UNCDF capabilities represent its most advanced technical competencies, integrating expertise, processes, country presence and partnerships that enable consistent and effective delivery. To translate these capabilities into durable change, UNCDF applies two mutually reinforcing strategic approaches: (a) market systems development; and (b) financial sector deepening. Together, these approaches allow UNCDF to reshape underlying investment conditions, adjust risk profiles, and ensure that capital deployed today continues to flow tomorrow. They also create opportunities for collaboration across the United Nations system and with external partners, enhancing coherence and complementarity of support at the country level.

37. **Through market systems development,** UNCDF fosters inclusive, adaptive and resilient market environments by addressing underlying rules, relationships and incentives. Its interventions aim to transform market systems – breaking down constraints, fostering public-private dialogue, realigning incentives, and strengthening locally driven solutions. UNCDF ensures that even lending to a single enterprise strengthens the broader market architecture – value chains, suppliers, service providers and enablers that sustain development outcomes over time. This systemic engagement creates inclusive and self-sustaining markets capable of scaling beyond concessional support.

38. **Through financial sector deepening,** UNCDF expands and strengthens domestic financial systems, improving the availability, accessibility and utility of financial services for underserved actors. This includes working with national and subnational public development banks, mobilizing domestic resources, improving domestic financial institution performance, and partnering with local intermediaries to extend credit and liquidity to municipalities, MSMEs and digital innovators. UNCDF also advances enabling regulatory frameworks, supports digital public infrastructure, and fosters innovation. Collectively, these actions help build resilient financial systems that absorb risk, crowd in additional capital, and adapt to shocks.

Deployment of financial instruments and advisory services

39. These approaches and capabilities are operationalized through financial and advisory services tailored to early-stage and last-mile markets. UNCDF deploys financial instruments – grants, loans, guarantees and blended finance facilities – paired with advisory services that reduce risk at the enterprise, intermediary and system levels. Instruments are structured in hard and local currency, with concessionality applied with discipline – targeted to first-mover costs, risk perception and market infrastructure needed to enable private capital entry. By design, concessionality is time-bound, purpose-specific and focused on unlocking inherently viable investments, avoiding dependency and supported by clear exit strategies to guide markets toward commercial sustainability. This toolkit positions UNCDF as the United Nations system’s risk absorber, transforming commitments into investable opportunities and creating pathways for scale-up by larger financial actors.

40. *Investment grants* catalyse the earliest and most fragile stages of the investment cycle. They support enterprise formation, cover pre-investment costs, and transform concepts into bankable projects. Time-bound, performance-based and reimbursable, where appropriate, they help build pipelines.

41. *Guarantees* reshape risk-return profiles, unlocking domestic balance sheets for underserved markets. They enable on-lending to priority segments, such as women and youth-owned MSMEs and

resilient agribusinesses, and support socially critical but thin-cash-flow projects such as secondary-city water and off-grid energy solutions in rural settings. UNCDF will also explore engagements with listed vehicles and guarantee structures to de-risk capital flows and address suppressed demand.

42. Using grants from funding partners, including philanthropic sources, rather than borrowing from capital markets, UNCDF provides *loans* with subsidized interest rates – including at 0 per cent financing – and with generous tenors, typically dominated in local currency. These loans are deployed to address liquidity gaps where commercial finance is limited, operating in a risk-tolerant and risk-absorbing manner. Designed with a clear market development objective, these loans are deliberately concessional, enabling early risk-taking that enables subsequent participation from local financial institutions and development finance partners. By anchoring financing where markets are thin or absent, UNCDF is able to adhere to principles of additionality to catalyse the emergence of viable portfolios, strengthen local capital markets, and shift market behaviour along the risk-return spectrum.

43. *Investment climate and structuring advisory services.* Capital deployment alone is not enough. In underdeveloped markets, finance must be accompanied by targeted advisory services to ensure that capital is absorbed, scaled and sustained. This includes strengthening enterprises for investment readiness, improving the viability of investments, structuring transactions for follow-on financing, and advancing policy reforms – including debt restructuring and swaps – to create more enabling environments. Advisory support is demand-driven, aligned with national priorities, and integrated with capital deployment to extend impact beyond individual transactions. Collaboration with other United Nations entities is central to this approach, ensuring that the Fund’s distinct proposition and mandate are upheld while leveraging the comparative advantages of other funds, programmes and specialized agencies across the United Nations system.

From capital to impact

44. By deploying its pathways to change – interconnecting objectives, capabilities, approaches, instruments and advisory services – UNCDF demonstrates how catalytic finance transforms both lives and systems in the world’s most underserved markets. It generates direct benefits for people and communities, especially for women and youth, by expanding access to finance in MSMEs, unlocking subnational finance, and promoting digital financial inclusion. At the same time, it reinforces local systems: enabling sub-sovereign and non-sovereign authorities to plan and finance infrastructure more effectively; supporting financial institutions to lend sustainably to MSMEs; and fostering digital ecosystems that spur innovation. Through United Nations country teams, UNCDF provides the investment capabilities that help the United Nations system advance nationally led transitions – from food and energy to jobs, connectivity, education and biodiversity – ensuring that policy commitments translate into investable pipelines and de-risked structures. These efforts, in turn, help unlock larger flows of capital from multilateral development banks, development finance institutions and institutional investors.

45. UNCDF helps create conditions in which individuals, communities and enterprises can thrive by crowding in capital and delivering scalable, blended finance that builds resilience, supports job creation, reduces inequalities, and enables sustainable, locally driven, economic transformation within planetary boundaries. In doing so, UNCDF contributes to sustained economic growth in early-stage and last-mile markets, strengthening resilience, advancing human security, and ensuring that the world’s most underserved communities progress along inclusive and resilient development pathways that safeguard ecosystems for future generations.

VI. Institutional enablers and implementation approach

46. Delivering on the new Strategic Framework requires an institution fit-for-purpose, agile and credible. In 2026-2029, UNCDF will strengthen a set of institutional enablers that underpin its catalytic mandate.

Organizational capabilities and human capital

47. As a capital investment entity within the United Nations system, UNCDF requires a distinctive workforce with a dual skillset. Staff must combine the professional rigour of investment specialists with the contextual intelligence of development practitioners. The Strategic Framework will consolidate expertise in investment sourcing and origination, blended finance, credit risk assessment, structuring, municipal finance and digital solutions. UNCDF will strengthen the capacity of United Nations country teams to identify and shape investment opportunities in line with United Nations Sustainable Development Cooperation Frameworks, augmenting impact with its de-risking capabilities.

48. Regular resources will prioritize core institutional functions, including investment origination, due diligence, risk management, monitoring and results measurement. Technical experts will continue to be deployed closer to programme countries, with Dakar, Nairobi and Bangkok serving as regional hubs. Where necessary and financially viable, UNCDF country-level presence will be strengthened in coordination with UNDP resident representatives and United Nations resident coordinators. This proximity to early-stage and last-mile markets will enhance the overall United Nations offer and enable quick responses, especially in conflict, post-conflict, or disaster situations. UNCDF will also strengthen talent pipelines and enhance skills and mobility through secondments, rotations and partnerships with multilateral development banks, development finance institutions, United Nations entities, and academic and financial institutions.

49. As a UNDP-hosted entity, UNCDF benefits from a Managing Director who also serves as the UNDP Administrator, as well as from the UNDP policy and operational backbone. This arrangement provides efficiency and accountability while ensuring UNCDF maintains its autonomous identity, agility and focus, supported by its unique carve-out on financial regulations for loans and guarantees. The newly launched UNCDF supplementary guidelines on investment grants, loans and guarantees offer added flexibility to meet country needs.

Risk management

50. Operating in early-stage and last-mile markets requires robust risk management and accountability. Enterprise risk management provides the foundation and organizational arrangement to manage risks effectively and efficiently across UNCDF and enables UNCDF to identify, assess, report and monitor risks and clarify its current exposure. Its risk appetite statement sets the UNCDF internal risk preference across risk categories and investments.

51. In preparing to implement its Strategic Framework, 2026-2029, UNCDF will continue to strengthen three key dimensions of its risk management:

(a) **Investment risk management.** UNCDF applies a robust internal investment committee process, enhanced due diligence, and standardized credit and risk assessment tools. At the portfolio level, financial risk is managed in line with the credit risk policy, ensuring that the overall risk profile of UNCDF investments is aligned with its mandate and risk tolerance levels;

(b) **Environmental and social risk management.** UNCDF maintains a rigorous environmental and social screening management system, consistent with international safeguards standards and global priorities. This ensures all investments comply with the Fund's "do no harm" commitment while promoting resilience and sustainability; and

(c) **Institutional risk management.** UNCDF enforces compliance with corporate governance rules and policies, anti-fraud safeguards, conflict of interest measures, and internal controls to protect institutional integrity and maintain partner confidence.

Strategic partnerships as delivery enablers

52. As consultations for the Strategic Framework emphasized, UNCDF cannot – and should not – scale alone. Partnerships are therefore central, not ancillary, to sourcing investment opportunities, multiplying impact, reinforcing system-wide coherence, and ensuring national ownership.

53. Under the leadership of Member States and coordinated through United Nations country teams, UNCDF aligns its interventions with national priorities and strategies, anchored in the Cooperation Frameworks and complementary to wider local, national and international efforts. As a non-resident, UNDP-hosted organization, UNCDF is represented at country level by UNDP resident representatives. Through them, UNCDF can deepen its engagement with country teams to pursue joint programming where its financing capabilities add value to wider United Nations interventions. In coordination with UNDP, UNCDF will also expand its participation in regional collaborative platforms to reinforce coherence, effectiveness and impact at national and regional levels. UNCDF will also partner with Member State-led platforms – including the SIDS Centre of Excellence and Island Investment Forum – connecting its catalytic finance capabilities with governments, private investors and regional actors to advance national development priorities.

54. In support of Member States, UNCDF will pursue partnerships across the global development finance landscape:

(a) **The United Nations system.** UNCDF will strengthen collaboration with United Nations entities to pair its catalytic financing mandate with their normative, policy and technical expertise. Depending on context, this may involve organizations providing policy and regulatory advice, sectoral expertise, normative mandates such as UNDP, United Nations Children’s Fund, United Nations Environment Programme, and others, or United Nations Volunteers to extend reach at the last mile and support community-based initiatives. UNCDF complements these contributions by turning strategies and programmes into investable outcomes. This differentiated yet coherent approach operationalizes the quadrennial comprehensive policy review call for enhanced system-wide coherence, comparative advantage and joint delivery, amplifying other United Nations mandates while enabling the United Nations system to mobilize and catalyse capital in support of national priorities.

(b) **National financial institutions.** UNCDF will deepen its work with national development banks, commercial banks, local finance institutions, and pension funds to unlock domestic capital pools for development. National development banks are especially important as they combine a public mandate with financial autonomy and serve as key levers for long-term development. Partnering with national financial institutions allows UNCDF to expand catalytic impact, embed financial resilience at the national level, and unlock capital flows where they are needed most.

(c) **Private sector partners.** UNCDF interventions are designed to crowd in private investors willing to deploy debt and equity in risk-uncertain markets. Partnerships with international and domestic investors, leveraging existing platforms such as the Consultative Group to Assist the Poor, will be expanded. In emerging areas such as in carbon finance, UNCDF aims to attract high-integrity carbon credit buyers, particularly CORSIA-aligned and regional actors, using its operational footprint and scalable facilities as supply channels for forward carbon contracts. UNCDF will also expand alliances with specialized funds and platforms (such as the Meridiam’s Municipal Investment Facility, Qatar Fund for Development, Arab Gulf Programme for Development, Mitsubishi UFJ Financial Groups Global Alliance for Incinerator Alternatives Platform, Gojo Microfinance Platform) to scale proven models and crowd in additional capital.

(d) **Foundations and philanthropies.** UNCDF will engage foundations and philanthropic actors more systematically, reflecting their recognition in the *Compromiso de Sevilla* as essential contributors to the global development finance landscape. Building on successful partnerships with the Bayer Foundation, Gates Foundation, and Mastercard Foundation, UNCDF will expand partnerships with foundations across Africa, Asia and the Pacific, the Arab States, Europe and the Commonwealth of Independent States, Latin America and the Caribbean, and North America.

(e) **International financial institutions.** Collaborations with multilateral development banks, regional banks and development finance institutions will co-create blended finance structures in which UNCDF assumes the riskiest tranche, enabling larger actors to enter early-stage and last-mile markets with confidence. By deploying financial de-risking instruments and absorbing risk as a market systems developer, UNCDF protects the balance sheets of more traditional financiers,

creating conditions for scaled-up financing, as envisioned in the *Compromiso de Sevilla*. By aligning local market creation with systemic capital flows, UNCDF strengthens the connective tissue between the United Nations system and international financial institutions, ensuring that capital reaches where it is most needed.

Digital, data and resource stewardship

55. Digital systems and data are strategic enablers of institutional effectiveness. In alignment with the Quintet of Change under UN2.0, UNCDF will advance digitalization, data and innovation, while leveraging foresight and behavioural insights to strengthen decision-making and institutional learning.

56. In 2026-2029, UNCDF will digitize investment processes to enhance efficiency, speed and transparency. Real-time dashboards will provide visibility of capital deployed, risks assumed and results achieved. Advanced analytics, including the responsible and ethical use of artificial intelligence, will guide decisions, identifying where catalytic inputs can unlock leverage.

57. Innovation will be embedded in institutional practice, drawing on programme lessons to design new financial instruments, and applying behavioural insights to understand barriers that prevent underserved populations – especially women and youth – from accessing capital. Strategic foresight will anticipate risks in volatile markets and inform adjustments, ensuring agility in fragile settings.

58. The Strategic Framework is anchored in the integrated budget, 2026-2029, presented to the Advisory Committee on Administrative and Budgetary Questions (ACABQ). The integrated budget aligns core resources, earmarked contributions and programmatic capital. Unearmarked capital from Member States, foundations and philanthropic partners will be deployed within three to four months, unlocking larger sums from partners and private capital through a multiplier effect, minimizing fragmentation and maximizing leverage.

59. Resource stewardship will reinforce these efforts. Regular resources maintain core institutional capacity, ensuring that each dollar unlocks multiple dollars of catalytic capital. Other resources will be deployed directly into investment windows and thematic facilities. UNCDF will regularly engage partners through governance arrangements for its facilities, including the UNCDF Trust Fund.

VII. Results, impact and learning

60. The Strategic Framework, 2026-2029, commits to strengthening results, impact and learning: an approach that is rigorous, transparent and responsive to both partner country priorities and funding partner expectations.

The impact monitoring, verification and learning system

61. The UNCDF catalytic mandate demands evidence that concessional inputs deliver additive value. To this end, the new Strategic Framework is anchored in the impact monitoring, verification and learning (IMVL) system and the integrated results and resources matrix (IRRM). Together, they form an integrated results system: the IMVL serves as the operational foundation for tracking performance and adaptive management, while the IRRM provides a streamlined set of indicators for governance-level oversight and accountability to the Executive Board.

62. The IMVL will monitor catalytic leverage: the volume of public and private capital mobilized per dollar of UNCDF input. It will assess whether financial products, asset classes or subnational/municipal instruments created with UNCDF support endure beyond initial engagement. It will capture pathways for replication, scalability, crowding in public and private investors, and the conditions enabling market transformation.

63. Within the IMVL system, the IRRM serves as the primary tool for tracking Strategic Framework objectives. It provides a strategic set of indicators for governance-level oversight, accountability and transparency. These indicators will be embedded in the IMVL system, which adds programme and

operational metrics to provide a comprehensive view of UNCDF impact. Complementary IMVL tools – including real-time dashboards for transparency, contextual and project-level indicators – will support monitoring at the country, thematic and capability levels.

64. This integrated system will map UNCDF contributions against financing for development outcomes and Sustainable Development Goal indicators, including subnational finance, local currency solutions and domestic resource mobilization.

Gender equality and women’s economic empowerment

65. The Strategic Framework, 2026-2029, places gender equality and women’s economic empowerment at the heart of the Fund’s catalytic mandate and strategic imperative. Gender considerations will be systematically mainstreamed across the portfolio, with gender-specific targets, diagnostics, indicators, results and safeguards embedded in the design and deployment of all financial instruments and advisory services. This approach de-risks markets for women and vulnerable groups, addresses structural barriers to economic participation, and channels capital to close the financing gap for women-led enterprises.

66. Building on a gender equality strategy, UNCDF will ensure that at least 60 per cent of programme resources are allocated to gender-significant objectives (GEN2) and 15 per cent to gender-specific objectives (GEN3). Performance will be rigorously tracked, integrating sex-disaggregated data into reporting and aligning resource allocation with targets for gender-responsive investing. By positioning gender equality as a core driver of financial sector deepening and market systems development, UNCDF reinforces its role as a critical actor in advancing the global goals and the *Compromiso de Sevilla* for the world’s most underserved populations.

Demonstrating catalytic value and accountability

67. The new Strategic Framework commits UNCDF to demonstrating that each concessional dollar delivers outsized and measurable impact. It combines catalytic leverage data with evidence of systemic change, ensuring accountability for entrusted resources.

68. Results reporting will track catalytic ratios – the volume of public and private capital catalysed per concessional dollar. UNCDF will also capture how its interventions generate systemic changes: the creation of municipal bond markets, the expansion of blended finance facilities, and the embedding of gender-inclusive lending in national banks. Demonstrating the Fund’s unique value proposition and on-ramping role for larger financiers, with measurable results, is key to securing trust and future resources.

69. In line with ACABQ recommendations, UNCDF will adopt transparent reporting mechanisms such as annual results reviews aligned with the integrated budget. These reviews will show where resources go, what they achieve, and how risks are managed. Independent evaluations will validate catalytic claims and disseminate lessons across the United Nations system.

70. This culture of accountability strengthens UNCDF credibility and influence. By demonstrating impact with transparency, UNCDF builds the case for greater investment in catalytic finance, securing its role as the front-liner for inclusive and resilient development finance.

VIII. Call to action

71. As this Strategic Framework launches – shaped by the Pact for the Future and the emerging UN80 initiative – UNCDF invites its partners to invest in catalytic finance to advance inclusive economic development within planetary boundaries where it is needed most. By working with UNCDF, partners empower an institution determined to ensure that no locality, however small, vulnerable or fragile, is excluded from the financial flows necessary to meet its development priorities. UNCDF is uniquely positioned to deploy catalytic capital in true early-stage and last-mile markets, bridging the United Nations normative and country-level work with multilateral development banks

and development finance institutions – a system-critical role. Amid fiscal austerity and rising demands, the UNCDF catalytic function to leverage private capital for public purpose has never been more essential.

72. The next four years will be decisive. By 2029, UNCDF aims to demonstrate measurable impact at scale, extending beyond interventions to systemic transformation of financial sectors and market systems. Achieving this requires sustained, predictable, pooled and unearmarked investment for capital deployment. UNCDF needs predictable core resources of \$15 million annually to deliver an investment portfolio capable of leveraging more than 15 times that amount in non-core resources. Together, voluntary and other resources will catalyse this amount fourfold– \$60 million unlocking over \$3.8 billion over four years – underscoring the Fund’s exceptional return on investment for partners. Its recent pillar 6 accreditation under the European Union financing window for loans and guarantees demonstrates that the organization’s systems and safeguards meet world-class standards. As official development assistance declines, every development dollar must work harder and reach further. The choice before partners is clear: invest in catalytic finance today to unlock multiples tomorrow, or risk leaving people behind.

73. The new Strategic Framework is a call to action to governments, foundations, philanthropies, development banks and private impact investors to join forces in expanding the frontier of development finance, ensuring that sustained, inclusive economic prosperity reaches every community, even in the most challenging contexts – leaving no one behind.
