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United Nations Capital Development Fund

United Nations Capital Development Fund

Strategic Framework, 2022-2025

Executive summary

Mobilizing and deploying capital for development in the least developed countries (LDCs) has never been more critical. The decade of action to achieve the Sustainable Development Goals began with an unprecedented health and socioeconomic crisis that may push up to 32 million more people living in LDCs back into extreme poverty. The more than 1.08 billion people who live in LDCs face challenges ranging from their informal, undiversified economies to climate change and the global coronavirus disease (COVID-19) pandemic. These countries need capital to invest in infrastructure and human development to build institutions, establish market systems, support entrepreneurship, harness the potential of youth and achieve basic standards of living for all.

With its unique mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha programme of action for the least developed countries, 2022–2031. UNCDF aims to accelerate financing for development in the LDCs by supporting them to achieve three interlinked strategic game-changers:

1. Catalyse additional private and public flows of capital;
2. Strengthen market systems and financing mechanisms;
3. Accelerate inclusive, diversified, green economic transformation.

Under this Strategic Framework, 2022-2025, UNCDF will realize its full potential as a hybrid development organization and development finance institution by fulfilling its overall financing mandate with capital deployment, financial advisory services and capital catalysation. This will be matched with development expertise across five priority areas: the well-established flagship areas of (a) inclusive digital economies; and (b) local transformative finance; and in the emerging areas of (c) women's economic empowerment; (d) climate, energy and biodiversity finance; and (e) sustainable food systems finance.

UNCDF will expand its role as the United Nations flagship catalytic financing entity for the LDCs to include strengthening financing mechanisms and systems for structural transformation. UNCDF will combine its Sustainable Development Goal financing capabilities, instruments and sector expertise with the wider development and operational capacities of the United Nations development system to deliver more comprehensive and impactful support for the LDCs. UNCDF will continue to build partnerships with private and public actors to achieve greater results and development impact and unlock additional resources.

To realize its vision and Strategic Framework, UNCDF will build a culture that leverages digital and other types of innovation and encourages integrated approaches that are responsive to the priorities and opportunities of the LDCs.

The Executive Board may wish to take note of this Strategic Framework.



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I. Strategic context: challenges and opportunities in the decade of action

1. The least developed countries (LDCs) are a diverse group of countries with special needs and different levels of growth, vulnerability, equality, demographics, geography and size of the economy. A few have already qualified for graduation from the category, some are in transition and others are affected by crises and conflict. Home to over 1 billion people, LDCs account for only 1.3 per cent of global gross domestic product, 1.4 per cent of global foreign direct investment and just 1 per cent of global merchandizing exports.¹
2. The coronavirus disease (COVID-19) pandemic had a devastating effect on lives and livelihoods, with the poorest and most vulnerable being the hardest hit, and caused LDC economies to shrink significantly in 2020, with external debt burdens and debt service obligations rising drastically. Extreme poverty jumped from 32.2 per cent to 35.2 per cent, an increase of more than 32 million people,² wiping out decades-long gains towards poverty eradication. The pandemic has reversed progress towards sustainable development in LDCs, which was already uneven before the crisis and not at pace to achieve the Sustainable Development Goals by 2030.
3. The LDCs encounter multiple structural impediments, including low levels of productive capacities and largely undiversified, informal economies that are heavily reliant on agriculture and natural resources. Only 53 per cent of the population of the LDCs have access to energy, with rates of access as low as 10 per cent in rural areas in some countries.³ The lack of digital infrastructure combined with low levels of gender equality further prevent LDC economies from transforming and seizing their full potential.⁴ These challenges are compounded by mounting threats from climate change and biodiversity loss. Food systems need to be more sustainable, productive, inclusive and resilient to deliver healthy and nutritious diets to all.
4. The LDCs face significant obstacles in attracting private sector investments to support efforts to achieve the Sustainable Development Goals. Underdeveloped local capital and financial markets, further compounded by high risk of corruption, severely limit domestic and foreign capital for productive investments and most LDCs lack solid pipelines of bankable enterprises and projects with impacts on achievement of the Goals. The international financial architecture is not designed to support riskier and/or smaller investments essential to build a thriving private sector in the LDCs. High transaction costs, risk perceptions and lack of local market knowledge are some key barriers for investors.
5. At the same time, the global economy is shifting, with growing impact investor and private consumer markets throughout the developing world, resulting in increased South-South and triangular cooperation. With their promising youth population, natural resources and strengthened governance systems, LDCs represent markets with enormous untapped potential for economic growth and development. Higher levels of investment in human capital and productive assets are critical to unlocking structural transformation and inclusive economic development.
6. The Doha programme of action for the least developed countries, 2022-2031, the 2030 Agenda for Sustainable Development and the Paris Agreement, among others, will guide UNCDF in its continued support to make finance work for the LDCs.⁵

¹ Doha programme of action for least developed countries, page 31,

https://www.un.org/ldc5/sites/www.un.org.ldc5/files/rev1_of_the_poa_ldc5.pdf

² United Nations Conference on Trade and Development, *The Least Developed Countries Report 2020*
https://unctad.org/system/files/official-document/ldcr2020_en.pdf

³ Doha programme of action, page 27,

⁴ World Economic Forum, 2021, Global Gender Gap Report 2021
<https://www.weforum.org/reports/ab6795a1-960c-42b2-b3d5-587eccda6023>

⁵ UNCDF is an autonomous organization associated with UNDP. The UNDP Administrator is the Managing Director of UNCDF.

II. Lessons learned: building on the foundation and experiences of UNCDF

7. Poised for growth. The previous Strategic Framework, 2018-2021 set out to transform UNCDF by activating and expanding its investment mandate, transitioning its financial inclusion work to focus on digital finance and economies, while adapting and deepening its local development finance work in areas such as fiscal decentralization and municipal finance. After four years of reform, innovation and consolidation, UNCDF is increasingly recognized for its capabilities and approaches to strengthen public and private financing systems and mechanisms, de-risk local investments and attract additional finance to drive economic development in the LDCs. The proposed framework will build on progress and lessons learned from experience and evaluations of its work, in order to significantly scale up UNCDF support to the LDCs to build forward better.

8. An investment track record matters. UNCDF has laid the foundation for a novel investment proposition and partnership model for the LDCs. Through a dedicated team of investment professionals and new loan and guarantee policies and procedures, UNCDF has increased its capacity to manage and deploy loans and guarantees, enabling it to build an investment pipeline and track record. This is a unique capability in the United Nations development system that UNCDF will continue to exercise throughout the four-year period of the next framework.

9. Filling the missing middle finance gap is a multiplier for sustainable development. During the last strategic framework cycle, development finance and impact investment communities signalled that UNCDF should continue to focus on the missing middle finance gap – businesses and projects that are too large for microfinance but still considered too small and too risky to be served by other commercial financial institutions. Accordingly, UNCDF will increasingly allocate resources and pursue synergies with private and public actors to address this niche area of financing.

10. Leverage official development assistance (ODA) to mobilize additional resources. UNCDF has leveraged scarce ODA resources to support LDCs to crowd in additional finance, including accessing larger pools of grant finance, using structuring expertise and concessional finance to mobilize domestic and international capital, and building public and private institutions for broader sustained catalyzation of finance.⁶ The framework illustrates how UNCDF will scale up its work to provide innovative finance instruments and development support that use ODA resources to mobilize additional public and private development finance for the LDCs.

11. Digital transformation enables cutting-edge development and financing solutions. Digital technologies have revolutionized how finance can be mobilized and channelled – from domestic savings to crowdfunding and global platforms funding micro, small and medium-sized enterprises (MSMEs) – and how finance is monitored to ensure alignment with the Sustainable Development Goals. UNCDF will seek to mainstream digital innovations in its investment and programmatic agenda in support of LDCs.

12. Subnational finance is key to achieve the Sustainable Development Goals. UNCDF launched the Malaga Coalition for Municipal Finance to shape a global financial ecosystem that provides access to finance for cities and local governments at scale. This included the initiation of the International Municipal Investment Fund, the world's first equity fund exclusively dedicated to cities; the growth of an LDC-focused local climate-resilience mechanism; and the establishment of a transboundary local water financing mechanism. This work, embedded in deep partnerships, provides the platform for accelerating subnational finance during the next framework.

13. From piloting to scale. UNCDF has been assessed as piloting and demonstrating effective

⁶ This framework refers to both mobilization and catalysation of private finance. Private sector mobilization is a demonstrated causal link between the official and private investment whereas private sector catalyzation measures beyond/after project effects of private financing activities and transaction support activities not measured by mobilization.

[https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC\(2018\)25&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2018)25&docLanguage=En)

approaches to develop market systems and catalyse finance that can be adopted and expanded by national Governments and other development partners to benefit the last-mile and vulnerable populations. The framework elaborates on how UNCDF will continue to innovate and scale up approaches that work and pursue systems change through integrated approaches and partnerships.

14. Investing in gender equality and women's economic empowerment is a precondition for sustainable results. UNCDF has made significant progress in pushing forward gender mainstreaming in the organization. Work on redressing gender biases in norms and practices, enhancing women's agency and creating enabling environments for women's economic empowerment, including women's access to and control over financial opportunities and resources, has been identified as critical for the sustainability of all programme results. UNCDF will work to integrate a stronger gender lens across all its programming and is committed to positioning women's economic empowerment as a priority area.

III. UNCDF for the decade of action

15. The UNCDF vision is that LDCs are able to access and leverage the development impact of capital to enable sustainable and inclusive economic growth and achieve the Sustainable Development Goals.

16. Anchored in the 2030 Agenda, UNCDF will work to achieve a future where poverty is eradicated in all its forms and dimensions, where people in LDCs live in dignity and can access finance, key services and goods through strong institutions, a vibrant private sector and diversified local economies that have a net positive impact on the environment.

17. The mission of UNCDF is to serve as the United Nations flagship catalytic financing entity for the LDCs to strengthen financing mechanisms and systems for structural transformation.

18. To catalyse financing for economic development that benefit the last-mile and vulnerable populations in LDCs, UNCDF will accelerate its transition to a hybrid organization that is both a development organization and a development finance institution. As a hybrid organization, UNCDF will fulfil its unique capital mandate by complementing traditional grant-making and technical assistance with an increased and mainstreamed use of its financing capabilities and instruments, including loans, guarantees and blended finance funds across areas of technical expertise.

19. The COVID-19 pandemic and its impacts will continue to be a major factor for the LDCs in the coming four years. UNCDF will build on experiences in providing financing and technical support to small and medium-sized enterprises (SMEs) to adopt digital solutions and adjust their business models to survive the crisis, and to local governments to manage COVID-19 response and recovery, in line with the United Nations framework for the immediate socioeconomic response to COVID-19.⁷

Engaging with the United Nations system

20. General Assembly resolution 75/233 of 21 December 2020 on the quadrennial comprehensive policy review (QCPR) of operational activities for development of the United Nations system underscores the need for the United Nations system to coordinate and work closely together to provide coherent development support, including to address the complex challenges and opportunities of scaling up sustainable finance solutions, especially in LDCs. UNCDF will expand its role as the United Nations flagship catalytic financing entity for the LDCs to serve the wider United Nations development system and deploy innovative solutions that catalyse Sustainable Development Goal financing at scale. With its unique financing capabilities and technical expertise, UNCDF has a distinct complementary role to the expertise and programming of other United Nations entities. UNCDF will build on the successful engagement in the Joint SDG Fund financing window to create innovative blended finance solutions for the system.

⁷ [United Nations Sustainable Development Group, A United Nations framework for the immediate socioeconomic response to COVID-19](#)

21. At the country level, UNCDF will pursue enhanced collaboration with United Nations country teams, including to develop Common Country Analyses and United Nations Sustainable Development Cooperation Frameworks. Building on its field presence in 31 LDCs, UNCDF will establish a country relationship manager system and gradually deploy additional technical staff to programme countries. In response to the QCPR, UNCDF will engage with United Nations partners to assist resident coordinators in LDCs in mainstreaming the Doha programme of action into development planning.⁸ UNCDF also has investment specialists to support the United Nations country teams in several African countries to help unlock private finance for sustainable development investments, foster government reforms and deepen financial markets. UNCDF will strengthen cooperation with UNDP and its country offices led by resident representatives, based on their close affiliation, strong complementarities and many ongoing joint initiatives. The UNDP Strategic Plan, 2022-2025 presents numerous entry points for collaboration, including in the enabling areas on development finance and digitalization, and in many of the UNDP signature solutions, with UNCDF well placed to provide complementary innovative financing expertise and solutions. UNCDF will pursue synergies with relevant work of the UNDP Finance Sector Hub, such as the SDG Impact investor maps and standards, and on insurance, bonds and integrated national financing frameworks among others.

22. UNCDF will pursue strategic thematic partnerships with other United Nations entities where the combination of its financing capabilities with the specific knowledge of other organizations can have transformative impact. For example, UNCDF collaboration with the World Food Programme in West Africa supports the use of digital financial services and financial literacy of vulnerable populations. The UNCDF global partnership with the Office of the United Nations High Commissioner for Refugees promotes financial inclusion solutions for refugees and forcibly displaced populations. With the International Organization for Migration, the World Bank and UNDP, UNCDF supports a global alliance for enhanced access to cross-border digital remittances through innovative solutions that reduce transaction costs and link remittances to a wider range of financial service. UNCDF will continue its work with the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) to develop innovative financing solutions for women's economic empowerment. As the United Nations hub for subnational finance, UNCDF will deepen United Nations partnerships, including with the United Nations Conference on Trade and Development and the Department of Economic and Social Affairs on capital market access for subnational governments and on asset management. With the United Nations Human Settlements Programme, UNCDF provides a joint investment offer for cities and works with the economic commissions on recovery from COVID-19 and expanding local fiscal space. Collaboration with the United Nations Framework Convention on Climate Change secretariat on local climate adaptation finance will be deepened.

IV. Core markets

23. UNCDF will focus primarily on supporting the 46 LDCs in their development trajectories. This will include support for a smooth transition for recently graduated LDCs. Where appropriate, UNCDF may also work in other developing countries, including in select small island developing States that are not LDCs, particularly when resources and expertise gained from such efforts can benefit LDCs. UNCDF will be at the forefront of supporting LDCs to achieve the outcomes of the Doha programme of action 2022-2031, strengthening its partnerships with LDC Governments to further respond to country priorities. UNCDF will:

- (a) Take a focused, client-responsive approach to the needs and priorities of the LDCs and ensure full involvement of all relevant stakeholders to strengthen national ownership and leadership;
- (b) Bring investment opportunities in LDCs to global capital markets through results-oriented innovative partnerships with the development community and private investors;

⁸ QCPR, operative paragraph 89

(c) Partner with the LDCs in achieving global development agendas (i.e., the 2030 Agenda for Sustainable Development; the Fifth United Nations Conference on the Least Developed Countries; Addis Ababa Action Agenda; Paris Agreement; the biodiversity-related Conventions and more);

(d) Contribute to transformation pathways such as green economy, digitalization, urbanization, inclusive economies and gender equality and women's economic empowerment.

24. The LDCs are particularly susceptible to sociopolitical fragility as well as economic and environmental vulnerability. UNCDF will build on its experience in fragile and conflict-affected settings by actively deploying locally-led, people-centred initiatives and capacity development, strengthening financial services and providing access to sustainable investment solutions that address the humanitarian-development-peace nexus.

25. The interventions of UNCDF place particular importance on empowerment of youth, women, migrants, refugees, smallholder farmers, informal sector entrepreneurs and persons with disabilities, all of whom are often marginalized due to social norms, societal status and limited revenue and capacity. With the aim to ultimately benefit the last-mile populations that are excluded from accessing finance and other services, UNCDF will provide its support to and through public and private partners that reach and serve: (a) in the private sector, MSMEs and larger enterprises, including financial service providers; and (b) in the public sector, government counterparts, including regional and local governments in cities, rural and peri-urban areas.

26. Country-level investment pipelines will be a central element of the sharpened focus of UNCDF on attracting investments for the Sustainable Development Goals to LDCs. UNCDF will support Governments and the private sector and work with development partners and relevant stakeholders to identify investment opportunities that are aligned with national development plans, priorities and needs, bear high development impact and offer strong potential for private finance mobilization. UNCDF will provide project preparation support and deploy concessional capital to bring these opportunities to the point of bankability and de-risk them for other investors.⁹

27. UNCDF will also play a role of capital convener and facilitator by matching the pipelines of investment opportunities with a wide pool of providers of concessional and commercial capital. Together with a consortium of public and private institutions, UNCDF will develop a digital platform to connect SMEs with investors to streamline deal sourcing, screening, connection to capital providers and co-financing between investors.

V. The UNCDF offer

28. The work of UNCDF will be:

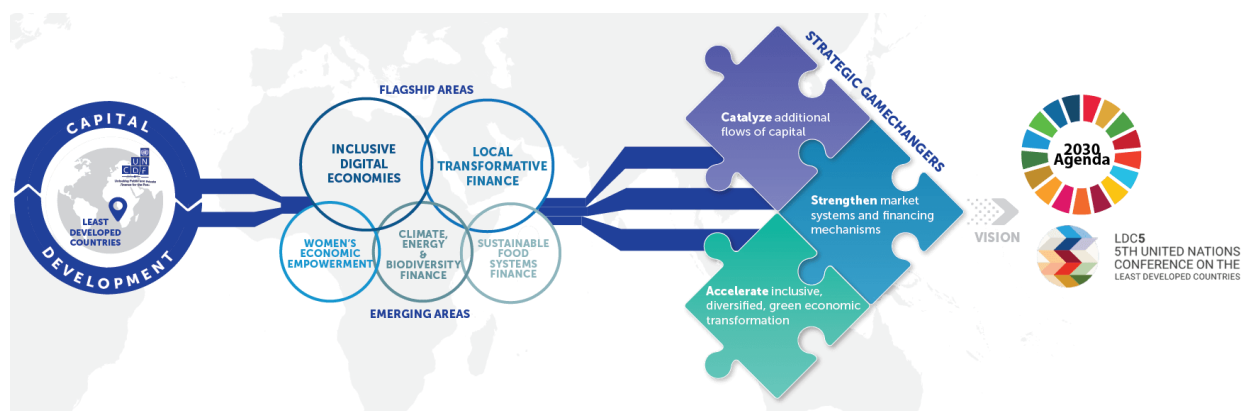
(a) To support countries to achieve three strategic game-changers:

- (i) Catalyse capital;
- (ii) Strengthen market systems and financing mechanisms;
- (iii) Accelerate inclusive, diversified, green economic transformation;

(b) Through the use of capital and development triggers, i.e., financing, investment and development support;

(c) Applied across five priority areas comprising two well-established flagship areas of inclusive digital economies and local transformative finance and three emerging areas of women's economic empowerment; climate, energy and biodiversity finance; and sustainable food systems finance.

⁹ In countries where UNDP develops "SDG Investor Maps", UNCDF will collaborate with this initiative.

Figure I. The UNCDF Offer

Strategic game-changers

29. Guided by the principles of shared responsibility, ownership and leadership by the LDCs, UNCDF will support countries to pursue three interlinked and mutually reinforcing strategic game-changers:

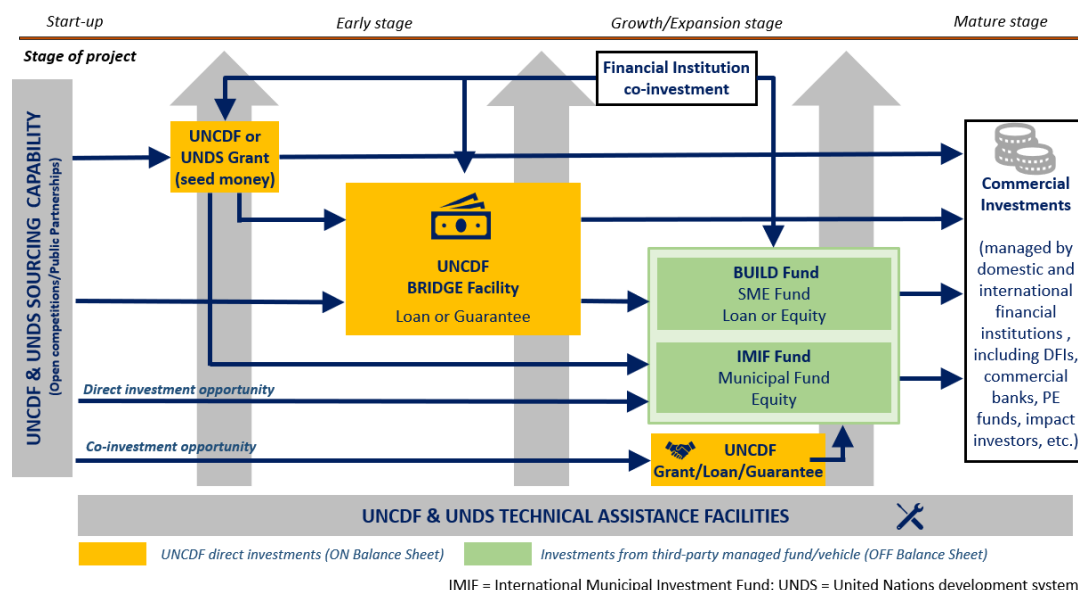
- (a) Catalyse additional flows of capital;
- (b) Strengthen market systems and financing mechanisms;
- (c) Accelerate inclusive, diversified and green economic transformation.

30. UNCDF will focus its support on Sustainable Development Goals which will be targeted as part of all its interventions: Goals 1 (no poverty), 5 (gender equality), 8 (decent work and economic growth) and 17 (partnerships for the Goals). UNCDF also aims to contribute to Goals 2 (zero hunger), 7 (energy), 9 (infrastructure and industrialization), 11 (sustainable cities and communities), 13 (climate action), 14 (life below water), 15 (life on land) and 16 (peace, justice and strong institutions). Integrated interventions that contribute to multiple interlinked Goals and address the three dimensions of sustainable development will be prioritized. Through collaboration with United Nations and other development partners, UNCDF may contribute to additional Goals.

Capital triggers

31. UNCDF will provide innovative financial instruments and mechanisms, strategic investments, and financial advisory services to help catalyse capital flows in favour of investments into last-mile settings, primarily in the LDCs, that will contribute towards the Sustainable Development Goals. UNCDF financing and investment support will be deployed across all priority areas and programmes. UNCDF will also expand its role to provide financing instruments and expertise across the United Nations development system to structure and implement approaches that engage the private sector and leverage additional capital for investments in the Goals.

32. UNCDF will provide strategic investments and facilitate creditworthiness for investments across the “investment continuum” ranging from early stage to more mature enterprises and projects. UNCDF uses its programmatic work, in-country presence and relationships with national Governments and development partners to source investment opportunities and provide pre- and post-investment advisory support to improve bankability and business development. Its aim is to create powerful demonstration effects that pave the way for additional follow-on investments by larger capital providers.

Figure II. The UNCDF investment continuum

33. UNCDF will achieve its financing and investment mandate in the following three ways.

Capital deployment

34. The fund's own financing instruments include grants, concessional loans and guarantees, which are deployed at the initial stages of the investment continuum. For early-stage companies and public investments, the UNCDF Plug-and-Play e-investment platform provides rapid sourcing and deployment of grants for local businesses and local governments. The platform has been central to the UNCDF COVID-19 emergency response.

35. For companies or projects in the "missing middle" that are more mature but not yet ready for commercial finance, UNCDF provides catalytic concessional loans and guarantees from its own balance sheet as growth capital and to help build an investment track record. UNCDF seeks an initial capitalization of \$50 million for the on-balance sheet BRIDGE Facility as a dedicated financing facility for the LDCs. With a high-risk appetite and concessionalism in its loans and guarantees, the BRIDGE Facility fills a gap in the international development finance architecture by providing finance for small enterprises and projects that are unable to access finance from other financial institutions. The BRIDGE Facility is expected to leverage up to one to three times the capital it deploys.

Financial and business advisory services

36. In addition to deploying capital, UNCDF will provide financial advisory services to enterprises, projects, Governments and other external parties. This support includes project origination, structuring, due diligence and development of new innovative financial instruments, bonds and other capital markets products, and partnerships. This includes Sustainable Development Goal-positive exchange-traded funds, "SDG Bonds" and domestic blended finance vehicles. UNCDF will support portfolio approaches that aggregate many smaller deals to achieve scale and reduce risks to attract larger investors.

37. The provision and facilitation of investment finance will be accompanied by business advisory services, both pre- and post-investment, for investment readiness and impact effectiveness.

Capital mobilization and catalysation

38. Through its capital deployment, financial advisory services and support to establish financing mechanisms and systems, UNCDF will mobilize additional public and private, international and

domestic finance into Sustainable Development Goal-positive investments in the LDCs. UNCDF also aims to have broader effects that catalyse additional resources for investments and markets on an ongoing basis beyond direct interventions by UNCDF.

39. During the last two years, UNCDF has contributed to the design and development of two third party-managed blended finance vehicles, i.e., the “BUILD” (Bamboo-UNCDF Initiative for the Least Developed) Fund for SME investments and the International Municipal Investment Fund for municipal infrastructure investments, both of which provide finance for more mature enterprises and infrastructure projects requiring larger investments with different risk-adjusted return requirements. UNCDF will continue to position these funds to help meet capital mobilization requirements in the two respective investment areas in LDCs.

Development triggers

40. UNCDF will fulfil its mission by applying its financing capabilities in combination with sector development expertise through programmes that support LDCs to move to higher-productivity economic activities. Its development support is focused around: (a) technical assistance; (b) capacity development; (c) policy advice, advocacy and thought leadership; and (d) market analysis.

41. Non-financial support from UNCDF is designed to prepare private sector partners and Governments to access finance and improve their development impact. This support includes: (a) capacity development for MSMEs to enhance business performance; (b) high-quality policy advice and technical assistance for government actors in local and urban public financial management, including own-source revenue administration; and (c) research and development along with technical assistance to pilot and scale up innovative financing solutions.

42. To ensure sustained development impact, UNCDF seeks to effect change at the level of the market and public finance system. This includes support for policy and regulatory reforms to enable development of public and private financing systems and mechanisms. It also involves support to incorporate proven successful solutions into government systems and programmes or into private sector and market offerings. In this regard, UNCDF will continue to leverage South-South and triangular cooperation as a key modality for learning and transferring of effective solutions among LDCs.

43. In addition, UNCDF undertakes market analyses, assessments and diagnostics and shares this knowledge with partners to identify growth and investment challenges and opportunities. Based on its operational experience and thought leadership, UNCDF will develop knowledge products and conduct seminars to advocate and inform policymakers about viable financing solutions for the Sustainable Development Goals.

Five priority areas

44. The UNCDF capital and development triggers will be used to support countries in two well-established flagship areas and three emerging areas. UNCDF works across these areas using an integrated approach to create solutions to interlinked development challenges.

45. In the three emerging areas, UNCDF focuses primarily on applying its financing capabilities to mobilize and catalyse capital. In doing so, it will collaborate closely with other United Nations entities and development organizations which bring complementary thematic expertise.

Inclusive digital economies

46. UNCDF promotes digital economies that leave no one behind. It aims to equip people to use innovative digital services in their daily lives that will empower them and contribute to achieving the Sustainable Development Goals. By 2025, UNCDF plans to support 25 countries on their paths to inclusive digital transformation, directly reaching 14 million people.

47. The fund will address market-system constraints and gender inequalities that prevent the emergence of inclusive digital economies, working closely with private and public partners and civil society to create demonstration effects and an enabling environment that drives digital transformation, both in finance and real economy sectors critical for the Sustainable Development Goals.

48. The UNCDF approach to market systems development creates a conducive environment via combined interventions in four areas: (a) policy changes; (b) modern digital infrastructure and open payments systems; (c) private sector innovation; and (d) development of skills for the digital era. UNCDF will engage with policymakers and regulators to accelerate the development of enabling legal frameworks for inclusive market systems that harness innovations and digital solutions and promote financial inclusion.

49. At the heart of the UNCDF digital strategy is empowering and protecting the rights of customer segments that are marginalized and lack access to digital technology and finance due to social norms, societal status and limited revenue and capacity. Through the promotion of financial health, UNCDF aims to deepen the resilience, security, and financial freedom of people in LDCs, enabling progress on the Sustainable Development Goals.

50. The UNCDF finance and investment tools are embedded into the programming approach through market scoping to identify investments in: (a) last-mile connectivity infrastructure; (b) technology companies providing digital solutions; (c) digital innovations that help to catalyse domestic and international capital; and (d) MSMEs embracing digital transformation to receive and make payments, increase their access to capital and boost their business models.

51. Achieving Sustainable Development Goals 8 and 9 and building forward better for a sustainable, inclusive and resilient recovery from the COVID-19 crisis will require strengthened MSME sectors, including enabling them to benefit from digital transformation. UNCDF will scale up engagement with fintech firms and innovative digital platforms that link MSMEs to markets and suppliers, provide financial services, enhance skills and enable easier formalization.

52. Remittances provide a critical source of income for many vulnerable population groups in the LDCs. However, remittances are often costly and have drastically declined due to the COVID-19 crisis. UNCDF will improve the flow of remittances through formal channels; reduce remittance transaction cost by increasing access to digital channels; and strengthen financial resilience through increased access to and adoption of migrant-centric credit, insurance, pension and investment products.

53. The Inclusive Digital Economy Scorecard is a strategic public policy tool developed by UNCDF to assist countries to measure and track progress of the level of development of their digital economies, their digital inclusiveness and their digital divides. By identifying the key market constraints, the scorecard helps public and private stakeholders establish priorities for action to ensure that digital economies are inclusive.

54. UNCDF will continue to partner with telecommunication companies, banks, microfinance institutions, fintech companies, government ministries, regulators, donors and United Nations organizations. UNCDF and UNDP co-hosted the secretariat for the Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals. UNCDF and UNDP have established a joint offer on digital financing to implement the recommendations of the task force and create a framework for driving the digital financing agenda at country level.

55. UNCDF hosts the secretariat for the Better than Cash Alliance, which plays a critical role in advocating for and supporting its member Governments, private sector actors and development organizations in moving from cash to digital payments to advance the Sustainable Development Goals.

Local transformative finance

56. Achieving the Sustainable Development Goals, the objectives of the Rio Conventions and recovery from the COVID-19 pandemic requires localized approaches and transforming towns and cities into inclusive, resilient and sustainable growth centres. This is particularly the case in LDCs,

which are among the world's most rapidly urbanizing countries,¹⁰ but also holds true for urban centres in lower- and middle-income countries. The lack of productive, service-oriented infrastructure in urban and rural areas is a key obstacle to local development and economic transformation. Yet, flows of public and private development and climate finance reaching local governments in LDCs remain scarce. Strong domestic capital markets, local fixed-capital formation and expanded local fiscal space are instrumental for the critical transition to higher productivity and green and inclusive local economies.

57. To deliver on its mission, UNCDF is reorienting its local development finance work to “local transformative finance”, becoming a technical and financial partner for local transformation. Clients will encompass local and regional governments, cities as agencies of local transformation, domestic capital market participants and regulatory and budgetary authorities. UNCDF combines finance and investment instruments with sector expertise across all aspects of subnational public and private finance.

58. To this end UNCDF will offer its clients financing and policy expertise in three overlapping transitions:

- (a) The urban transition to implement the New Urban Agenda that transforms cities into inclusive, sustainable and resilient places with everyone benefiting from growth, access to transport, housing, water and sanitation, green space and the “right to the city”;
- (b) The green transition to implement the Rio Conventions through sustainable city planning and zoning, urban food systems land-use management, circular water management and clean and smart energy solutions;
- (c) The productive transition to implement the priorities of the Doha programme of action for the Least Developed Countries (2022-2031): increasing productive capacities through a territorial approach to local economic development and the creation of value-added urban/rural linkages leading to structural transformation.

59. UNCDF will deepen and expand its role as the United Nations hub for subnational finance by strengthening its long-standing collaborative relationships and converting them to solution-driven services. Partners include the United Nations development system, Governments, networks of local governments such as the World Congress of United Cities and Local Governments and the International Council for Local Environmental Initiatives, and international non-governmental organizations (NGOs). This provides a new conduit of development financing post-pandemic that can be scaled up through engagement with relevant domestic, regional and global financial institutions. With these partners, UNCDF will design, create and test scalable financing vehicles, develop subnational capacities and foster enabling policy environments. Examples include debt and equity funds; subnational bonds; securitization platforms to free up balance sheets for subnational finance; guarantee schemes to defray sovereign and local government liabilities; subnational windows in sovereign wealth funds; local development funds; fiscal decentralization; vertical climate finance; own-source revenue mobilization and public finance and asset management.

60. By 2025, UNCDF will expand its balance sheet exposure to local government-led transactions in at least 10 countries; support fiscal decentralization, public finance management or own-source revenue management in at least 20 countries; catalyse at least \$1 billion through supported third-party investment funds (e.g., the International Municipal Investment Fund); and assist subnational governments to gain access to capital markets in at least five countries.

Women's economic empowerment: vision equal economies

61. For UNCDF, promoting women's economic empowerment in LDCs stands for creating equal economies, where every woman has equal access, equal agency and equal leadership within her

¹⁰ OECD/UNCDF (2020), Blended Finance in the Least Developed Countries 2020: Supporting a Resilient COVID-19 Recovery, OECD Publishing, Paris, <https://doi.org/10.1787/57620d04-en>.

community. UNCDF is committed to integrating a gender lens throughout its programmes and operations and will work towards two objectives for women's economic empowerment:

(a) **Gender Finance Gap Zero.** UNCDF aims to co-create innovative financing solutions to promote women's economic empowerment and overcome the barriers to gender equality. It will deploy innovative finance mechanisms to support women-owned MSMEs through grants, loans, guarantees and technical advice, to reduce the MSME ownership and credit gap and the gender digital divide. UNCDF will support local public and private partners to direct municipal finance towards the delivery of equitable and inclusive services and infrastructure, and develop dedicated financing mechanisms to unlock additional finance for investments in women's economic empowerment. UNCDF also will provide technical expertise to Governments to channel existing and catalyse additional public finance to gender equality commitments;

(b) **Red Tape Zero.** UNCDF aims to address the barriers to digital and financial inclusion of all women in LDCs by enhancing women's capabilities, enabling their access to digital and financial services and promoting gender-responsive infrastructure and essential services. UNCDF will support Governments to create an inclusive policy and regulatory environment that strengthens gender-intentional and -responsive policies and regulations, local development strategies, plans, budgets and governance structures.

62. In partnerships with UN-Women and the rest of the United Nations development system, UNCDF will contribute to global policy and inter-agency processes related to women's economic empowerment and gender financing, building on its strategic positioning as co-lead of the Generation Equality Forum action coalition on women's economic justice and rights. In addition, UNCDF will continue its partnership with 100 Women in Finance to support the development of networks of female finance leaders in LDCs.

Climate, clean energy and biodiversity finance

63. **Climate finance.** With scarce resources and overreliance on climate-sensitive activities and sectors, such as rain-fed agriculture, LDCs are disproportionately affected by and particularly vulnerable to the adverse effects of climate change, which are most dramatically experienced at the local level. Local governments are often responsible for managing sectors and areas which are climate-sensitive and critically important for successful adaptation, including land use, water management, natural resource management and infrastructure.

64. Parties to the United Nations Framework Convention on Climate Change recognize the subnational dimensions of adaptation to protect people, livelihoods and ecosystems. However, only a small portion of climate finance, particularly for adaptation, targets initiatives at subnational level and local governments also lack the technical capacity for effective adaptation and resilience-building.

65. UNCDF designed the Local Climate Adaptive Living Facility ("LoCAL") in 2011 to promote climate change-resilient communities and local economies. It provides a standard and internationally recognized country-based mechanism to channel climate finance to local government authorities in LDCs, contributing to countries' implementation and achievement of the Paris Agreement commitments. It supports participatory, youth-sensitive and gender-transformative planning, financing, implementation and monitoring of nationally determined contributions and national adaptation plans at subnational level, thereby increasing capacities and financing for local responses to climate change.

66. UNCDF will build on this experience to deliver accelerated and enhanced volumes of financing and support for climate adaptation of vulnerable communities in LDCs. This will include a greater focus on supporting nature-based climate solutions and promoting green economies. By 2025, LoCAL will be expanded across eligible countries and at least double the volume of finance mobilized, in particular through direct access to international climate finance. UNCDF will help to develop innovative structures that can increase finance flows for climate-related emergencies, e.g., risk insurance such as the Pacific Insurance and Climate Adaptation Programme and for climate-resilient green and smart cities. UNCDF is launching a global climate exchange-traded fund with the

Global Investors for Sustainable Development Alliance.

67. **Clean energy finance.** UNCDF will increase resilience in LDCs by supporting an energy transition agenda that emphasizes decentralized, renewable and clean energy projects and products that drive green growth. Net-zero emissions energy solutions that expand energy access and value addition are key elements of this approach. UNCDF promotes access to finance across energy value chains, from customer to enterprise to larger investments. UNCDF helps fill the energy SME financing gap through use of its financial instruments. It increasingly supports both solar and improved cooking business models with digital and other technologies to increase their bankability and to reach excluded populations. By 2025, UNCDF aims to support investments that allow 6 million people in at least 10 countries to access and benefit from clean energy. UNCDF investments will also contribute to wider energy market development, with an increased focus on productive use and local economic resilience and with strong connections to other key sectors.

68. **Biodiversity finance.** Although nature provides up to 38 per cent of climate mitigation solutions, nature-based climate solutions receive only 3 per cent of global climate finance. UNCDF will support innovative initiatives that catalyse finance for integrating biodiversity conservation into business models and economic development. This includes the blended finance Global Fund for Coral Reefs, which supports business approaches to marine biodiversity protection. UNCDF will support instruments such as nature performance bonds or debt-for-nature swaps, including through blue or green blended finance schemes that leverage additional financing. UNCDF will continue to work closely with UNDP in defining, piloting and scaling up these types of biodiversity and ecosystem-based financing solutions.

69. UNCDF will engage closely with UNDP and the wider United Nations development system to provide financing expertise and innovative solutions as part of integrated United Nations approaches to environmental crises, including to address the “triple planetary crisis” - the interlinked and cascading effects of climate change, biodiversity loss and pollution, as called for by the Secretary-General in “Our Common Agenda”.

Sustainable food systems finance

70. To address the fragility of food systems in LDCs, structural transformation towards sustainable, resilient and equitable food systems is needed. Providing tailored sustainable finance solutions in the food security and nutrition sector will boost economic prospects, employment opportunities and livelihoods, especially for women and youth. UNCDF will support the piloting and delivery of financing solutions for municipal and SME investments in food systems that advance food security, mitigate the effects of COVID-19 and help reduce the risk of future shocks to benefit the poorest, most vulnerable and those furthest behind. It will provide the following types of support:

- (a) Promote public financing solutions and territorial approaches for investments in public infrastructure and services essential for sustainable food systems, such as irrigation schemes, roads and energy infrastructure;
- (b) Design, pilot and enhance innovative private or blended finance mechanisms for local food-supply-chain SMEs;
- (c) Increase access to capital for municipalities to strengthen urban food systems;
- (d) Promote digital solutions and innovation for improved access to finance and other services for local producers and value-chain participants (including for climate-smart agriculture);
- (e) Work with the United Nations development system and relevant stakeholders for integrated solutions that leverage UNCDF financing capabilities in support of sustainable local food systems.

VI. Institutional and operational agility

71. UNCDF endeavours to be an agile organization capable of responding quickly to the diverse needs of its constituencies, as well as identifying new, adaptive, cost-effective and innovative ways of working that deliver sustainable change and adapt to the evolving development challenges and

opportunities to leave no one behind. A continued focus on key drivers of institutional agility will equip UNCDF with the necessary tools, capabilities and systems to make it a fit-for-purpose organization that delivers transformative results in the last mile and beyond.

Funding model

72. Effectively meeting the growing demands for UNCDF support from LDCs and the United Nations development system will require adequate, flexible and predictable funding.

73. During the period of the previous framework (2018-2021), UNCDF set funding targets of \$25 million for regular (core) resources and \$75 million for other (non-core) resources, including \$50 million for the BRIDGE Facility. UNCDF has put in place an internal resource mobilization task force to coordinate, diversify and increase mobilization of funding to serve its core markets. Development of multi-year business plans that align with the priorities of funding partners and LDCs indicate significant growth potential for UNCDF. As a result, UNCDF aims to be more ambitious and evolve to a \$1 billion organization over the four-year period. Annex II provides further details on different resource scenarios including base, ideal and ambitious growth scenarios.

74. Regular resources are the backbone of the UNCDF business model, providing the operational capacity, technical expertise and flexible risk capital that enable UNCDF to innovate and leverage additional resources. Regular resources also serve to ensure a minimum presence at regional and country levels. Sufficient and predictable regular resources are critical for UNCDF to be able to provide a basic level of support to its partner Governments and to the United Nations development system. In 2020, regular resources accounted for 14 per cent of total resources received, well below the commitments in the funding compact. Significant progress will be needed to ensure that UNCDF has adequate regular resources to achieve the results requested by LDCs, including for smooth transition support for graduating LDCs.

75. Other resources make up the bulk of UNCDF funding, comprising flexible other resources contributions to the Last Mile Finance Trust Fund and more tightly earmarked programme funds. While increasing the amount of regular resources is a priority, UNCDF recognizes the importance of presenting thematic-based and geographic-focused offerings and will pursue a more strategic and differentiated approach for mobilizing other resources funding. This will include a strengthened focus on pooled and thematic funding opportunities for joint programming with the wider United Nations system.

76. Another critical component of the UNCDF funding architecture is the BRIDGE Facility, through which UNCDF deploys capital in the forms of concessional loans and guarantees. This capital is “revolving” by nature since recipients repay the principal along with interest and the repaid capital can be lent to new investments related to the Sustainable Development Goals. As such, it provides value for money for funding partners. The target for capitalizing the BRIDGE Facility is \$50 million.

Partnerships

77. Innovating, achieving results at scale and mobilizing resources to achieve the UNCDF strategic vision require strong partnerships with a range of actors at global, regional and country levels. UNCDF will aim to significantly expand and deepen its long-standing partnerships with a growing network of domestic and international actors, including Member States, sister United Nations entities, civil society, academia and NGOs.

78. **International and development finance institutions.** With its focus on smaller investments, riskier enterprises in the “missing middle” and with its expertise at the subnational level, UNCDF can play a highly complementary role vis-à-vis international financial institutions (IFIs) and development finance institutions (DFIs). For example, innovative models piloted and proven by UNCDF can be taken to scale by IFIs. Through its investment continuum approach, UNCDF can also de-risk and demonstrate bankability to unlock larger follow-on investments by IFIs. Partnerships with IFIs and DFIs will be pursued for such opportunities and to make a case for donors to support UNCDF to fill these gaps in the international financial architecture.

79. Private sector. Partnerships with the private sector and other providers of capital on innovative financing mechanisms that crowd in additional finance for investments for the Sustainable Development Goals are central to the UNCDF approach and will be accelerated and scaled up. This includes impact investors (e.g., the Global Impact Investing Network and the Global Steering Group for Impact Investment), domestic and international commercial banks, capital market actors, private foundations and family offices, mobile network operators and financial technology companies. UNCDF will continue to partner with private sector partners on innovations that bring digital services to markets and will also advocate for responsible and inclusive business practices that promote human rights.

Institutional effectiveness

80. Transparency and accountability empowered by digital integration. To improve accountability for results, UNCDF has recently implemented a transparency window and data portal to track the development of the investment pipeline and monitor its programme portfolio, increase efficiencies and reduce operational costs and risks. Overall, UNCDF intends increasingly to leverage digital channels to promote greater transparency and traceability. UNCDF will also deploy advanced analytics solutions that aggregate development and investment data that can enable scenario simulation and real-time monitoring and thus facilitate decision-making.

81. Staff development. UNCDF will ensure that staff are fully equipped to deliver on the vision set by the Strategic Framework by investing in talent and professional development programmes in soft skills and technical areas such as gender intentionality, blended finance instruments, financial structuring, business advisory, credit risk, due diligence and impact management. UNCDF will increase and sustain efforts towards achieving gender and geographic balance in appointments at all levels and reinforce its commitment to zero tolerance for sexual exploitation, abuse and harassment, racism and discrimination.

82. Knowledge management. UNCDF will continue to build its role as a recognized thought leader and advocate for innovative finance to reach the last mile. To drive innovation, incentivize corporate learning, integrate gender intentionality and facilitate replication of effective models, a digital knowledge management system will be reinforced to strengthen its internal information and data systems.

83. Results measurement. The redesigned integrated results and resources matrix (see annex I) details the impact, outcome and output-level indicators to track the UNCDF contributions to development change. A revised results-based management system supported with additional resources will enable UNCDF to capture, learn from, share and improve how its approaches are taken to scale and contribute to increased investment flows for the Sustainable Development Goals, gender equality and women's economic empowerment and inclusive green economic development in LDCs. The redesigned results system also places greater emphasis on tracking financial and development additionality of the UNCDF investment portfolio.

84. Evaluation. UNCDF will continue to ensure the independence, credibility and effectiveness in conducting external independent evaluations of programmes and projects and will increasingly pursue thematic or portfolio evaluations. In this regard, fully resourced regular resources funding will enable UNCDF to have more comprehensive global coverage of its programmatic footprint. UNCDF undertook an evaluation of the previous Strategic Framework and a full report along with the management response is available. A four-year evaluation plan is presented in annex III.

85. Risk management. The full implementation of the Strategic Framework is contingent on several risks, the main one being the mobilization of required resources. The aspiration to create and scale up innovative financing models that work for the LDCs is risky by nature. Other risks involved with innovative approaches to identify investments and attract private finance range from capability gaps to local market and political risks. To mitigate these risks, the UNCDF institutional enablers and resource mobilization and partnership strategies are designed to be flexible and proactive to such an evolving landscape. UNCDF has also put in place a revised operations manual and enterprise risk management policy to help strengthen oversight and accountability.

VII. Looking forward – scaling for impact

86. The COVID-19 pandemic triggered the most challenging development situation for the LDCs in generations. Flows of development finance are under severe pressure and progress on the 2030 Agenda has stalled. As the United Nations flagship catalytic financing entity for the LDCs, UNCDF will strive to increase the impact of every dollar it invests in support of graduation of LDCs, economic transformation and a sustainable and resilient recovery.

87. UNCDF commits to serving and becoming fully operational and present, first and foremost, in all 46 LDCs by 2025. This will allow UNCDF to replicate models, expand its priority areas of work and leverage additional financial resources and partnerships, including with the United Nations development system.

88. UNCDF will scale up direct deployment of loans and guarantees along with its financial and business advisory services. UNCDF has piloted and demonstrated proof of concept with this work over the past four years. UNCDF will aggregate its sector portfolios to create a portfolio investment strategy in areas such as solar energy and women-led enterprises. There is a need to increase the UNCDF balance sheet for this purpose.

89. The UNCDF maturity model has guided the overall pursuit of greater scale and impact, fully embracing an approach of innovating, aggregating, replicating and scaling solutions. UNCDF will build on the experiences and lessons from applying this model and commit to systematically track performance for scaling up impact with rigorous impact management and results measurement system.

90. Reaching the Goals of the 2030 Agenda and delivering on the Addis Ababa Action Agenda on financing for development requires a strong commitment to partnerships. In the coming four years, UNCDF will engage with public and private partners to support and replicate solutions that unlock flows of finance at scale for last-mile investment in the Sustainable Development Goals in the LDCs.
