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**United Nations Capital Development Fund**

**Midterm review of the UNCDF strategic framework, 2022-2025, and  
report on results achieved by UNCDF in 2023**

*Summary*

This report presents the midterm review of the UNCDF strategic framework, 2022-2025 and results achieved in 2023. It examines progress made in three outcome areas: accelerated, inclusive, diversified, green economic transformation; increased flows of public and private finance; and strengthened market systems and public and private financing mechanisms. It also presents analyses of UNCDF institutional effectiveness and key evaluation findings.

*Elements of a decision*

The Executive Board may wish to: (a) take note of the report; (b) commend progress made by UNCDF in undertaking reforms to enhance implementation of its strategic framework, 2022-2025; (c) encourage UNCDF to explore how it may assume an enhanced role as a provider and aggregator of catalytic and blended SDG financing for the least developed countries, including through more systematic engagement with the United Nations development system and development finance institutions; and (d) recommit to support UNCDF to achieve its base growth resource requirements of \$25 million per year in regular resources as per the strategic framework, 2022-2025.



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## I. Contextual analysis

1. The least developed countries, brimming with natural resources, young populations and a spirit of innovation, stand poised for advancement. While recent growth and development progress have been modest, these nations demonstrate an unwavering commitment to progress. They are actively building resilience, fostering regional cooperation and embracing technology. Yet they also face a confluence of challenges, including climate change, geopolitical discord, economic fragmentation and the unrelenting pressure of rising living costs. While projections for 2024 offer a modest growth rate of 5 per cent, a slight improvement over the prior year, growth remains significantly below the 7 per cent target envisioned by the Sustainable Development Goals, underscoring persistent hurdles.<sup>1</sup>

2. Volatility in key commodities such as metals, oil and cotton undermines growth prospects. A staggering 82.6 per cent of least developed countries remain heavily reliant on commodity exports. External debt service escalated to approximately \$60 billion in 2023, straining fiscal capacities and impeding economic recovery.<sup>2</sup>

3. Compounding these financial pressures is a concerning decline in official development assistance, a lifeline for many least developed countries. Despite global official development assistance flows reaching record highs in 2022, aid to Africa plummeted by over 7 per cent.<sup>3</sup> Foreign direct investment, another critical source of capital in least developed countries, peaked in 2015 before dwindling to \$23 billion annually, constituting only 3 per cent of the total for developing countries. Recent global crises have further exacerbated this decline, with foreign direct investment to the least developed countries plunging by approximately 16.5 per cent in 2022.<sup>4</sup>

4. In this context, UNCDF plays a critical catalytic role in supporting the least developed countries. It leverages unique financing capabilities and instruments and collaborative partnerships to mitigate investment risks and mobilize impact capital for development.

## II. UNCDF performance and highlights

### A. UNCDF achievements

5. UNCDF supports the least developed countries to achieve three integrated and strategic development outcomes: a) accelerating inclusive, diversified, green economic transformation by (b) catalysing additional private and public flows of capital and (c) strengthening market systems and financing mechanisms. It deploys a combination of financial instruments, financial advisory services and development expertise across five priority areas.

#### **Outcome 1: accelerating inclusive, diversified, green economic transformation**

6. To contribute to inclusive, green economies, UNCDF helps to increase the availability of capital and digital and financial products and services to benefit individuals and micro-, small and medium-sized enterprises at the local level and the “last mile”. Support to capital mobilization also helps to finance infrastructure to build resilience.

#### *Inclusive digital economies*

7. UNCDF champions inclusive digital economies and digital finance solutions that leave no one behind and help advance the Sustainable Development Goals. In 2023, it supported policy and regulatory reforms to enable digital economies, and the piloting and scaling up of private-sector-led digital and financial services that benefited millions of people and thousands of micro-, small and medium-sized enterprises.

8. Towards developing data for better decision-making on digital transformation, UNCDF implemented the Inclusive Digital Economy Scorecard in 25 countries in 2023. The scorecard identifies

<sup>1</sup> United Nations Department of Economic and Social Affairs (2024). World Economic Situation and Prospects.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> United Nations Conference on Trade and Development (2023). Global Investment Trends Monitor, No.45.

market barriers and supports governments in setting priorities for inclusive digital development with public and private stakeholders. Since its inception in 2019, the scorecard has helped 120 government agencies and other stakeholders to track digital transformation and design digital strategies and policies. Scorecard data have informed 17 draft and 10 enacted policy actions, with 10 countries officially adopting the scorecard as their official digital transformation measurement tool.

9. In the Pacific, UNCDF with UNDP and the United Nations Conference on Trade and Development supported 12 innovative solutions in digital finance and digitally enabled climate and disaster risk insurance. UNCDF facilitated the first-ever mobile remittance solution for transfers between Fiji and Vanuatu. It contributed to formulating six policies, regulations and strategies to foster a more inclusive digital economy. Over 1 million people are now engaging with more affordable and inclusive digital financial services, work made possible with support from the governments of Australia and New Zealand and the European Union.

10. In Bangladesh, UNCDF support towards graduation from least developed country status includes digital solutions to link remittance flows (25 per cent of gross domestic product) to productive investments benefiting migrants and their families. UNCDF assists small and medium enterprises in the ready-made garment sector with a green transition and the integration of human rights principles into core operations. Partnerships with fintech firms and banks have designed and implemented digital financial services to improve the resilience of the workforce, mainly women. Services include insurance products, digital platforms for pension savings and nano-loans for cash flow challenges.

11. Across Africa, UNCDF has deepened engagement with central banks and line ministries to support harmonized remittance policies to enhance accessibility and reduce costs. A partnership with nine private sector financial intermediaries developed digital remittance channels, reaching 916,000 low-income migrants and their families, a notable 25 per cent increase over the previous year. These combined efforts demonstrably bolstered the remittance landscape, facilitating 1.3 million transactions in 2023 for a cumulative total of 5 million since the project began.

12. In northern Uganda, UNCDF partnered with the Food and Agriculture Organization (FAO) to enhance access to finance for smallholder farmers through fintech solutions and alternative credit scoring. This initiative, where 66 per cent of borrowers were women and 50 per cent were youth, facilitated digital lending through village loans and savings associations and farmer cooperatives. The Uganda Development Bank secured additional on-lending capital for cooperatives. UNCDF is supporting the replication of this model in Malawi.

13. With support from the European Union, UNCDF assisted 11 Ghanaian institutions to scale up financial services for women and youth, reaching 161,000 registered clients since 2019. UNCDF helped the national Securities and Exchange Commission to develop investment-based crowdfunding guidelines to unlock finance for micro-, small and medium-sized enterprises, building the groundwork to integrate crowdfunding into the start-up and early-stage enterprise financing ecosystem.

14. With support from the African, Caribbean and Pacific Group and the European Union, UNCDF launched the Caribbean FinTech Sprint, partnering with governments and leveraging local and global fintech companies to present market-ready solutions for digital financial inclusion and e-commerce. Five awardees received \$500,000 in performance-based financing to expand mobile money and e-commerce solutions to underserved people in the Caribbean.

#### ***Local transformative finance***

15. In 2023, UNCDF continued to support subnational transformative finance in five areas: intergovernmental fiscal transfers, own source revenues, domestic capital markets, investment funds and guarantees.

16. UNCDF played a pivotal role in advancing global discourse on municipal finance. As co-organizer of the 2023 Málaga Coalition High-Level Policy Dialogue, it provided a global platform for exploring subnational finance approaches and highlighting the transformative power of policy reforms and innovative instruments in unlocking sustainable development capital flows for local governments.

17. The UNCDF commitment to subnational finance extended beyond policy and advocacy. In 2023, it assisted more than 375 local governments in expanding fiscal space to better serve their communities.

UNCDF strengthened intergovernmental fiscal transfer systems in 25 countries to support the more equitable distribution of resources and more effective local governance.

18. In Sierra Leone, UNCDF partnered with the Freetown City Council to test a model to improve access to clean water and sanitation for over 1 million residents. With financing support from the Government of Switzerland and the Geneva Water Hub, work was completed on 40 new water kiosks and 15 public toilets. These facilities will operate under sustainable business models, ensuring sufficient revenue to cover operational and maintenance costs. Piloted financing mechanisms will inform municipal efforts to attract additional investments in essential water and sanitation infrastructure.

19. The Smart Green ASEAN Cities programme assists 15 cities from six south-east Asian countries to develop innovative subnational financing mechanisms for sustainable urban development. In Banyumas City, Indonesia, UNCDF supported a state-owned enterprise and private sector operator to develop financially viable solutions for increasing inorganic waste recycling and improving organic waste management. Banyumas is on track to achieve zero landfill waste within two years and plans to collect waste from other cities within five years, scaling up its waste management business.

20. UNCDF supports Somalia's fiscal decentralization agenda and creation of municipal financial ecosystems. In 2023, it assisted fiscal transfers to 36 districts, up from 19 in 2019, providing catalytic investment finance for 59 infrastructure projects. It informed fiscal decentralization policies for three federal member states and a new local revenue regulation in Puntland, and helped develop human and institutional capacity. Domestic resource mobilization has been significant, with districts in Somaliland and Puntland raising over \$70 million and \$26 million in own source revenues, respectively.

21. In Kenya, Somalia and Uganda, UNCDF with support from the Government of Switzerland is strengthening the role of local governments in providing services and economic opportunities for forcibly displaced people. In Somalia, UNCDF backed the integration of displacement issues into crucial planning processes, regulations and budget allocations. It assisted in developing revenue enhancement and asset management action plans for two cities, fostering sustainable financing and improving public service quality. The construction of solar-powered water infrastructure and two marketplaces for displaced people created employment opportunities while generating revenue for the cities. A partnership with a local financial institution provided financing for micro and small businesses operated by displaced people, especially women.

22. These initiatives laid foundations for displaced people to rebuild lives with dignity, enhanced their socioeconomic inclusion and ultimately could open pathways out of displacement. The innovative UNCDF approach to financing solutions for displacement is expected to inform the work of the Special Adviser to the United Nations Secretary-General on Internal Displacement.

23. The long-running Development Initiative for Northern Uganda concluded in 2023, leaving a legacy of positive impacts in a conflict-affected area. These included the rehabilitation of over 400 kilometres of roads, strengthened governance and revenue administration in 18 districts, and investments in 17 economic infrastructure projects such as markets and agroprocessing facilities. The initiative helped improve local land titling systems, which enabled small agribusinesses to access commercial credit. The issuance of over 4,000 customary land ownership certificates in three districts, coupled with the establishment of a land dispute resolution mechanism, significantly reduced land-related conflicts, fostering greater stability and security.

#### ***Financing women's economic empowerment***

24. UNCDF supports women's economic empowerment through innovative gender-responsive investments and financing solutions, in partnership with governments, the private sector and other United Nations entities. Interventions are often cross-cutting and part of other thematic initiatives.

25. By providing capacity development and financing solutions, the IncluCity programme empowers cities to develop gender-responsive, inclusive services, infrastructure and economic opportunities. The programme developed the City Score Card for Inclusion, which assists municipalities to link inclusion and financing agendas. In 2023, the Mbale Municipal Council in Uganda enhanced its planning and budgeting processes and installed five new solar-lit water reservoirs in slum areas, significantly improving safety for women and children fetching water.

26. UNCDF empowers women in rural communities, such as in Northern Uganda. A partnership with Nyowe Ventures established a digital platform to connect actors in the shea nut and sunflower value chains to markets, information, essential farming inputs and financial service providers. Over 100,000 farmers, 73 per cent of whom were women, made links to the platform. Training equipped 163 community champions (80 per cent women) to deliver digital skills education and facilitate the enrolment of farmers.

27. Financial inclusion remains a key pillar of the UNCDF strategy. In Myanmar, it collaborated with three microfinance institutions to develop gender action plans. This ensured gender mainstreaming in operations and facilitated the development of gender-responsive digital services, ultimately benefitting over 400,000 clients (75 per cent women) across the country.

28. UNCDF and the United Nations Human Settlements Programme (UN-Habitat), in partnership with the ellaimpacta Alliance, a consortium of women-led companies and philanthropies, announced the Women-Led Cities initiative to foster inclusivity and women's empowerment. A 12-month co-design process began in 2023.

### *Climate, clean energy and biodiversity finance*

29. The UNCDF-managed Local Climate Adaptive Living Facility provides an internationally recognized country-based mechanism for accessing and channelling climate finance directly to local governments and communities. In 2022, the establishment of the International Organization for Standardization (ISO) standard 14093:2022 solidified the facility's position as an effective means to deliver climate financing and related assistance to the local level.

30. The facility's footprint has expanded significantly in recent years, involving 38 countries implementing or designing climate adaptation actions, a nearly threefold increase since 2019. Over two thirds of all least developed countries and eight small island developing States take part in the initiative. In 2023, it engaged with over 277 local governments, benefitting more than 16 million people. A significant milestone in Benin entailed Green Climate Fund approval of over \$9 million to scale up the Local Climate Adaptive Living Facility through the National Fund for Environment and Climate. This expansion is projected to benefit 1.9 million people, bringing the total number of beneficiaries in Benin to 2.7 million. It is a model that other countries could consider replicating.

31. The facility achieved record resource mobilization in 2023, securing over \$60 million, and delivering an estimated \$21 million in grants, capacity development and operational support. Since its inception, it has mobilized over \$200 million, making significant progress towards its ambitious target of raising \$500 million by 2027.

32. The UNCDF-led Pacific Insurance and Climate Adaptation Programme expanded to five countries by the end of 2023, supporting market ecosystems to deliver innovative risk transfer solutions for vulnerable communities. Over 12,676 households, representing around 60,000 individuals, have benefited from UNCDF-supported parametric microinsurance schemes offering financial protection against climate shocks.

33. The programme backed the development of the Pacific Regional Disaster Risk Financing strategy and roadmap, further strengthening preparedness and resilience. Feasibility studies for parametric risk insurance were completed in four African least developed countries, Malawi, Niger, Senegal and Sierra Leone, laying the groundwork for future implementation and expanded coverage.

34. The UNCDF energy programme focuses on creating enabling environments for sustainable clean energy markets. It provides catalytic financing and advisory services, and assists companies to become investment-ready and attract private capital to scale up operations and maximize impacts.

35. In 2023, 25 UNCDF-supported energy service companies sold over 110,000 improved cookstoves, solar systems and other innovative solutions in Burkina Faso, the Democratic Republic of Congo (jointly with UNDP), Ethiopia and Uganda. By promoting clean energy, UNCDF improves lives and contributes to mitigating climate change and combatting deforestation in some of the world's most critical ecosystems. In 2023, UNCDF investments leveraged an additional \$10 million. Supported companies created over 1,500 jobs.

36. The CookFund Programme in the United Republic of Tanzania, funded by the European Union and implemented with the Government, the United Nations Industrial Development Organization (UNIDO) and FAO, has awarded 62 grants totalling over 5 million euros to support small businesses offering clean cooking solutions, benefiting over 41,000 end-users. The programme has reduced carbon emissions by an estimated 114,588 tons, while improving health, education and gender equality outcomes. This initiative is central in supporting a national goal of 80 per cent clean cooking usage by 2033.

37. Strategic global collaboration continued through UNCDF in its role as a steering group member of the Global Off-Grid Lighting Association's PAYGo PERFORM initiative, which promotes standardized performance metrics for off-grid solar installations. Partnership with the Clean Cooking Alliance supported scaled-up innovative financing solutions for clean cooking technologies.

38. UNCDF manages the secretariat for the Global Fund for Coral Reefs, a blended finance initiative to accelerate business and finance solutions that protect coral reefs, boost local economies and enhance community resilience. Combining a grant fund, managed by UNCDF, and an investment fund, the Global Fund for Coral Reefs expanded its portfolio in 2023, supporting projects in 19 countries and directly mobilizing over \$35 million. Since its 2020 launch, the initiative has raised \$225 million, including \$90 million for grants and \$135 million through the investment fund.

39. In collaboration with the Joint SDG Fund, UNDP and local partners, the Global Fund for Coral Reefs supported protection of Fiji's Great Sea Reef. The initiative involves a partnership with Matanataki, a local business development and investment management company, to provide technical assistance and de-risking capital for the incubation of bankable projects focused on coral reef protection. By 2023, seven businesses had been supported to become investment-ready, including in areas such as organic fertilizers, sanitary landfills, aquaculture and sustainable fisheries. The initiative expects to leverage up to \$50 million from private investors, with \$14 million already secured in soft commitments.

40. Funded by the Peacebuilding Fund and led by UNCDF, the Kibira National Park project in Burundi aims to transform the park from a historical base for armed groups into a catalyst for regional peace and environmental sustainability. In 2023, the project facilitated establishment of the Kibira Foundation, dedicated to strengthening conservation leadership and fostering peace. The Nature Facility, founded by UNDP in collaboration with UNCDF, contributes to this project. A 10-year co-management agreement between the foundation and the Government of Burundi strengthens the state presence in the park and establishes a sustainable financing mechanism for conservation and development. The foundation mobilized an additional \$2.25 million in private sector contributions. UNCDF is also facilitating investment in a hydropower public-private partnership to address electricity demand and move away from unsustainable reliance on charcoal for fuel, alongside exploring a payment for ecosystem services scheme for watershed restoration and erosion control. This project serves as a model for leveraging nature-based solutions for peacebuilding and post-conflict transformation.

### *Sustainable food systems finance*

41. UNCDF continued support for financing solutions for municipalities and small and medium enterprises to invest in sustainable food systems, often through partnerships with United Nations entities. In Papua New Guinea, a collaborative effort with UNDP, FAO, the International Labour Organization and the International Telecommunication Union promotes women's participation in the cocoa, vanilla and fisheries value chains. UNCDF expanded mobile networks and digital financial services in rural areas through private sector partnerships, leading to over 400 new bank agents and 80,000 new customers. A partner bank opened over 300 small business bank accounts in 2023, demonstrating the programme's positive impact.

42. In Burundi and the Democratic Republic of Congo, UNCDF provided catalytic financing for food system transformation, including microloans and portfolio guarantees channelled through local financial service providers. This enabled investments in small businesses across food systems, aimed at enhanced food security and resilience. The initiative has benefitted 1,900 credit requesters, including 1,300 women and 400 youth, and is accompanied by support for developing financial and business planning skills.

43. In Myanmar, UNCDF supported microfinance institutions to provide extension services and finance to farmers and microenterprises from different ethnic groups, including internally displaced persons. This benefitted 4,500 people, with a prominent focus on women (87 per cent).

44. In collaboration with the United States Department of State and the Africa Adaptation Initiative, UNCDF in 2023 launched the AAI Food Security Accelerator to invest in climate-adaptive food system solutions. It focuses on fostering nature-positive, adaptation-centric businesses in emerging and frontier markets in Africa.

### **Outcomes 2 and 3: increased flows of public and private finance, and strengthened market systems and enhanced financing mechanisms**

#### *Finance mobilized and catalysed*

45. UNCDF directly and indirectly unlocks public and private financing to support sustainable enterprises and local government projects. It uses a suite of instruments, including capital grants, loans, guarantees and technical assistance as well as relationships with third-party financiers.

46. The UNCDF BRIDGE Facility is an “on-balance sheet” investment vehicle designed to deploy loans and guarantees. This facility targets businesses aligned with the Sustainable Development Goals and projects poised for growth but not yet able to access commercial financing. It provides catalytic finance to help build credit history and establish a track record of responsible financial management, paving the way for future access to commercial financing. An accompanying technical assistance facility – BRIDGER – offers comprehensive pre- and post-investment advisory services.

47. In 2023, four transactions under the facility totalled \$3.2 million, including two guarantees that mobilized \$633,000 in private co-financing. Four guarantees and one loan of \$18 million were approved for 2024. These transactions target Sierra Leone, Tonga, Uganda, Zambia and Zimbabwe, focusing on financial inclusion, renewable energy and women’s economic empowerment.

48. In partnership with the World Food Programme (WFP), UNCDF provided a \$200,000 portfolio guarantee to a microfinance institution in Uganda, UGAFODE. This initiative facilitated local currency lending to refugees, particularly women and youth in the Nakivale refugee settlement. The guarantee strategically complements technical assistance and capacity development for business owners, empowering vulnerable populations to achieve greater self-reliance.

49. In Papua New Guinea, in collaboration with the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), UNCDF implemented the Markets, Economic Recovery and Inclusion project. It sought to empower women-owned businesses in four main markets by providing them with access to financing through the Women's Micro Bank Limited, also known as Mama Bank. UNCDF established a \$225,000 portfolio guarantee, offering 25 per cent first-loss coverage. The leveraged nature of the guarantee enabled Mama Bank to extend loans totalling \$800,000 upon full utilization. As of June 2023, over 850 women vendors had received loans, and 7,000 new accounts were established, demonstrably advancing financial inclusion and women’s economic empowerment.

50. UNCDF provided 118 new grants valued at \$13.5 million in 2023, a decrease from 2022. These grants contributed to mobilizing co-financing and catalysing indirect sources of finance, amplifying impact beyond the initial investment.

51. In Asia and the Pacific, UNCDF managed over 60 active grants worth \$14.5 million to expand digital finance solutions to underserved communities. The grants have mobilized an additional \$5.4 million in co-financing. In the Pacific, UNCDF issued 11 new grants that drew another \$1.19 million in partner co-investments. Globally, 28 new grants helped advance inclusive digital economies.

52. To promote local development and financing solutions, UNCDF provided some 80 grants valued at \$8.6 million. In the United Republic of Tanzania, UNCDF with the Government and the capital market regulator supported the Tanga Urban Water Supply and Sanitation Authority, through a grant and technical assistance, to prepare a water infrastructure green bond. This \$23 million bond will fund the rehabilitation and expansion of clean water infrastructure, targeting underserved communities. In 2023, UNCDF completed the bond structuring and secured approval for its issuance and listing on the Dar es Salaam Stock Exchange.



53. In November 2023, the Council of Ministers of member countries of the Gambia River Basin Development Organization adopted an integrated development master plan for the river basin. With potential to impact over 6 million people, the plan outlines a pipeline of infrastructure projects aimed at improving access to essential water-related services, including clean water, energy and irrigation for enhanced food security. The plan represents the culmination of an extensive effort, supported by UNCDF and the Swiss Agency for Development and Cooperation through the Blue Peace financing initiative. Going forward, UNCDF will help mobilize investment capital to finance some projects.

#### ***Third-party managed funds and finance mechanisms***

54. The BUILD Fund, a blended finance vehicle designed and launched with impact investment firm Bamboo Capital Partners, which manages the fund, invests in more mature businesses than the BRIDGE Facility. Ticket sizes range from \$250,000 to \$2.5 million. This fund has raised over \$70 million; it is complemented by the BUILDER Technical Assistance Facility managed by UNCDF. The fund has invested \$11 million through nine transactions, with an additional \$14 million under due diligence. These investments prioritize financial inclusion, food security and the green economy, with a cross-cutting focus on women and youth. In Uganda, the BUILD Fund-financed WATU Credit, a fintech business that provides motorbikes under a lease-to-own model, offers economic opportunities for youth in particular. As an open-ended fund, the BUILD Fund is poised for continued growth and impactful investments in the coming years.

55. The International Municipal Investment Fund, managed by MERIDIAM and established with UNCDF support, evaluated six municipal transactions in 2023. UNCDF and its partners contributed to sourcing five of these transactions. The fund approved three investments for advancement in 2023, which are currently in the structuring phase. UNCDF is working with the fund manager to advance two of the projects to the stage of investment readiness; these are in Kanifing municipality in The Gambia, with a combined proposed value of \$16 million. Following this stage, the fund will conduct an independent review and approval process.

56. The investment fund of the Global Fund for Coral Reefs has a target size of \$500 million with \$135 million raised to date. A first-loss tranche of \$125 million from the Green Climate Fund to a private equity firm helped mobilize \$10 million in senior tranches from the private sector in 2023. The fund made two investments, with two more under due diligence with a target 2024 launch. A \$6 million investment was provided to Carbonwave, the world's leading developer of ultraregenerative advanced biomaterials from seaweed that can replace petroleum-based products. It is addressing toxic and reef-damaging pollution of the ocean and shorelines in Mexico and the Mesoamerican Reef region.

#### ***Other financing mechanisms***

57. Launched in 2019 and initiated by the Sovereign Strategic Investment Fund of Senegal with support from UNCDF, the WE! Fund has emerged as a pioneering financial mechanism for promoting women's economic empowerment. In 2023, a significant milestone was the launch of the fund's second phase, secured through \$16 million in capitalization from the African Development Bank.

58. The UNCDF START Facility provides concessional financing to agroprocessing enterprises in Uganda. In 2023, the facility, in partnership with the Uganda Development Bank, disbursed \$780,000 in concessional finance to 10 businesses. The facility's second phase, funded by the European Union, is expected to catalyse over \$30 million in additional lending. It is projected to benefit over 300 agribusinesses and indirectly support 250,000 smallholder farmers.

#### **Strategic United Nations partnerships to finance the Sustainable Development Goals**

59. UNCDF is committed to expanding collaboration with the United Nations system, providing its unique expertise and instruments at the service of other United Nations entities. In 2023, it undertook 69 joint initiatives with various United Nations partners. UNCDF received substantial financial support, securing \$26.2 million from United Nations pooled funds and other entities, further demonstrating the value proposition it brings to collaborative development ventures.

60. Since late 2020, the Investment Advisory Initiative, funded by the Government of the Netherlands, has deployed five investment advisers to work closely with United Nations resident coordinators and country teams in 15 African countries. The advisers provide strategic support for Sustainable Development Goal financing efforts at the transactional and policy levels. This initiative has fostered engagement with 17 United Nations entities and facilitated the completion of 31 financing interventions, with an additional 57 currently underway. Interventions include defining financing support within the United Nations sustainable development cooperation frameworks, developing investment policy papers, and establishing innovative financing mechanisms to mobilize capital for the global goals, primarily from the private sector. An initial \$5 million provided by the Government of the Netherlands has generated \$14 million in additional funding for UNCDF, with another \$28 million in the pipeline.

61. Examples of work under the initiative include the recently launched WFP BRIDGE Financing Facility in Rwanda for agricultural businesses; a guarantee mechanism in Rwanda to enable the financing of rural health posts with UNFPA; a catalytic investment in a new renewable energy fund in Zimbabwe with the United Nations Educational, Scientific and Cultural Organization, UNDP and UN-Women, supported by the Joint SDG Fund; and a guarantee mechanism for smallholder farmers in Kenya and Zambia to support a transition away from tobacco farming together with the World Health Organization and WFP.

62. UNCDF continued to expand partnerships with UNDP. In Madagascar, a tripartite collaboration with UNIDO, supported by the Joint SDG Fund, promotes private sector-led clean energy solutions for the preservation of critical biodiversity hotspots. This initiative provides concessional capital to medium-sized businesses through a de-risking facility and offers technical assistance and grants to smaller energy start-ups via an incubator. The programme has successfully identified and funded several cohorts of companies.

63. In Afghanistan, UNCDF and UNDP collaborated to successfully digitize over \$1 million in humanitarian cash transfers, benefitting over 15,000 people in the pilot phase. This innovative approach yielded significant benefits, including reduced costs, increased efficiency, enhanced operational effectiveness and strengthened trust in digital payments. In the United Republic of Tanzania, UNDP and UNCDF have joined forces to unlock the potential of local innovators and entrepreneurs. This collaborative effort empowers Tanzanians to create impactful ventures that contribute directly to the achievement of the Sustainable Development Goals.

64. Since 2008, UNCDF and UN-Habitat have collaborated through the Joint Programme on Local Governance in Somalia. This partnership provides technical and financial assistance for local governments to formulate effective fiscal decentralization policies and improve revenue mobilization and management, resulting in significant growth in own source revenues, improved service delivery, strengthened state legitimacy and the consolidation of peace and stability.

65. UNCDF, UN-Habitat and the International Monetary Fund collaborate on revenue enhancement with over 100 subnational governments in four East African countries. Initial results indicate a 30 to 50 per cent increase in local own source revenue, achieved through addressing inefficiencies in tax administration.

## **B. Analysis of institutional effectiveness**

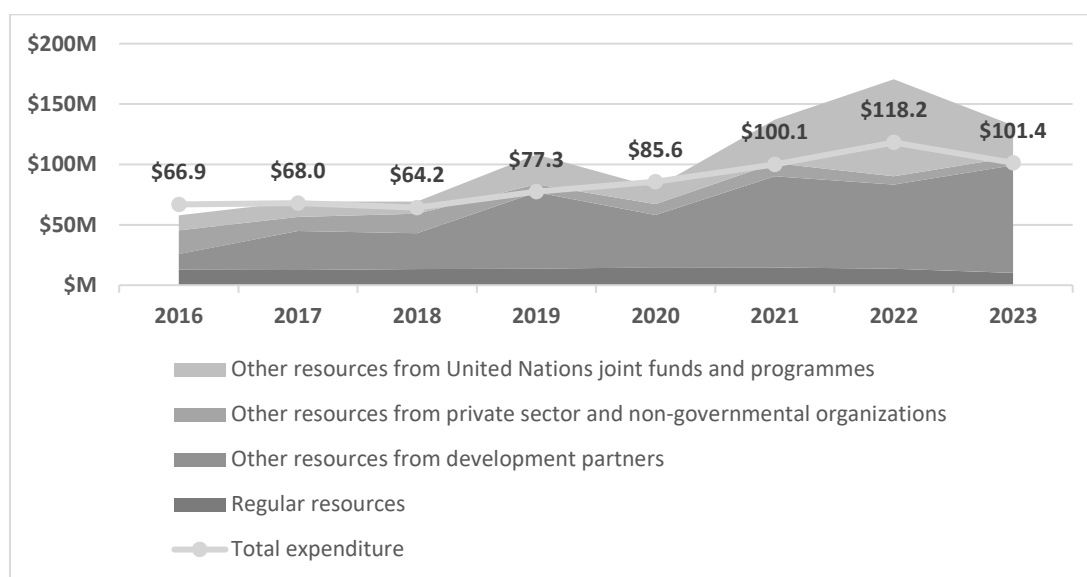
66. UNCDF received \$132.3 million in total resource contributions in 2023, down \$38.2 million from 2022. This falling trend was mirrored in regular resources, which dipped to a historically low \$10.2 million, including \$3.2 million from UNDP.<sup>5</sup> The share of regular resources, at 7.7 per cent, falls considerably below the 30 per cent target stipulated in the Secretary-General's funding compact and the \$25 million target outlined in the strategic framework, 2022-2025. This concerning decline in regular resources impacts the ability of UNCDF to effectively oversee and manage its diverse programme portfolio; recruit and retain crucial personnel in essential functions such as audit, evaluation

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<sup>5</sup> All 2023 revenue and expenditure figures are as of 26 February 2024. They are subject to adjustment until the publication of audited financial statements.

and results-based management; maintain a robust presence across all 45 least developed countries; drive innovation; and pilot critical financing solutions to address pressing development challenges. Furthermore, the number of regular resource partners declined to 7, a downward trend from 9 in 2022 and 11 in 2021. UNCDF is developing new partnerships and communications strategies to strengthen positioning and engagement with key partners and stakeholders. It is also exploring avenues to mitigate declines in regular resources and investigating potential revisions to its business model. Revenue from other resources declined to \$122.1 million, with 72.9 per cent (approximately \$89 million) coming from government partners. The top five overall contributors, in order of contribution, were the European Union, the Multi-Partner Trust Fund Office, and the governments of Sweden, the United States of America and Switzerland.

**Figure 1. UNCDF revenue and expenditures, 2017-2023 (in millions of United States dollars)**



67. Overall expenditures amounted to \$101.4 million in 2023, consistent with an upward trend of expenditure above \$100 million for the third consecutive year.

68. Geographically, UNCDF remained committed to its core mandate, supporting 41 least developed countries while also assisting with sustainable financing solutions in select countries in other categories. UNCDF leveraged South-South and triangular cooperation by fostering knowledge transfers and peer learning among governments and partners. For example, the board of the Local Climate Adaptive Living Facility provides a platform for ministers from least developed countries and other partners to collaborate to drive more climate adaptation finance to the local level. In 2023, 25 ministers signed a ministerial declaration calling for “simplified” and “consistent” access to climate finance and the establishment of a “consolidated funding modality” for the facility to support countries engaged in it.

69. UNCDF policy advocacy and communications helped position the organization as a unique partner of choice in the development finance architecture through proactive engagement at events such as the Fifth United Nations Conference on the Least Developed Countries and the Sustainable Development Goals Summit.

70. For the eleventh consecutive year, in 2022, UNCDF had an unqualified audit opinion on its financial statements, affirming strong commitment to improved financial management, transparency and accountability.

71. In 2023, UNCDF met requirements for 15 out of 17 performance indicators in the United Nations System-Wide Action Plan on Gender Equality and the Empowerment of Women (UN-SWAP). Preliminary expenditure figures show spending of \$9 million (9.4 per cent) on programmes dedicated primarily to gender equality and women’s economic empowerment (GEN3) and \$54.7 million (57.3

per cent) on programmes with a significant impact on gender equality (GEN2). GEN2 and GEN3 together constituted 66.8 per cent of total expenditure. As in previous years, all new programmes incorporated a gender marker in the appraisal phase, followed by the dedicated monitoring of contributions to gender equality and women's empowerment.

72. In 2023, UNCDF developed a new gender equality strategy and action plan in line with its strategic framework, 2022-2025 to meet corporate priorities on gender equality and women's economic empowerment. The plan will help the organization to strengthen its gender architecture, promote gender parity and deepen the gender-responsiveness of programmes and operations.

73. UNCDF took action to respond to recommendations from a performance audit conducted by the Office of Audit and Investigation on governance, risk management and control environments. It expects to complete implementation of all audit recommendations in 2024.

### **C. Strong commitment to evaluation and learning**

74. In 2023, UNCDF maintained its commitment to independent evaluations, spending 0.79 per cent of total expenditure on evaluations, towards the 1 per cent target set out in the UNDP evaluation policy. The UNCDF Evaluation Unit conducted three evaluations in 2023. Findings, lessons and recommendations from two of these evaluations are summarized below.

75. The final evaluation of the \$60 million Local Climate Adaptive Living Facility confirmed the relevance and coherence of the intervention with global climate change and decentralization priorities. The evaluation assessed the facility as a well-engineered mechanism for devolving planning and financing for adaptive climate investments to the local government level, channelled through national fiscal transfer systems. The facility supported local authorities in demonstrating models of locally led adaptation and became a useful platform for advocacy at the global and national levels to access climate adaptation finance. The evaluation noted that the facility has had a marked impact on the lives and livelihoods of beneficiaries, providing immediate relief to local communities. Long-term resilience, however, was not always clear.

76. The evaluation of the Burkina Faso inclusive digital economy country strategy, designed to promote financial inclusion through access to digital services, provided an overview of a range of UNCDF instruments. Digital services were found to be an effective response both to difficulties in access to financial services, especially in rural areas, and to the security situation in the country. The evaluation noted that the strategy leveraged a broad offering of UNCDF financial instruments, while ensuring the origination and monitoring functions necessary to create a portfolio of investments. The evaluation found that the market dimension of the strategy made it possible to test and activate innovations in digital services and renewable energy markets through strengthening existing market players. This helped increase adoption of digital financial services that do not depend on subsidies. Further market strengthening, however, will require facilitating the emergence of new companies through incubators.

77. UNCDF continued to prioritize innovation and improved quality in its evaluations with all completed assessments gauged "satisfactory" or "highly satisfactory" by the Independent Evaluation Office. UNCDF actively contributes to the work of the United Nations Evaluation Group and remains open to partnering with United Nations evaluation offices, Member States and other stakeholders on joint efforts in the international evaluation system.

## **III. Midterm review of the strategic framework, 2022-2025: main observations**

78. Midterm observations of the strategic framework, 2022-2025 result from a combination of internal reviews and self-assessments and external analyses and audits. UNCDF has commissioned an independent team to assess and define the kind of institution it should become as it strives to actualize the potential of its capital mandate and deliver on its strategic objectives. This independent report will be available in 2024 as a complement to the observations below.

### **An evolving UNCDF investment approach**

79. Established as a fund to provide capital to the least developed countries, UNCDF has further delivered on this mandate under the strategic framework, 2022-2025. It has supported mobilizing additional public and private finance for the Sustainable Development Goals. The BRIDGE Facility is the main vehicle for deploying loans and guarantees, and for leveraging scarce official development assistance resources through revolving financial instruments that allow the reuse of resources to maximize development impacts.

80. By de-risking projects that cannot access commercial financing, the facility bridges a financing gap and complements other financial institutions. Since 2017, the facility has conducted 42 transactions valued at \$18.1 million in 11 least developed countries. Companies have collectively raised an additional \$21.6 million in catalytic funding with UNCDF support, which highlights the multiplier effect of the facility. Earmarked facility windows have gained significant traction, especially through partnerships with United Nations entities, with around \$50 million under management. Securing the target of \$50 million in unearmarked contributions has proven more challenging and may require further demonstration of the facility's impact and potential for broader replication.

81. To scale up and accelerate the deployment of catalytic capital to achieve greater impacts, UNCDF is developing an investment strategy in 2024. This will further define how UNCDF deploys its financing instruments to enhance contributions to its strategic objectives, including in leveraging more private financing. The strategy will explore how to strike a better balance between direct financing to enterprises or projects and the use of financial intermediaries, within the context of an overall development objective. Scaling up a strategic mix of financial instruments (grants, loans and/or guarantees) alongside rigorous impact monitoring and collaboration with the United Nations system will be crucial.

82. UNCDF plans to optimize its structure and operations, including by developing more investment-friendly policies to facilitate swifter transaction appraisals and approvals. Solidifying its role as a capital provider may also involve further emulating the successful practices of other development finance institutions, such as strengthening capacities for originating high-impact Sustainable Development Goal initiatives, structuring and financing investments, risk management and monitoring.

### **Third-party blended finance vehicles**

83. In response to growing demand for catalytic and blended financing to drive progress on the Sustainable Development Goals, UNCDF has established externally managed blended finance vehicles in recent years. Those vehicles have mobilized over \$350 million in concessional first-loss and mezzanine financing from donors across three funds. The mobilization of private capital has proven more challenging.

84. Limited private sector engagement can be attributed to several factors. Geopolitical and macroeconomic instability has led private investors to demand higher financial returns for investments in least developed countries, causing private fund managers to re-evaluate their initial investment theses and risk-return expectations. Additionally, stakeholders frequently highlight the limited pipeline of investment-ready sustainable development projects in the least developed countries as a deterrent to private investor engagement. Insufficient upfront investment in pipeline development is a constraining factor. Recognizing this challenge, UNCDF committed to accelerating the development of investable projects in the strategic framework, including by bolstering origination functions and strategic partnerships. A strong partnership with the United Nations development system will be critical for success.

85. Taking stock of its experiences, UNCDF has potential to position itself more strategically with Member States and the private sector as an impartial aggregator and provider of blended concessional finance. This may involve closer collaboration with development finance institutions in their pursuit of private capital mobilization. UNCDF could offer a standardized approach to blended finance that allows greater scalability, replicability and efficiency in attracting private investment. Exploring such a convening role could be particularly relevant amid preparations for the next conference on financing for development in 2025.

86. UNCDF has made some strides in supporting country-level financing mechanisms designed to unlock domestic private finance for the Sustainable Development Goals. Examples include the Credit Guarantee Corporation of Cambodia and its support to national development banks and sovereign wealth funds to provide crucial financing for local initiatives. These experiences, which help strengthen domestic institutions and unblock wider financial sector development, hold valuable lessons for further replication.

### **A catalyst of investment in the Sustainable Development Goals as the financing arm of the United Nations**

87. The strategic framework emphasizes the power of collaboration, stating that the intent of UNCDF is to “pursue strategic thematic partnerships with other United Nations entities” to achieve transformative impacts. This vision aligns well with growing recognition among United Nations entities that UNCDF has unique capabilities as the Sustainable Development Goals financing arm of the United Nations and in facilitating efforts to mobilize and catalyse private sector investment.

88. UNCDF plans to adopt a more systematic and proactive approach to strategically position its capabilities with United Nations partners. This may involve earlier stage co-designing of projects and solutions, collaborating on resource mobilization and setting up dedicated windows under the BRIDGE Facility for entities to use UNCDF loans and guarantees.

89. The Investment Advisory Initiative experience exemplifies the strategic role that UNCDF can play in the United Nations system at the country level in collaborating with resident coordinators and country teams to define innovative financing solutions for the Sustainable Development Goals. To further integrate its offerings, UNCDF will continue to strengthen engagement in cooperation framework processes, ensuring its financing expertise become a more integral part of the broader United Nations offer to countries.

90. The UNCDF value proposition for the United Nations extends beyond financing, encompassing specific technical expertise in areas such as digital and subnational finance. Collaboration with various United Nations partners has led to successful deployments of digital finance solutions to drive last-mile investments in the Sustainable Development Goals. Similarly, the role of UNCDF as a subnational finance hub has fostered highly complementary partnerships with other United Nations entities. To bring about further additionality, UNCDF may further sharpen its offer by focusing on specific thematic and financing expertise where other partners lack an active presence. By better leveraging its financing instruments and expertise and by strengthening its partnership efforts, UNCDF is well positioned to propel the collective efforts of the United Nations development system.

### **Developing markets and systems to drive inclusive digital economies and local finance**

91. UNCDF technical support to develop markets and financial systems complements its investment approach and contributes to catalysing private and public capital. Its engagement with policymakers, regulators and the private sector to drive the development of inclusive digital economies and digital finance solutions helps unlock capital to and within the least developed countries and provides access to finance for the “last mile”. For example, support for digital remittances has contributed to over \$1.3 billion in transactions and helped open access to other essential financial services for migrants and their families. Assistance for digital financial innovations has directly benefitted hundreds of thousands of micro- and small enterprises and transformed how they access capital. Further scaling up these efforts could include a greater focus on mobilizing private investments to drive digital economies in the least developed countries.

92. To better measure the impact of financial inclusion, UNCDF has been at the forefront in advancing the concept of financial health, defined as people’s ability to meet daily needs, overcome shocks and plan for the future. UNCDF could assume greater leadership on this new frontier.

93. UNCDF technical assistance and policy support in combination with catalytic capital provision strengthen broader subnational financing systems, attracting additional public and private capital for municipal investments. With this a unique area of focus in the United Nations and wider development finance system, UNCDF is well positioned to further expand its support.

94. Nature, climate and energy finance are emerging priority areas, where UNCDF plans to increase engagement with other United Nations entities and partners to provide financing solutions. A new nature assets team is making strides in defining new initiatives and mobilizing resources, demonstrating how UNCDF can fill a gap in providing innovative and blended finance solutions to drive financially viable approaches to nature conservation. UNCDF continues to grow its energy investment portfolio with an increased emphasis on clean cooking solutions, together with other United Nations partners, in several large markets. A push to position UNCDF more strategically as the investment arm for United Nations-supported energy initiatives should be pursued.

### **Financial sustainability**

95. In the strategic framework, 2022-2023, ideal and ambitious resource scenarios projected annual resource estimates of \$200 million in 2022 and \$250 million in 2023. Actual revenues were \$170.5 million and \$132.3 million, respectively. While income from non-core resources remains relatively steady, regular resources have declined, inhibiting capacities for oversight and impact management, and limiting the ability to innovate and test new solutions, and to have a meaningful presence in all least developed countries. A new approach to cover costs for core organizational functions is therefore required. This has prompted the development of the first integrated budget, which will reflect all available resources and reserves. The plan is to submit the integrated budget to the United Nations Advisory Committee on Administrative and Budgetary Questions and the Executive Board.

96. In 2023, comprehensive audits performed by the United Nations Board of Auditors and the Office of Audit and Investigation provided recommendations to help UNCDF deliver further on its mission as a catalytic financing entity and on strategic framework objectives. In response to these recommendations, a series of management actions are underway to lay the groundwork for a more efficient, effective and impactful organization, including the following.

97. To oversee capital deployment, a new Investment and Disbursement Impact Committee has been operationalized as a single organization-wide mechanism to streamline and enhance the effectiveness of the transaction appraisal and approval process. It supports greater coherence in assessing anticipated impact, financial sustainability and compliance. Additionally, UNCDF is establishing a risk statement. These efforts are expected to bring greater clarity and efficiency in accelerating financial deployment and managing risks. To strengthen oversight and accountability, including of grants and investments, UNCDF is finalizing the recruitment of a Chief Risk Officer.

98. In response to the recommendation by the Office of Audit and Investigation that UNCDF, in collaboration with UNDP, should review and clearly define working arrangements and administrative collaboration, the two organizations signed a new administrative arrangements agreement. It clarifies roles and responsibilities as well as service arrangements between the two organizations.

### **Performance and efficiency**

99. The Office of Audit and Investigation recommended that UNCDF, in coordination with UNDP, conduct an organizational review, including an assessment of its cost structure, to enhance organizational performance. UNCDF is responding to this recommendation through efforts to optimize the alignment of its structure with its mandate, strategic objectives and core functions.

### **Results-based management**

100. Capabilities for results-based management remain limited, particularly at the global level. This challenges strategic decision-making, performance assurance, accountability, and knowledge generation to adapt and improve interventions. It also hinders advocacy and partnership-building. The second half of the strategic framework will prioritize strengthening corporate staffing capacities and establishing a network of results-based management experts. To improve the quality of reporting against corporate indicators, new requirements stipulate that projects must track relevant corporate

indicators through a new project results module in the Quantum enterprise resources planning system, enhancing reporting accuracy, tracking and transparency.

### **Overall performance**

101. Overall performance against the strategic framework, 2022-2025 is mostly on track. For a third consecutive year, expenditures were above \$100 million, demonstrating the resilience and commitment of UNCDF staff. While UNCDF reached the majority of performance milestones in 2022, achievements in some areas fell short in 2023. Targets for the deployment of grants, loans and guarantees and for the development of investment-ready projects were not fully realized. This, in turn, resulted in fewer financing solutions and infrastructure projects, a lower number of people and small enterprises benefitting from such interventions, and reductions in capital mobilized and catalysed. UNCDF remains committed to delivering on its strategic framework priorities. Ongoing reforms are crucial investments to regain momentum and accelerate progress going forward.

## **IV. UNCDF and the future financing for development agenda**

102. Ongoing reforms and the implementation of audit recommendations at UNCDF aim to solidify its foundation for greater efficiency and improved performance against strategic priorities.

103. Seizing the opportunity of the 2024-2025 preparatory process for the Fourth International Conference on Financing for Development, UNCDF will enhance engagement with Member States and other stakeholders to identify how it can further respond to financing needs in the least developed countries. This process will examine how to strengthen its role as a provider and aggregator of catalytic and blended financing for the Sustainable Development Goals, including by fostering closer collaboration with the United Nations development system and key development finance actors.

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