Introduction to United Nations Capital Development Fund (UNCDF)
UNCDF was founded by the United Nations (UN) General Assembly in 1966

• UNCDF is the UN’s development finance arm, primarily for the 47 Least Developed Countries (LDCs).
• From the beginning, UNCDF was given a capital investment mandate.
• UNCDF has the ability to work directly with both the public and the private sectors.
• UNCDF business model bundles and combines:
  i. Technical Assistance
  ii. Capital Investments
  iii. Market research
  iv. Advocacy
• UNCDF’s unique value proposition is to provide solutions that bridge the disconnect between TA and capital, while embedding them into a wider research and policy advisory framework aimed at building the enabling environment.

UNCDF has a unique hybrid model at the crossroads between a development agency and a development finance institution
UNCDF in Pacific

A joint UNCDF-UNDP programme designed to support financial inclusion in the Pacific region

**Workstreams:**
- Financial Innovation
- Policy and Regulation
- Consumer Empowerment

**Key strategic instruments:**
- Technical advisory
- Human-centred design
- Performance measurement
- Gender strategy
- Market research

**Objective**
Low-income Pacific Islanders use financial services

**Impact:** improved financial access and outcomes
UNCDF in Pacific
Concessional resources to crowd-in private commercial finance

UNCDF two-pronged approach: On balance sheet vs. Off balance sheet

- On B/S: create demonstration effects for “investability”
- Off B/S: scale-up what works

On Balance sheet investments

- Stand-alone investments with the intent to sequentially unlock follow-on private finance
- Blended transactions to reduce the risks for the private financiers at transactional level

Off Balance sheet solutions

- Blended finance vehicles partnering with external private fund managers
- Leverage preparation work already done with prior TA and On B/S investments
- Provide an “investment continuum” for partners who need larger ticket sizes and can offer higher risk-adjusted returns
A wide range of financial instruments

The toolbox of financial instruments that can be deployed by UNCDF using its own balance sheet includes:

- Pari Passu loans and/or guarantees
- Subordinated loans and/or guarantees
- Mezzanine debt (performance based loans, royalty loans, convertible loans)
- Portfolio loan guarantees
- Portable guarantees
- Volume guarantees (advanced market guarantees)
- Equity capital guarantees

UNCDF can use its investment mandate to subsidize interest rates/fees and absorb risk to crowd in other investors.
Occupying a specific investment space

The potential space of investments with high risk and high social return, but below market financial return.

Reward

Risk

Social return

Reward

Risk

Risk reward equilibrium for market players

UNCDF
Focus on the missing middle

Growth potential vs. Revenue size/Absolute profitability

- **VCs** (Equity, > $2m @ 25-35%)
- **PE funds** (Equity, > $5m @ 25-35%)
- **DFIs** (Debt + Equity, > $5m @ 15-25%)
- **Impact Investors** (Debt + Equity, > $1m @ 10-20%)
- **Commercial Banks** (Debt, > $500k @ 18-21%)
- **Microfinance** (Debt, < $50k @ 25-40%)

**UNCDF focus:** small cap SME Finance ($100k-$1m)

The “missing middle”
THANK YOU