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UNCDF Supplementary Guidelines to the UNDP Programme and Operations Policies and Procedures (POPP)

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A. Legal Framework

I. The United Nations General Assembly established UNCDF through Resolution 1521 (XV) of 15 December 1960.

II. United Nations General Assembly Resolution 2186 (XXI) of 13 December 1966 brought UNCDF into operations "*as an organ of the General Assembly, which shall function as an autonomous organization within the United Nations*" and provided that the purpose of UNCDF shall be "*to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates*."

III. As per General Assembly resolution 2186, Article III.1, "*Assistance from the United Nations Capital Development Fund may be given to the Government of a State Member of the United Nations or a member of a specialized agency or of the International Atomic Energy Agency or to a group of Governments of such States, or at the request of the Government of one of those States, to an entity having juridical personality within the territory of that State.*"

IV. United Nations General Assembly Resolution 2321 (XXII) of 15 December 1967 provides in paragraph 1(a) that "*the Secretary-General is invited to ask the Administrator of the United Nations Development Programme to administer the United Nations Capital Development Fund by performing the functions of the Managing Director, as set forth in article IX of resolution 2186 (XXI).*" Paragraph 1(b) of such resolution provides that "*The Governing Council of the United Nations Development Programme shall perform, as appropriate, the functions of the Executive Board of the United Nations Capital Development Fund, as set forth in article VIII of resolution 2186 (XXI).*"

V. UNCDF applies the UNDP Financial Regulations and Rules (FRRs) as adjusted for UNCDF. Financial Regulation 1.05 provides the following:

"(a) Unless otherwise specified in (b) below, the UNDP financial regulations and rules shall apply to all resources administered by the United Nations Capital Development Fund [...];

(b) Additions or amendments to the UNDP Financial Regulations and Rules, which shall be applicable to the United Nations Capital Development Fund [...] *and which are necessary in order to take account of the special requirements of their operations, are contained in the relevant annex to the UNDP Financial Regulations and Rules."*

VI. Annex 1 of the UNDP Financial Regulations and Rules includes the specific provisions that apply to UNCDF.

VII. UNCDF applies the UNDP Programme and Operations Policies and Procedures (POPP). These Supplementary Guidelines to the POPP (Supplementary Guidelines) reflect provisions that are different and unique to UNCDF based on its unique mandate and the legal framework of UNCDF provided for in its establishing resolutions and Annex 1 to the FRRs.

VIII. The framework of cooperation between UNDP and UNCDF is outlined in DP/2008/12 (10 December 2007), UNCDF partnership framework with UNDP, programming and funding

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arrangements, and cost-recovery policy. Among other things, Paragraphs 15 and 16 provide the following:

"15. UNCDF reports to the UNDP/UNFPA Executive Board through the Administrator. Further management alignment between UNDP and UNCDF is achieved through the integration of the UNCDF contributions in the strategic plan, thus harmonizing the overall planning and management framework. The joint implementation of the plan is supported through the direct reporting line that exists from the Executive Secretary of UNCDF to the UNDP Associate Administrator. The Executive Secretary participates in UNDP Senior Management Team retreats and relevant internal UNDP meetings, as appropriate.

16. Operationally, UNCDF is aligning itself to the extent possible with the evolving UNDP accountability framework, in terms of (a) the principles guiding the accountability framework; and (b) the operational policies, processes and accountability instruments. At the same time, UNCDF is making every effort to document those instances in which, for business reasons, UNCDF operational policies, processes and instruments differ from those of UNDP."

IX. In turn, Annex to DP/2008/12: Letter of agreement between the Administrator, UNDP, and the Executive Director, a.i., UNCDF specifies that " *UNDP and UNCDF have agreed that in the LDCs in which UNCDF is operational its contributions will be integrated into the United Nations programming frameworks agreed upon with national governments, such as the common country assessment, the UNDAF[1] and the UNDP CPAP frameworks.*"

X. The cooperation between UNCDF and UNDP is also crystallized in the Administrative Arrangement Agreement between UNDP and UNCDF, which describes the services provided by UNDP to UNCDF. UNDP and UNCDF have also entered into specific Service Level Agreements to regulate those services.

[1] Renamed as United Nations Sustainable Development Cooperation Framework (UNSDCF), since 2019.

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B. Investment Grants, Loans and Guarantees

1. UNCDF applies the UNDP POPP provisions to design and implement all its initiatives. This Section of these Supplementary Guidelines covers financial instruments that are specific UNCDF:

   - Investment Grants
   - Loans
   - Guarantees

B.1 General principles applicable to investment grants, loans, and guarantees

Project Document and Approvals

2. The use of investment grants, loans and guarantees must be clearly outlined in the UNCDF Project or Portfolio Document[2], which must be drafted using the templates available in the [UNCDF website]. In the case of Multi-Partner Trust Funds and Joint Programmes, the applicable template for MPTF/JPs available in the POPP must be used.

3. As provided by Financial Rule 116.02 in Annex I to the FRRs, "[a]*pproval of UNCDF assistance to a project shall become effective upon signature of the project agreement by the Government or Governments concerned and UNCDF, and where appropriate, by an executing entity, or under the harmonized operational modalities, by an implementing partner or other party selected under regulation 17.02 above* [...]."

4. The use of investment grants, loans and guarantees is subject to review and approval by the UNCDF Project Appraisal Committee (PAC) prior to submission to the Investment and Disbursement Impact Committee (IDIC). If the use of investment grants, loans and/or guarantees is not envisaged at the project's outset, it can be incorporated through a substantive amendment to the Project Document approved by the Project Board.

5. The use of investment grants, loans and guarantees, as well as the selection of the beneficiaries of those instruments, must be approved by the Executive Secretary as per IDIC's terms of reference.

6. The Executive Secretary must approve any amendment to the IDIC's terms of reference and will keep the Managing Director informed of any such amendment.

7. In relation to any instrument deployed under the Supplementary Guidelines, (i) amendments, and (ii) top-ups, are allowed, in each case, subject to IDIC's recommendation and the decision of the Executive Secretary. The amendments and top-ups will be treated internally as a restructuring of an existing instrument.

8. UNCDF appraises investment grant, loan and guarantee transactions under the Supplementary Guidelines across four key areas: (a) impact, (b) financial sustainability, (c) compliance with internal policies and procedures, and (d) the transaction's alignment with

[2] All references in these Supplementary Guidelines to "Project Document" shall be construed as including both Project Documents and Portfolio Documents, as applicable to each specific case.

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the DFI blended concessional finance principles approved as part of the DFI Working Group on Blended Concessional Finance Projects, Joint Report, March 2023 Update, in alignment with UNCDF's Strategic Framework.

Sourcing of recipients

9. For investment grants, as a general principle, a competitive process must be conducted to source the beneficiary entities. However, if the beneficiary entity is (i) a government entity, a national, regional or local development bank, an inter-governmental organization (e.g., Asian Development Bank, Inter-American Development Bank, African Development Bank, World Bank, etc.), or (ii) a private sector partner (e.g., impact investor) that has committed to invest alongside UNCDF, a competitive process is not required. The competitive process may also be exempted, with the previous approval of the Executive Secretary, when the investment grants are deployed in a country in a declared Level 2 or 3 crisis, as determined by the UNDP's Crisis Board. Additionality should be assessed and taken into account in the decision-making process.

10. For loans, the sourcing of the beneficiary entities will, as a rule, follow a competitive process. The competitive process will not be required when the sole recipient of the loan is a government entity, a national, regional or local development bank, a multilateral development bank, or an inter-governmental organization. Furthermore, the sourcing of a loan beneficiary does not require a competitive process when the beneficiary is an intermediary (such as a Financial Institution) that has committed to use its own resources, together with the loan proceeds, to on-lend to end-beneficiaries. In such cases, the sourcing can be based on a market assessment to identify the most suitable beneficiary with a strategic advantage in serving the end-beneficiaries. The candidates will be identified through an in-depth comparison of the strategic interest, institutional capability, financial viability, outreach possibilities, and current and forward-looking pipelines to reach end-beneficiaries.

11. The sourcing of a guaranteed party does not require a competitive process and can be based on a market assessment, where the most suitable guaranteed party with a strategic advantage in serving the eligible guarantee beneficiaries is identified through an in-depth comparison related to the strategic interest, institutional capability, financial viability, outreach possibilities, and a current and forward-looking pipelines to reach eligible guarantee beneficiaries. The comparison process must be documented. The market assessment will not be required when the recipient is a government entity, an inter-governmental organization, or a national, regional or local development bank or a multi-lateral development bank.

12. Where the potential recipient of investment grants, loans, and/or guarantees has been sourced by a UN entity, multilateral development bank, national, regional or local development bank, or development finance institution, UNCDF may rely on such sourcing process, provided that, it is assessed as consistent with the applicable UNCDF's principles on sourcing.

13. The requirements outlined in the Standard Operating Procedures for Investment Process will be applied for all the recipients of investment grants, loans, and/or guarantees before any submission is made to the IDIC.

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Policies and POPP requirements

14. All investment grant, loan and guarantee recipients are subject to the requirements of the UNDP's Anti-Money Laundering and Countering Financial Terrorism (AML/CFT) policies and the UNDP Policies on Fraud and Corruption, making use of LexisNexis or, subject to the Executive Secretary's approval, other equivalent tool. Where tax avoidance risks are high, recipients will also be subject to enhanced due diligence.

15. The UNDP Social and Environmental Standards apply to all UNCDF's projects and operation, including those involving investment grants, loans, and/or guarantees. The Social and Environmental Screening Procedure (SESP) for the source project that funds these instruments must be reviewed to identify potential social and environmental risks and to establish necessary mitigation strategies.

Loans Guarantees Grants (LGG) Facility

16. The LGG Facility is established under these Supplementary Guidelines as a programmatic modality providing a structured and fiduciary-compliant mechanism for managing loans, guarantees, investment grants, and associated reflows beyond the duration of the original donor-funded project or program. The LGG Facility ensures that financial instruments with maturities extending beyond project closure remain under continuous management in alignment with UNCDF's Strategic Framework and fiduciary standards.

17. The LGG Facility is subject to the following principles:

    a) **Continuity of Management**: All active loans, guarantees and investment grants transactions that extend beyond the closure of the originating project shall transfer to the LGG Facility subject to prior donor agreement.
    b) **Sub-Windows**: Three categories of LGG Sub-Windows will be established (as well as tracked, monitored, and reported separately) within the LGG Facility:
        (i) *Unearmarked Redeployable Sub-Window*: For donors allowing reflows to be redeployed without earmarking, resources will be pooled for flexible reinvestment according to UNCDF's Strategic Framework;
        (ii) *Earmarked Redeployable Sub-Window(s)*: For donors requiring reflows to remain earmarked for specific countries, sectors, or themes, resources will be retained for redeployment in alignment with agreed parameters; and
        (iii) *Refundable Sub-Window*: For donors requiring that any residual balances be refunded after the closure of the financial instrument, a dedicated refundable sub-window will be created.
    c) **Residual Balances**: For Earmarked Redeployable Sub-Windows, where balances fall below USD 500,000, the balance shall be transferred into the Unearmarked Redeployable Sub-Window to ensure effective redeployment and avoid stranded resources. Donors will be notified of such transfers. Refundable Sub-Windows will not be subject to redeployment; residual balances will be refunded as per donor's agreement after closure of the financial instrument.
    d) **Waiver**: By agreeing to the transfer to the LGG Facility, donors waive all rights to future reflows or refunds, except where a Refundable Sub-Window has been explicitly established.
    e) **Cost Recovery**: UNCDF will recover reasonable costs associated with the monitoring, redeploying, and management of the LGG Facility resources. These may be deducted from reflows or charged as part of reinvestment operations.

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f) **Transparency and Reporting**: UNCDF will provide consolidated annual reporting on LGG Facility utilization, with Sub-Window reporting where relevant, to ensure donors retain visibility on the continued development impact of their contributed resources.

B.2 Investment Grants

Definition

18. Annex 1 to the UNDP FRRs provides in Regulation 16.01 the following: "*UNCDF assistance to projects shall be in the form of either grants or loans* [...]." UNCDF may provide investment grants to the public sector, inter-governmental organizations, financial institutions, civil society organizations, and private sector entities. Investment grants shall be provided for the following purposes:

a) **Seed Grants:** These investment grants provide initial funding to beneficiaries early in a business with identified SDG benefits. The seed funding aims to assist in developing a business idea, enabling beneficiaries to showcase a viable business model and/or secure credit in the future, thereby supporting their investment readiness progress.
b) **Working Capital Grants**: These investment grants support beneficiaries' everyday operations. They are designed to help beneficiaries improve their business and operational capabilities to address significant market challenges and enhance their investment readiness for the future.
c) **Feasibility Grants**: These investment grants enable beneficiaries to conduct feasibility studies in a country or group of countries before implementing investment initiatives by these beneficiaries or in partnership with UNCDF. The feasibility grant aims to expand financing for beneficiaries, mainly focused on Least Developed Countries (high-risk or fragile contexts) and other developing markets. UNCDF will provide these investment grants based on due diligence and assessed needs, without a competitive process. However, when multiple beneficiaries show interest or are active in such contexts, a market assessment will be employed to select the grantee.
d) **Capitalization Grants**: These grants enable the establishment, operationalization, and/or seeding of new or existing entities that will manage blended finance structures, guarantees, funds, or pooled investments in alignment with UNCDF's mandate. The capitalization grants aim to expand financing for entities by creating or seeding entities that can deploy capital, while maintaining fiduciary oversight and alignment with UNCDF's objectives. UNCDF will provide these investment grants based on due diligence and assessed needs, without a competitive process. However, when multiple partners show interest or are active in similar structures in such contexts, a market assessment may be employed to select the grantee to ensure optimal outcomes from the use of donor funds.

Thresholds

19. The table below establishes the monetary thresholds for Seed and Working Capital Grants. The thresholds for Feasibility and Capitalization Grants will be subject to the limits set according to IDIC's terms of reference at transaction level, similar to loans and guarantees.

Recipient	Threshold
Public sector	There are no mandatory thresholds. The threshold must be established in the Project Document noting the non-competitive nature of selection of recipient and no reflows via contingent payment(s) are expected.

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United Nations Capital Development Fund

Recipient	Threshold	
	UNDP's Policy on Direct Cash Transfers and Reimbursement will apply to direct cash transfers and reimbursements made by UNCDF with the modifications provided for in this section. The POPP sets the periodicity of advances up to three months of cash forecasted needs or cash forecasted needs up to the end of the calendar quarter, whichever is lesser, according to the envisaged activities agreed in the annual work plan. Due to the undeveloped nature of Public Financial Management systems in some Least Developed Countries and the remote location of projects and local municipalities, UNCDF may advance more than 3-months forecasted needs or extend the periodicity in liquidating expenditures to support establishing national fiscal systems. National fiscal systems are designed to support governments to become more efficient in specific areas related to Public Financial Management. Therefore, supporting governments in modernizing fiscal systems might only be realized once a complete national budget cycle is concluded to report expenditures. Supporting fiscal systems will have two options: a) UNCDF will advance cash for capacity-building activities and other related operational activities and liquidate expenditures on a quarterly basis in accordance with the activities reflected in the work plan agreed with the partner. b) UNCDF may advance funds for longer than 3-months forecasted need. Further, UNCDF may extend the possibility to utilize the funding subject to the Executive Secretary's decision as per the IDIC's terms of reference where valid justification exists. For infrastructure-intensive activities, the advances may remain with the national counterparts up to 12 months, owing to the nature of the activities. In no instance should the financial liquidation period exceed one year, or the end of the national budget period. Every effort should be made to obtain reports to liquidate outstanding advances at the end of UNCDF's financial year. The frequency of liquidation should be indicated in the agreement with the partner.	
National, regional or local development banks	There are no mandatory thresholds. The threshold must be established in the Project Document noting the non-competitive nature of selection of recipient.	
Inter-governmental organizations	There are no mandatory thresholds. The threshold must be established in the Project Document noting the non-competitive nature of selection of recipient.	
Civil Society	US$ 500,000 (or equivalent local currency) per entity, per project in its lifetime.	
Private sector (excluding national, regional or local development banks)	Seed grant	$1,000,000 (or equivalent local currency) (including top-ups) with reflows via contingent payment(s) to UNCDF
	Working capital grant	The maximum threshold is $1,000,000 (or equivalent local currency). • When the amount is below $500,000 (or equivalent local currency), this will be treated as non-credit and no reflows are expected from beneficiaries.

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Recipient	Threshold	
		• An amount above $500,000 (or equivalent local currency), including any top-ups, is permitted up to $1,000,000 (or equivalent local currency) and will be subject to the Executive Secretary's decision as per the IDIC's terms of reference and will be on condition that there are reflows via contingent payment(s) to UNCDF at a programmatically specified milestone that is pre-agreed.

20. Grants are expensed according to the investment grant's payment terms, and may be disbursed in multiple tranches or in a single tranche, always within the monetary thresholds detailed above.

21. Grants cannot be used instead of a procurement process to provide commercial goods and/or services to a UNCDF project.

Contingent Payment(s)

22. Grantees may be required (based on the Executive Secretary decision as per the IDIC's terms of reference) to make contingent payment(s) to UNCDF for a pre-agreed percentage of the benefit generated from the investment grants.

Examples of investment grants

23. The following table provides examples of grant recipients and purposes. These are provided for illustration; the details of the specific investment grant purposes must be defined in the UNCDF project document.

Type of Entity	Illustrative Examples	Illustrative Purposes
Public Sector	Government entities	Establish and/or strengthen national and/or sub-national financing systems and financing mechanisms (such as funds to help unlocking additional public and/or private finance aimed at furthering the global goals).
Civil Society	• Non-governmental organizations • Not-for profit Academic or educational institutions. • Foundations • Not-for-profit industry associations, chamber of commerce, etc.	To fund opportunities that are of potential to unlock and/or direct finance for other entities, expansion of finance and investment literacy, capacity to support investors to invest in market development, and social and economic impact for the underserved population.
Private Sector	Private sector entities refer to, among others, for-profit enterprises of any size, corporate foundations, financial institutions, business associations, coalitions and alliances, and state-owned enterprises as	• Build an innovative business case for investment: Support early-stage promising development finance innovations or infrastructures. The priority is for potential scalability and impact, but it faces high initial development costs and risks.

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Type of Entity	Illustrative Examples	Illustrative Purposes
	defined in the UNDP Policy on Private Sector Partnerships.	• Create incentives to expand the market for capital intermediaries to provide finance in unexplored territories and/or to underserved groups with limited commercial interest due to high investment entry costs or where there is a high credit risk. • Contribute to softening the terms of investors and DFIs to enable development of investment pipeline. • Demonstrate value addition (financial and non-financial additionality) in line with the guidelines for 'additionality' provided by the MDBs' Harmonized Framework for Additionality in the Private Sector Operations[3].
Inter-governmental organizations	Asian Development Bank, Inter-American Development Bank, African Development Bank, European Investment Bank, etc.	• Based on agency mandate and collaboration opportunities at country/ regional/global level.

Legal Agreements

24. The Grant Agreement template is available in the [UNCDF website] and must be used for all types of investment grants. Any deviations from the template must be previously approved by the Office of Legal Services of the UNDP Bureau for Management Services (BMS/OLS)[4]. Before any agreement is signed, clearance must be obtained in accordance with the UNCDF's Internal Control Framework.

B.3 Loans

25. Annex 1 to the FRRs provides the following in Regulation 16.01: "*UNCDF assistance to projects shall be in the form of either grants or loans. Loans extended by UNCDF shall have long periods of amortization, low rates of interest, or be free of interest and generally be extended on terms comparing favourably with those of loans extended by other international lending institutions.*"

26. UNCDF may deploy loans independently or through blending (combining a loan with an investment grant or guarantee to improve the commercial terms offered to a recipient) in combination or sequence. UNCDF may also deploy loans with a guarantee or investment grant deployed by another UN entity or development partner. As part of the approval

[3] The shared principle of additionality often delivers, among other things: (a) Financing that is not provided by the market, (b) Risk mitigation and/or risk sharing, (c) Improved project design, (d) Better development outcomes, and Environmental, social, and governance standards. See Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations.

[4] All references in these Supplementary Guidelines to "BMS/OLS" are to BMS/OLS in its capacity as service provider to UNCDF.

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process, UNCDF will assess the terms of the investment and its additionality compared to market terms, ensuring that it is more favourable than other international lending institutions.

Type of loans

27. UNCDF shall deploy a variety of loans, including but not limited to:

    a. **Pari-passu loans**: A fixed-income loan that gives UNCDF the same seniority ranking in the repayment waterfall as any other lender.
    b. **Subordinated loans:** Fixed-income loans in which UNCDF holds a junior position, ranking lower in the repayment waterfall than other preexisting, concomitant, or future lenders.
    c. **Mezzanine loans:** A loan type in which the interest income generated for UNCDF may vary. They typically involve performance-based loans, royalty loans, etc.

Capital Adequacy Provisions

28. Project resources must completely fund all UNCDF loans. UNCDF does not have internal requirements for a minimum capital adequacy ratio**.**

Tenor

29. The tenor for each loan will be determined also based on risk classification grades derived from the credit rating obtained during the risk assessment.

Loan Beneficiaries

30. UNCDF will provide loans to various recipients per its Strategic Framework. Loans may be provided to intermediaries (such as Financial Institutions (FIs) that offer credit to multiple end-beneficiaries, including micro-enterprises), small and medium-sized enterprises (SMEs), start-ups, infrastructure projects, Public-Private Partnerships (PPPs), Special Purpose Vehicles (SPVs), investment vehicles and funds, and public-sector borrowers including sub-sovereign and sovereign entities. Additionally, loans may be issued directly to these entities as end-beneficiaries.

31. Loans will not be issued to individuals or entities not registered or incorporated in a jurisdiction.

Local Currency Preference

32. Loans shall be issued in local currency but may be issued in hard currency subject to the Executive Secretary's decision as per the IDIC's terms of reference. By lending in local currency instead of USD, UNCDF assumes foreign exchange risks, and any resulting differences must be covered using donor funding.

Risk Appetite for Loans

33. A rating agency’s country rating should typically be seen as a pertinent reference when assessing a loan to accurately reflect the risk transfer involved in the risk assessment[5]. When the host country is not assigned an external credit rating, UNCDF shall assign a

[5] Transfer risk is the risk that a non-sovereign entity, which is able and willing to service its foreign currency obligations cannot obtain or transfer the money to the receiver abroad. This transfer inability is caused by the imposition of restrictions on convertibility or capital transfers by the government.

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sovereign credit rating according to the prevailing internal methods (see Folder). Since UNCDF primarily operates in low-income countries with low credit ratings, its portfolio is expected to mirror these ratings.

Types of Financing

34. Loans shall consist solely of debt financing transactions, and UNCDF shall not provide convertible options instruments.

35. Loan types may include (but are not limited to) term loans,[6] non-recourse project finance loans,[7] and working capital loans[8].

36. UNCDF will not provide invoice discounting or factoring finance as a loan instrument.

Origination

37. Loans must be newly originated, excluding refinancing transactions already financed by another financial institution, except for loans already at maturity where the principal repayment due to another financial institution is deemed detrimental to the development impact sought in a target market/segment.

Security and Collateral

38. Loans can be issued with or without collateral and are evaluated based on collateral availability, nature, liquidity, and reliability. UNCDF can create a security package for its loans only if a third-party agent or custodian releases the security upon confirmed default. The agent or custodian may provide this service on a monetary or in-kind basis.

Co-lending or Investment

39. When additional funding is sourced from different channels, UNCDF's credit risk is reduced as a percentage of the total project cost. It enhances the impact profile compared to instances where UNCDF's loan financing is the only source of funds. Therefore, loan proposals that include funds from the borrower or other third-party investors will be viewed more favourably.

Subordinated Risk Sharing

40. UNCDF may share risk by offering a subordinated loan and positioning itself as a junior lender.

Fixed and Floating Rate Loans

41. UNCDF will provide loans with either a fixed or floating interest rate, although fixed rates should be preferred for operational reasons. The interest rate is determined based on UNCDF's established investment methodology and tools, considering the beneficiary's

[6] Term loans are generally asset-based short-term loans (usually for one to five years) payable in a fixed number of equal installments over the loan term. They are typically provided as working capital for acquiring income-producing assets (machinery, equipment, inventory) that generate the cash flows for loan repayment.

[7] Project finance loans are generally loans for long-term infrastructure, industrial projects, and public services based on a non-recourse or limited recourse financial structure, in which project debt and equity used to finance the project are paid back from the cash flow generated by the project.

[8] Working capital loans are generally loans used to finance a company's everyday operations. They are generally not used to buy long-term assets or investments but to cover accounts payable, wages, etc.

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financial viability. Under normal circumstances, UNCDF will not hedge its fixed rate exposure in the market using an interest rate swap, nor will it create a fixed rate interest loan by combining a client-side swap with a floating rate instrument unless a third party with interest in the loan requires it or it is subject to the Executive Secretary's decision as per the IDIC's terms of reference.

Thresholds

42. Loan recipients are assessed based on their financial viability and creditworthiness, which determines the size of their loans. The Executive Secretary must approve multiple loans to the same recipient.

Grace Periods

43. The loan agreement may offer a grace period after loan disbursement, during which only interest payments are required while principal repayments are postponed. In exceptional circumstances, the Executive Secretary may approve an interest grace period if compelling reasons warrant such an extension. This grace period primarily depends on the anticipated cash flows related to the specific investment. The submitted projected cash flows must illustrate the expected timing of inflows to the borrower from the investment, which should support the minimum and maximum grace periods that can be granted. The rating derived from the risk assessment may support the determination of the grace period for each loan.

Pricing and Subsidization

44. UNCDF's mandate is to promote development in challenging environments. Therefore, the risks associated with a specific loan will likely be relatively high. Loans offered at prevailing market terms may be unaffordable for UNCDF's target recipients, who lack access to credit at equitable rates in existing capital markets. In such cases, UNCDF may subsidize the loan to provide capital and unlock resources, accelerating the anticipated development impact.

45. Additionally, UNCDF may subsidize the loan to ensure the project progresses and the expected developmental impact is realized. The subsidy can be implemented by (1) lowering the cost-recovery interest rate or fee premium charged to the client, (2) granting grace periods for the repayment of interest and/or principal, (3) extending longer terms compared to those offered by other financial institutions, and/or (4) taking a subordinated position in repayment relative to other financiers. The subsidy can be explicit (when there is a visible market rate and the actual interest rate is below that market rate) or implicit (a rate lower than the calculated risk coverage rate that is not observable in the market).

Prepayments

46. Early repayments (prepayments) will be permitted with (1) prior written consent from UNCDF and (2) a specified notice period. Any prepayment may incur an additional premium equal to a certain percentage of the loan's outstanding principal. Prepayments will be applied in order of priority to include penalty fees (if any), interest, and principal.

Loan Reserve

47. UNCDF will maintain a loan reserve to cover the expenses of effectively managing its loan operations. Borrowers' interest and fees will be credited to this reserve unless an agreement with the donor specifies that the interest, or a portion, shall not be allocated to the Loan Reserve. The Investment Finance and Oversight Division (IFOD) centrally manages the use

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of the loan interest reserve, and any expenditures of those funds require approval from the Executive Secretary.

Loan Default

48. A borrower will be deemed in default if any of the following occurs:

    a) Situations that constitute an event of default under a loan agreement, which may include violations of financial or non-financial covenants or non-payment of principal or interest past the specified cure period; or
    b) Significant repayment delays (i.e., payments overdue for more than 60 days or the cure period, whichever is longer). Upon default, the Loan Portfolio Manager and the IFOD will actively engage with the loan recipient to identify the causes and assess the situation.

49. If a borrower wants to request a change to the repayment schedule, they must submit a written request to the UNCDF Loan Portfolio Manager. This request should detail the reasons for the change and propose a revised repayment schedule. A loan can only be rescheduled or restructured through a signed amendment specifying the modifications or revisions to the original agreement terms.

Loan Suspension

50. A loan must be temporarily suspended if, among other things, the borrower:

    a) Is in arrears or has defaulted on a previous tranche of the loan; and/or
    b) The loan is subject to a covenant breach that extends beyond the remedy period; and/or
    c) Disbursement under any other agreement with UNCDF is currently suspended.

51. No new loan tranches will be disbursed under a suspended loan agreement. A temporary suspension is lifted only when:

    a) UNCDF is satisfied that the conditions leading to the temporary suspension have been addressed; or
    b) The Executive Secretary signs a written waiver stating the reasons and conditions for the suspension waiver.

52. A loan suspended for a year or in breach of covenant beyond remedy must be permanently suspended. No further disbursements from the undrawn facility can be made unless the Executive Secretary approves a written waiver. Any amounts owed to UNCDF on the outstanding loan become payable, meaning that suspending disbursements does not equal suspending repayments. UNCDF may also accelerate loan repayment if the reason for the permanent suspension is the failure to meet performance targets.

53. All suspensions must be reported to the IDIC in the biannual report on the loan and guarantee portfolio prepared by the Loan Portfolio Manager.

Penalties and Interest on Default

54. Any amounts due from the borrower under the loan agreement not received by UNCDF by the due date will incur interest at the default interest rate. This default interest rate will be specified in the loan agreement and should be set at a level that is a certain percentage

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above the fixed interest rate established for the loan. Interest will accrue on these overdue amounts from the due date until UNCDF fully receives the total amount owed.[9]

55. To address frequent delays caused by local payment systems or standards beyond the borrower's control, UNCDF allows for a specified period (typically 15 days) before activating the default interest rate. Once activated, the calculation is based on the original due date.

56. While UNCDF retains its contractual right to charge penalty fees and default interest, the Loan Portfolio Manager will assess the impact of increasing the financial burden on the defaulting counterparty.

57. As part of the investment review cycle, a proposal recommending whether to impose penalty fees and default interest will be submitted to the IDIC semi-annually. Any necessary amendments to the contract to impose the penalty fees and default interest will be presented to the Executive Secretary for approval. No amendments will be processed if the IDIC does not endorse charging penalty fees and default interest.

Cost Recovery on Loans

58. The deployment of financial instruments does not always signify an expense from an accounting perspective. The recording of GMS for loans will adhere to the following:

a) For loans disbursed either directly to end beneficiaries or through intermediaries, the standard GMS rate according to the UNDP Cost Recovery Policy in POPP will be deducted "off-the-top" based on the approved amount and recorded at the time of the first disbursement or exceptionally allocated based on disbursement tranches. No GMS will be recorded for any subsequent accounting expenses directly related to the loan, such as fair value adjustments, loss provisioning, or foreign currency losses.
b) For loans disbursed via financial intermediaries, GMS may be deducted "off-the-top" based on the approved facility amount rather than the tranche disbursement, as approved by the Executive Secretary.

59. If the Managing Director waives the standard GMS rate, it must be recovered through a combination of Technical Advisory (TA) and/or other donor-funded facilities or third-party donor funding, including contributions from UN agencies that utilize UNCDF instruments. These costs should be kept separate from other GMS charges applied to the TA or donor facility based on the direct costs covered by that facility. Any such waivers must be reported to the Executive Board. Each time a loan is used, UNCDF reserves the right to charge GMS, including when previously deployed funding repaid to UNCDF is redeployed into new financial instruments.

Deployment Support

60. UNCDF may provide a deployment support amount (Deployment Support) as part of a loan transaction where such support is necessary or appropriate to facilitate the deployment and utilization of the loan. It shall contribute towards administrative, operational and implementation costs incurred by the recipient in connection with the establishment, deployment, utilization, management and operationalization of the loan. The Deployment Support can be provided in advance, in multiple tranches or in a single tranche, and shall

[9] For example, if the annual contractual interest rate in the loan agreement is 6%, the penalty rate could be 6%+3%= 9% annually until the overdue amount is fully repaid.

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be assessed as part of the loan transaction. It shall be proportionate to the objectives, scale and expected development impact of the loan.

Agreement Template

61. In all cases, the Loan Agreement template available in the [UNCDF website] must be used. Any deviations from the template must be previously approved by BMS/OLS. Before any agreement is signed, clearance must be obtained in accordance with the UNCDF's Internal Control Framework.

Loan Write-offs

62. UNCDF will make every effort to ensure the full repayment of all loans, even when a loan is deemed impaired. In line with IPSAS requirements, an accounting provision for impairment will be established. When presenting loan details, UNCDF should indicate whether the amounts shown are net of provisions.

63. Given UNCDF's mandate to deploy capital in developing countries, especially in Least Developed Countries, to entities with limited access to capital markets, the credit profile of UNCDF loan beneficiaries will usually reflect the sovereign's credit rating. Due to the challenging operating environments in these countries, these loans may lead to provisions as part of standard business operations and can sometimes result in write-offs. These provisions and write-offs must be entirely funded by donors who shall accept the inherent risk of non-repayment. The number of provisions and write-offs is reported to donors in annual certified donor reports.

64. A loan will only be considered for write-off after a provision has been established for at least 12 months or once all reasonable efforts to recover the loan have been exhausted. These efforts must be documented and comply with IPSAS accounting standards. Following this determination, the Loan Portfolio Manager will prepare a write-off proposal memorandum detailing the circumstances, reasons for impairment, and the recovery efforts undertaken.

65. Write-offs will be governed by Financial Regulation 26.08, which provides that: "[t]*he* [Managing Director] *may, after full investigation, authorize the writing off of losses of assets, provided that a statement of all such amounts written off shall be submitted to the United Nations Board of Auditors with the accounts, as required by regulation 26.01. The Administrator may establish, from time to time, an amount below which full investigation, reporting and formal write-off are not required. Such amounts shall, for administrative efficiency, be charged directly to the relevant allotment/budget line.*"

66. The Managing Director has set the below threshold and procedures for loan write-offs incurred in the ordinary and expected course of business as opposed to loans that are written off due to other causes, such as suspected fraud or similar wrongdoing by the borrower or UNCDF staff or personnel:

    a) Loan write-offs incurred in the ordinary and expected course of business (as reviewed and validated by the Chief Operations Officer and Chief Financial Officer (based on IDIC's recommendation)) where no fraud or similar wrongdoing is suspected will be considered programmatic expenses and reported to donors.
    b) UNCDF will ensure that donors are informed about the fact that loans may become impaired in the ordinary course of business, and any loan write-off will follow UNCDF procedures and will be reported as part of project expenses. These write-offs will be processed as below:

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i. The UNCDF's Chief Financial Officer approves write-offs up to USD 100,000 based on the IDIC's recommendation and upon clearance by the Chief Operations Officer.
ii. The UNCDF's Executive Secretary approves write-offs above USD 100,000 after the endorsement by the Chief Financial Officer and the Chief Operations Officer and upon recommendations from the IDIC.

67. The Managing Director will be informed of all loan write-offs in the ordinary course of business every quarter, and s/he may request further reviews and/or investigations by the Office of Audit and Investigation (OAI) if deemed necessary.

68. Loan write-offs not incurred in the ordinary or expected course of business (as reviewed and validated by the Chief Operations Officer and Chief Financial Officer) and where fraud or other wrongdoing is suspected will be subject to the normal thresholds and procedures set in the Financial Regulation 26.08 and Financial Rule 126.17 covering asset write-off.

69. An annual report of total loan write-offs approved during the year (covering both loan write-offs incurred in the expected and unexpected course of business) will be submitted annually to the UNCDF Managing Director, UNDP's Audit and Evaluation Advisory Committee and the Office of Audit and Investigations. The Managing Director will include such write-off in the annual Financial Statements submitted to the Executive Board.

Reflows of Loans

70. Based on the loan terms, the loan amount and interest will be recovered by UNCDF.

71. The conditions on the financing agreements will determine refunds of such reflows to donors. If the donor(s) financing the loan products do not require the loan capital or interest to be returned, such funds will be included in a dedicated fund set up by UNCDF. These accrued funds will be reported in the annual financial statements, and the Executive Secretary may decide to re-use the funds accumulated via loan reflows. The Investment Finance and Oversight Division of UNCDF will develop specific procedures to manage the reflows in line with IPSAS standards (guidance will be sought from UNBOA and AEAC, as required).

B.4 Guarantees

72. UNCDF can issue guarantees to share risk and enable financing solutions for projects and end-beneficiaries on acceptable terms. This includes financial instruments intended to facilitate financing for eligible beneficiaries[10], which UNCDF deems aligned with its Strategic Framework.

73. UNCDF may guarantee risks associated with transactions, most notably, but not exclusively, risks related to issuing debt. UNCDF may also authorize other parties to issue guarantees on the same terms as stipulated in these Supplementary Guidelines supported by UNCDF by a re-guarantee agreement.

74. UNCDF shall consider the deployment of guarantee products only if:

[10] The term "beneficiary" refers to both the guaranteed party and the end-beneficiaries of the guarantee.

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a) UNCDF can absorb some risk and encourage the intermediary institution or other guaranteed party to invest its capital for development; or
b) The guarantee recipient, or guaranteed party, is deemed sufficiently robust to reduce the potential losses related to the guarantee cover.

Type of Guarantees; Deployment Modalities

75. UNCDF can deploy a range of guarantees, including but not limited to the following types of guarantees:

a) **Portfolio loan guarantees**: A guarantee in which UNCDF guarantees lending by a financial institution or an intermediary to a specific group of beneficiaries who are not identified at the time of the initial agreement, including (but not limited to) groups such as farmers, start-ups, SMEs, and women-owned businesses.
b) **Guarantees related to individual projects**: A guarantee in which UNCDF ensures that a financial institution or other party provides funding for a specific project.
c) **Single loan guarantee**: A guarantee in which UNCDF backs lending from a financial institution or other party directly to a specific corporate entity SME.
d) **Fund structures**: UNCDF can offer a guarantee for thematic funds, typically a *first loss* tranche guarantee or a *pari passu* structure.
e) **Volume guarantees**: A guarantee structure whereby UNCDF could, for example, cover losses for surplus or unsold products, such as medicine or agricultural products, with the aim of stimulating production.

76. UNCDF can deploy guarantees via different modalities, including but not limited to the following ones:

a) **Direct modality**: UNCDF may provide guarantees directly to end-beneficiaries.
b) **Indirect modality**: UNCDF may also offer intermediated guarantees by assuming risk from a financial institution, investment company, fund structure, commercial guarantor, insurance company, government, or international donor organization to guarantee a smaller or subsidiary entity lender.

Capital Adequacy Provisions

77. UNCDF does not have internal requirements for a minimum capital ratio. All guarantees issued by UNCDF must be fully funded in advance by program resources or by donor commitments for the entire duration of the guarantee commitment.

Beneficiaries of Guarantees

78. UNCDF can deploy its guarantees to a diverse range of recipients, benefiting several types of end-beneficiaries.

79. Guaranteed parties will primarily include financial intermediaries but are not limited to them. The end beneficiaries of guarantees may consist of borrowers in the informal economy (e.g., smallholder farmers, migrants, refugees, internally displaced individuals, micro-entrepreneurs, etc.), micro-enterprises, small and medium-sized enterprises, projects, investees related to special purpose vehicles and investment vehicles, sub-national governments, and any other permitted investments aligned with UNCDF's strategic development goals or those of UNCDF’s partners.

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Guarantee Currency Preference

80. Guarantees should ideally be issued in local currency but may be issued in hard currency if considered appropriate and authorized by the Executive Secretary. When local currency guarantees are provided, the guarantee agreement must establish a cap on the total possible exposure, using the same currency as the funding (or commitment if unfunded) backing the exposure.

Risk appetite for guarantees

81. A credit-rating agency's country rating shall be considered relevant when a guarantee is rated to assess transfer risk[11]. UNCDF will utilize a rating assigned by either Moody's, Fitch, or S&P. If the rating is derived from Fitch or S&P, it shall be converted into an equivalent Moody's rating, as the probability of default data is sourced from Moody's Default & Recovery Database[12]. If no credit rating is assigned to the host country, UNCDF should assign a sovereign credit rating following established internal methods. Since UNCDF primarily operates in low-income countries with poor ratings, its portfolio is expected to contain a low credit rating.

Types of risk sharing

Risk sharing Pari-Passu

82. UNCDF can be positioned on a pari passu basis regarding the rights and obligations arising from a default situation on underlying loans covered by any guarantee.

83. UNCDF shall issue guarantees only in cases where the financial institution continues to bear a portion of the credit risk on a guaranteed transaction to promote sound and prudent credit management.

84. The maximum coverage must encompass the same loan(s) covered by any other financial institution, investment company, commercial guarantor, insurance company, government, or international organization. However, it excludes a parent guarantee from the parent company to the borrower, which serves as collateral.

Subordinate risk sharing

85. UNCDF can also be positioned as a subordinated investor in a structure typically referred to as a "first loss tranche," which ranks below other guarantors and lenders with priority rights in the event of default UNCDF.

Deployment of Guarantees for UNDP Projects

86. UNCDF's Guarantee Policy will apply when the UNCDF deploys guarantees as an implementing partner or responsible party on behalf of a UNDP project.

[11] Transfer risk is the risk that a non-sovereign entity, which is able and willing to service its foreign currency obligations cannot obtain or transfer the money to the receiver abroad. The imposition of government restrictions on convertibility or capital transfers causes this transfer inability.

[12] The probability of default data is collected from Moody's Default & Recovery Database, which entails several credit cycles. The data also accounts for how default experience varies at different points in the economic cycle. Other sources, such as historical Non-performing Loan data from a guaranteed party or central bank, can also be used if the sources by the transaction team are deemed valid and reliable.

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Beneficiary Capital Relief and Obligations of UNCDF

87. The UNCDF guarantee may provide capital relief[13] for a financial institution or guaranteed party. Unless explicitly contrary to local banking regulations, the guarantee legal documents' claim processes and default definitions must sufficiently align to provide capital relief following the guaranteed parties' local regulatory framework. UNCDF does not have a balance sheet against which the guarantee can be considered a liability. Therefore, all guaranteed liabilities will be fully funded in every instance. Consequently, UNCDF is permitted to issue only "funded guarantees." Under no circumstances shall UNCDF assume liabilities nor take on unfunded guarantee liabilities. Third-party guarantees issued for the benefit of UNCDF, in support of the guarantees it issues, will be regarded as funded for this policy requirement. This is subject to the guarantee agreement between UNCDF and the guaranteed party, which must state that no obligation to make a claim payment exists until and to the extent that UNCDF has received payment from the third-party guarantor for the relevant claim.

88. The funds set aside in a UNCDF fully controlled account to cover the expected losses shall be held within a dedicated project chart of accounts, budgeted for claim payouts and maintained over the project's life. The funds supporting the chart of accounts will be accounted for in the normal liquidity management process.

89. Depending on the development context, i.e., where the end beneficiaries substantially lack financial inclusion and the guaranteed party will not accept a single managed UNCDF account regarding the guaranteed amount but requires an escrow account, and without increasing the contribution's credit risk, the guaranteed amount could, as a second option, be deployed in an escrow account at a third party. UNCDF owns the money held in escrow, and the escrow agent, which should be a regulated financial institution, only has the money in trust. Any legal agreement with an escrow institution must be reviewed and cleared by BMS/OLS.

90. As a last option, an escrow account should be deployed with the guaranteed party, provided the guaranteed party is a regulated financial institution. The funds set aside will be recorded in UNCDF's books. Under no circumstances shall they be available for claim or use by any other activity or project within UNCDF.

91. At the end of the guarantee, the funds allocated will be released to the corresponding project following the applicable donor agreement.

Pre-Funded Guarantees

92. As an alternative to the standard approach whereby guarantee funds are retained in a UNCDF fully controlled account or through escrow arrangements to meet the guaranteed party's potential claim requests for covered losses, UNCDF may deploy a guarantee as pre-funded (Pre-Funded Guarantee) whereby all or part of the guarantee funds are made available to the guaranteed party in advance of the occurrence of covered losses. A Pre-Funded Guarantee shall remain substantively linked to an identifiable guarantee or risk-

[13] Capital relief for a financial institution involves taking actions to transfer some of the credit risk associated with its asset portfolio to a third party (in this case, UNCDF as guarantor). This allows the financial institution to hold less capital (typically equity) against risk-weighted assets in accordance with local and Basel regulatory requirements. Consequently, these financial institutions can reduce risk while focusing on their core business operations, which could further promote local economic development.

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sharing obligation and shall not constitute an unconditional transfer of funds to the guaranteed party.

93. Funds provided under a Pre-Funded Guarantee shall remain linked to the underlying guarantee or risk-sharing arrangement and may be used to establish, capitalize, maintain or replenish guarantee reserves, support claims-paying capacity, provide first-loss or other risk-bearing capital, support prudential, reserve or capital requirements associated with the guarantee structure, or otherwise enable the guaranteed party to assume, manage and deploy risks in furtherance of the purposes of the guarantee transaction.

94. A Pre-Funded Guarantee may be deployed through a lump-sum disbursement, multiple disbursements, milestone-based disbursements, utilization-based disbursements, reimbursement arrangements or any combination thereof, as determined appropriate by UNCDF taking into account the structure, risk profile and development objectives of the transaction.

95. UNCDF may approve the total amount of the Pre-Funded Guarantee support at inception while making subsequent disbursements conditional upon satisfaction of conditions precedent, achievement of utilization targets, operational, portfolio, mobilization, governance or institutional milestones, or other objectively verifiable conditions specified in the relevant agreement.

96. Funds made available under a Pre-Funded Guarantee may remain available for such period as is necessary to support the underlying guarantee or risk-sharing arrangement and may, where provided for in the relevant agreement, be reused, revolved, recycled or redeployed within the approved structure.

Pricing and Subsidization

97. In line with the financial risk model developed to support the risk opinion and its associated tools, guarantees shall charge fees corresponding to the financial risk, the cost of administration, and, optionally, the financial cost of funds for undertaking the guarantee. The pricing shall include all costs for UNCDF by incorporating loss estimations based on models for estimating the loss, given defaults on the underlying loans, along with an analysis of labour costs and overhead expenses for administration.

98. Guaranteed portfolios or structures where the end borrowers are unknown at the time of guarantee issuance but with stated eligible criteria are priced and credit-rated using a cumulative default rate calculation methodology. In addition to assessing the probability of default, UNCDF will evaluate the loss given default, which encompasses possible recoveries. The guaranteed party undergoes a financial assessment based on financial performance, resulting in an assigned rating. This rating is the basis for evaluating the credit risk associated with the outstanding fee.

99. The pricing of a single loan guarantee, where the end borrower is known when the guarantee is issued, is determined by the current and expected financial performance. This analysis is based on the mandatory due diligence and financial modelling related to P&L, cash flow, and balance sheet, utilizing UNCDF's internal loan models. These models ultimately translate the risk into an assigned rating and scoring for the loan grade.

100. The guaranteed party pays a risk-reflective fixed guarantee or utilization fee that UNCDF can partly subsidize if it is clear that the fee will be passed on to the guarantee beneficiaries,

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which will challenge the utilization of the guarantee and, in the end, the expected development impact. The fee is usually based on a percentage of the outstanding exposure or structured as a fixed fee. UNCDF charges a cost-reflective administration fee to cover the costs of setting up and managing the guarantee. This cost can be subsidized if sufficient justification is provided and approved by the Executive Secretary.

101. UNCDF may charge an initiation fee and a commitment fee for the unutilized portion of a funded guarantee to account for opportunity costs or interest losses associated with ring-fencing funding for a guarantee.

102. UNCDF can subsidize the fees (partly or fully) based on IDIC's recommendation and the decision of the Executive Secretary.

Follow-up and oversight

103. All guarantees will adhere to UNCDF's standard financial and non-financial reporting requirements. Specific follow-up activities, as outlined in the guarantee agreement and UNCDF's internal policies and processes, will be necessary every six months.

104. Any material risk identified during the review will be elevated to the Risk Management Group (RMG) following the UNCDF Risk Management Framework, including loan forgiveness/write-offs during the period.

Cost recovery on guarantees

105. It is recognized that deploying financial instruments does not necessarily represent an expense from an accounting perspective or a disbursement of funds. However, full recovery of direct costs associated with the guarantees will be covered by a funded donor contribution in the form of a TA facility or another donor agreement that encompasses investment advisory to structure, deploy, monitor, manage, and follow up on the guarantees and all other direct project costs, whether they support funded or unfunded initiatives guarantees.

106. GMS must be recovered from the donor agreement. During the review process, indirect cost coverage should be reviewed by IDIC for a recommendation to the Executive Secretary. UNCDF has the right to charge for indirect costs whenever a financial instrument is used, including when previously deployed and repaid funds are reinvested into new financial instruments.

107. Indirect costs, including GMS and/or guarantee fees, will be charged as follows:

a) *Guarantees funded through donor funds*: For financial instruments that do not require upfront disbursement (e.g., unfunded guarantees for the beneficiary), the standard GMS rate in the UNDP Cost Recovery Policy in the POPP will be charged and accounted for upfront at the signing of the guarantee agreement with the counterpart (beneficiary), following the donor's agreement. No GMS will be recorded for subsequent expenses (such as fair value adjustments and claim payouts).
b) *Back-to-back guarantees*: For financial instruments whereby there is guaranteed volume committed as unfunded capital provided by a donor to UNCDF as a guaranteed party through a guaranteed agreement for UNCDF to deploy in its contributions, such agreements must include indirect costs covered at the relevant applicable GMS cost recovery rate in the UNDP Cost Recovery Policy. If the counter-guarantee agreement does not cover the GMS, the Managing Director may approve a waiver of GMS noting

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other sources of financing available and the importance of the program for UNCDF operations The sources could include one or a combination of the following:

i. A separate Technical Advisory (TA), another donor-funded facility, or third-party donor funding, including support from UN agencies utilizing UNCDF instruments. These indirect costs should be separate from other GMS charges levied on the TA or donor facility based on direct costs funded by the facility), or
ii. the guaranteed party through a fixed guarantee or utilization fee.

108. For all types of guarantee facilities (funded or unfunded), if the agreement with the donor (including in the case of back-to-back guarantees, the counter-guarantee agreement) does not cover the entire GMS rate provided in the UNDP Cost Recovery Policy, a waiver of GMS must be sought from the Managing Director. All waivers of GMS must be reported to the Executive Board. Internal resources, including accumulated interest and loan reserves, may be allocated to cover any GMS shortfall with the approval of the UNCDF Executive Secretary and after approval of the respective GMS waiver by the Managing Director.

Catalytic Support

109. UNCDF may provide a catalytic support amount (Catalytic Support) as part of a guarantee transaction where such support is necessary or appropriate to facilitate the deployment and utilization of the guarantee. It shall contribute towards administrative, operational and implementation costs incurred by the recipient in connection with the establishment, deployment, utilization, management and operationalization of the guarantee. The Catalytic Support can be provided in advance, in multiple tranches or in a single tranche, and shall be assessed as part of the guarantee transaction. It shall be proportionate to the objectives, scale and expected development impact of the guarantee.

Agreement Templates

110. UNCDF's Guarantee Agreement template will be utilized for all guarantees, save for Pre-Funded Guarantees, for which the dedicated template will be utilized. The templates are available in the [UNCDF website]. Any deviations from the relevant template must be previously approved by BMS/OLS. Before any agreement is signed, clearance must be obtained in accordance with the UNCDF's Internal Control Framework.

Guarantee reserve

111. UNCDF will maintain a guarantee reserve to support the costs associated with the effective management of its guarantee operations, with the following payments made into the reserve:

a) The fixed guarantee or utilization fee paid by the guaranteed party will be recycled back to the project only if an agreement with the donor specifies that the fee, or a portion of it, should not be returned.
b) The recovered capital will be returned to UNCDF following an agreement with the relevant donor and the approval of the Executive Secretary.

112. The Investment Finance and Oversight Division of UNCDF centrally manages the use of the guarantee reserve, and the Executive Secretary must approve any expenditures from those funds.

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C. Investment Services

Purpose and Scope

113. As per General Assembly resolution 2186, Article III.1, "*Assistance from the United Nations Capital Development Fund may be given to the Government of a State Member of the United Nations or a member of a specialized agency or of the International Atomic Energy Agency or to a group of Governments of such States, or at the request of the Government of one of those States, to an entity having juridical personality within the territory of that State.*"

114. As part of such assistance, UNCDF may provide Investment Services. Investment Services comprise specialized assistance provided to development partners and other eligible entities, with UNCDF acting in the role of service provider. This instrument operates on a fee-for-service basis, enabling UNCDF to leverage its technical expertise in investment facilitation, financial inclusion, and blended finance structuring.

115. In all cases of country-level service provision, the national government must be aware of and agree that UNCDF is providing Investment Services, and select, approve or endorse the recipient. In each specific case, the service provided and the recipient should be included in the Cooperation Framework Joint Results Group Workplans or other programme-level plan signed by the Government, or through an exchange of letters or other method approved by the Government. If this is not the case, then the Government must signify its agreement to the specific investment assistance and the designation of the recipient of services by signing the Investment Services agreement or via another method expressing the Government's agreement as required by the General Assembly Resolution establishing UNCDF. When UNCDF provides Investment Services as part of a project of another UN entity, the relevant governmental approvals obtained by such UN entity, following its internal policies and procedures, will be sufficient for purposes of this policy. In the event of global service provision, no government approval is required but the services must be aligned with the UNCDF Strategic Framework.

116. As a distinct programming instrument, Investment Services enable UNCDF to help partners achieve investment and development results. UNCDF plays a specific and pre-defined role, delivering outputs and activities towards a result for which the partner has accountability for strategy, design, oversight, and quality assurance. UNCDF is only responsible for the quality of the deliverables it provides.

117. Investment Services must be aligned to the UNCDF Strategic Framework and support development priorities primarily in least developed countries and underserved markets. Services may include but are not limited to:

- Investment pipeline development and transaction origination;
- Blended finance structuring and advise;
- Market assessments and feasibility studies;
- Due diligence and risk assessment support;
- Capital deployment and monitoring;
- Investment readiness and capacity building; and
- Policy and regulatory advisory services.

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Eligible Recipients

118. UNCDF may provide investment services to a range of partners. The recipient of the Investment Services must be a legal entity (i.e., not an individual or an 'entity' that is not duly formed under either a national or international law). Types of partners can include:

- National or subnational governments and government entities;
- UN agencies and inter-governmental organizations;
- Bilateral or multilateral organizations;
- International financial institutions and development finance institutions;
- Civil society organizations, non-governmental organizations and foundations;
- Private sector entities.

119. Recipients are subject to standard UNCDF due diligence requirements.

Agreement and Cost Recovery

120. Investment Services must be concluded through an Investment Services Agreement between UNCDF, the recipient, and, in the case that the recipient is not the same entity as the funder of the Investment Services, the funder. The Investment Services Agreement formalizes the relationship between UNCDF, the recipient, and, as the case may be, the funder, including roles and responsibilities for all parties, as well as payment methods. Two annexes should be attached to the agreement:

a) Annex 1: A multi-year workplan with relevant details of deliverables and deadlines. Any required background information, critical components of service, performance indicators, etc. must be included.
b) Annex 2: A schedule of payment, indicating amount and timing.

121. The Investment Services Agreement template, available in the [UNCDF website] must be used. Any deviations from the template must be previously approved by BMS/OLS.

122. All costs incurred by UNCDF to deliver Investment Services, including, without limitation, all direct costs, capital, staff costs, consultants, equipment, travel, communication, reporting, audit and GMS, must be recovered from the recipient or, if the recipient is not the same as the funder, the funder. Payments must be based on a cost-plus basis or market-based fee basis, and must always be made in advance of providing the services.

123. In no case may UNCDF indemnify the recipient Investment Services or the funder thereof (if different) for any damages, claims, demands or other losses relating to/arising from the provision of the Investment Services. Privileges and immunities must be preserved (e.g., UNCDF may not agree to resolve disputes through any national or sub-national legal system).

Approval and Implementation

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124. Before any Investment Services Agreement is signed, clearance must be obtained in accordance with the UNCDF's Internal Control Framework. A project manager shall be identified as the focal point to engage the recipient and manage delivery of services.

125. The Supplementary Guidelines and the relevant policies of the POPP, including UNDP's Social and Environmental Standards, apply to Investment Services. Project management requirements related to the formulation of project documents, project appraisals and approvals, quality assurance, and establishing project boards, do not apply to Investment Services.

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D. Risk Management

126. UNCDF manages risk through an integrated Enterprise Risk Management (ERM) system, formalized in three core documents: the ERM Policy, the Risk Appetite Statement (RAS), and the RAS Guidance. Together with the Supplementary Guidelines and the relevant provisions of the POPP, these documents ensure that risks are systematically identified, assessed, and managed across all programmatic and investment operations.

127. The ERM Policy embeds risk management into UNCDF's strategic planning, decision-making, and operational processes, structured around the Three Line Model of governance: the first line owns and manages risks; the second line provides oversight, technical guidance, and support; and the third line, including independent assurance functions such as UNDP's Office of Audit and Investigation (OAI), verifies the effectiveness of risk management practices.

128. The RAS defines UNCDF's tolerance levels for key risk categories, thereby supporting consistent, transparent, and risk-informed investment decisions.

129. The RAS Guidance operationalizes the risk management framework by providing practical instructions for applying the RAS in daily operations. It outlines how to conduct risk assessments, compare risk significance to defined appetite levels, and determine appropriate treatment measures.