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Financing pathways for UN leaders:
A strategic guide

Glossary

Term	Plain-language definition for front glossary
Additionality	The difference made by the financing structure beyond what would have happened through a conventional grant or standard public financing.
Blended finance	Use of concessional or public/philanthropic capital to improve the risk-return or affordability profile of a transaction so that additional capital can be accessed.
Catalytic capital	Capital that accepts higher risk, lower return, longer duration, or more flexible terms to unlock outcomes or additional investment that would not otherwise happen.
Contingent liability	A possible future payment obligation that becomes real only if a defined event occurs, such as a borrower default or guarantee call.
Exposure	The potential financial, legal, operational, or reputational downside an institution takes on when it enters a financing arrangement.
Exposure profile	The maximum capital an investor, bank, or company stands to lose if a specific asset, market, or counterparty fails.
First-loss capital	A risk-tolerant layer that absorbs initial losses to protect other investors and make a transaction investable.
Frontloading	Converting future commitments into resources available today, often through a financing vehicle or borrowing backed by multi-year pledges.
Guarantee	A promise to cover part of a loss or payment obligation if a borrower, buyer, or counterparty does not perform.
Innovative finance	Financing approaches that change how money is raised, sequenced, pooled, repaid, or linked to results in order to solve a specific development financing constraint.
MRV	Monitoring, reporting, and verification: the systems that prove whether results were achieved and whether payments or claims were justified.
Political durability	The likelihood that political support, governing-body consent, and donor backing will remain stable long enough for the financing structure to work.
Risk appetite	The types and levels of risk an institution is willing and authorized to accept in pursuit of its mandate.

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Foreword

Across the world, people look to the United Nations for support in times of crisis and for opportunities to build a better future. Meeting those expectations depends on funding that allows us to plan, respond quickly, and stay the course. Yet needs are growing while resources are under increasing pressure. Too often, funding is uncertain, tightly restricted, or arrives too late.

These pressures have real consequences for the people we serve. They demand greater discipline in how we use every contribution, alongside a sustained commitment to predictable, flexible funding. As the UN80 initiative advances, we have an opportunity to strengthen the foundations of our work and equip the system to deliver more effectively.

Financing pathways for UN leaders: A strategic guide offers practical guidance for that effort. It distinguishes two complementary priorities: strengthening the UN's grant-based funding and selectively using innovative and blended finance to mobilize additional capital for sustainable development. Each serves a distinct purpose. Reliable grant funding remains essential to our ability to deliver.

Governments, development banks, investors, and philanthropic partners bring resources and expertise that can help achieve shared goals. The United Nations can help bring these partners together around measurable results, drawing on its convening power, knowledge, and presence in countries. Engaging effectively requires clarity about our contribution and care in protecting our mandate and normative role.

The responsibility of leaders is to make informed choices: identify the problem, choose an approach suited to it, and ensure the capabilities and safeguards are in place to proceed responsibly. This paper provides a useful framework for those decisions, keeping our attention on the people whose lives and prospects our financing choices ultimately shape.

Amy Pope
Director General
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As the learning institution of the United Nations system, the United Nations System Staff College supports UN personnel and organizations in developing the knowledge and capabilities required to navigate complex transformations. This paper reflects that commitment by translating experience from across the UN system into a practical resource for leaders and decision-makers.

It contributes to an important debate across the UN system about how to sustain and strengthen delivery in an increasingly constrained and complex environment. By combining practical experience with useful tools, the paper supports leaders and decision-makers as they assess which financing approaches are appropriate for different institutional contexts and objectives.

We hope this publication will encourage informed dialogue and foster learning and collaboration across institutions and help lead to financing choices that reinforce the United Nations' legitimacy, resilience and ability to deliver lasting impact.

Silke Weinlich
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We also acknowledge the UN entities and partner institutions whose experience and financing approaches are reflected in the case studies and examples used throughout this publication.

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Questions and further engagement
For questions or clarifications about this publication, or to explore a discussion or focused learning session on the broader financing framework or specific instruments covered in the guide, please contact unlock@unssc.org.

Financing pathways for UN leaders: A strategic guide

UN organizations are being asked to deliver more with declining funding that is less flexible, less predictable, and more influenced by geo-political tensions. This paper describes how leaders can respond in a disciplined way. It distinguishes between two response lanes: first, strengthening the financing model that supports UN continuity; and second, using innovative and blended finance selectively where market-shaping or outcome financing can solve problems that grants alone cannot.

This paper is intended to provide UN senior managers and institutional decision-makers with a practical framework to diagnose institutional vulnerabilities, stabilize and modernize the UN family's grant-based financing model, and determine how to deploy structured and innovative financing instruments while upholding the relevant legal, political, and governance paradigms. By stress-testing the current financing architecture and distinguishing between different exposure postures (Bands I–III), the paper equips institutions with a disciplined approach to escalation and offers a roadmap for preserving institutional continuity while enabling the UN system to mobilize capital for outcomes in a world where grants alone can no longer sustain impact at scale.

This guide sits within the broader UN discussion on the shift from funding to financing. That shift extends beyond innovative finance to encompass the quality and composition of UN funding, the strategic use of limited grant resources, pooled and portfolio approaches, stronger country-level financing strategies, and the United Nations' role in helping align public and private financial flows with sustainable development outcomes.

The agenda is reflected in both the Funding Compact and UN80. The Funding Compact links more predictable and flexible funding with stronger UN performance and accountability, while UN80 places financing within a broader effort to improve effectiveness, coherence and sustainability[1]. Together, they highlight the need not simply to raise more resources, but to make the overall financing architecture work more strategically and coherently.

Within this context, the paper addresses a specific leadership challenge. It helps UN organizations distinguish between strengthening the funding foundations required for institutional continuity and using their mandates, capabilities and partnerships to influence or mobilize finance beyond their own resources. The two-lane framework should therefore be understood as a practical contribution to the wider funding-to-financing agenda. Lane A focuses on strengthening the United Nations' own funding architecture, while Lane B supports the selective use of innovative and blended approaches where grants alone cannot address a financing constraint.

Innovative finance is therefore not an end in itself, but one element of a broader shift from funding to financing. Its value lies in helping the United Nations mobilize and align capital for sustainable development outcomes where it can add demonstrable value, while recognizing that strong and predictable core funding remains the foundation of an effective multilateral system.

[1] United Nations (2026). UN80 Initiative: Funding Mechanisms – Secretary-General's Information Brief, Work Package 18: https://www.un.org/un80-initiative/sites/default/files/2026-11/UN80_WP18_Funding_Mechanisms.pdf

Report Structure Map

From the UN financing challenge to practical guidance for action.

FRONT MATTER

- **Glossary** — Key terms for easy reference
- **Executive summary** — Key messages, three leadership choices, and who this is for
- **Leadership summary** — Purpose, scope and relevance for UN80+

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- From operational resilience to strategic relevance

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A complementary approach to address the financing challenge

Lane A — Strengthening the resources for UN continuity

Provides the foundation: more predictable, flexible and resilient resources for core delivery.

Complementary and mutually reinforcing

Lane B — Mainstreaming innovative and blended finance (UN-enabled market mobilization)

Used selectively where appropriate to mobilize additional capital for SDG-enabling outcomes.

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Executive summary

Who this is for: This guide is written for UN leaders and decision-makers who already understand the basics of resource mobilization but need a fuller understanding of financing choices and organizational implications: P5 and above leaders, chief financial officers/financial controllers, programme directors, resource mobilization leads, legal & risk functions, and treasury teams.

What this paper offers: This paper offers a practical way for leaders to respond to the decline in funding for humanitarian response & development. It separates two different lanes that are often mixed. **Lane A** is about strengthening the financing model of the United Nations itself: more predictable, flexible, and resilient resources for continuity and delivery. **Lane B**, UN-enabled market mobilization, is about using innovative and blended finance selectively to mobilize capital beyond the United Nations where grant funding alone cannot solve the problem. These choices need not all be pursued at once or at the same level of risk: Institutions should match ambition to readiness, governance, and political durability.

What problem this solves: The UN financing problem is no longer just about raising more money. The current model is under structural strain: Too much funding is concentrated in a limited set of donors, too much is earmarked, liquidity is fragile, planning is difficult, and mandates keep expanding faster than flexible funding. This means institutions are often expected to deliver long-term obligations with short-term, restricted money.

Three choices leaders must make now:

The central leadership discipline is "*proportional escalation*". Institutions should not pursue more complex instruments because they appear modern or because funding is scarce. They should escalate only when the financing problem is clear, additionality is credible, governance is ready, exposure is capped and visible, and political support is durable.

- **First**, decide whether the immediate priority is to **stabilize the institution** through stronger grant architecture, or to **solve a market or outcome financing constraint** that justifies innovative finance.
- **Second**, decide what level of engagement is appropriate: Stay focused on strengthening the grant-base, selectively test catalytic instruments, or move only in rare cases towards more capital-engaged structures.
- **Third**, commission the minimum conditions for disciplined action: governance, legal clarity, data and verification systems, exposure limits, and a sequencing plan for the next 12 to 24 months.

Leadership summary

This paper describes a range of financing instruments available to multilateral organizations and provides a decision guide to support the selection of the most appropriate instrument for specific objectives and operating contexts. Framed within the UN80 context, it responds to a system-level imperative to tighten strategic focus, reduce fragmentation, increase efficiency, and shift financing models toward more coherent and predictable funding structures for sustained impact. The core diagnosis is that many UN entities face structural financing risks and resource constraints. Donor concentration increases exposure to political shocks. Earmarking reduces flexibility. Late or uneven cash receipts create liquidity risk. Mandates and accountability expectations continue to grow.

What is structurally broken in the current financing model?

- The weakness in the current model is structural, not temporary. The issue is not simply insufficient income; it is a growing mismatch between how UN entities are funded and how they are expected to operate.
- Donor concentration creates vulnerability to political shocks. Earmarking reduces flexibility. Liquidity fragility disrupts continuity. Revenue volatility weakens planning. At the same time, mandates continue to expand, placing pressure on institutional backbone functions and increasing delivery and reputational risk.
- In practical terms, institutions are being asked to do more, over longer time horizons, with funding that is more restricted, less predictable, and harder to redeploy. More fundraising alone is not a sufficient response.

What are the two lanes and when does each matter?

In response to these pressures, the paper distinguishes two strategic lanes that are directly relevant to the UN80 initiatives:

- The first pathway (Lane A) focuses on strengthening the United Nations' own financing base. It remains grant-based and is about diversification, flexibility, liquidity, multi-year funding, and better portfolio management. Lane A matters when the main problem is continuity, predictability, resilience, or the quality of revenue flowing to the institution.
- The second pathway (Lane B) becomes relevant when the financing constraint cannot be solved by improving the grant model alone. It covers innovative and blended finance used to mobilize capital beyond the United Nations in support of Sustainable Development Goal (SDG) outcomes. UN-enabled market mobilization matters where the United Nations can convene partners, shape markets, aggregate demand or pipelines, improve accountability, or derisk solutions that grants alone cannot carry.
- Therefore, while Lane A measures preserve institutional and programmatic continuity by reducing structural fragility, Lane B mechanisms protect relevance and value-addition by enabling markets and country systems to finance outcomes at scale.
- The two lanes are complementary but not interchangeable. UN-enabled market mobilization cannot compensate for weak Lane A fundamentals, and stronger Lane A does not remove the need for UN-enabled market mobilization where market-shaping or risk-sharing is necessary.

What are the three bands and why should I care?

The positioning bands provide a practical framework for determining the appropriate level of financing innovation. Most organizations should focus on strengthening the resilience and effectiveness of the grant architecture. Where clear additionality exists, selective catalytic instruments can be used to mobilize outcomes or share risk. Capital-architecture approaches should be reserved for exceptional cases and require the necessary treasury capacity, legal authority, risk management, and sustained political support.

- Band 1 focuses on strengthening the grant architecture. The emphasis is on better diversification, flexibility, liquidity, and financing discipline.
- Band 2 means selective catalytic engagement. Institutions may use simpler innovative finance structures where additionality is clear and readiness is adequate.
- Band 3 entails more complex capital architecture engagement. This requires stronger treasury capability, governance, legal authority, risk management, and political durability.

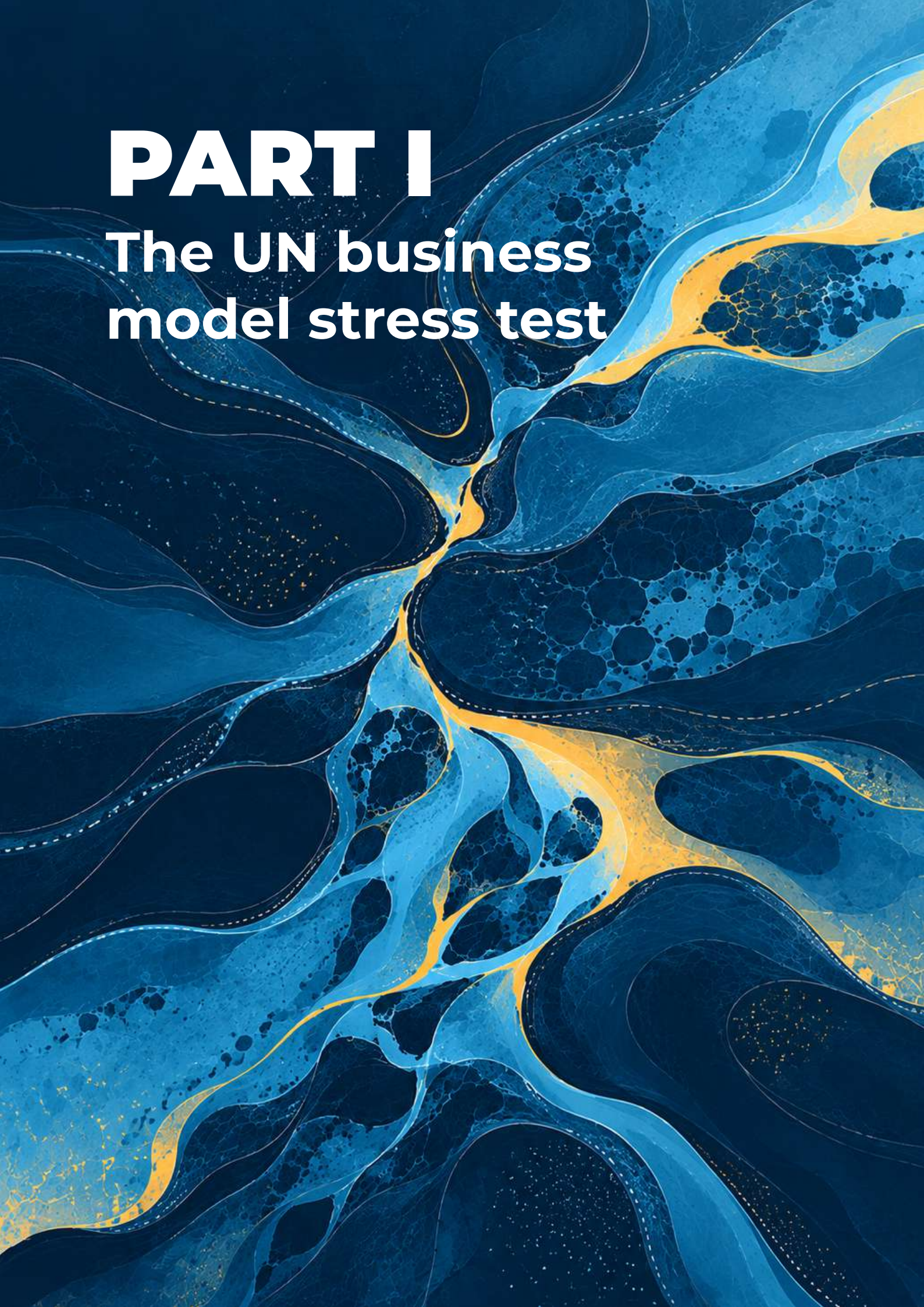
These bands matter because they help leaders avoid overreach. They match ambition to readiness, governance capacity, and risk tolerance, rather than allowing institutions to drift into more complex structures by default.

What 3 or 4 specific decisions do I, as a leader, need to commission or endorse in the next 12 to 24 months?

The practical leadership question is not "which instrument is most innovative?" It is: What financing constraint are we solving, what is the appropriate financing instrument that can solve it, and what institutional capability must be in place before we proceed? A UN entity should not pursue a financing opportunity merely because capital is available. It should proceed only where the opportunity aligns with mandate and strategy, where the entity brings something essential – such as normative authority, government trust, convening power, delivery systems, fiduciary credibility, or outcome verification – and where that contribution is recognized in the transaction design. Key leadership considerations include the following:

- Commission a leadership-level diagnosis that distinguishes between institutional financing stress and outcome-level financing constraints. This determines whether the immediate priority is grant-based (strengthening the resources for UN continuity), innovative or blended finance (UN-enabled market mobilization), or a disciplined combination of both.
- Decide explicitly whether the organization is, for now, a Band 1 institution, a selective Band 2 institution, or, in rare cases, preparing for Band 3 capabilities.
- Create the minimum governance and readiness package before using innovative finance more widely. This should include legal clarity, governance and oversight, data and verification capability, exposure monitoring, and reputational safeguards.
- Approve a sequenced 12- to 24-month roadmap: Strengthen grant-based (Lane A) fundamentals first; test a limited number of Band 2 use-cases where additionality is clear; and keep Band 3 options exceptional and conditional.

The central proposition of this paper is proportional escalation. Financial transformation should be anchored in structural necessity, matched to institutional readiness, bounded by guardrails, and calibrated to political durability. For many entities, a strengthened Band 1 posture will remain structurally appropriate. On the other hand, Band 2 overlays will enhance catalytic capacity and institutional impact without redefining institutional exposure posture. And Band 3 may be leveraged in cases where mandate scale, governance maturity, and sovereign backing align.



PART I
The UN business model stress test

This part diagnoses the structural pressures affecting the UN financing model. It shows how donor concentration, earmarking, liquidity constraints, and mandate expansion interact to create cumulative vulnerability. The purpose is to move beyond a narrative of "resource gaps" toward a clearer understanding of structural risk. The stress test frames why incremental fundraising is insufficient and clarifies the need for disciplined financing responses in subsequent parts.

1.1 STRUCTURAL CONTEXT AND OPERATIONAL COMPRESSION

The UN system is operating in a financing environment that is structurally tighter and more politically volatile than in previous years. This is not a cyclical contraction but a persistent compression between expanding mandate expectations and a financing model that is increasingly discretionary, politically influenced, and operationally rigid. The United Nations' liquidity crisis coincides with a larger collapse in Official Development Assistance (ODA), upon which many UN functions depend. While earlier projections from the Organisation for Economic Co-operation and Development (OECD) suggested a decline of roughly 9–18 percent, preliminary 2025 data now indicate a much sharper contraction: ODA from Development Assistance Committee members fell by 23.1 percent in real terms between 2024 and 2025, the largest annual drop on record, reflecting mounting fiscal pressures and a reorientation of donor spending priorities.[2] Analyses of the United Nations' structural financing problem reveal that UN financing has become a complex and decentralized affair dominated by voluntary contributions.[3] Voluntary contributions represent the dominant source of revenue for many funds, programmes and specialized agencies.

The declining importance of assessed contributions and the rise in voluntary contributions (often tightly earmarked) have contributed to a dynamic of bilateralization across the UN system, where major – especially Western – donors have a disproportionate say in how multilateral cooperation unfolds. These contributions are often short-cycle, heavily earmarked, and sensitive to geopolitical realignment and domestic fiscal pressures in major contributor countries. Assessed contributions provide a more predictable baseline and collective governance legitimacy, yet they are politically negotiated and tend not to expand in proportion to new operational demands. While the assessed contribution system was designed to provide depoliticized and predictable funding for the United Nations, based on a concept of

[2] OECD (2026). Preliminary official development assistance levels in 2025: Detailed Summary Note, DCD(2026)8. https://one.oecd.org/document/DCD%282026%298/en/pdf

[3] Baumann, M.O. and Haug, S. (2024). *Financing the United Nations: Status quo, challenges and reform options. Friedrich Ebert Stiftung. IDOS (German Institute of Development & Sustainability).*

fair global burden-sharing, it has often been at the center of political turmoil. Arrears – i.e. late payments – have been common, and some Member States have consequently (and, temporarily) lost their voting rights.[4] In the 1980s, major contributors – particularly Western donors – began to express their frustration at their perceived lack of influence, imposing a zero-growth approach to core budgets and placing increasing emphasis on voluntary contributions.[5]

At the same time, expectations of the UN system have expanded across humanitarian caseloads, peace and security mandates, climate programming, safeguarding standards, compliance requirements, reporting transparency, and digital accountability.

The end-result is a structural compression: delivery obligations increase while funding elasticity narrows.

1.2 WHERE FINANCIAL PRESSURE BECOMES STRUCTURAL VULNERABILITY AND RISK

Financial pressure becomes structural vulnerability and risk when several characteristics of the funding model interact.

Volatility reduces planning certainty. Concentration exposes institutions to political shifts in a limited number of capitals. Earmarking constrains leadership discretion to rebalance resources. Liquidity gaps between pledges and cash receipts disrupt operational timing. Mandate expansion, together with the growth of institutional structures, coordination arrangements and associated fixed costs over time, can create commitments that are difficult to adjust when funding contracts. Where organizational structures and enabling functions do not adapt at the same pace as revenue and delivery requirements, financial pressure can translate into structural rigidity and reduce flexibility in financial management. When combined, such contextual elements can limit the institutional financial management flexibility to a point where they create significant structural vulnerabilities and risks. An organization may show stable annual revenue while experiencing intra-year liquidity strain. It may experience nominal growth while losing allocative flexibility due to rising earmarking. It may expand programming while underfunding enabling systems such as risk management, workforce continuity, digital infrastructure, and compliance oversight. In other words, structural vulnerability and risk accumulate gradually through interaction effects rather than single shocks.

1.3 REVENUE COMPOSITION, ELASTICITY, AND CONCENTRATION

Institutional resilience depends not only on revenue volume but on the structural properties of that revenue. Assessed contributions and core voluntary contributions anchor essential institutional functions and signal collective ownership, but their growth is limited or declining and is politically constrained. Voluntary contributions provide responsiveness and scale, yet they are discretionary and most are increasingly restricted.

[4] Haug, S., Gulrajani, N. and Weinlich, S. (2022). *International organizations and differentiated universality: Reinvigorating assessed contributions in United Nations funding.* Global Perspectives, 3(1).

[5] Graham, E.R. (2023). *Transforming international institutions: How money quietly sidelined multilateralism at the United Nations.* Oxford: Oxford University Press.

Over recent years, many UN entities have experienced increasing pressure from a combination of highly concentrated funding sources, persistent earmarking, volatility in voluntary contributions, and declining growth in flexible resources. While these trends vary across organizations, the cumulative effect has been to reduce strategic discretion and increase exposure to political, fiscal, and donor-specific shocks. Even where aggregate revenue has remained stable or increased, leadership flexibility has often narrowed as the proportion of unrestricted funding has failed to keep pace with operational demands.

Concentration risk further intensifies this exposure. In several entities, a small number of contributors account for a substantial share of voluntary income. Domestic political shifts, fiscal reprioritization, or foreign policy adjustments in one major contributor can materially affect operational continuity.

1.4 EARMARKING, LIQUIDITY, AND CONTINUITY

Earmarked funding constitutes a significant share of funding for many UN entities and can provide visibility, donor alignment, and resources for specific priorities. However, when earmarking becomes pervasive, it can reduce institutional agility. Restricted funding often fragments programme portfolios, increases transaction and reporting burdens, limits reallocation flexibility, and underfunds cross-cutting institutional capacities.

Strategic coherence requires a sufficient threshold of assessed or flexible voluntary funding that leadership can deploy across mandates.

Lack of liquidity introduces a distinct operational risk. Contributions may be pledged yet not received in time to align with procurement cycles, partner transfers, or emergency deployment. Liquidity resilience must therefore be managed explicitly, with working capital buffers and disciplined forecasting.

1.5 ILLUSTRATIVE STRESS TEST SCENARIOS

To translate structural exposure into management reality, institutions should assess how their operating model performs under plausible stress scenarios, including:

- Reduced voluntary funding due to domestic fiscal consolidation
- Sharp increase in the proportion of tightly earmarked resources
- Delayed disbursements despite confirmed pledges
- Marginal growth in flexible funding despite rapidly expanding mandate expectations in response to crisis.

Under each scenario, leadership should examine questions such as:

- What proportion of programming is immediately affected?
- How many months of operating liquidity are available?
- Which institutional backbone functions lose funding first?

- How quickly would workforce adjustments be required?
- Can leadership rebalance across mandates without destabilizing delivery?

The purpose of these scenarios is diagnostic – they clarify dependency thresholds, liquidity buffers, allocative rigidity, and workforce fragility before crisis conditions force reactive decisions.

1.6 MANDATE EXPANSION AND INSTITUTIONAL BACKBONE STRAIN

Where mandate expansion outpaces growth in funding, organizations may finance long-term institutional obligations with short-term earmarked streams. Over time, workforce continuity becomes uncertain, systems modernization is deferred, and resilience erodes incrementally. In essence, mandate elasticity without revenue elasticity produces structural imbalance.

1.7 FINANCIAL AND REPUTATIONAL INTERDEPENDENCE

Financial strain and reputational risk reinforce one another. Programme interruptions or delayed response may be interpreted as delivery failure and damage credibility. Reputational erosion, in turn, makes resource mobilization more difficult, amplifying fiscal stress. Operational resilience must therefore be understood as both financial and reputational.

1.8 FROM OPERATIONAL RESILIENCE TO STRATEGIC RELEVANCE

The UN continues to compete for discretionary and philanthropic grant capital alongside smaller, more agile actors. Within a predominantly grant-dependent model, improvements in flexibility and diversification tend to yield incremental stabilization rather than structural transformation. The United Nations' comparative advantage lies in its legitimacy, convening authority, normative leadership and operationalization capacity, fiduciary safeguards, and credible measurement and verification. These capabilities position it not only as a recipient of grants, but as a system-level mobilizer and aligner of capital toward public outcomes at scale.

The strategic inflection point therefore extends beyond revenue resilience. Sustained institutional relevance requires moving from a model centered primarily on grant accumulation toward one that deliberately positions grants within a broader financing architecture. Where structural constraints cannot be resolved through diversification and liquidity reform alone, institutions may need to reassess their financing posture – for example, to consider financing architectures that engage risk-sharing, outcome-linked mechanisms – within clearly defined governance boundaries.

1.9 LEADERSHIP IMPLICATIONS

Several structural vulnerabilities identified here – fragmentation, allocative rigidity, duplicative structures, and weak cross-entity coordination – are addressed in the UN80 reform agenda. Financing and institutional reform should therefore be mutually reinforcing, strengthening delivery continuity and institutional stability commensurate with mandate expectations. Financing mechanisms should be evaluated against practical criteria:

- Do they reduce volatility or concentration exposure?
- Do they increase allocative flexibility?
- Do they strengthen liquidity resilience?
- Do they align mandate ambition with a sustainable financing architecture?

A core leadership tension is that the United Nations may enable very large volumes of SDG-aligned finance without materially improving its own institutional revenue base. For example, supporting a government to align sovereign borrowing or national financing plans with the SDGs can generate substantial outcome value, but the capital remains government or market capital. This reinforces the need to distinguish institutional financing resilience from UN-enabled capital mobilization for outcomes. Additionally, leadership implications extend beyond discrete decisions, including cross-functional collaboration across programme, legal, treasury, and Monitoring, Reporting & Verification (MRV) functions, clarification of decision rights, and defining boundaries of acceptable exposure rather than defaulting to procedural caution.

The next step is to distinguish categories of response. Part II introduces two strategic lanes that organize the available financing options without implying linear progression.

PART II

Financing response architecture: Two strategic lanes

This part introduces a simple but critical distinction between two financing responses. Lane A strengthens the United Nations' own grant-based financing model and institutional continuity. Lane B uses innovative and blended finance to mobilize capital beyond the United Nations for development outcomes. Separating these pathways helps leaders select proportionate responses to specific financing constraints and avoid unnecessary complexity or misaligned instruments.

Two strategic lanes and institutional positioning

2.1 WHY A STRUCTURED RESPONSE IS NECESSARY

Without a structured response architecture, innovative financing risks becoming reactive, fragmented, or driven by opportunity rather than institutional strategy.

The central discipline introduced in this paper is the distinction between two fundamentally dissimilar categories of response (or lanes): (1) strengthening the existing grant-based model (Lane A); and (2) introducing structured financing mechanisms that alter exposure characteristics (Lane B). The distinction is operational. Some measures stabilize revenue. Others introduce exposure, contractual rigidity, or market interface. Leadership must understand which category is being pursued.

Core design principle: The starting point for innovative or blended finance should not be the instrument. It should be a clearly defined programmatic or market constraint that grants alone cannot resolve. Leaders should therefore ask first what problem is being solved – affordability, risk, timing, investability, liquidity, or outcome accountability – and only then determine whether an innovative financing mechanism is appropriate.

The distinction between Lane A and Lane B is intended to complement, rather than replace, the broader UN discussion on the shift from funding to financing. In this paper, funding refers primarily to the resources that enable UN entities to sustain institutional continuity and deliver their mandates, while financing refers to approaches that help mobilize, align, or unlock additional public and private capital in support of development outcomes. Both dimensions are essential. Stronger financing for SDG outcomes cannot substitute for adequate funding of UN mandates, while stronger funding alone will often be insufficient to address the scale of financing needs associated with the SDGs.

2.2 LANE A – STRENGTHENING THE RESOURCES FOR UN CONTINUITY

Lane A encompasses financing instruments that remain grant-based and strengthen institutional continuity within the UN system. It strengthens elasticity, predictability, liquidity, and diversification within sovereign funding structures.

Lane A addresses the operational vulnerabilities identified in Part I through the following disciplined institutional reforms: (A1) diversification; (A2) flexible funding expansion; (A3) liquidity strengthening; (A4) portfolio-based mobilization; and (A5) solidarity and embedded revenue. For many UN entities, sustained execution of Lane A measures will provide many achievable resilience gains, including some increased revenue.

2.3 LANE B – MAINSTREAMING INNOVATIVE AND BLENDED FINANCE TO ALIGN CAPITAL WITH SDG-ENABLING OUTCOMES (UN-ENABLED MARKET MOBILIZATION)

UN-enabled market mobilization introduces structured instruments designed to address specific financing constraints that cannot be resolved through strengthened grant architecture alone. Structured instruments may introduce contractual rigidity, risk allocation, or market engagement. They may also involve external risk-sharing, leverage, or off-balance-sheet exposure. Typically, financing solutions within this category are designed primarily to catalyse third-party investment or outcome financing.

The case for UN-enabled market mobilization is not that grants are unimportant. It is that grant and grant-equivalent resources, even when maximized, are insufficient to address SDG-scale financing needs. The strategic question therefore is: How can UN entities use their mandate, legitimacy, convening power, and technical credibility to align larger pools of capital with public outcomes?

Innovative and blended finance solutions can be further differentiated into three structural categories, each with distinct governance implications

B1 – Outcome-linked mechanisms without investor exposure: These mechanisms link disbursement to verified performance but do not introduce private investor capital or balance-sheet exposure. Examples include results-based tranches within grant programmes or milestone-based disbursement structures. The operational shift here is toward performance discipline and measurable outcomes.

B2 – Capped risk-sharing and blended structures: These mechanisms introduce defined risk allocation to mobilize additional capital. The United Nations may use donor resources to cover a limited share of potential losses; this may involve partial guarantees, first-loss tranches funded by concessional resources, or structured blended facilities.

B3 – Capital-engaged architecture and market-based engagement: This category includes frontloading mechanisms or debt-like structures that convert future commitments into immediate liquidity or involve structured repayment obligations. These instruments require advanced treasury management, explicit legal authority, and strong reputational resilience.

UN-enabled market mobilization is therefore not a single step but a spectrum of structural escalation, which typically begins with B1 (outcome-linked discipline) to

build data, contracting, and MRV capability. Institutions then progress selectively to capped risk-sharing once decision rights, risk posture, and exposure monitoring are operational. This is a change journey: Capability and culture must scale with instrument complexity.

The distinction between the two pathways is not merely about instrument type. This reflects two complementary pathways: in one case, grants and other funding strengthen the continuity and delivery capacity of UN entities; in the other, capital is mobilized beyond the United Nations to support development outcomes at scale. This two-lane architecture also operationalizes the UN80 reform logic: It separates (i) funding for institutional continuity from (ii) financing that enables broader SDG delivery, and it clarifies where pooled funding is placed and where shared platforms and system governance standards are prerequisites.

2.4 POSITIONING BANDS

To clarify structural positioning, the two lanes are mapped into three descriptive Bands

- Positioning Band 1 – Strengthened Grant Architecture: This describes institutions whose core operating model remains anchored in grants. Their priority is to improve resilience and effectiveness within that model: broader donor base, better flexible and multi-year funding, stronger liquidity, and more coherent portfolio-based resource mobilization. These organizations do not need complex financial instruments to become more resilient. Typical institutions include those operating primarily within the grant-based architecture, focusing on strengthening flexibility, diversification, and liquidity.

- Positioning Band 2 – Catalytic and Structured Engagement: This describes institutions that remain primarily grant-funded but can use bounded outcome-linked or risk-sharing mechanisms when there is a clear reason to do so. The defining feature is selectivity: The institution engages only where additionality is clear, exposure is capped, and governance, legal, treasury, and MRV conditions are in place. Typical institutions include those selectively deploying outcome-linked mechanisms or capped risk-sharing/blended structures (i.e., UN-enabled market mobilization, pathways B1 and B2) where structural necessity and readiness converge.

- Positioning Band 3 – Capital Architecture Engagement: This describes exceptional cases where an institution or dedicated investment vehicles (funds managed by financial intermediaries) can responsibly engage in frontloading, market-facing, or repayment-linked structures. This requires advanced treasury capability, explicit legal authority, market-grade governance, sustained political backing, and transparent exposure monitoring. Typical institutions include those engaging in capital-engaged/frontloading mechanisms requiring advanced governance, treasury capacity, and political durability.

UN system organizations operate across all three positioning bands, although Band

3 positioning is exceptional. Movement across bands should be driven by structural necessity and strategic relevance rather than funding scarcity alone. Escalation is appropriate when a) the financing constraints cannot be resolved within the existing institutional model; b) the institutional readiness has been demonstrated; and c) the expected strategic and programmatic outcomes are clear. Each band presupposes distinct organizational conditions, disciplined liquidity, coherence in programmatic and portfolio, explicit risks and safeguards, robust MRV systems, and stable sovereign and political durability.



PART III

Lane A: Strengthening the resources for UN continuity

This part sets out the core measures available to strengthen the UN's grant-based financing model. It organizes these into five categories: diversification, flexible funding, liquidity, pooled/ portfolio approaches, and solidarity mechanisms. Each addresses a specific structural stress factor. The emphasis is on improving resilience, predictability, and flexibility without introducing financial exposure. For most institutions, these measures represent the primary and most achievable pathway to stability.

3.1 THE STRATEGIC ROLE OF LANE A

The transition toward innovative finance should not obscure a basic principle of institutional resilience: the highest-quality funding remains funding with the fewest restrictions. Flexible, unrestricted, and predictable resources give leaders the discretion to respond to changing needs, finance backbone functions, and preserve mandate coherence. Innovative finance can add outcome value, but it usually introduces additional conditions, reporting obligations, and contractual discipline.

Strengthening institutional financing reinforces resilience within the existing grant-based financing architecture within the United Nations. These mechanisms or solutions address the structural stress factors identified earlier: donor concentration risk, earmarking rigidity, liquidity fragility, revenue volatility, and planning unpredictability. As a result, the solutions enhance the quality, stability, and growth of revenue flowing to the UN entity or UN system rather than introducing new financing paradigms.

3.2 A STRUCTURAL TYPOLOGY OF LANE A MEASURES

Lane A measures can be grouped into five structural categories, each targeting a distinct stress factor:

- A1: Diversification of the donor base
- A2: Expansion of flexible and multi-year funding
- A3: Liquidity and working capital reform
- A4: Pooled and portfolio-based resource mobilization
- A5: Solidarity and embedded revenue mechanisms

Each category strengthens revenue resilience and provides potential avenues for revenue growth without introducing financial exposure.

A1: Diversification of the donor base

The structural purpose of diversification is to manage portfolio risk while maintaining a non-leveraged financing posture. The structural effect is reduced dependency on a narrow group of sovereign contributors, thereby reducing exposure to political volatility and concentration risk by broadening funding sources geographically and sectorally.

- **Institutionalized individual-giving** provides one structural pathway. Unicef[6] has embedded private-sector and individual fundraising as a core pillar of its financing model through its global National Committee network and recurring donor systems. Revenue is distributed across markets and contributor segments, reducing exposure to volatility concentrated in a limited number of sovereign capitals.
- **Philanthropic foundation partnerships** represent a second axis. UNHCR's[7] long-standing collaboration with the IKEA Foundation illustrates structured, multi-year engagement aligned with refugee self-reliance and shelter innovation.
- **Faith-based solidarity mechanisms** introduce a further channel of diversification. UNHCR's Sharia-compliant Refugee Zakat Fund[8] mobilizes Islamic charitable-giving within defined religious parameters, broadening the funding base across geo-cultural constituencies that operate independently of traditional public budget cycles.
- **Digital platforms** provide an additional distributed funding channel. WFP's ShareTheMeal[9] model aggregates crowdfunded micro-donations through a mobile-first architecture, expanding contributor breadth and strengthening reputational engagement, even where aggregate revenue remains modest relative to sovereign flows.
- **Corporate partnerships** constitute a fifth vector. UNDP has structured SDG-aligned collaborations with private-sector actors under formal due diligence and governance safeguards, diversifying institutional counterpart risk without altering balance-sheet exposure.[10] The WHO has developed structured partnerships with private-sector actors in areas such as health product access, logistics, and digital surveillance systems, operating under formal conflict-of-interest safeguards and due diligence frameworks. Governance discipline is central: Private-sector engagement is embedded within defined oversight mechanisms to preserve mandate integrity and reputational credibility.

Institutionally, diversification requires investment in digital and marketing infrastructure, strengthened due diligence and partnership screening, enhanced data analytics capability, and governance oversight of private partnerships. Replicability (or transferability) depends on digital maturity, brand recognition, public visibility and organizational mandate. Highly technical or normative agencies may face greater constraints. Reputational safeguards remain essential. See annex for more information on the examples referenced above.

[6] https://india.unicef.org/joyofgiving.

[7] https://sdgs.un.org/sites/default/files/documents/11440UNHCR-IKEA%2520Foundation%2520Partnership%2520Fact%2520Sheet.pdf

[8] https://zakat.unhcr.org/en

[9] https://innovation.wfp.org/project/sharethemeal

[10] UNDP (2025). *Making Markets Work for the SDGs: UNDP's Private Sector Development and Partnership Strategy (2023–2025).* https://www.undp.org/publications/undp-private-sector-strategy-2023-2025

A2: Expansion of flexible and multi-year funding

UN80 reform discussions have emphasized the need to increase the share of flexible and predictable funding across the system. Multi-year and softly earmarked contributions are central to reducing fragmentation, strengthening allocative coherence, and improving system efficiency. The structural purpose of expanding flexible and multi-year funding is to increase leadership discretion and planning stability.

UNDP has actively encouraged Member States to provide **multi-year core contributions**[11] aligned with its Strategic Plan and country programme cycles. By securing funding commitments that extend beyond a single annual budget horizon, UNDP enhanced planning predictability, reduced short-term allocation pressure, and improved coherence between programme design and financing timelines, and the coherence between strategic planning and financing horizons. This approach enhances elasticity without introducing financial exposure. Humanitarian organizations have also sought multi-year voluntary funding to enable longer-term procurement planning, reduce year-end spending pressure, and improve supply chain efficiency. Flexible funding further enabled leadership to reallocate resources dynamically in response to crises rather than adhering rigidly to earmarked allocations.

Institutionally, this approach requires robust performance-reporting to maintain donor confidence, transparency in overhead and core cost allocation, and credible governance discipline. Flexible funding is secured through trust. Replicability depends on donor confidence and the ability to articulate institutional value clearly.

A3: Liquidity and working capital reform

When we improve liquidity, we make sure that pledged money is available as cash when needed to ensure continued operations. Even if an organization meets its annual income target on paper, delayed liquidity can result in delayed purchasing of supplies, paying partners, and responding to emergencies. To execute this measure, an organization needs a strong treasury function, clear limits on how much short term financing it can use, the ability to model procurement and stock pre positioning, and clear reporting to its governing bodies. Replicating this approach elsewhere requires good cash flow forecasting and (in some cases) formal approval from the governance organs to use internal borrowing, as well as a cultural shift toward actively monitoring financial exposure.

WFP's strengthened working capital and advance financing arrangements through its Global Commodity Management Facility[12] provide an illustration. Better access to short term financing enabled them to buy food earlier, cut delivery delays, respond faster in crises, and lower administrative costs.

A4: Pooled and portfolio-based resource mobilization

Pooled and portfolio-based mobilization is the institutional analogue of UN80 pooled funding logic. Rather than presenting discrete projects, institutions aggregate funding

[11] UNDP Funding Compendium 2024: https://www.undp.org/sites/g/files/zskgke326/files/2025-08/funding_compendium-aug_27.pdf.

[12] https://executiveboard.wfp.org/document_download/WFP_0000157516

requests around thematic, geographic or strategic portfolios. Donors fund a coherent portfolio with standardized governance and reporting, thus lowering transaction costs while improving allocative flexibility. This approach also strengthens the credibility of efficiency claims by linking financing requests to explicit prioritization and reallocation discipline (see Part V). When structured as thematic or multi-donor envelopes within the UN system – for example in humanitarian settings through the Central Emergency Response Fund (CERF) or Country-based Pooled Funds (CBPFs) – this approach reduces fragmentation caused by project-by-project fundraising, aligns funding with strategic priorities, and strengthens allocative flexibility. Several UN entities increasingly frame funding appeals in some areas around portfolios rather than narrow projects, shifting resource mobilization from brokerage toward strategic capital alignment.

Institutionally, this requires strategic planning clarity, cross-unit coordination, and adjustments to internal incentive structures. Replicability depends on donor willingness to fund broader frameworks and on internal budgeting discipline. Minimum standards for pooled funding across agencies require common results framework, harmonized cost recovery, and standard assurance/audit.

A5: Solidarity and embedded revenue mechanisms

UN80 discussions on diversified and predictable financing highlight the importance of structurally stable funding sources that reduce reliance on discretionary voluntary contributions. Solidarity mechanisms create predictable revenue streams embedded within public or market transactions. Unitaid's airline ticket levy[13] was an important source of funding and provides a case illustration. Participating countries legislated a micro-levy collected automatically through airline ticket sales, generating predictable revenue flows independent of annual budget negotiations.

Operationally, revenue flowed through national collection mechanisms, enabling multi-year predictability and supporting long-term catalytic investments in global health markets. The levy reduced reliance on discretionary appropriations and supported strategic market-shaping interventions.

Institutionally, such mechanisms partially insulate revenue from annual political cycles but require sustained legislative backing. Replicability depends on legislative adoption and political durability, and revenue may fluctuate with economic activity such as travel volume.

[13] https://solidaritylevies.org/what-is-a-solidarity-levy/

3.3 COMPARATIVE INSIGHTS ACROSS LANE A

The five Lane A measures differ in the speed of impact, governance intensity, political complexity, and replicability. While all strengthen revenue resilience without introducing financial leverage or contingent liabilities (money that could be owed in the future), they do so through distinct structural pathways.

The table below summarizes these comparative dimensions.

Table 1: Comparative profile of Lane A mechanisms

Mechanism	Primary stress factor addressed	Speed of operational impact	Governance adaptation required	Political complexity	Replicability across UN system	Exposure profile
A1 Diversification of the donor base	Financial contributor concentration risk; revenue volatility	Medium-term	Moderate (due diligence, data systems, oversight of partnerships)	Moderate	High for public-facing agencies; variable for technical/ normative agencies	No financial exposure; reputational screening risk
A2 Expansion of flexible and multi-year funding	Allocative rigidity; planning instability	Medium	Moderate (performance reporting discipline, overhead transparency)	Moderate to High (donor trust dependent)	Broadly replicable where donor confidence is strong	No financial exposure; improved elasticity
A3 Liquidity and working capital reform	Pledge-to-cash timing gaps; delivery disruption	Immediate to short term	Moderate to High (treasury discipline, exposure ceilings, forecasting systems)	Low (internal governance issue)	High, subject to treasury capacity	No leverage; manages timing risk
A4 Pooled and portfolio-based mobilization	Fragmented fundraising; strategic misalignment	Medium	Moderate (cross-unit coordination, budgeting coherence)	Low to Moderate	Broadly replicable with planning discipline	No financial exposure; increases flexibility
A5 Solidarity and embedded revenue mechanisms	Revenue unpredictability; annual political negotiation	Long term (once established)	Moderate (revenue tracking, multi-year allocation discipline)	High (legislative adoption, sustained political backing)	Limited, depends on national legislative environment	No leverage; introduces political durability risk

This comparison highlights several structural patterns:

- **Liquidity reform (A3) typically produces the fastest operational gains**, addressing timing risk rather than revenue volume, and can often be implemented internally once governance discipline is in place.
- **Diversification (A1) and portfolio-based mobilization (A4) are broadly replicable** but depend on institutional capacity, including digital infrastructure, planning coherence, and cross-unit coordination.
- **Expansion of flexible and multi-year funding (A2) improves strategic elasticity** but relies heavily on sustained donor trust and performance transparency.
- **Solidarity and embedded revenue mechanisms (A5) can significantly enhance**

predictability once established, but their political complexity is high and replicability across agencies is uneven.

Across all categories, governance adaptation remains manageable within the existing institutional model. The principal trade-offs concern political complexity, internal coordination, and speed of impact rather than financial exposure.

This comparative view reinforces an important leadership insight: Measures for strengthening the resources for UN continuity (A1–A5) vary significantly in implementation difficulty and strategic yield. Selecting among them requires clarity about which structural stress factor is most binding: volatility, liquidity fragility, allocative rigidity, or concentration risk.

3.4 LEADERSHIP THRESHOLD QUESTIONS FOR LANE A

The answers to the following questions will help determine whether the implementation of measures in Lane A can result in area-specific improvements:

- Has concentration risk been materially reduced?
- Are liquidity buffers sufficient and formally monitored?
- Is flexible funding at sustainable levels?
- Is financial forecasting robust and stress-tested?
- Have governance systems been modernized to support disciplined revenue management?

3.5 STRATEGIC POSITIONING

For many entities, strengthening diversification, liquidity, flexibility, and portfolio alignment will deliver resilience gains. The decision to move beyond Lane A should be driven by structural necessity and additionality, not innovation-signalling alone. Concerns about grant cannibalization should be addressed explicitly at design stage, by selective sourcing of catalytic, premium or risk-transfer funding, or by strictly demarcating activities that will remain grant-funded.

In several institutional contexts, Lane A represents a stable and appropriate state, aligned with the mandate, political environment, and governance maturity, and therefore may represent the primary resilience strategy. However, Lane A reforms do not resolve the United Nations' strategic challenge of relevance in a shrinking and competitive grant market. While Lane A strengthens the base, the questions that follow are: When and how should institutions introduce more ambitious initiatives that go beyond grant-based financing for their agency or the UN system? When should Lane A be treated as the continuity foundation alongside a Lane B mainstreaming agenda? Part IV examines Lane B mechanisms and their governance implications.



PART IV

Lane B: Mainstreaming innovative and blended finance to align capital with SDG-enabling outcomes (UN-enabled market mobilization)

This part introduces the principal mechanisms of innovative and blended finance. The key consideration with these types of solutions is whether a mechanism addresses a financing constraint that grants alone cannot solve – such as affordability, risk, investability, timing, or outcome accountability – and whether the institution is equipped to manage the implications of introducing such a mechanism.

The mechanisms are organized as a ladder of increasing complexity: (1) outcome-linked approaches that strengthen performance without investor exposure; (2) capped risk-sharing mechanisms that use concessional resources to mobilize additional capital; and (3) capital-architecture mechanisms that frontload or structure future commitments and require the strongest governance and financial capabilities. Each mechanism is presented through a common framework: purpose, use cases, operational implications, readiness requirements, examples, and safeguards.

4.1 THE STRATEGIC ROLE OF LANE B

Lane B includes structured financing mechanisms designed to address constraints that cannot be resolved through diversification, liquidity reform, or grant-architecture improvements alone. The comparative advantage for the United Nations in these types of solutions lies in its inherent capabilities such as convening partners, setting standards, aggregating pipelines, derisking investable models, and strengthening outcome accountability. The United Nations' value is often highest where it enables capital to flow to governments, country systems, and markets that can finance and deliver SDG outcomes at scale – not where it competes head-to-head for discretionary grants. However, such capital mobilization should not be confused with funding for institutional continuity. Even where the United Nations successfully enables significantly larger volumes of SDG-related financing, this does not necessarily strengthen the funding base required to sustain its own mandates, operations, and institutional capabilities.

Nevertheless, financial solutions within this pathway may alter the institution's exposure profile. They can introduce contractual rigidity, financial risk allocation, or explicit engagement with capital markets and would need to be paired with clear guardrails and capped exposure. It is not a "high-risk leap", but a structured pathway for the UN to remain relevant by enabling markets and country systems to finance outcomes.

4.2 A STRUCTURAL TYPOLOGY OF LANE B MECHANISMS

UN-enabled market mobilization falls into three principal categories, with distinct structural complexity, governance intensity, and exposure.

B1: Outcome-linked mechanisms without investor exposure

Structural purpose: These mechanisms link disbursement to verified performance but do not introduce private investor capital or balance-sheet exposure. Outcome-linked mechanisms strengthen accountability and performance discipline by linking payments to verified outcomes while preserving a grant-based exposure posture. Outcome-linked mechanisms should not be oversold as a substitute for grants. In many cases, the ultimate outcome payer remains a donor, foundation, or public authority. The value lies in shifting the basis of payment from inputs to verified results, improving performance accountability, and aligning incentives – provided the verification burden and transaction costs are proportionate. Examples include results-based tranches within grant programmes or milestone-based disbursement structures. The operational shift here is toward performance discipline and measurable outcomes rather than financial risk transfer.

Structural characteristics: In outcome-based financing structures, payment is contingent on independently verified outcomes, performance is governed through contractual frameworks, and independent evaluation is central. The UN entity does not borrow on its balance sheet and does not assume investor repayment obligations. Exposure remains operational and reputational rather than financial.

Case Illustration 1: UNFPA has applied results-based financing approaches[14] in maternal and reproductive health programming, particularly in contexts where service delivery quality and utilization required measurable improvement. Under these arrangements, disbursement is linked to verified service-delivery results rather than solely to inputs or activities. Release of funds is linked to independently verified indicators – such as facility-based deliveries, contraceptive uptake, or quality-of-care benchmarks. Financial exposure remains unchanged; however, performance risk becomes explicit. Robust measurement, reporting and verification systems are required, and contractual clarity between implementers and oversight bodies becomes central. The mechanism shifts emphasis from allocative discretion to demonstrable results without altering the balance sheet.

For an additional example of an outcome-linked instrument, please see Annex 1, Case study 7 (Adolescent Sexual and Reproductive Health Impact Bond).

Institutional implications: Outcome-based financing requires strengthened monitoring and evaluation capacity, enhanced legal contracting expertise, deeper integration between programme and finance teams, increased reputational visibility, and clear communication protocols around performance metrics. The fundamental point is that these instruments introduce performance management discipline.

Replicability limits: Outcome-based financing requires measurable and attributable outcomes, and transaction costs can be high for smaller programmes. By design, therefore, it is less suitable for emergency settings or diffuse normative mandates and requires strong data infrastructure/backbone.

Exposure profile: There is no leverage and there are no contingent liabilities, but there is elevated reputational and performance risk and increased contractual rigidity.

[14] Results-based financing at UNFPA in partnership with Triggerise. https://bridgesoutcomespartnerships.org/.

B2: Structured intermediation and risk-sharing

Structural purpose: Risk-sharing mechanisms mobilize additional capital or accelerate impact by sharing or allocating risk across actors through structured, blended arrangements.

Structural characteristics: Risk-sharing structures typically involve layered capital arrangements (including catalytic or first-loss tranches), defined exposure ceilings, multi-actor governance, and explicit risk allocation. Exposure becomes financial, though capped.

Case Illustration 2: UNCDF has deployed catalytic capital structures designed to crowd-in private investment in least developed markets. The architecture typically involves UNCDF providing a first-loss tranche up to a defined ceiling, private investors participating as senior capital providers, internal approval of clear exposure limits, and financial modelling prior to deployment. Operationally, UNCDF[15] was not merely funding projects; it was structuring investment vehicles designed to alter market incentives within its mandate to mobilize domestic finance in least developed countries. This required professional financial modelling, formal exposure tracking, risk committee oversight, and transparent reporting of contingent liabilities. The objective was to create catalytic leverage rather than direct grant substitution.

For an additional example of a derisking instrument, please see Annex 1, Case study 8 (Uganda First-loss Guarantee).

Institutional implications: Institutions that provide derisking capital require development of treasury and risk modelling capacity, formal risk approval processes, governing body literacy in exposure concepts, a portfolio-based risk management culture, and transparent reporting of potential losses. The pivotal point is that B2 introduces capped financial exposure and therefore requires explicit risk governance.

Replicability: Institutions that provide derisking capital require financial expertise beyond traditional grant management, political tolerance for capped loss, and clear legal authority to participate in structured risk mechanisms. Governing bodies must understand exposure ceilings.

Exposure profile: Exposure is capped but financial; contingent liabilities may arise. There is typically no systemic leverage, but reputational sensitivity increases if losses occur or if private capital engagement is perceived as misaligned with mandate.

[15] UNCDF (2021). *The Bridge Facility: Dedicated Financing for the LDCs [least developed countries]*. https://www.uncdf.org/Download/AdminFileWithFilename?id=14967&cultureId=127&filename=the-bridge-facility-a-dedicated-financing-facility-for-ldcspdf.

B3: Capital market and frontloading mechanisms

Structural purpose: Capital market and frontloading mechanisms accelerate programme delivery by frontloading long-term commitments through capital market engagement or securitization.

Structural characteristics: Such mechanisms typically require legally binding multi-year commitments, bond issuance or securitization, credit rating engagement, market disclosure standards, and explicit repayment obligations. Exposure becomes direct and measurable.

Case Illustration: Gavi established the International Finance Facility for Immunization (IFFIm) as a separate financing vehicle to enable Gavi to borrow against future donor pledges in order to deliver development resources earlier. Gavi faced a structural constraint: life-saving immunization programmes required large upfront investments while donor pledges were structured over extended periods. IFFIm was created as a separate legal entity that received legally binding multi-year commitments from donor governments, issued bonds in international capital markets, and disbursed funds upfront to accelerate immunization scale-up. Operationally, this enabled faster vaccine procurement, earlier immunization coverage, and multi-year planning certainty. However, it required professional treasury management, credit ratings, market disclosure compliance, and strict separation between financing-vehicle governance and operational governance. This model[16] altered the financing architecture fundamentally.

For an additional information regarding IFFIm, please see Annex 1, Case study 9 (International Finance Facility for Immunization).

Institutional implications: Institutions that engage with capital markets to frontload capital for development demand market-facing governance standards, dedicated treasury and investor relations capacity, exposure to sovereign credit risk, clear separation between financing and programme governance, and enhanced transparency obligations. The core point is that B3 requires institutional maturity and legal clarity.

Replicability limits: Capital market and frontloading mechanisms require legally enforceable multi-year sovereign commitments and are dependent on strong donor creditworthiness. It is predicated on a robust political environment.

Exposure profile: These solutions introduce explicit financial exposure, repayment obligations, and credit and market risk, and warrant the most stringent governance measures within the UN system.

[16] IFFIm is a UK charity, with no employees, that functions through the partnership of the IFFIm Board, Gavi, the Vaccine Alliance, the World Bank, and its 11 donors. https://iffim.org/partnership-model.

4.3 COMPARATIVE INSIGHTS ACROSS LANE B

Lane B mechanisms can be understood as a disciplined escalation in exposure, governance intensity, and ambition. While many of the mechanisms described in this paper already exist across different entities and programmes, the challenge is institutional readiness and consistent application. In practice, results-based financing (B1) mechanisms often struggle with measuring and verifying results; derisking capital (B2), with defining risk ownership and approval authorities; and capital markets engagement (B3) mechanisms, with establishment of appropriate governance and financial capabilities needed to manage long-term commitments. The question is therefore not whether these mechanisms can be used, but when and under what conditions they should be deployed. A useful way to preserve this distinction for leadership decision-making is to compare B1, B2, and B3 across a small number of structural dimensions (see Table 2 below).

Table 2: Comparative profile of Lane B categories

Dimension	B1 (outcome-based financing)	B2 (risk-sharing for capital mobilization)	B3 (capital markets engagement)
Financial Exposure—exposure to capital markets	None	Capped	Explicit
Governance Complexity	Moderate	High	Very High
Treasury Requirement	Limited	Specialized	Professional
Legal Complexity	Contractual	Complex	Market-grade
Ease of Replicability	Moderate	Contextual	Limited
Financial Additionality (ability to directly or indirectly leverage UN capital toward development)	Medium	High	High

This comparison yields four operational observations that should guide positioning decisions:

- Exposure escalates across categories, with progressively increased demands on governance;
- Fewer institutions will be structurally suited to more complex financing propositions (risk-sharing or capital markets engagement);
- Few institutions should (or need to) escalate beyond outcome-linked mechanisms; and
- Strategic positioning must reflect mandate, capacity and willingness rather than the perceived sophistication of the instrument.

4.4 LEADERSHIP THRESHOLD QUESTIONS FOR LANE B

(i) What constraint we are solving (risk, affordability, bankability, outcome accountability)?
(ii) What minimum viable Lane B step can we start now (B1, capped B2)?
(iii) Who holds decision rights for risk posture and exposure ceilings?
(iv) What MRV minimums are non-negotiable?
(v) What internal narrative and reputational posture will we communicate to staff, governing bodies, and partners?

(vi) Are reputational strategy and political durability sufficient to sustain the arrangement across cycles?

A credible starting point could be: (1) a B1 pilot that strengthens MRV discipline in an existing portfolio; and (2) a capped risk-sharing concept note where exposure is defined, additionality is explicit, and governance conditions are met. Escalation into capital markets represents a fundamental shift in institutional posture and should be pursued only where scale, legal authority, political durability, and governance maturity justify long-term exposure.

4.5 STRATEGIC POSITIONING

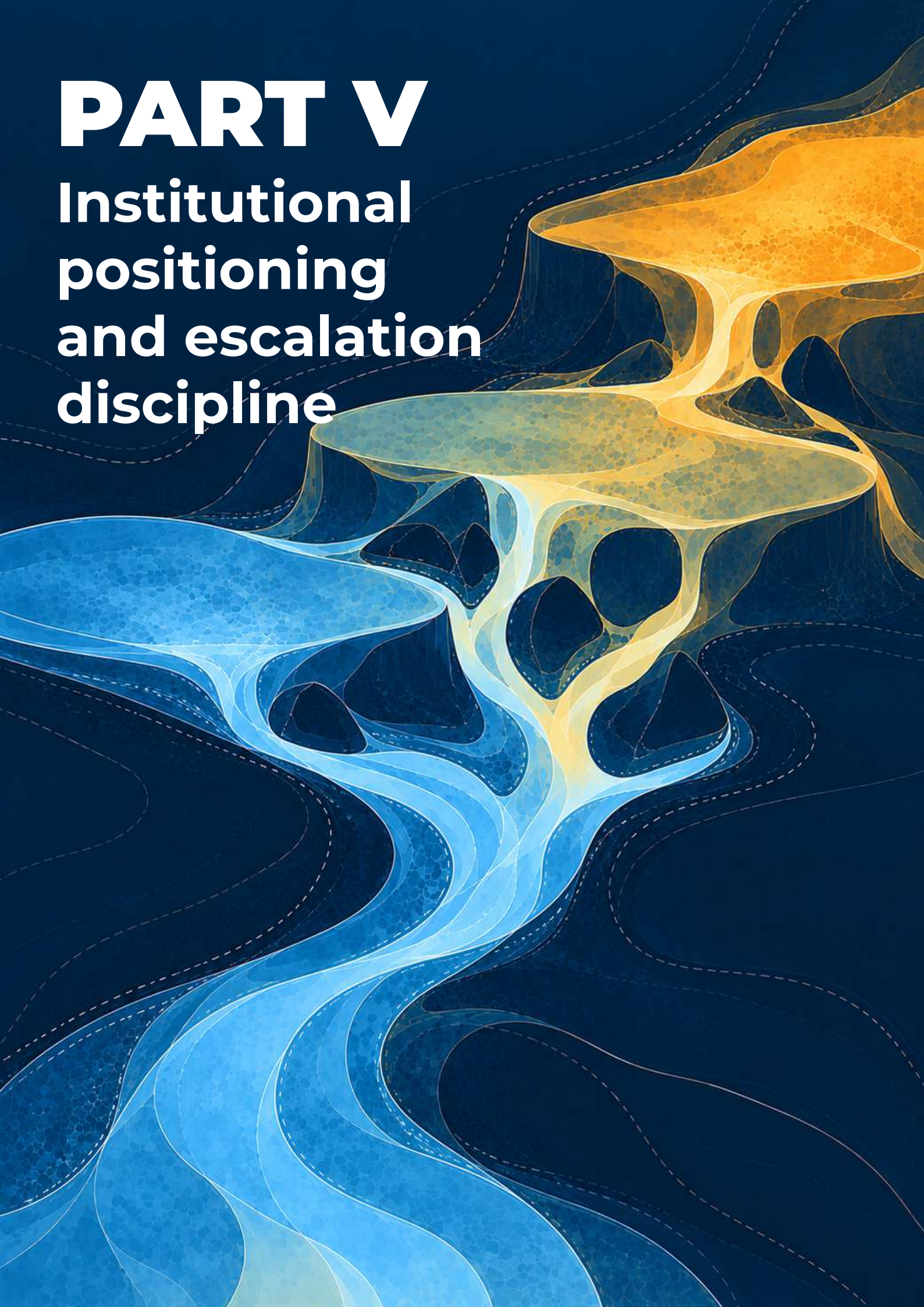
Lane B is not inherently superior to Lane A. It is a differentiated response to specific structural constraints. For some institutions, Lane A may achieve many of the desired gains given mandate, political context, and risk tolerance. For others, selective B1 or B2 instruments may be appropriate while remaining anchored in a strengthened institutional financing model.

Variants of the mechanisms described in this paper already operate across different entities and thematic areas. Liquidity facilities, multi-year funding arrangements, solidarity levies, outcome-linked instruments, catalytic first-loss structures, and frontloading vehicles have all been deployed in specific contexts. However, Lane B introduces structured escalation, and leadership should treat adoption as a managed choice, to achieve institutional normalization through system-wide articulation of governance safeguards and exposure ceilings.

Part V integrates stress factors, lanes, and governance implications into positioning Bands that clarify institutional posture.

PART V

Institutional positioning and escalation discipline



This part translates financing options into an explicit institutional posture choice. Using three Positioning Bands, it links financing decisions to levels of exposure, governance, and capability. The central discipline is proportional escalation: matching the financing response to the nature of the constraint and the institution's readiness. The section provides guardrails to prevent overreach and ensures that financing choices are anchored in mandate, governance capacity, and political durability.

The Positioning Bands link financing choices to institutional readiness, helping leaders determine the appropriate level of exposure, complexity, and governance required to address a financing challenge. Without such a framework, financing discussions can become instrument-led, driven by funding pressures, innovation agendas, or examples from other organizations rather than by the institution's actual needs and readiness. The objective is not to maximize financial innovation, but to adopt the simplest and most proportionate approach capable of achieving the intended outcome.

5.1 POSITIONING AS A LEADERSHIP DECISION

The Positioning Bands in this section provide a structured way to determine which financing mechanism(s) an organization should adopt.

The strategic relevance of this section lies in reframing "financing options" into an explicit institutional posture choice – i.e., a leadership decision about how much exposure, complexity, and political scrutiny the entity is willing (and able) to carry to address an underlying challenge, such as earmarking, liquidity pressures, or scale constraints.

The three Positioning Bands represent different levels of institutional commitment because movement across Bands changes governance burden, treasury requirements, legal authority, and political durability expectations.

- Band 1 is largely a grant-based posture and focuses on strengthening resilience within the grant model. Successfully achieving Band 1 improves the institution's capacity to migrate to Band 2.
- Band 2 combines a strong grant-based foundation with selective use of Lane B mechanisms (outcome-based financing or derisking capital), as it introduces catalytic mechanisms that involve limited and clearly defined risk.
- Band 3 reflects sustained engagement with the more advanced elements of Lane B, as it involves capital-engaged approaches that require the highest levels of governance, oversight, and financial capability.

As organizations move up the Bands, both the benefits and the demands increase, requiring stronger governance, clearer oversight, and greater political backing

5.2 LINKING FINANCING CHALLENGES TO POSITIONING BANDS AND ESCALATION DISCIPLINE

Positioning should reflect the nature of the financing challenge. The stress factors identified in Part I can help determine the appropriate Positioning Band (see Table 3 below).

Table 3: Positioning Bands and structural implications

Financing challenge	What this means	Appropriate band response	Governance implication
Donor concentration	Limited donor pool	Positioning Band 1	Diversification and flexible funding discipline sufficient
Earmarking rigidity	Funding reserved for pre-determined purposes	Positioning Band 2 (selective B1 where needed)	Strengthened MRV capacity if outcome-linked
Liquidity fragility	Insufficient capital for immediate deployment	Positioning Bands 1 or 2	Formal liquidity thresholds; exposure ceilings if risk transfer used
Revenue volatility	Unpredictable source of income	Positioning Band 1 → selective Band 2	Multi-year agreements first; capped exposure if required
Structural scale constraint	Limited access to large pools of capital	Positioning Bands 2 or 3	Explicit risk appetite or binding multi-year authority
Market-shaping objective	Desire to create dynamic and competitive markets	Primarily Positioning Band 2	Structured intermediation capacity; Band 3 only where justified

Three principles should guide positioning decisions:

- **Principle 1:** Institutional strengthening is essential in every Band. Stronger governance, funding discipline, and operational capability are prerequisites for all financing approaches, not just the more advanced ones.

- **Principle 2:** Escalation should be driven by necessity rather than opportunity. Organizations should move to a higher Band only when lower-Band solutions cannot adequately address the financing challenge. Before doing so, leadership should be satisfied that: (i) the structural constraint cannot be resolved within Band 1; (ii) risk appetite has been formally articulated; (iii) exposures can be monitored at portfolio level; (iv) legal authority is explicit; and (v) governing body support is likely to remain durable across funding cycles. These considerations are not procedural hurdles; they are tests of whether escalation is proportionate and sustainable.

- **Principle 3:** Band 3 should remain exceptional. It is appropriate only where achieving scale is central to the mandate and where long-term financial commitments can be supported by clear legal authority, robust institutional capability, and sustained political backing.

5.3 LEADERSHIP GUARDRAILS AND POLITICAL ECONOMY CONSTRAINTS

The sequencing disciplines described above can strengthen institutional readiness and improve the prospects for successful implementation. However, even where governance arrangements are strong and capabilities are well developed, financing evolution remains bounded by political, legal, and market realities that institutions do not fully control. Many so-called innovative finance risks are not new; they are well documented in public finance and public–private partnership experience. What is new is their application within UN mandates, governance systems, and financial regulations. UN leaders should therefore treat innovative finance as a disciplined adaptation of established public-finance tools rather than as an untested novelty. Financing mechanisms should be viewed as complements to institutional strengthening rather than substitutes for it.

Financing cannot substitute for political consensus
Many of the financing pressures facing the UN system originate in political choices, including donor concentration, earmarking, fragmented funding, and constrained growth in core resources. Financing mechanisms can help address specific constraints, but they cannot compensate for weak political support, unclear mandates, or unresolved governance questions. Sustainable financing solutions are most likely to emerge where financing approaches reinforce existing political commitments rather than attempt to replace them.

Market engagement has practical limits
Lane B mechanisms assume that additional actors – including investors, financial institutions, insurers, foundations, and private-sector partners – can contribute to achieving development outcomes. In practice, investor appetite, market depth, transaction costs, regulatory conditions, and risk perceptions vary considerably across sectors and geographies. Not every development challenge is investable, not every risk can be transferred, and not every outcome can be measured in a manner that supports outcome-linked financing. Claims regarding leverage and capital mobilization should therefore be approached with realism and tested against evidence rather than assumption.

Institutional legitimacy remains the primary asset
The comparative advantage of the UN system lies in its legitimacy, convening authority, normative role, operational reach, and fiduciary safeguards. Financing mechanisms should reinforce these strengths rather than dilute them. Where financing structures create perceptions of mission drift, excessive complexity, preferential treatment of particular actors, or reduced accountability to governing bodies, reputational costs may outweigh financial benefits. The objective is not to transform UN entities into financial institutions, but to use financing tools selectively in support of institutional mandates.

Complexity should remain proportional
A recurring risk in financing reform is the assumption that more sophisticated instruments necessarily produce better outcomes. Throughout this paper, the central discipline has been proportional escalation: matching the financing response to the nature of the constraint being addressed. For many organizations, strengthening diversification, liquidity, flexibility, and funding resilience will remain the most appropriate response. More complex mechanisms should be adopted only where they address constraints that simpler approaches cannot.

Exposure should remain visible and bounded
As institutions move across the Positioning Bands, financing flexibility increases but so do governance demands and institutional exposures. Exposure should remain explicit, proportionate, and subject to appropriate oversight. Risk appetite, exposure ceilings, accountability arrangements, and monitoring mechanisms should be clearly articulated before institutions assume more complex commitments. The purpose is not to eliminate risk, but to ensure that risk is consciously accepted, transparently managed, and consistent with institutional capability and mandate.

These guardrails help explain why movement across the Positioning Bands is not simply a technical financing choice. Each Band carries different expectations regarding governance, oversight, institutional capability, and accountability, as illustrated in the comparative matrix that follows.

5.4 COMPARATIVE INSTITUTIONAL PROFILE ACROSS BANDS

The structural differences across Bands are summarized in Table 4 below.

Table 4: Institutional positioning matrix

Dimension	Positioning Band 1 – strengthened grant architecture	Positioning Band 2 – hybrid positioning with defined and capped exposure	Positioning Band 3 – capital-engaged architecture
Core Orientation (core financing challenge)	Strengthen resilience within grant model	Introduce defined catalytic instruments	Frontload scale through multi-year commitments or capital markets
Exposure Profile (exposure to market-related risks)	No contingent exposure	Explicit but capped exposure	Multi-year and potentially market-facing exposure
Primary governance objective	Strengthened grant oversight	Formal risk appetite and exposure monitoring	Market-grade oversight and disclosure discipline
Treasury Requirement	Liquidity management	Exposure aggregation and modelling	Professional treasury and capital interface
Legal complexity	Standard grant agreements	Structured risk-sharing authority clarified	Binding multi-year and capital-market authority
Political commitment (internal and market willingness	Moderate	High	Very High
Ease of replicability	Broad across entities	Selective	Limited

In Positioning Band 1, the discipline lies in diversification, liquidity management, and funding flexibility. In Positioning Band 2, the discipline shifts toward defined exposure ceilings and portfolio-level monitoring. In Positioning Band 3 treasury, legal authority, disclosure, and sustained political consent become central.

This matrix highlights an important asymmetry: Financing flexibility increases across the Positioning Bands, but governance and political demands increase more sharply.

5.5 OPERATING MODEL IMPLICATIONS OF BAND POSITIONING

Escalation across Bands is not solely a financing decision. As organizations move from one Band to the next, changes are required in governance, decision-making, risk management, legal support, incentives, and staff capabilities. Without these supporting adaptations, financing ambition can outpace institutional readiness.

Escalation from one Positioning Band to the next therefore reflects a broader shift in institutional posture, including:

- Compliance-only → to stewardship of capital and outcomes
- Projects → to portfolios and pipelines
- Funding activities → financing outcomes
- Ad-hoc partnerships → disciplined ecosystem partnerships (screened, governed, aligned)
- "Avoidance of risk" → to "transparent management of risk within ceilings"
- "Pilot as exception" → "pilot as learning discipline with stop/go rules"

Several operating model dimensions merit explicit leadership attention. They are described below.

Decision rights and accountability separation
In Band 1, programme-driven grant management typically dominates decision-making.
As institutions enter Band 2 or 3, clearer separation is required between origination, approval, monitoring, and oversight of exposure-bearing mechanisms. Risk appetite articulation and exposure ceilings must be anchored in formal approval pathways.

Treasury and risk capability
Band 1 requires disciplined liquidity management. Band 2 introduces the need for exposure aggregation and portfolio-level monitoring. Band 3 requires professional treasury capability, scenario modelling, and, in some cases, market-facing competence. This progression may require new skill sets, strengthened treasury functions, or centralized support arrangements.

Legal engagement and contractual architecture
Structured mechanisms require earlier and deeper legal integration into programme design. Legal review shifts to establishing exposure frameworks, clarifying enforceability, and aligning structured commitments with institutional authority. In higher Bands, contractual complexity increases materially.

Incentives and performance metrics
Incentive systems should reinforce governance compliance, exposure discipline, and results integrity alongside funding growth. Misaligned incentives can unintentionally encourage unmanaged escalation.

Cross-functional literacy
As exposure increases, interdependence across programme, finance, legal, and risk functions intensifies. Structured financing requires shared literacy, not siloed expertise.
Centralization versus distributed adoption

In some contexts, exposure-bearing mechanisms may be more efficiently managed through centralized facilities or shared platforms rather than dispersed across units. Innovative finance requires transaction-level coordination. A single structure may

involve a government donor, a multilateral development bank (MDB) or Development Finance Institution (DFI), an insurer, a foundation, private investors, and implementing partners. Internal accountability should therefore be organized around the transaction and the outcome.

Band positioning therefore has organizational consequences. Sustainable financing evolution requires a governance architecture and operating model to evolve in tandem.

UN80 alignment: From funding UN activities to enabling SDG financing at scale

UN80 is not only a response to fiscal pressure. It is also an opportunity to reconsider how the United Nations creates value in a world where SDG financing needs to far exceed the volume of grant resources available. The financing architecture described in this paper supports that ambition by distinguishing between two complementary objectives.

Lane A strengthens the financial resilience, efficiency, and continuity of UN entities through improved grant architecture, pooled approaches, greater flexibility, and stronger financial management. This contributes directly to UN80 priorities around efficiency, coherence, prioritization, and institutional sustainability.

Lane B addresses a different challenge: how the United Nations can use its mandate, legitimacy, convening power, normative influence, technical expertise, and accountability systems to help align larger pools of public and private capital with SDG outcomes. The proposed framework therefore supports several core UN80 ambitions:

- Sharper focus on areas where the United Nations provides unique value
- Reduced fragmentation through more coherent financing architectures and shared approaches
- Stronger links between financing, policy, programme delivery, and measurable outcomes
- Greater emphasis on financing outcomes rather than funding activities
- More effective use of the United Nations' convening and normative roles to influence broader development finance flows
- Improved system relevance in an increasingly constrained and competitive funding environment.

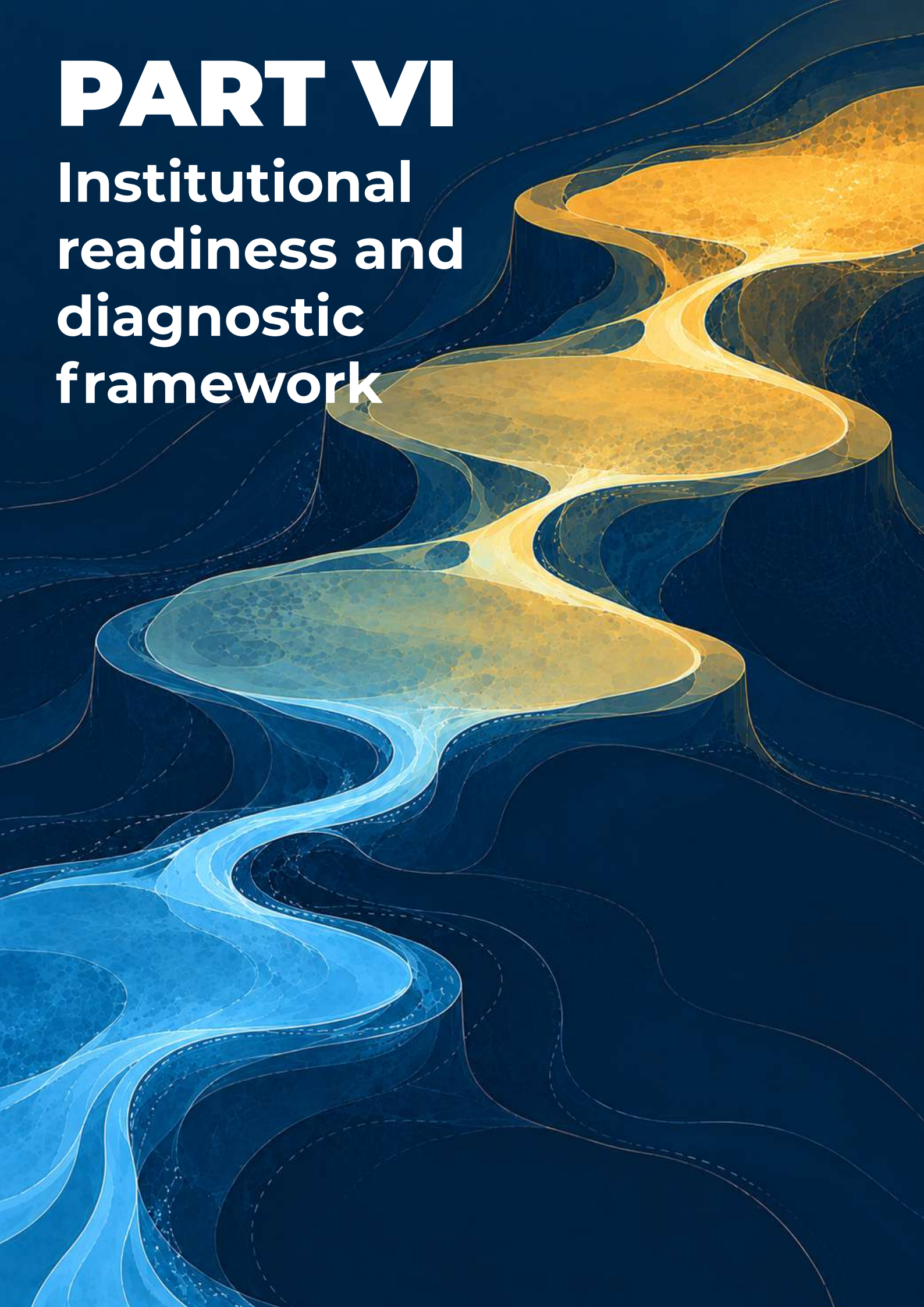
Together, the two-lane framework positions financing as both an institutional resilience challenge and a strategic opportunity to help shape how capital is aligned with sustainable development outcomes.

In this sense, the proposed financing reform becomes an enabler of the broader UN80 priority reform agenda, including sharper strategic focus, reduced fragmentation, measurable efficiency gains, stronger governance coherence, and a future-oriented United Nations.

Part V has helped define what financing posture an organization should adopt. Part VI examines whether institutional readiness supports that posture.

PART VI

Institutional readiness and diagnostic framework



This part defines what institutional readiness looks like and why it must precede any escalation in financing complexity. It sets out maturity levels across key dimensions such as risk appetite, governance, treasury, legal authority, and MRV systems. The objective is to provide leaders with a practical diagnostic to test whether their institution can responsibly adopt more advanced financing approaches, and to identify capability gaps that must be addressed first.

The readiness question is whether institutional capability matches financing ambition. If not, the priority should be to strengthen the foundations – governance, legal authority, treasury capacity, MRV, and leadership understanding – before moving into more complex financing mechanisms. Furthermore, structured finance requires capabilities that are not always embedded in grant-management systems: commercial negotiation, term-sheet interpretation, external legal counsel, counterparty assessment, risk pricing, and exposure modelling. Where these skills are not available internally, leaders should authorize specialist support rather than expecting programme or legal teams to improvise.

6.1 MATURITY LEVELS OF INSTITUTIONAL CAPABILITY

Institutional readiness evolves across four maturity levels. Escalation to higher Bands should not precede maturity progression.

Level 1 – Ad-hoc/exploratory: Structured financing discussions are informal and champion-driven. Risk appetite is undefined. Decision rights are unclear. Exposure, if assumed, is reviewed transaction by transaction. Treasury and legal functions are reactive. Governing bodies have limited literacy in structured instruments.

Level 2 – Controlled pilot: The institution defines pilots and explicit exposure ceilings. Risk appetite is articulated at an elevated level. Legal authority is clarified for specific instruments. Treasury tracks defined exposure. Approval pathways are documented. Governing bodies are informed and engaged.

Level 3 – Institutionalized portfolio capability: Structured mechanisms are managed as a portfolio. Risk appetite is formally approved. Exposure ceilings are monitored systematically. Treasury modelling capacity is strengthened. Legal templates are standardized. Governing bodies understand exposure implications. Oversight mechanisms are stable.

Level 4 – Optimized/market-ready governance: The institution operates with market-grade treasury systems, formal stress-testing capacity, multi-year legally binding authority, transparent disclosure discipline, and independent oversight. Political backing supports sustained exposure across cycles.

6.2 CORE INSTITUTIONAL READINESS DIMENSIONS

Readiness is multidimensional. It extends beyond financial modelling into governance architecture, political durability, and institutional culture. Each dimension plays a distinct role in enabling responsible escalation. UN80 workstreams underscore that governance clarity, exposure monitoring, and system-level accountability are not only institutional requirements but also system-wide reform priorities. Institutional readiness contributes directly to broader UN80 objectives of transparency, discipline, and operational coherence.

The maturity progression across these dimensions is summarized in Table 5 below.

Table 5: Maturity progression across the positioning bands

Dimension	Level 1	Level 2	Level 3	Level 4
Risk appetite	Undefined	High-level articulation	Formally approved	Embedded in strategy
Exposure monitoring	Transaction-based	Instrument ceilings	Portfolio monitoring	Stress-tested modelling
Treasury capacity	Liquidity management	Exposure tracking	Risk modelling	Market-facing treasury
Legal complexity	Standard grants	Pilot authority clarified	Structured frameworks	Multi-year binding authority
Governance oversight	Informal	Committee review	Standing oversight	Independent integrated oversight
MRV systems	Project-based	Defined metrics	Integrated reporting	Audit-ready disclosure
Political commitment	Annual cycles	Multi-year emerging	Stable commitments	Cross-cycle durable support
Culture and learning system	Compliance only, low psychological safety	Permission to pilot but inconsistent	Learning loops: stop/go rules normalized	Stewardship culture; performance and learning incentives
Talent pipeline and Learning & Development	No specialized or deliberate capacity	Pilot staffing via champions	Role definitions; targeted L&D; community of practice	Career pathways; staffing plans; succession and capability depth

Table 5 illustrates that readiness deepens across dimensions simultaneously. Weakness in any critical dimension can constrain escalation even if other dimensions are mature.

Importantly, institutional readiness is necessary but not sufficient. Some mechanisms require explicit legal authority that many UN entities do not possess, such as borrowing, issuing guarantees, or assuming repayment obligations. Where authority is absent, the appropriate role may be to convene, provide technical assistance, align outcomes, or partner with an entity that has the required mandate.

6.3 LEADERSHIP THRESHOLD QUESTIONS

Before transitioning across the different financing pathways, leadership should ask the following questions:

- Is risk appetite formally articulated and approved?
- Are exposure ceilings defined and monitored?
- Does treasury capacity match exposure complexity?
- Is legal authority sufficient and explicit?
- Are oversight mechanisms independent and robust?
- Is governing body literacy sufficient?
- Is political backing durable across cycles?

Leaders often underestimate (i) the time required for decision rights and templates, (ii) the cultural shift from project delivery to portfolio governance, and (iii) the need to legitimize managed experimentation. If these impediments are not addressed explicitly, any escalation will be episodic and fragile.

Escalation threshold: minimum governance conditions

Before adopting exposure-bearing mechanisms (Lane B mechanisms covered under Band 2 or Band 3), institutions should confirm that the following conditions are in place:

- A formally articulated and governing body-approved risk appetite
- Defined exposure ceilings at instrument and portfolio levels
- Portfolio-level exposure monitoring capacity within treasury
- Explicit legal authority to enter structured risk-sharing or multi-year commitments
- Standing governance oversight of structured exposure
- Integrated financial- and results-reporting capability.

If these conditions are not demonstrably met, institutional strengthening should precede escalation.

Escalation requires more than technical design. A senior sponsor should be explicitly accountable for convening programme, finance, legal, treasury, risk, and partnership functions, resolving decision bottlenecks, and ensuring that objections are translated into conditions for safe execution rather than indefinite delay.

6.4 READINESS AS ONGOING DISCIPLINE

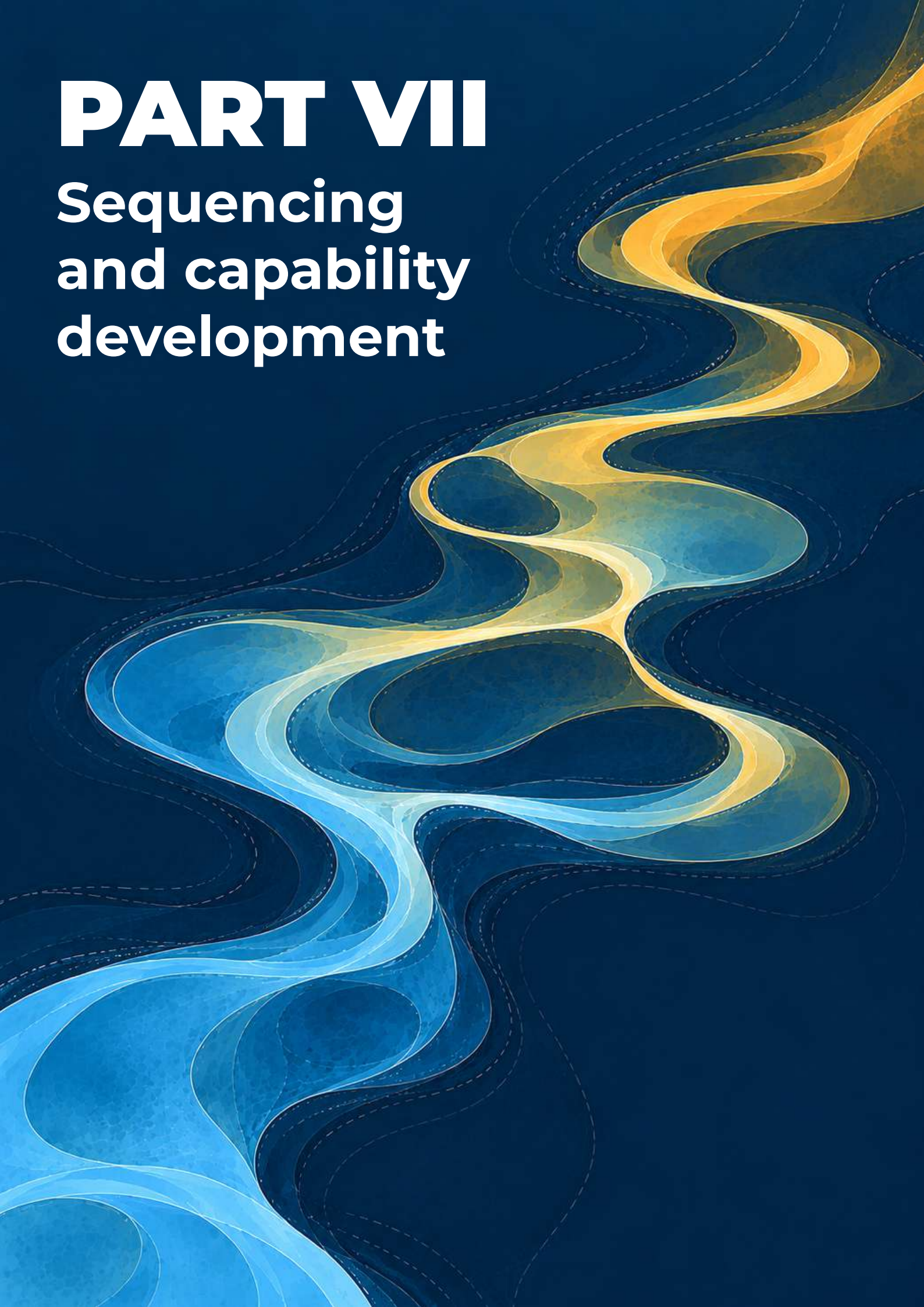
Readiness is dynamic and needs to evolve alongside financing ambition. Moving into more sophisticated financing approaches requires corresponding advances in governance, treasury capacity, legal authority, risk oversight, and organizational capability. As portfolios grow in scale and complexity, assumptions should be periodically tested, political support reassessed, and control systems strengthened. Institutional readiness is therefore a governance discipline that protects structural integrity. Table 6 below summarizes the organizational implications across maturity levels.

Table 6: Organizational implications across maturity levels

Maturity level	What the organization looks like	Mechanisms and measures the institution is capable of using (A1–A5 / B1–B3)
Level 1 – Foundational (Band 1 posture)	Compliance-driven, grant-only; fragmented systems; ad-hoc donor relations; weak MRV; no risk appetite; little treasury capability.	Only Lane A measures with low governance burden: · A1 Diversification (light touch, donor-broadening, digital micro-giving, corporate partnerships) · A2 Early flexible-funding discussions (but no multi-year deals yet) · A3 Basic liquidity improvements (forecasting, not facilities) Cannot yet use B1/B2/B3.
Level 2 – Emerging	Some early innovative finance institute or donor collaboration; defined pilots; basic MRV; initial risk-awareness; early liquidity tools; improved donor dialogue.	Full A1–A3; early A4; no-exposure B1 pilots: · A1–A3 fully implementable · A4 Portfolio-based appeals (simple thematic envelopes) · A5 only exploratory (no legislation-backed levies yet) · B1 outcome-linked pilots (results-based tranches, development impact bond participation without investor risk)
Level 3 – Established	Institutionalized risk processes; MRV minimum standard; legal templates; treasury capacity; clearer decision rights; exposure tracked at instrument level.	Lane A fully deployable; selective Lane B1 and early B2: · A1–A5 all viable (including solidarity/levy mechanisms if politically feasible) · B1 at scale (multi-country outcome-linked structures) · B2 (capped) pilots (first-loss tranches, partial guarantees) – but *only with strict ceilings*
Level 4 – Advanced	Portfolio-level exposure monitoring; formal risk appetite; strong treasury; early stress-testing; legal authority clarified; governing-body literacy strong.	Full Lane A + full B1 + institutionalized B2: · A1–A5 deeply integrated · B1 embedded in portfolios · B2 fully deployable (structured funds, catalytic blended vehicles, risk-sharing facilities with defined caps) Not yet B3
Level 5 – Transformational (Band 3 posture)	Professional treasury (market-facing); independent oversight; multi-year legal authority; strong political durability; disclosure discipline; resembles DFI-light.	Full Lane A + B1 + B2 + conditional B3: · A1–A5 (optimized) · B1/B2 at portfolio scale · B3 capital-engaged mechanisms possible (frontloading, securitization, issuance via special-purpose vehicles – only where legally authorized and politically durable)

PART VII

Sequencing and capability development



This part explains how institutions should move across financing pathways in a deliberate and phased manner. It emphasizes sequencing as a leadership discipline that links diagnosis, pilot design, capability development, and scaling decisions. The section introduces a practical roadmap and highlights the importance of measurable indicators, controlled experimentation, and learning loops. The overarching principle is progressive capability development rather than rapid expansion of financing instruments.

7.1 WHY SEQUENCING MATTERS

Sequencing matters because the interaction between lanes is not linear. Strengthening institutional financing foundations and introducing structured mechanisms are interdependent processes. Premature escalation can amplify fragility; delayed adaptation can constrain impact. As described in the tables above, several dimensions emerge (including institutional strengthening, liquidity discipline, articulated and codified risk appetite, and legal/regulatory/political oversight). Each dimension plays a distinct role in enabling responsible escalation. Institutions must therefore manage sequencing deliberately.

Sequencing also reflects the interdependence across the financial pathways. For instance, strengthened diversification reduces concentration risk, which lowers vulnerability when capped risk-sharing instruments are introduced. Liquidity reform stabilizes operational execution, increasing credibility with catalytic partners. Conversely, structured risk-sharing without diversified revenue may increase political exposure. Capital-engaged architecture without robust liquidity forecasting may destabilize delivery. Outcome-linked financing without strong data systems may undermine credibility.

7.2 PROGRESSIVE CAPABILITY DEVELOPMENT

Institutions often evolve capability incrementally rather than through structural leaps. Sequencing not only serves risk management purposes, but it also supports the broader UN80 objective of disciplined, capability-led transformation.

A typical (illustrative) progression may involve:

- Strengthening diversification and flexible funding
- Formalizing liquidity management and exposure ceilings
- Piloting limited B1 mechanisms to build MRV discipline
- Establishing capped B2 instruments with explicit risk appetite
- Consolidating portfolio-level monitoring
- Considering capital-engaged architecture only where scale and political durability justify it

The central principle is progressive capability development rather than instrument proliferation.

A hypothetical high-level 180-day pathway (Pilot → Scale → Institutionalize) for capability development is provided below.

Days 1–45 (Set the foundation – leader-driven)

- Define risk posture and "red lines" (mandate integrity, neutrality, exposure ceilings)
- Approve decision rights (origination / approval / monitoring / escalation)
- Select two or three priority constraints + portfolios for Lane B (affordability / risk / investability / outcomes)
- Deliver leader narrative ("Why Lane B? Why now? How do we stay safe?")

Days 45–90 (Design – delegated with leader checkpoints)

- Design one B1 pilot with MRV minimum standard + audit trail
- Draft one bounded B2 concept note (explicit ceiling, additionality, governance)
- Stand up templates: partner screening; term-sheet summary; MRV minimums; disclosure note

Days 91–135 (Launch – leaders remove blockers)

- Launch B1 pilot; establish reporting requirements + stop/go criteria
- Convene cross-functional review committee (Programme–Legal–Treasury–MRV–Risk)
- Initiate L&D plan for Lane B roles (enablement cell + embedded focal points)

Days 136–180 (Institutionalize – lock in repeatability)

- Codify lessons into playbooks + templates
- Formalize governance (standing oversight, escalation triggers)
- Decide to scale/stop for B1; decide whether B2 moves to structuring phase

7.3 PORTFOLIO VS INSTITUTIONAL SEQUENCING

Sequencing may occur at diverse levels. An institution may remain positioned in Band 1 at the corporate level while piloting Band 2 mechanisms in a specific thematic or regional portfolio. Alternatively, a catalytic facility may operate in Band 2 while the core organization remains grant-based.

Sequencing decisions should therefore clarify whether escalation is portfolio-specific or institution-wide. Conflating the two increases governance risk and obscures exposure monitoring.

7.4 AVOIDING SIMULTANEOUS ESCALATION

A common sequencing risk is simultaneous escalation across multiple dimensions: adopting risk-sharing, expanding outcome-based financing, and exploring capital-engaged architecture without first consolidating governance and treasury capacity.

Institutions should avoid layering complexity faster than systems can adapt. Capability development should be staged. Governance structures should stabilize before additional exposure is introduced.

Escalation is most stable when it is sequential rather than parallel.

7.5 INDICATORS OF INSTITUTIONAL STRENGTHENING

Sequencing must be grounded in observable evidence of strengthening. Without measurable indicators, reform risks becoming rhetorical rather than structural.

Indicators of effective institutional strengthening may include:

- Reduction in donor concentration ratios
- Increased share of flexible or multi-year funding
- Improved liquidity coverage and reduced pledge-to-cash volatility
- Formal approval of risk appetite statements
- Defined exposure ceilings at instrument and portfolio levels
- Integration of financial and results reporting
- Establishment of standing finance or risk oversight mechanisms
- Enhanced governing body literacy in structured exposure

These indicators do not represent targets in themselves. They signal that foundational systems are consolidating. Only when strengthening is demonstrable should institutions consider layering additional exposure. Annex 2 provides an example of a readiness assessment tool which can be used to frame internal discussions of status and next steps.

Sequencing without indicators risks escalation driven by perception rather than capability.

7.6 REVERSIBILITY AND LEARNING

Sequencing should incorporate feedback loops for learning. Pilot mechanisms should include explicit evaluation points. Exposure ceilings should be adjustable. Institutional learning should inform subsequent scaling decisions.

Reversibility is an important discipline. Institutions should avoid commitments that eliminate strategic flexibility before governance maturity is demonstrated.

7.7 AVOIDING THE INNOVATION TRAP

A recurring risk in complex financing environments is the innovation trap – the tendency to pursue new instruments in order to be perceived as innovative or transformative, rather than out of structural necessity. The objective is not to eliminate risk by avoiding structured finance altogether. It is to become risk-informed: to understand the exposure being assumed, cap it where appropriate, assign decision rights, monitor it visibly, and ensure that it remains consistent with mandate and governance capacity. UN80 reinforces the importance of sequencing and avoiding the innovation trap: Transformation credibility comes from disciplined adoption, not from proliferating instruments. Institutions should treat change capacity as a scarce asset and prioritize reforms that reduce fragmentation and overhead before launching structurally complex mechanisms.

The innovation trap manifests in several ways:

- Instrument proliferation without portfolio coherence
- Escalation driven by funding scarcity rather than readiness
- Adoption of structured mechanisms without clear stress-factor justification
- Financial engineering substituting for institutional reform

- Competitive imitation across agencies without mandate alignment

Innovation becomes a liability when it outpaces governance maturity or distracts from foundational strengthening.

Structured financing often carries higher design, legal, administrative, and verification costs than a conventional grant. Therefore, structured financing should be adopted because it solves a defined structural constraint, not because it signals modernity or ambition. Avoiding the innovation trap does not mean avoiding action. It means starting with minimum viable Lane B steps, learning fast, and scaling only when readiness and guardrails are in place. It reinforces the paper's core principle: Escalation must be proportional, justified, and governance-aligned.

The objective is not to maximize financing innovation but to strengthen institutional resilience and development impact. The appropriate financing response is the one that addresses the underlying constraint while remaining proportionate to institutional readiness, governance capability, and political support. In many cases, the appropriate posture is to partner with MDBs, DFIs, insurers, or national financing institutions that already have the mandate and capability to carry financial exposure, while the UN contributes its comparative advantages in standards, policy, convening, delivery, and accountability.

In essence, disciplined escalation – not instrument sophistication – is the central leadership task.

Annex 1: Case studies

Note: The case studies draw on publicly available information and experience from across the UN system and partner institutions. The organisations and initiatives featured are acknowledged for the experience and practices that informed these illustrations.

CASE STUDY 1: REFUGEE ZAKAT FUND

SDG: Multiple

Agency: UNHCR

Category: Lane A—Strengthening the resources for UN continuity

Sub-category: A1 (Diversification of grant capital)

Description: Islamic financing integrates donations through mandatory Zakat (2.5% of wealth for the needy) and voluntary Sadaqah, serving as key funding for humanitarian efforts, poverty alleviation, and the SDGs. UNHCR piloted its Refugee Zakat Fund in 2017 with the objective of assisting refugees globally – about 50 percent of whom come from Organization of Islamic Cooperation countries – by tapping into Islamic philanthropy. Since its pilot, the Fund has received contributions from over 42,000 donors (individuals and institutions), which enabled it to support over 8.9 million beneficiaries among the most in need, among them forcibly displaced populations in 31 countries. In 2025 alone, and amidst a global humanitarian funding crisis, UNHCR's Refugee Zakat Fund continued to serve as a trusted, Sharia-compliant channel for Islamic philanthropy, translating the generosity of institutional partners and individual donors into timely and dignified assistance for refugees, internally displaced persons (IDPs), and vulnerable host communities across 25 countries. Contributions mobilized through strategic partnerships, the Refugee Zakat Fund mobile application, and UNHCR's Ramadan and Dhul Hijjah campaigns collectively enabled UNHCR to reach more than 1 million beneficiaries[17] during the year.

Operational workflow



[17] Islamic Philanthropy: Annual Report Impact 2025. https://zakat.unhcr.org/annualreport/annual-2025/.

Key consideration: As the only internationally mandated organization to protect refugees, and other forcibly displaced populations, UNHCR is in a leading position to direct Zakat funds to meet the critical needs of some of the most vulnerable populations around the world. UNHCR channels all Zakat funds it receives for distribution through its cash assistance programmes. Its goal is to be a prominent voice in helping the Zakat industry reach its maximum potential by highlighting the eligibility of most refugees and internally displaced persons so they may benefit from Zakat funds.

More information: https://zakat.unhcr.org/en

CASE STUDY 2: SHARETHEMEAL

SDG: 2

Agency: WFP

Category: Lane A—Strengthening the resources for UN continuity

Sub-category: A1 (Diversification of grant capital)

Description: WFP's ShareTheMeal (STM) was selected as one of the best mobile apps by Google and Apple, for enabling users to donate and reaching high visibility. In 2022 alone, it raised over USD28 million,[18] and since its creation has enabled the distribution of the equivalent of over 258 million meals. STM is now leveraged for individual and corporate giving as it offers an effective employee-engagement initiative.

Operational workflow



Key consideration: The STM initiative has multiple advantages, including: (i) leveraging the power of micro-donations (making charity affordable and convenient); (ii) creating transparency and direct impact (the users can see exactly where their money goes; and, (iii) encouraging positive behavioural nudges (the app thrives on gamification of community goals and challenges).

On the other hand, interesting reflections emerge, including: (i) the trade-off between transparency and overhead expenses (for example, while giving USD 0.80 feels very manageable, non-profit financial models dictate that processing and marketing costs take a larger percentage of micro-donations); and (ii) systemic change versus symptomatic relief (WFP solves an immediate problem; true eradication of hunger requires resolving underlying systemic issues like conflict and climate change).

More information: https://sharethemeal.org/en-us

[18] ShareTheMeal: https://innovation.wfp.org/project/sharethemeal.

CASE STUDY 3: WFP PROTRACTED RELIEF AND RECOVERY OPERATIONS (PRROS)

SDG: Multiple

Agency: WFP

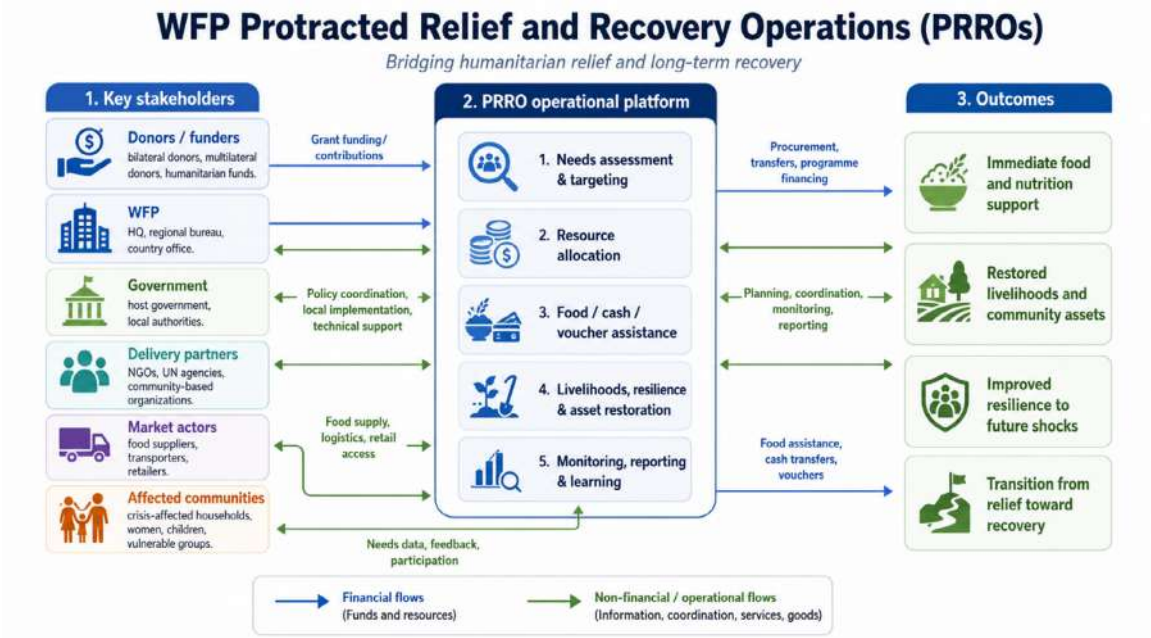
Category: Lane A—Strengthening the resources for UN continuity

Sub-category: A2 (Flexibility/Multi-year funding)

Description: Typically, PRROs are multi-year interventions designed to bridge the gap between emergency humanitarian response and long-term development. They assist crisis-affected populations by addressing immediate food and nutritional needs while rebuilding livelihoods, restoring community assets, and strengthening resilience against future shocks. The formal designation of standalone " PRROs" has been transitioned by WFP into comprehensive Country Strategic Plans (CSPs).[19] The CSP varies across markets and development needs. For instance:

- The Afghanistan portfolio was extended with a massive budget increase of USD 1.54 billion to manage the influx of returning refugees and chronic, widespread poverty. Additionally, the operation shifted from general food distribution to asset-creation programmes (such as repairing irrigation canals and building flood protection walls) to reduce long-term dependency on international aid.
- In the Central Sahel region, CSPs heavily expanded disaster risk financing. Instead of waiting for droughts or climate shocks to trigger famine relief, the programme relies on early-warning triggers to distribute cash transfers before a shock hits, thus protecting community assets.
- In Uganda, the CSP translated into Ugandian national food and social protection systems, thereby shifting the focus entirely away from direct aid. The operation serves as a blueprint for PRRO evolution, financing the explicit handover of refugee and host-community social safety nets to the national government.

Operational workflow



[19] Revisions of country strategic plans and interim country strategic plans, and corresponding budget increases or decreases, approved under delegations of authority (1 July – 31 December 2025). Executive Board. First Regular Session. 2026. WFP.

Key consideration: The main learning is that PRROs are not simply "multi-year grants." They are a programme architecture that enables WFP to keep delivering relief while progressively layering in recovery, livelihoods, resilience, national-system alignment, and transition planning. PRROs are a "Lane A" innovation because they stretch the use of grant capital rather than replace it. They make grant funding more strategic by pooling it across time, connecting relief to recovery, and giving agencies a structure to move from activity delivery toward system strengthening. For other UN agencies, the practical lesson is: Do not copy the PRRO label; copy the design discipline, which means multi-year planning, adaptive resource allocation, national alignment, local feedback, partner governance, realistic transition assumptions, and a funded evidence function.

More information: https://www.wfp.org/operations

CASE STUDY 4: GLOBAL COMMODITY MANAGEMENT FACILITY

SDG: 2

Agency: WFP

Category: Lane A

Sub-category: A3 (Solving for Liquidity/Working capital needs using grants)

Description: The Global Commodity Management Facility (GCMF) is a strategic supply chain and advance-financing framework managed by WFP. It allows WFP to pre-position vital food stocks in strategic regions globally before crises occur or confirmed donor funding is received. The GCMF operates as follows:

- Advance Financing: It utilizes a massive corporate revolving fund (often exceeding USD 500 million) to purchase food in bulk when market conditions are most favourable.
- Pre-positioning: Commodities are stored at strategic logistics hubs worldwide. Once an emergency hits, local WFP country offices can request these stocks immediately, rather than waiting months for procurement.
- Reimbursement: Country offices "buy" the inventory using secured donor grants or WFP advance loans, which continuously replenish the revolving fund.

Some of the critical results and milestones realized by GCMF[20] include the following:

- A total of 48 million people across 40+ countries have benefited from commodities pre-positioned and procured via the GCMF. This includes critical hunger hotspots like Sudan, Gaza, and the Democratic Republic of Congo.
- Nearly two million metric tons of food have been procured via the GCMF over recent periods.
- By strategically sourcing and positioning food closer to countries of origin, country offices experienced average costs that were 13 percent lower than those associated with direct sourcing.
- The facility drastically reduces delivery response times, bringing the average lead-time down significantly (by up to 75 percent historically) compared to conventional procurement methods.

[20] Annual performance report for 2025: Executive Board. Annual session (2026). WFP.

Operational workflow



Key considerations: The central lesson from WFP's GCMF is that it is not a fundraising mechanism in the conventional sense. It is a corporate working-capital and supply-chain readiness mechanism that enables WFP to buy, move, and hold food before country offices have fully confirmed funding. It is an advance-financing and pre-positioning model that uses a revolving fund to buy commodities in bulk, store them in strategic hubs, and replenish the fund once country offices "purchase" the stocks using secured donor grants or WFP advance loans

The transferable reflection for other UN agencies is that GCMF is a "Lane A" innovation because it makes existing grant funding more effective. It improves the timing, purchasing power, and operational readiness of grant-funded delivery. Its additionality comes from acting earlier, buying smarter, positioning closer to need, and reducing the time between crisis signal and beneficiary support.

More information: https://executiveboard.wfp.org/es/document_download/WFP-0000062174

CASE STUDY 5: JOINT SDG FUND

SDG: Multiple

Agency: Multiple UN agencies

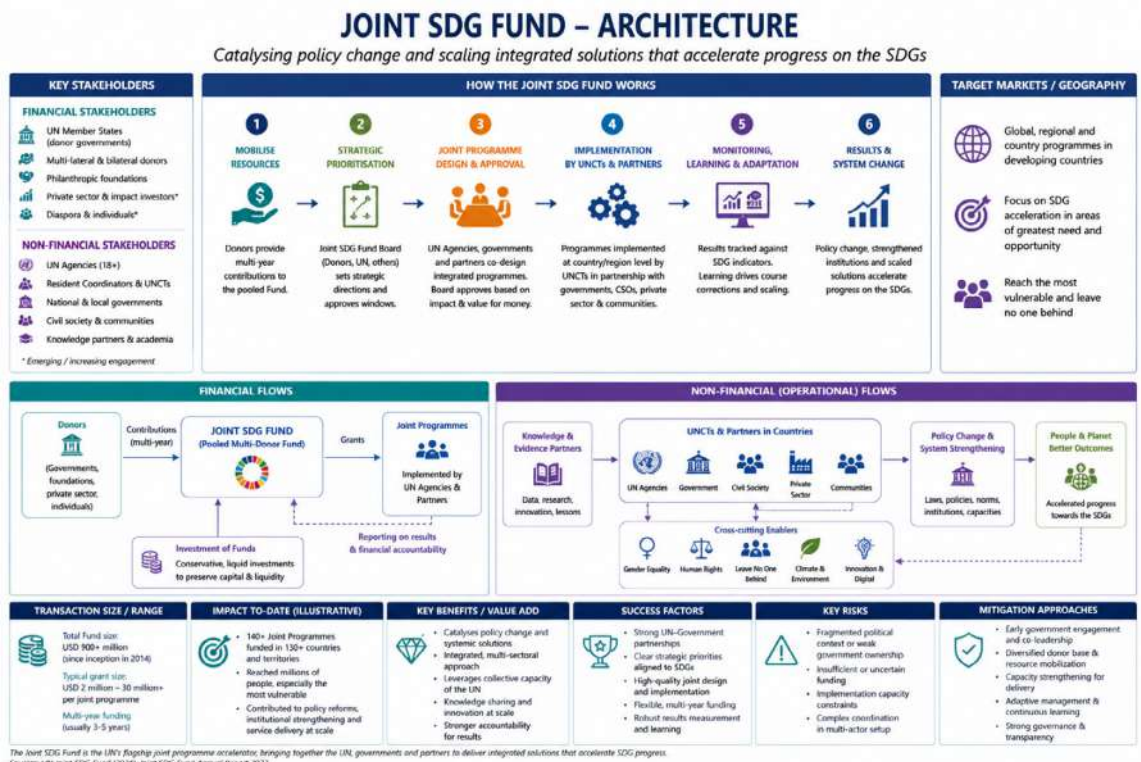
Category: Lane A

Sub-category: A4 (Pooled/Portfolio-based grant mobilization)

Description: The Joint SDG Fund stands as the UN's premier innovative funding mechanism, strategically designed to catalyse profound policy transformations and ignite the strategic investments essential for realigning the world on course to achieve the SDGs.

The Joint SDG Fund's Prospectus[21] showcases multiple transformative investment opportunities built upon the Fund's existing and ongoing investments. These examples, across digitalization, food systems transformation, blue economy and green energy transitions, provide a snapshot of scaled-up investment opportunities valued at USD 850 million, with the potential to unlock USD 12.4 billion in additional finance.

Operational workflow



[21] https://invest.jointsdgfund.org/.

Key considerations: The central lesson from the Joint SDG Fund is that its innovation is not merely that it pools money. It uses pooled grant capital to force integration: across UN agencies, government priorities, policy reform, SDG financing strategies, and catalytic investment pipelines. The most important replication insight is that the Joint SDG Fund works as a "system accelerator," not a conventional project fund.

The practical replication model would be

1. **Define the transformation problem:** The mechanism should target issues that no single agency can solve alone – for example, social protection, climate resilience, food systems, health systems, digital public infrastructure.

2. **Establish joint ownership:** Programmes should be implemented by agencies with complementary mandates rather than overlapping activities.

3. **Connect policy and capital.** Grants should not only fund studies or pilots; they should move countries toward financing strategies, budget alignment, investment pipelines, or instruments that can mobilize larger public or private resources.

4. **Create a staged pipeline.** Use small design grants to test and structure ideas, larger grants to support national reforms or high-impact programmes, and follow-on partnerships with MDBs, DFIs, domestic public finance, philanthropies, and private investors.

5. **Manage the fund as a portfolio.** Replication should include clear investment criteria, risk appetite, leverage definitions, results measurement, and learning loops across countries.

More information: https://www.jointsdgfund.org/

CASE STUDY 6: AIR TICKET SOLIDARITY LEVY

SDG: 3

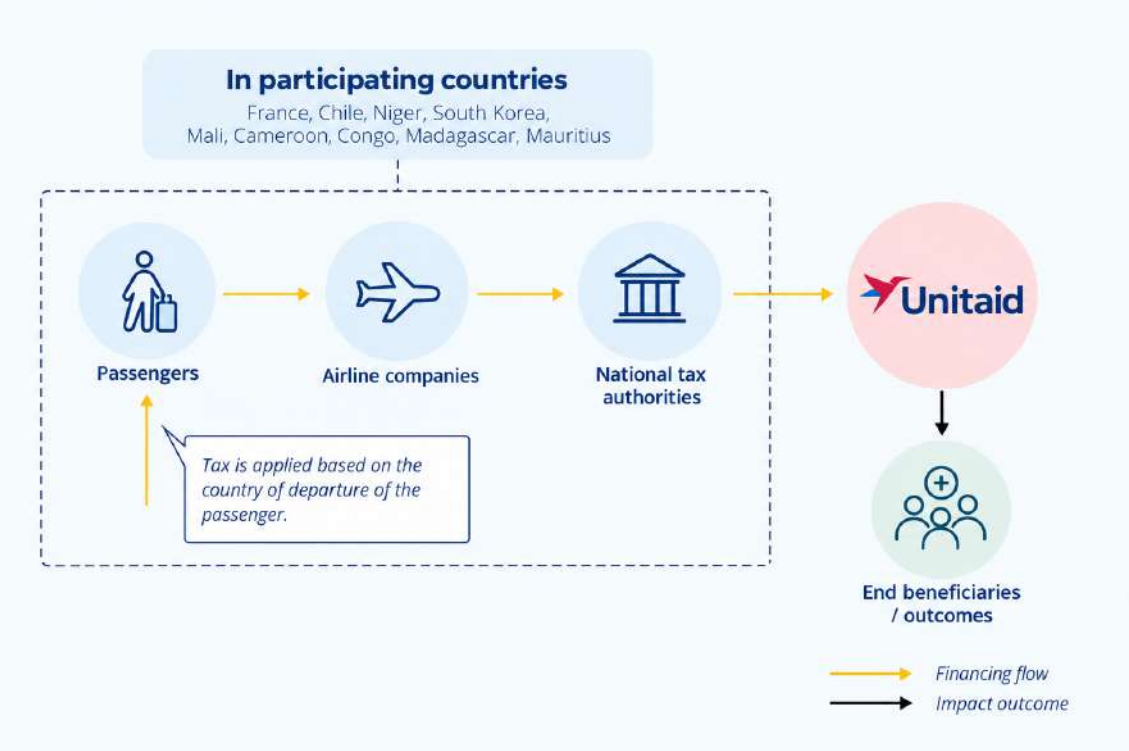
Agency: Unitaid

Category: Lane A

Sub-category: A5 Solidarity/Embedded revenue streams

Description: Unitaid's Air Ticket Solidarity Levy is a pioneering finance mechanism introduced to provide sustainable funding for Unitaid. Since 2013, it has been implemented in nine countries (Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger, South Korea). The levy[22] is imposed on airline tickets for departures from participating countries. The charge applies per ticket, regardless of airline, destination, or nationality of the traveller. The collected funds are transferred to national tax authorities, who then allocate them to global health initiatives. Since its creation in 2006 by the governments of Brazil, Chile, France, Norway and the United Kingdom – and with France leading the way through the introduction of a small levy on airline tickets – Unitaid has demonstrated the power of innovative financing approaches. To date, more than two-thirds of Unitaid's budget has come from solidarity levies, enabling access to health innovations for more than 300 million people in low- and middle-income countries while strengthening resilient health systems.

Operational workflow



[22] https://unitaid.org/news-blog/unitaid-welcomes-new-air-levy-coalition-building-on-its-legacy-of-successful-innovative-health-financing/.

Key considerations: The core lesson from the Air Ticket Solidarity Levy is that it is a sovereign fiscal mechanism linked to a multilateral purpose. It does not depend on individual voluntary donations at the point of travel; rather, participating governments legislate or administer a small levy on airline tickets, collect it through national systems, and allocate proceeds to Unitaid/global health.

The main replication insight is that the Unitaid Air Levy expands and stabilizes public grant resources. Its additionality comes from creating a new predictable public revenue stream and channelling it into a multilateral mechanism with a clear global public-good mandate.

For other UN agencies, the most practical replication model would entail the following:

1. **Identify a politically defensible transaction base** (e.g., aviation)
2. **Tie the revenue base to the purpose** (e.g., aviation or fossil-fuel levies for climate adaptation)
3. **Use national fiscal systems** for collection (via existing tax, excise, customs, airport, telecom, or financial transaction infrastructure)
4. **Ring-fence the use of proceeds** to a clearly governed UN-hosted fund, pooled fund, or trust mechanism with transparent reporting.
5. **Define additionality upfront** by governments committing to use the levy proceeds to supplement rather than replace existing ODA or core contributions.
6. **Publish impact in plain terms** — the mechanism should be able to say what a ticket levy, transaction levy, or micro-charge buys in real-world outcomes.

More information: https://solidaritylevies.org/eight-countries-launch-solidarity-coalition-for-levies-on-premium-flyers/

CASE STUDY 7: ADOLESCENT SEXUAL AND REPRODUCTIVE HEALTH DEVELOPMENT IMPACT BOND (ASRH DIB)

SDG: 3

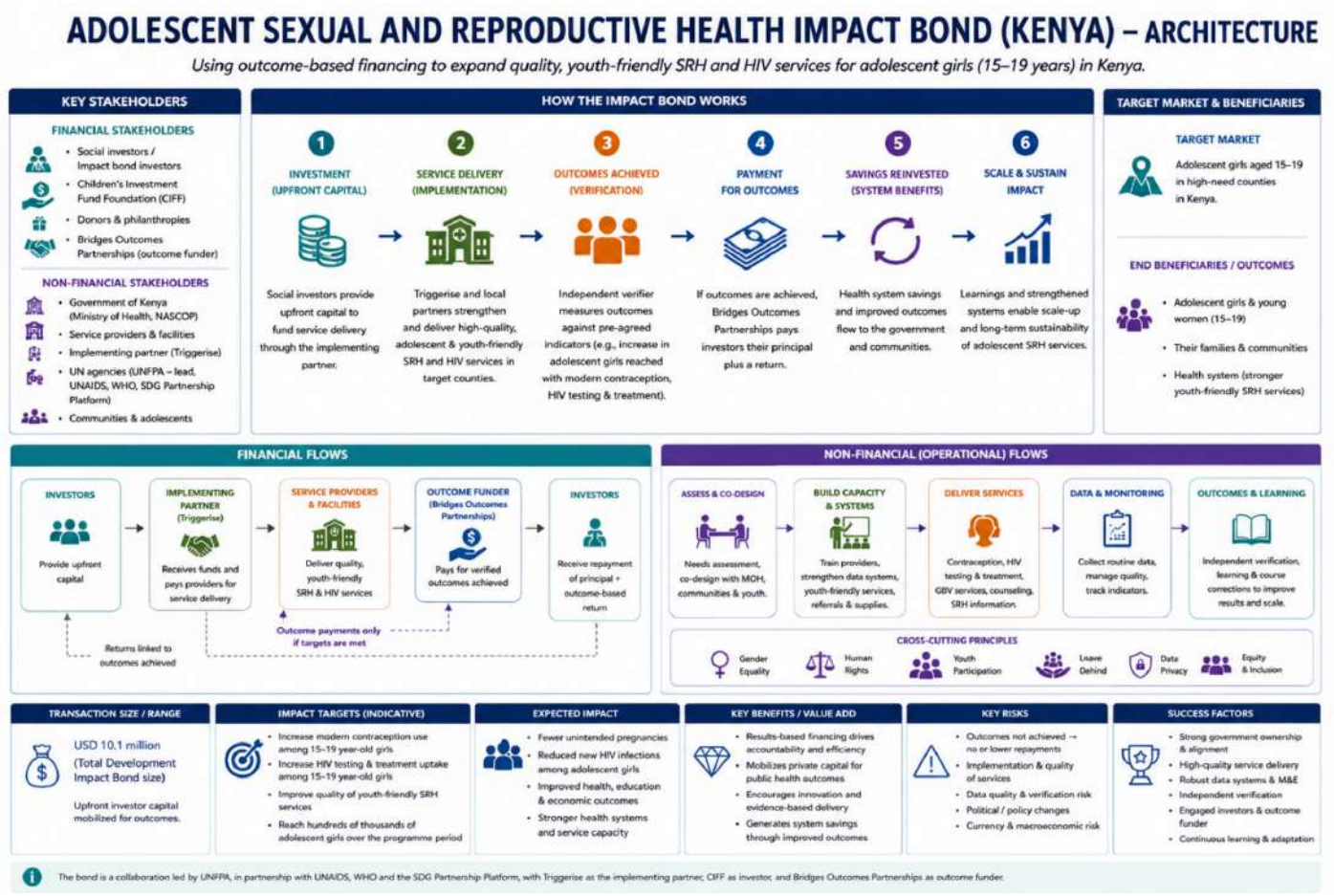
Agency: UNFPA and consortium (of outcome funders)

Category: Lane B

Sub-category: B1 (Outcome-linked mechanisms)

Description: This innovative development impact bond (DIB) is expected to fund the delivery of high-quality, adolescent and youth-friendly sexual and reproductive health services, including HIV testing and treatment, to adolescent girls in Kenya aged 15 – 19. The ASRH DIB builds on a successful Phase One model previously implemented by Triggerise and funded by the Foreign and Commonwealth Development Office with Children's Investment Fund Foundation as the investor, over an 18-month period from 2020 to 2022. During this phase,[23] the availability and uptake of SRH services among adolescents in Kenya was expanded, reaching a total of 251,000 girls with 383,000 services, far surpassing the target of 244,445 service visits. Notably, the number of repeat service visits exceeded the initial target by 262 percent, with a total of 118,058 girls receiving repeat visits against an initial target of 45,000.

Operational workflow



[23] Launch of First Adolescent Sexual and Reproductive Health Development Impact Bond in Kenya. October 2023. https://www.unfpa.org/updates/launch-first-adolescent-sexual-and-reproductive-health-development-impact-bond-kenya.

Key considerations: The central lesson from the Kenya initiative is that a DIB works best when it is used to scale and discipline an existing service-delivery model, not when it is used to create an intervention from scratch. The main replication insight is that an impact bond is not just a financing instrument; it is a performance-management architecture. Its value comes from combining upfront risk capital, flexible delivery, verified outcomes, real-time data, and a disciplined payment mechanism.

More information: https://www.unfpa.org/updates/launch-first-adolescent-sexual-and-reproductive-health-development-impact-bond-kenya

CASE STUDY 8: UGANDA FIRST-LOSS GUARANTEE

SDG: 1, 2, and 8

Agency: UNCDF

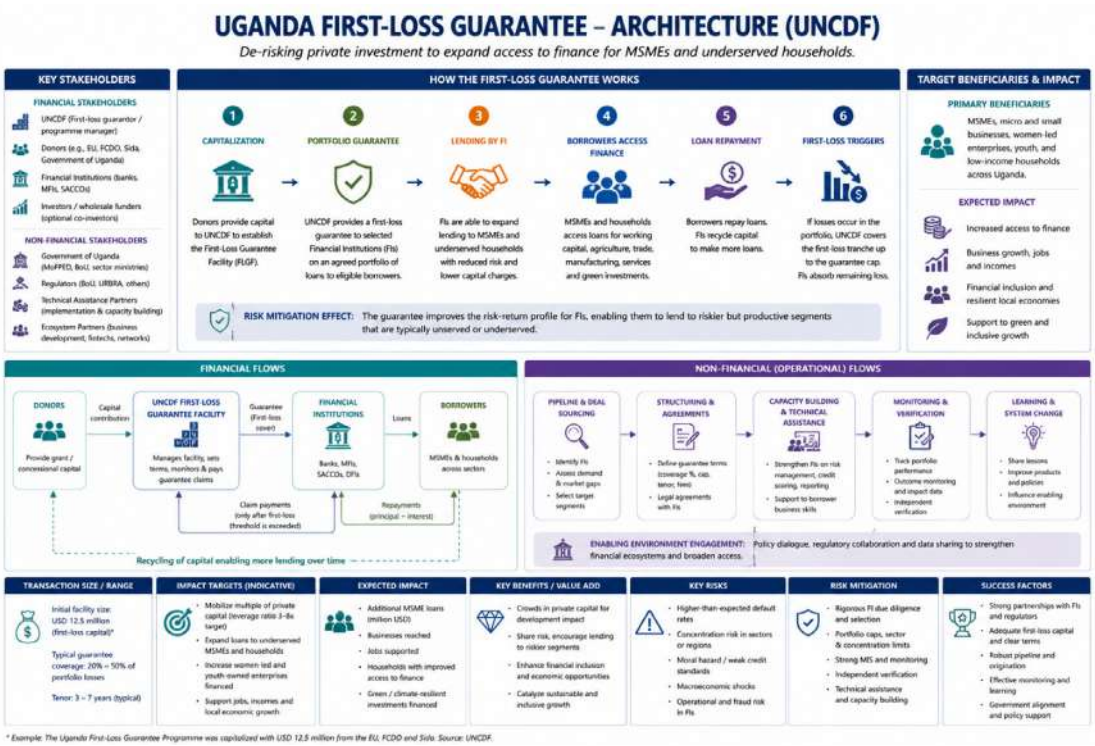
Category: Lane B

Sub-category: B2 (Capped risk-sharing/Blended finance structures)

Description: The Uganda First-Loss Guarantee is a UNCDF-supported blended finance mechanism[24] designed to make lending to underserved segments more viable for local financial institutions. In practice, the mechanism uses donor or concessional capital to create a first-loss cushion. This means that if a participating financial institution lends to eligible borrowers – for example, medium-small and micro enterprises, women-led enterprises, youth entrepreneurs, refugees, smallholder-linked businesses, or green/local economic development enterprises – and a portion of that loan portfolio defaults, the guarantee absorbs an agreed first layer of losses before the lender bears the remaining loss. By reducing downside risk, the guarantee improves the risk-return profile for banks, microfinance institutions, savings and credit cooperative organizations, or other lenders, encouraging them to extend credit to borrowers they may otherwise consider too risky.

Since its inception in 2023 with USD 200,000 in seed capital from UNCDF, Tondeka has grown into a revolving facility valued at over USD 574,000, fueled by repayments, interest earnings, and contributions from Pride Bank and local savings. As of April 2025, over 1,500 woman and men have received loans totaling UGX 1.29 billion (USD 346,303), with an average loan size of USD 250. A total of 54 percent of recipients were Forcibly Displaced Persons, and 46 percent from host communities – the existing populations within the area where the displaced people seek refuge – reflecting a deliberate approach to social cohesion.

Operational workflow



[24] https://www.uncdf.org/where-we-work/uganda.

Key considerations: The strategic value of the mechanism is that a relatively small pool of catalytic capital can unlock a larger volume of private or domestic lending. The main reflection is that the guarantee does not replace grant capital; it repositions grant capital as risk capital. Instead of paying directly for activities, the grant is used to absorb uncertainty, change lender behaviour, and create a pathway for more sustainable financing. Its effectiveness depends on clear eligibility criteria, careful selection of financial institutions, robust portfolio monitoring, a capped guarantee exposure, transparent claims rules, and complementary technical assistance so that both lenders and borrowers can use the facility responsibly.

The caution for replication is that a first-loss guarantee can create moral hazard[25] if poorly designed. Financial institutions may relax underwriting standards if they believe donor capital will absorb losses. That is why replication should include portfolio caps, lender co-risk, borrower eligibility rules, claims verification, transparent reporting, and incentives for prudent lending.

[25] Moral hazard is the tendency to take greater risks when you are protected from the negative consequences, usually because someone else bears the cost. In this context, the presence of a guarantee could encourage banks and financial institutions (BFIs) to issue riskier loans.

CASE STUDY 9: INTERNATIONAL FINANCE FACILITY FOR IMMUNIZATION

SDG: 3

Agency: GAVI

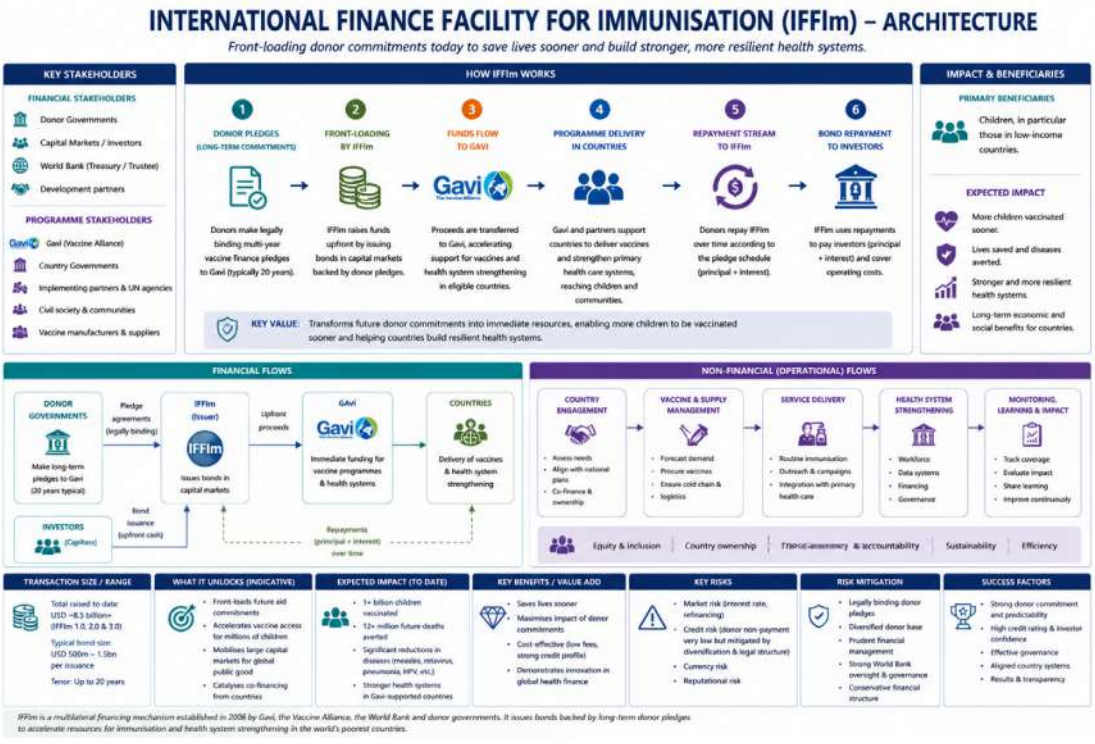
Category: Lane B

Sub-category: B3 (Capital markets engagement/Front-loading structures)

Description: The International Finance Facility for Immunization (IFFIm) is a Gavi-linked frontloading mechanism that turns long-term, legally binding donor pledges into immediate financing for immunization. IFFIm works by using future donor payments as a financial asset today. Sovereign donors make multi-year grant commitments to IFFIm; IFFIm, supported by the World Bank as treasury manager, issues Vaccine Bonds in international capital markets; investors buy those bonds; and the proceeds are made available to Gavi for immunization programmes, vaccine procurement, health-system strengthening, outbreak response, and related priorities. IFFIm then repays bondholders over time using the scheduled donor payments. The mechanism's core additionality is the frontloading mechanism, which brings money forward so that vaccines and immunization systems can be financed earlier than would be possible if Gavi waited for annual donor instalments.

Since its inception in 2006, IFFIm has disbursed over USD 6.2 billion to Gavi, accounting for roughly one-sixth of Gavi's total programmatic expenditures.[26] With IFFIm funding, Gavi programmes have helped vaccinate more than one billion children and prevented over 17.3 million deaths in lower-income countries. The facility has played a pivotal role in accelerating the rollout of critical vaccines, heavily subsidizing immunizations for Human Papilloma Virus (HPV[27]) and malaria, as well as pandemic response efforts like the COVAX Advance Market Commitment.

Operational workflow



[26] https://iffim.org/news/iffim-returns-market-ps300-million-3-year-bond-support-global-vaccine-programs.

[27] HPV is a very common group of over 200 related viruses, spread through skin-to-skin contact, that can cause warts or certain types of cancer. Most infections go away on their own, but some high-risk types can lead to serious health issues.

Key considerations: The main lesson from IFFIm is that it is not a conventional impact bond. A classic development impact bond usually has upfront investors, service providers, outcome funders, independent verification, and payment linked to achieved outcomes. IFFIm is different: It uses legally binding long-term donor pledges to issue Vaccine Bonds in capital markets and frontload funding for Gavi. The main replication insight is that IFFIm is a "frontloaded public commitment bond," not a pure pay-for-success instrument.

The caution is that IFFIm should not be oversold as easily replicable. It required sovereign pledges, legal enforceability, capital-market access, treasury sophistication, rating credibility, a large use-of-proceeds pipeline, and a trusted implementing platform.

More information: https://www.gavi.org/investing-gavi/innovative-financing/iffim

Annex 2: UN Leadership Readiness Diagnostic

Compact scorecard for choosing between Lane A (grant architecture strengthening) and Lane B (selective innovative financing (IF) /blended financing (BF) engagement)

Rate each domain 0–5: 0 = not in place; 1 = very limited; 2 = emerging; 3 = partial; 4 = strong; 5 = institutionalized.

Domain	Leadership diagnostic prompts	Score (0–5)	What a high score means	Lane / Band signal
1. Strategic clarity	Is the core problem mainly donor concentration, earmarking, liquidity, volatility, or a market failure? Is there shared leadership agreement on the objective and why Lane A vs Lane B is under consideration?		Leadership is diagnosing before structuring.	Prerequisite for any lane choice.
2. Lane A readiness	Can we diversify funding, improve flexibility or multi-year support, manage working capital, and strengthen pooled or portfolio-based mobilization?		The grant architecture can be strengthened materially.	High = strong fit for Lane A / Band 1.
3. Lane B rationale	Can we show why grants alone are insufficient, identify the catalytic rationale, and explain why external actors would participate?		There is a legitimate case for selective IF/BF.	High = consider Lane B selectively.
4. Institutional positioning	Do we know whether we are realistically in Band 1, 2, or 3, and what conditions justify escalation?		Sequencing is deliberate; overreach is less likely.	High = choose the Band intentionally.
5. Operating model readiness	Are treasury, legal, MRV, risk, procurement, and decision rights strong enough to structure and manage non-standard financing?		Institutional capacity exists for bounded Lane B use.	High = potential Band 2 readiness.
6. Guardrails and safeguards	Are mandate integrity, exposure limits, governance, disclosure, reputation checks, and exit triggers clearly operationalized?		Innovation can be pursued proportionately and safely.	High = go / no-go filters are operational.
7. External feasibility	Are political durability, sovereign backing, market depth, counterparties, and system coherence strong enough to sustain the model?		The external environment may support structured engagement.	High = external case may support Lane B.

Quick reading: If Domain 2 is materially stronger than Domains 3–7, stay primarily in Lane A. If Domains 3, 5, 6 and 7 are also strong, a bounded move into Lane B / Band 2 may be appropriate.