United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2018

and

Report of the Board of Auditors

General Assembly
Official Records
Seventy-fourth Session
Supplement No. 5B

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A/74/5/Add.2

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Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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[24 July 2019]

Contents

Letters of transmittal and certification

Letter dated 22 April 2019 from the Administrator of the United Nations Development Programme and Managing Director of the United Nations Capital Development Fund, the Executive Secretary of the Fund, the Deputy Executive Secretary of the Fund and the Head of the Management Support Unit of the Fund addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Capital Development Fund (UNCDF) for the year ended 31 December 2018, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements.

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on management's best estimates and judgments.

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties. Internal auditors of the United Nations Development Programme (UNDP), who provide internal audit services to UNCDF, continually review the accounting and control systems. Further improvements are being implemented in specific areas.

The management provided the Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.

The recommendations of the Board of Auditors and UNDP internal auditors were reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Achim **Steiner**
Administrator, UNDP/Managing Director, UNCDF

(*Signed*) Judith **Karl**
Executive Secretary
UNCDF

(*Signed*) Xavier **Michon**
Deputy Executive Secretary
UNCDF

(*Signed*) Nazim **Khizar**
Head, Management Support Unit
UNCDF

Letter dated 24 July 2019 from the Chair of the Board of Auditors to the President of the General Assembly

I have the honour of transmitting to you the report of the Board of Auditors on the financial statements of the United Nations Capital Development Fund for the financial year ended 31 December 2018.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Capital Development Fund (UNCDF), which comprise the statement of financial position (statement I) as at 31 December 2018, the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNCDF as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNCDF in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Managing Director of UNCDF is responsible for the other information, which comprises the financial report for the year ended 31 December 2018, contained in chapter III, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or whether it otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Managing Director is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNCDF to continue as a going concern and disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless management intends either to liquidate UNCDF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of UNCDF.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control at UNCDF.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNCDF to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNCDF to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In our opinion, the transactions of UNCDF that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations Development Programme as applicable to UNCDF and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNCDF.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile

24 July 2019

Chapter II
Long-form report of the Board of Auditors

Summary

By its resolution 2186 (XXI) of 13 December 1966, the General Assembly established the United Nations Capital Development Fund (UNCDF), as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. The programmes of UNCDF also help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Sustainable Development Goals. UNCDF has its headquarters in New York and, in 2018, implemented programmes in 31 least developed countries relating to financial inclusion and local development finance. UNCDF also operates in other countries, mainly through its global thematic initiatives.

The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2018. The audit was carried out at UNCDF headquarters in New York and through a visit to one field office.

Scope of the report

The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and has been discussed with UNCDF management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2018 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNCDF operations under financial regulation 7.5 of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNCDF operations. The report also includes comments on the status of implementation of recommendations made in previous years.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements for the period under review as reflected in chapter I.

Overall conclusion

The Board did not identify significant errors, omissions or misstatements from the review of the operations and financial records of UNCDF. However, the Board noted that in some areas there was potential for UNCDF to further enhance its processes and procedures to ensure efficiency and effectiveness in the use of resources from donors to deliver the intended programmes.

Key findings

Accounting treatment of non-exchange transactions

After discussions with the Board, UNCDF refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNCDF recognizes receivables from non-exchange transactions in full at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. UNCDF defers revenue associated with receivables expected to be received in future periods on the statement of financial position until conditions in contribution agreements, if any, are met or until funds are to be transferred to UNCDF and intended to be utilized.

The Board encourages and expects UNCDF to continue its analysis of contribution agreements and to use all available information to further enhance the assessment of contribution agreements in accordance with IPSAS 23: Revenue from non-exchange transactions, in particular with regard to the substance-over-form criteria.

Management of loans

The Board reviewed the newly introduced processes for granting loans to financial service providers and small and medium-sized enterprises. The Board holds that the processes and procedures were in general appropriate to ensure orderly loan granting and gather the information necessary for proper accounting treatment. However, the Board considers that, in some areas of the granting process, there is room for enhancement.

The repayment schedule forms an important part of loan agreements. The Board noted that the UNCDF loan policy and standard loan agreement provided rather strict rules on changing repayment schedules at the time of disbursing principal amounts. The environment in which UNCDF operates often leads to delays that are beyond its control. Such delays require revisions of the repayment schedules when principal amounts are disbursed.

The Board noted some errors in loan agreements and/or inconsistencies in loan agreements or between the terms of agreements and the schedules. The Board holds that such errors in legally binding contracts with third parties could have been avoided had the internal quality assurance for loan agreements been performed more effectively.

Recommendations

With regard to the above findings, the Board recommends that UNCDF:

Accounting treatment of non-exchange transactions

(a) **Continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on the recognition of non-exchange transactions in line with IPSAS 23;**

Management of loans

(b) **Include in its loan policy and future loan agreements the option to finalize the loan repayment schedule after disbursement of the principal amount;**

(c) **Strengthen quality assurance and quality review mechanisms to foster more consistent and coherent loan agreements.**

Previous recommendations

As at 31 May 2019, of the nine recommendations made for 2017 and previous years, eight (89 per cent) had been implemented and one (11 per cent) remained under implementation (see the annex to the present report). The Board welcomes the overall progress made in implementing the recommendations.

Key facts

$14.5 million	Approved budget (regular resources)[1]
$11.6 million	Revenue (regular resources)
$11.8 million	Actual expenses (regular resources). Only regular resources are budgeted and approved by the Executive Board
$15.1 million	Actual expenses for grants and transfers
144	Total number of staff
$20.9 million	Staff cost

A. Mandate, scope and methodology

1. By its resolution 2186 (XXI) of 13 December 1966, the General Assembly established the United Nations Capital Development Fund (UNCDF) as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. UNCDF programmes also help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Sustainable Development Goals. UNCDF has its headquarters in New York and, in 2018, implemented programmes in 31 least developed countries relating to financial inclusion and local development finance. UNCDF also operates in other countries, mainly through its global thematic initiatives.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2018, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations (ST/SGB/2013/4 and ST/SGB/2013/4/AMEND.1), as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNCDF as at 31 December 2018 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the financial regulations and rules of the United Nations Development Programme (UNDP) as applicable to UNCDF. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial statements, the Board carried out reviews of UNCDF operations under financial regulation 7.5 of the United Nations. This requires the Board to make observations with respect to the efficiency

[1] Regular resources refer to commingled, untied and unearmarked resources that are free from the restrictions of donors.

of the financial procedures, the accounting system and the internal financial controls and, in general, the administration and management of UNCDF operations.

5. During the course of the audit, the Board visited UNCDF headquarters in New York and one field office. The Board continued to work collaboratively with the Office of Audit and Investigations of UNDP to provide coordinated coverage. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's report was discussed with UNCDF management, whose views have been appropriately reflected.

B. Findings and recommendations

1. Follow-up of previous recommendations

6. The Board noted that nine recommendations were outstanding when its report for the financial year ended 31 December 2017 was issued. The Board considers eight of those recommendations (89 per cent) to have been implemented and one (11 per cent) to remain under implementation. Details of the status of implementation of the nine recommendations are shown in the annex to the present report.

7. The one recommendation still under implementation relates to 2017. The Board therefore sees continuing good progress in the implementation of the outstanding recommendations, in particular in the areas of programme risk logs, the applicability of policies and procedures and programme evaluation.

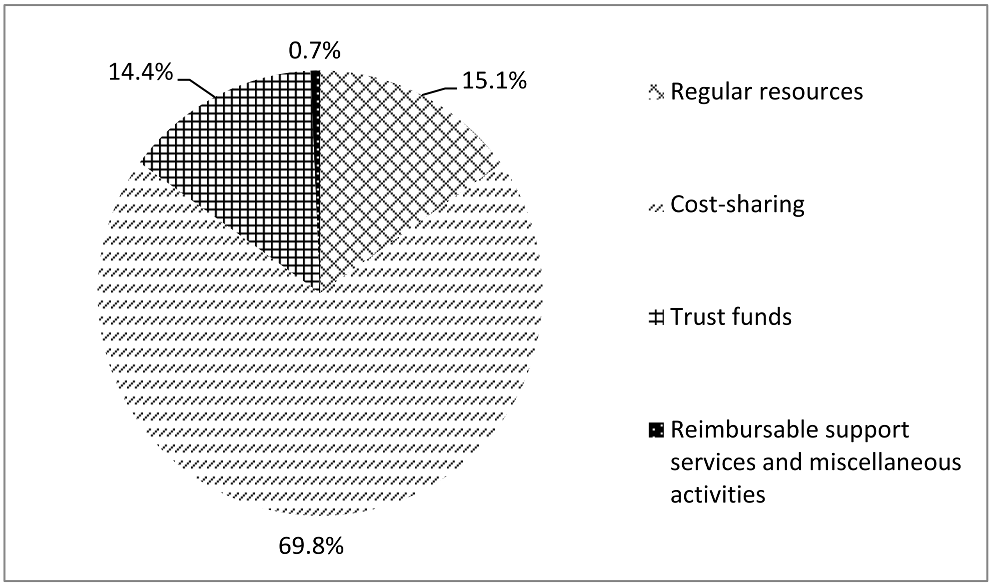
2. Financial overview

Revenue and expenses

8. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2018, total revenue amounted to $68.79 million (2017: $68.50 million) and total expenses amounted to $60.86 million (2017: $64.59 million), resulting in a surplus of $7.93 million (2017: $3.91 million). The total voluntary contributions to the Fund were $65.68 million (2017: $65.88 million), equivalent to 95.5 per cent (2017: 96.2 per cent) of total revenue (net of returns to donors for unused contributions).

9. Voluntary contributions decreased by $0.20 million (0.3 per cent) compared with 2017 contributions of $65.88 million, reflecting constant donor support for projects. The amount of voluntary contributions comprised regular resources of $9.94 million (15.1 per cent), cost-sharing of $45.87 million (69.8 per cent), trust funds amounting to $9.43 million (14.4 per cent) and reimbursable support services and miscellaneous activities amounting to $0.45 million (0.7 per cent). These contribution levels are shown in figure II.I.

Figure II.I
Comparative contributions for regular and other resources



Source: Analysis by the Board of UNCDF 2018 financial statements.

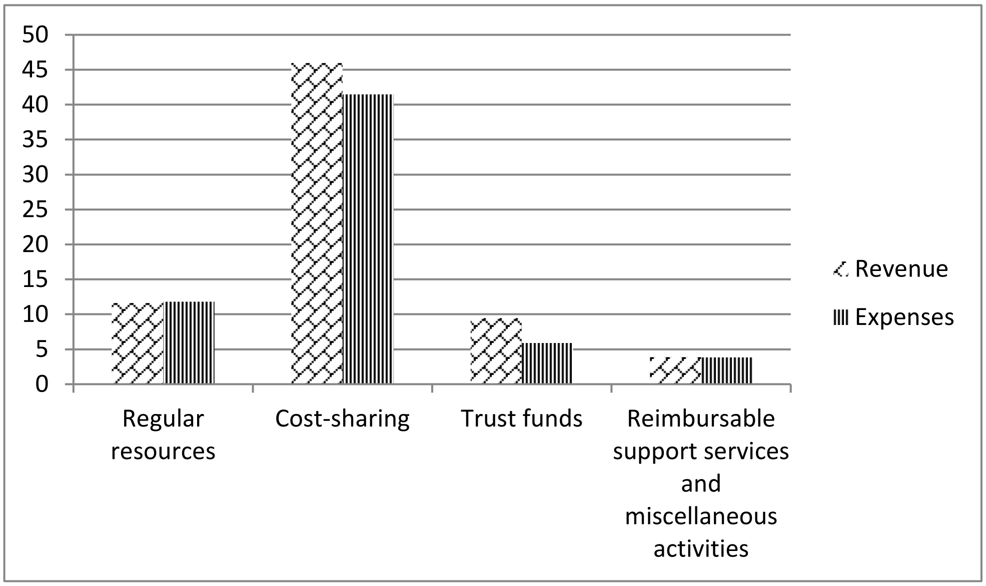
10. Total expenses slightly decreased, by 5.8 per cent, from $64.59 million in 2017 to $60.86 million in 2018. The breakdown by segment was: cost-sharing expenses of $41.46 million (68.1 per cent); regular resources expenses of $11.80 million (19.4 per cent); and trust fund expenses of $5.89 million (9.67 per cent). The breakdown of expenses by segment also takes into account an amount of $3.84 million under reimbursable support services and miscellaneous expenses, less recovery of $2.14 million.

11. The classification of the expenses by nature indicates that $15.11 million (24.8 per cent) was spent for grants and other transfers; $20.91 million (34.4 per cent) for staff costs; $9.73 million (16.0 per cent) for general operating expenses, net of $2.14 million for cost recovery; $13.20 million (21.7 per cent) for contractual services; and $1.91 million (3.1 per cent) for supplies and consumables, other expenses, depreciation and bank charges. Comparative revenues and expenses by segment are shown in figure II.II.

Figure II.II

Comparative revenue and expenses

(Millions of United States dollars)



Source: Analysis by the Board of UNCDF 2018 financial statements.

Ratio analysis

12. The analysis by the Board of the Fund's main financial ratios (see table below) shows a slight decrease in the ratio of assets to liabilities in 2018 compared with 2017. The decline in the ratio of assets to liabilities is a result of a relatively higher increase in current liabilities than current assets compared with 2017.

Table II.1

Ratio analysis

Ratio	*31 December 2018*	*31 December 2017 (restated)*
Current ratio[a]		
Current assets: current liabilities	2.09	2.39
Total assets: total liabilities[b]	1.96	2.16
Cash ratio[c]		
Cash plus investments: current liabilities	1.01	1.05
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	2.07	2.38

Source: Analysis by the Board of UNCDF 2018 financial statements.

[a] A high ratio, defined as greater than 1:1, indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio, because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid position.

13. The current assets of UNCDF as at 31 December 2018 were $123.16 million, or 2.1 times the current liabilities of $58.98 million, which indicates the Fund's ability

to meet its short-term obligations. Similarly, total assets of $220.43 million exceeded total liabilities of $112.63 million, which indicates a healthy financial position. A decrease in the current ratio and the quick ratio is attributed mainly to an increase in deferred revenue of $12.17 million.

14. UNCDF calculated its operational reserve in compliance with the methodology approved by the Executive Board in September 2017. The formula to calculate the operational reserve for regular resources is 50 per cent of the average of the previous three years of utilization of cash flow-based expenditure for activities funded by regular resources (total amount of actual budget prepared on a comparable basis). The formula to calculate the operational reserve for other resources is 2 per cent of the average of the previous three years of expenditure plus a fixed reserve of $0.4 million for contingent liability risks. As at 31 December 2018, UNCDF held a reserve of $6.4 million compared with a reserve of $6.74 million reported on 31 December 2017. The difference of $0.34 million represents an operational reserve transfer to the accumulated surplus of the year.

3. Financial statements and accounting-related matters

Accounting treatment of non-exchange transactions

15. During its audit of the 2018 financial statements, the Board discussed with UNCDF policies for the accounting of non-exchange transactions pursuant to IPSAS 23: Revenue from non-exchange transactions. UNCDF agreed to refine its policies and procedures for non-exchange transactions in order to increase the comparability of its financial statements with the financial statements of other United Nations organizations.

16. In response to the discussions, UNCDF refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNCDF recognizes receivables from non-exchange transactions in full at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. UNCDF defers revenue associated with receivables expected to be received in future periods on the statement of financial position until conditions in contribution agreements, if any, are met or until funds are to be transferred to UNCDF and intended to be utilized.

17. The Board holds that UNCDF should continue to review the substance and form of contribution agreements to determine whether any further refinements should be made to the accounting policy for non-exchange transactions. The Board further holds that UNCDF should use all available information to further enhance the assessment of contribution agreements in accordance with IPSAS 23, in particular with regard to the substance-over-form criteria. The Board trusts that UNCDF would take action should the analysis reveal that further refinement of policies and procedures was needed.

18. **The Board recommends that UNCDF continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on the recognition of non-exchange transactions in line with IPSAS 23.**

19. UNCDF agreed with the recommendation.

Accrual accounting for expenses

20. The Board reviewed several expense categories for compliance with IPSAS and noted a number of cases in which UNCDF did not comply with the principle of accrual accounting. Services expensed in financial year 2018 were received in other accounting periods. The Board recommended that UNCDF review the closing

procedures with regard to accrual accounting of expenses and ensure the completeness of accrual accounting in the preparation of the financial statements for the year ended 31 December 2018. UNCDF agreed with the recommendation.

21. UNCDF took immediate action to ensure accrual-based accounting for expenses in the 2018 financial statements. The detailed testing of the Board at year-end 2018 did not reveal any differences between the period in which the services were received and the period in which the related expenses were recognized.

4. Loan granting processes and procedures

22. The UNCDF business model combines capital investments, technical assistance and advocacy. Capital investments are at the centre of UNCDF interventions. UNCDF offers such interventions in the form of grants, loans and guarantees. At the beginning of 2018, UNCDF began to offer loans to financial service providers and small and medium-sized enterprises. As at 31 December 2018, UNCDF held 10 loan agreements of a total nominal value of $1.82 million with recipients in Myanmar, Uganda and the United Republic of Tanzania.

23. UNCDF takes two preconditions into account before granting a loan: development impact and financial sustainability. UNCDF is mandated to work in difficult and poor regions, resulting in a higher risk for most of its lending activity. To promote development, UNCDF uses various subsidy mechanisms in its loans, such as reducing the commercial interest rate, granting grace periods on repayment of interest and/or the principal amount and extending the loan duration, unlike commercial financial institutions.

24. The Board reviewed the processes and procedures in place for granting these loans as well as the implementation of such rules. The Board also assessed initial practical implications deriving from the granting of the loans.

Risk assessment, market interest rate and fair value of loans

25. Under IPSAS 29: Financial instruments: recognition and measurement, concessionary loans are in general granted to or received by an entity at below regular market terms. UNCDF therefore has to identify for each concessionary loan whether it is in fact a loan. If so, UNCDF needs to assess whether the nominal value of the loan represents the fair value. If UNCDF cannot determine the fair value by reference to an active market, it needs to find a market-related interest rate to discount all future cash receipts resulting from the loan.

26. UNCDF developed an internal credit-scoring model to assess potential borrowers and find the market-related interest rate. The model includes a profitability analysis, a liquidity analysis, a debt service analysis and a collateral valuation analysis. The model also includes an analysis of management and governance and of the operating environment of the potential borrower and the project to be financed. UNCDF uses the results of the analysis to form a credit opinion.

27. The Board analysed the credit opinions for loans granted in 2018. The Board noted that UNCDF first rated a potential borrower’s financial performance. This rating included profitability, liquidity and repayment capacity. UNCDF further rated the loan’s collateral, the borrower’s management and the operating environment. UNCDF used the scores resulting from each analysis to form a loan risk rating. The scores also defined the risk premium for the loan, which, together with the risk-free interest rate, formed the market-related interest rate. The Board holds that the mechanism used to define a market-related interest rate gathered relevant information and used it appropriately.

28. To comply with IPSAS 29, UNCDF used the market-related interest rate to initially divide the nominal loan into a loan component and a subsidy component. When UNCDF discounted future cash flows resulting from the loan using the market-related interest rate, subsidized elements of the loan resulted in a lower fair value. The difference between the fair value and the principal value of the loan represented the subsidy. The Board found that the established procedures ensured accounting measures for loans and related interest revenue. The Board also found that expenses were in compliance with IPSAS.

Loan agreements and schedules

29. UNCDF set rules and procedures for lending in its loan and guarantee policy of September 2017. For every new loan agreement, UNCDF uses a standard loan agreement, which is adjusted for the specific needs of the individual loan and the environment. The Board has reviewed the agreements concluded in 2018 for compliance with the rules set out in the loan policy and any practical implications that might arise.

30. The loan policy states that planned disbursement schedules form part of the loan agreements. Furthermore, loan repayment schedules also have to be included in signed loan agreements. In addition, loan repayment dates have to be specified in writing in the agreement. In practice, UNCDF further linked the disbursements of principal amounts to the performance targets set out in relevant loan agreements. These performance targets had to be met before any disbursements were made.

31. In most of the loan agreements reviewed, the Board noted that a combined planned repayment and disbursement schedule was attached to the signed agreement. The Board also noted that in all agreements the interest payments and the repayments of the loan depended on the date of the first disbursement. In practice, however, disbursements of the principal amount were often delayed owing to various reasons beyond the control of UNCDF. Such reasons include delays in the delivery of documents by the borrower or in the confirmation of the loan by a regulatory authority or other administrative obstacles in the country of operation. In such cases, UNCDF also adjusted the repayment schedule after disbursing the loan, while the loan policy allows adjustments to the disbursement schedule only.

32. In one agreement, the Board noted that the final repayment schedule had not been signed by the parties to the agreement. The Board holds that any amendments to loan agreements should always be signed by both parties to the contract to provide evidence that the amended stipulations are legally binding.

33. **The Board recommends that UNCDF include in its loan policy the option to finalize the loan repayment schedule after disbursement of the principal amount.**

34. **The Board further recommends that UNCDF include in all loan agreements the option to finalize the loan repayment schedule after disbursement of the principal amount.**

35. **The Board also recommends that UNCDF strengthen its implementation of the loan policy in terms of the need for the final loan repayment schedules to be signed by both parties, the borrower and the lender.**

36. UNCDF agreed with the recommendations.

37. The loan policy of UNCDF provides for different review steps when developing or amending loan agreements. In a few agreements, however, the Board noted inconsistencies in the clauses of the agreement, such as inconsistencies between the maturity dates mentioned in the repayment clause and those in the attached repayment schedule. The Board holds that UNCDF should avoid inconsistencies in legally

binding contracts such as loan agreements. The Board further holds that a consistent quality assurance process may largely reduce errors and inconsistencies.

38. **The Board recommends that UNCDF strengthen quality assurance and quality review mechanisms to foster more consistent and coherent loan agreements.**

39. UNCDF agreed with the recommendation.

40. According to its loan policy, UNCDF should issue loans preferably in local currencies. The loan policy further states that all payments in local currency of principal amounts, interest and any other amounts due from the borrower should be paid to a UNCDF local currency bank account in the relevant country. The Board noted that UNCDF owned United States dollar bank accounts only. UNCDF signed a service level agreement with UNDP regarding treasury services. All payments in currencies other than the United States dollar were therefore made to and from accounts of UNDP and were debited or credited on the clearance account.

41. **The Board recommends that UNCDF clarify in the loan policy that payments in local currencies need to be made to designated UNDP bank accounts, as UNDP acts as the service provider to UNCDF.**

42. UNCDF agreed with the recommendation.

5. Documentation of grant disbursements

43. The Board reviewed a sample of grant contracts and respective payments made in the financial year 2018. The Board noted that grants were usually disbursed in several tranches. In general, the disbursements of initial tranches were contingent upon the signing of the grant agreements and the relevant disbursement schedules. In most contracts, the disbursements of subsequent tranches were contingent upon reaching milestones, handing in deliverables or fulfilling activities.

44. The Board noted that UNCDF documented the meeting of requirements for the payment of grant tranches in different ways. The most common way was to send an email to UNCDF headquarters certifying that requirements had been met. Other ways included submitting continuous texts with attached references and tables showing requirements, status and references. The Board holds that it may be favourable for UNCDF to document in a more standardized way the fulfilment of conditions for grant disbursements. A standardized approach may reduce processing times and increase the transparency of and accountability for project expenses from grants.

45. The Board acknowledged that UNCDF had also recognized the need for standardization in its grant disbursement process. UNCDF developed a grants module in Atlas, its enterprise resource planning software. The module captured grant details such as risks, performance and impact return. The Board expects that the module will facilitate the assessment by UNCDF of grantees and its monitoring of payments. The use of the module was declared mandatory for all grants in the recent version of the UNCDF operations manual, issued on 8 April 2019.

46. Given that the grants module has been newly introduced, the Board sees an advantage in monitoring its use. After a certain time, UNCDF should review whether project managers have complied with the obligatory use of the module. UNCDF should also assess whether the quality of information is sufficient, whether the module has standardized the grant disbursement process and its documentation and whether the module has had the desired impact.

47. **The Board recommends that UNCDF review the use and assess the impact of the recently introduced obligatory grants module in order to ensure that the**

desired effect of enhancing and streamlining the grant disbursement process and its documentation has been reached.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

48. The administration informed the Board that, in accordance with financial rule 126.17, UNCDF had no write-offs in 2018.

2. Ex gratia payments

49. There were no ex gratia payments to disclose for the period under review as confirmed by management.

3. Cases of fraud and presumptive fraud

50. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The Board's work, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud remains with management.

51. During the audit, the Board made enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risk of fraud, including any specific risks identified by management or brought to its attention. The Board also made enquiries as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Office of Audit and Investigations.

52. UNCDF reported no cases of fraud or presumptive fraud during 2018.

D. Acknowledgement

53. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary and staff of the United Nations Capital Development Fund.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile

24 July 2019

Annex

Status of implementation of recommendations up to the year ended 31 December 2017

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
1	2017	A/73/5/Add.2, chap. II, para. 26	The Board recommends that UNCDF: (a) perform midterm and final evaluations of its programmes in a timely manner as required by the Evaluation Policy, (b) ensure the update and upload of management responses to the Evaluation Resource Centre for the part of the evaluation related to the work of UNCDF on time and in compliance with Programme and Operations Policies and Procedures and (c) ensure that changes in the evaluation plans are reflected on a timely basis in the Evaluation Resource Centre.	The recommendation has been implemented. With regard to part (a), UNCDF is implementing its published evaluation plan on schedule. Concerning part (b), UNCDF has ensured that management responses are systematically published alongside all finalized UNCDF-managed evaluations and that UNCDF management tracks the implementation of key actions within the allocated time frames. For part (c), a revised evaluation plan has been approved by the Executive Secretary and is available on the website of the Evaluation Resource Centre.	The Board noted that UNCDF performed midterm and final evaluations of its programmes as required by the Evaluation Policy. The Board also noted that management responses to all completed evaluations were uploaded to the Evaluation Resource Centre. The Board further noted that UNCDF revised the evaluation plan to align it with the strategic framework for the period 2018–2021. The Board considers the recommendation to be implemented.	X			
2	2017	A/73/5/Add.2, chap. II, para. 32	The Board recommends that UNCDF liaise with the United Nations Development Programme (UNDP) to ensure that global communications and instructions are sent to UNCDF country offices in a timely manner when there are changes in policies.	The recommendation has been fully implemented. UNCDF has liaised with UNDP to ensure all communications and instructions are sent to UNCDF at the same time as UNDP staff globally. Given a number of changes in policies and procedures that have taken place at UNDP during the	The Board noted that UNCDF staff were included in UNDP mailing lists to distribute the "Streamlining business practices" newsletter, which outlines all changes in UNDP policies and procedures. Together with the newly introduced clarification in the UNCDF operations manual, which explains to UNCDF staff the	X			

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				year, all UNCDF staff are receiving the "Streamlining business practices" newsletter issued by the Director, UNDP Bureau for Management Services, in which forthcoming policy changes and updates to the Programme and Operations Policies and Procedures are listed. All UNCDF staff are also receiving global messages on updates to the Programme and Operations Policies and Procedures related to programme and project management. In addition to enhanced communication, UNDP also conducted a training session for UNCDF staff on the new programme and project management section of the Programme and Operations Policies and Procedures to ensure that all changes are properly communicated in an interactive session that provided a space for questions and clarifications.	UNDP policies not applicable to UNCDF, the Board holds that UNCDF staff received timely information on all changes in policies. The Board further noted that a training session for UNCDF staff was in place to update staff on programme and project management. The Board considers the recommendation to be implemented.				

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
3	2017	A/73/5/Add.2, chap. II, para. 33	The Board also recommends that UNCDF specify which Programme and Operations Policies and Procedures are applicable to it and which ones are not applicable in order to avoid arbitrary decisions on the applicability of the Policies and Procedures.	In line with the Board's recommendation, UNCDF has included a section in its new operations manual containing a list of requirements of the UNDP Programme and Operations Policies and Procedures that are not applicable to it. Furthermore, UNCDF has elaborated a process to keep the section updated as new changes are introduced to the Programme and Operations Policies and Procedures.	The Board confirms the inclusion of a list of requirements of the UNDP Programme and Operations Policies and Procedures that are not applicable to UNCDF as annex 4 to the UNCDF operations manual. The list clarified which articles as a whole or in part were not applicable to UNCDF. The Board therefore considers the recommendation to be implemented.	X			
4	2017	A/73/5/Add.2, chap. II, para. 40	The Board recommends that UNCDF ensure that changes in the budget and expenditure are done through annual workplans and approved by the project boards.	The recommendation has been implemented. UNCDF has put in place an efficient monitoring system to regularly follow up with practice areas on the implementation of programme and project portfolios on the basis of the approved budgets. The overall performance has significantly improved, reaching an implementation rate of more than 80 per cent in 2018.	The Board noted that UNCDF updated its budget and expenditure changes in the annual workplans in a timely manner. The Board further noted that UNCDF had put in place a monitoring tool to easily identify projects with a low implementation rate. The Board considers the recommendation to be implemented.	X			
5	2017	A/73/5/Add.2, chap. II, para. 43	The Board recommends that UNCDF establish an efficient mechanism to ensure that all operationally closed projects are financially	UNCDF has addressed the capacity issue and filled the vacant position of the Programme Finance Specialist in the Programme Management	The Board noted that UNCDF had filled the Programme Finance Specialist position with a designated staff member. The staff member monitored	X			

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			closed within 12 months and that no adjustments are allowed to a financially closed project unless the amount is significant, as provided in the Programme and Operations Policies and Procedures.	Support Unit in April 2018. An efficient mechanism has been established by UNCDF to ensure that all operationally closed projects are financially closed within 12 months in accordance with the UNDP Programme and Operations Policies and Procedures. In this regard, updated information on the status of the project closure “exercise” is being shared with both practice areas on a monthly basis to enhance, simplify and standardize the project closure process in Atlas (both operationally and financially). This mechanism tends also to facilitate the decision-making of programme managers, who are responsible for ensuring that projects in their respective regions are closed in accordance with the procedures outlined in the UNDP Programme and Operations Policies and Procedures. Consequently, UNCDF can confirm that all projects indicated in the 2017 report of the Board have been financially closed.	operationally closed projects and ensured that all operationally closed projects were financially closed within 12 months. The Board further noted that UNCDF enhanced its closure procedures for projects. Operationally closed projects were monitored closely to ensure timely closure in all cases. The Board considers the recommendation to be implemented.				

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
6	2017	A/73/5/Add.2, chap. II, para. 47	The Board recommends that UNCDF ensure that the risk, issues and monitoring logs for all projects in Nepal and Myanmar are activated in Atlas in a timely manner as the primary source of project information.	The recommendation has been fully implemented. Owing to certain technical challenges in Atlas, UNCDF has developed a dedicated platform to regularly collect, update and monitor the risk, issues and monitoring logs for its programmes and projects. The new platform not only provides a space to collect and update the logs and plans, but also includes data visualization dashboards to easily monitor and analyse risks and monitoring and evaluation activities. Consequently, the risk, issues and monitoring logs for all projects in Nepal and Myanmar have been activated.	The Board noted that UNCDF set up a risk log platform that included and classified risks for all programmes and projects. The risks are rated for probability and impact and classified by risk type. The Board noted that UNCDF updated all risks when it transferred projects to the platform. The tool can also be used to store monitoring logs. The Board noted that the platform included the projects in Myanmar and Nepal and their corresponding risk, issues and monitoring logs. The Board therefore considers the recommendation to be implemented.	X			
7	2017	A/73/5/Add.2, chap. II, para. 52	The Board recommends that UNCDF document its process and specify in its policy guidelines how the annual review of the useful life of assets should be performed.	The recommendation is in progress. A draft policy document has been prepared and is being reviewed before official release. The estimated implementation date is June 2019.	The Board noted that UNCDF drafted a policy that had the potential to address the recommendation. However, at the time of the audit, the policy was in the process of internal clearance. The Board therefore considers the recommendation to be under implementation.		X		

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
8	2016	A/72/5/Add.2, chap. II, para. 33	UNCDF agreed with the Board's recommendation to ensure that the risk, issues and monitoring logs for all projects in the Rwanda and Bangladesh country offices are activated in Atlas in a timely manner as the primary source of project information.	The recommendation has been fully implemented. Owing to certain technical challenges in Atlas, UNCDF has developed a dedicated platform to regularly collect, update and monitor the risk, issues and monitoring logs for its programmes and projects. The new platform not only provides a space to collect and update the logs and plans, but also includes data visualization dashboards to easily monitor and analyse risks and monitoring and evaluation activities.	The Board noted that UNCDF set up a risk log platform that included and classified risks for all programmes and projects. The risks are rated for probability and impact and classified by risk type. The Board noted that UNCDF updated all risks when it transferred projects to the platform. The tool can also be used to store monitoring logs. The Board noted that the platform included the projects in Bangladesh and Rwanda and their corresponding risk, issues and monitoring logs. The Board therefore considers the recommendation to be implemented.	X			
9	2016	A/72/5/Add.2, chap. II, para. 43	The Board recommends that UNCDF (a) update the loan policy to remove the reference to PamiraBanker as the entity's loan management system; and (b) document system requirement specifications, taking into consideration the need for integration with Atlas, to be used as a baseline for acquiring the new loan management system.	The recommendation has been fully implemented. With regard to part (a), the loan policy has been updated to remove the reference to PamiraBanker as the entity's loan management system. Concerning part (b), UNCDF management has documented system requirement specifications, taking into consideration the need for integration with Atlas, to be used as a baseline for	The Board noted that UNCDF had already implemented part (a) of the recommendation by updating the loan policy and deleting the reference to PamiraBanker as the entity's loan management system. For part (b), the Board noted that the documentation of system requirement specifications for the UNCDF loans system, including accounting for loans and guarantees, had been completed taking into	X			

No.	Audit report year	Report reference	Recommendation of the Board	Response by the United Nations Capital Development Fund as at 30 April 2019	Assessment by the Board as at 20 May 2019	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				acquiring a new loans management system.	consideration the need for integration with Atlas. The Board considers the recommendation to be implemented.				
	Total					**8**	**1**	**–**	**–**
	Percentage					**89**	**11**	**–**	**–**

Chapter III
Financial report for the year ended 31 December 2018

A. Introduction

1. The present financial report should be read in conjunction with the audited financial statements of the United Nations Capital Development Fund (UNCDF) and the accompanying notes for the year ended 31 December 2018. All amounts are expressed in United States dollars, which is the functional currency of UNCDF. The financial statements have been prepared for the calendar year 2018 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the performance of UNCDF.

About the United Nations Capital Development Fund

2. The original mandate of UNCDF from the General Assembly is to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans (see resolution 2186 (XXI) of 13 December 1966). The mandate was complemented in 1973 to serve, first and foremost but not exclusively, the least developed countries.

3. The Fund has a unique capital mandate within the United Nations development system. It provides investment capital and technical support to both the public and the private sector. Its ability to provide capital investment, in the form of seed capital grants, reimbursable grants, loans and guarantees, and to provide technical assistance in preparing investable portfolios of projects within clear financial and development additionality, makes its mandate complementary to those of other United Nations entities. It also positions UNCDF as an early-stage investor to de-risk investment opportunities that can later be scaled up by other partners, including United Nations entities, international financial institutions, philanthropic foundations and private sector investors.

What the United Nations Capital Development Fund offers

4. The Fund uses official development assistance to make finance work for the inclusion of those who risk being left behind. It aims to increase and shift the dynamics of financing towards the local level, by providing the demonstration space for least developed countries to deploy innovative finance approaches that “crowd in” the additional public and private, domestic and international finance needed to accelerate progress towards the Sustainable Development Goals. Goals 1 and 17, as well as a focus on women’s economic empowerment, are embedded in all of the interventions of UNCDF. On the basis of the new strategic framework for the period 2018–2021, UNCDF envisages achieving progress in the following two mutually supportive outcome areas: (a) enhanced inclusive financial markets and local development finance systems that benefit poor and vulnerable populations; and (b) “unlocked” public and private finance for the poor.

5. In 2018, UNCDF implemented programmes related to financial inclusion and local development finance in 31 least developed countries. The work of UNCDF gives impetus to innovate financing approaches where few others are present that create demonstration effects which, when replicated and taken to scale, help to build inclusive financial markets and local development finance systems and to leverage additional public and private sector funding from domestic and international actors into local economies to support the Sustainable Development Goals.

Financial objective

6. The financial objective of UNCDF is to ensure that all the resources, including financial resources, entrusted to the organization are managed efficiently and effectively in order to achieve the expected development results and, by doing so, to maintain the fiduciary attractiveness of the organization to the donor community. Within this objective lie key criteria and benchmarks, including meeting the minimum operational reserve requirement approved by the Executive Board and producing annual financial statements that are compliant with IPSAS.

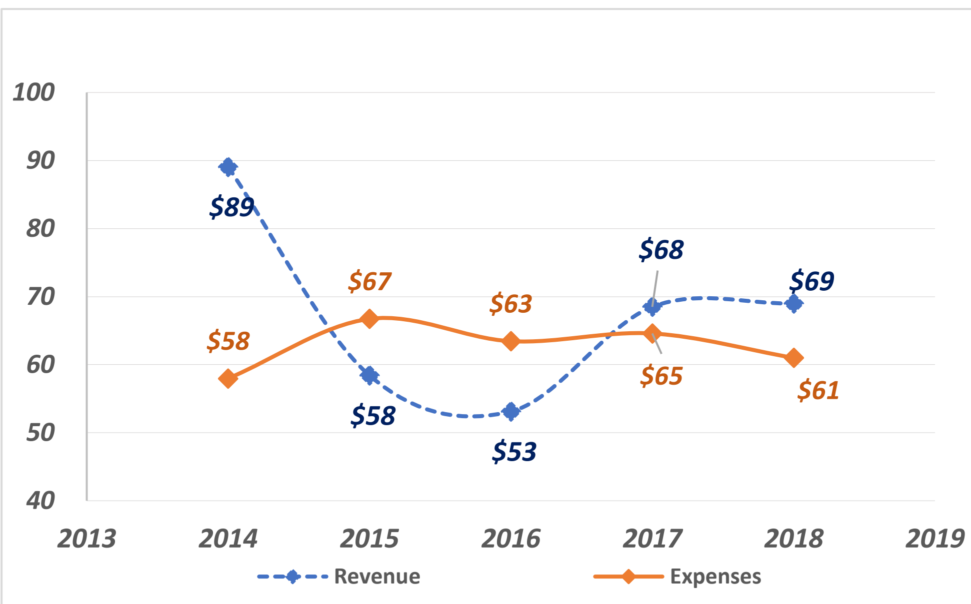
7. The financial reporting objective of UNCDF is to provide users of the financial statements with transparent, comprehensive and understandable financial information.

B. Summary financial results and highlights

8. Total revenue increased slightly, by 0.4 per cent, from $68.5 million in 2017 to $68.8 million in 2018. Total expenses decreased by 6 per cent, from $64.6 million in 2017 to $60.8 million in 2018. Total accumulated surpluses and reserves increased by 9 per cent, from $98.5 million in 2017 to $107.8 million at the end of 2018. That increase is attributable primarily to a surplus of the year of $7.9 million and a recorded actuarial gain of $1.8 million.

9. At the end of 2018, UNCDF had total assets of $220.4 million, up from $183.1 million in 2017. The increase is attributable primarily to an increase in cash and investments of $17.1 million and an increase in receivables from non-exchange transactions of $16.6 million.

Figure III.I
Total revenue and expenses
(Millions of United States dollars)



C. Financial performance

Revenue analysis

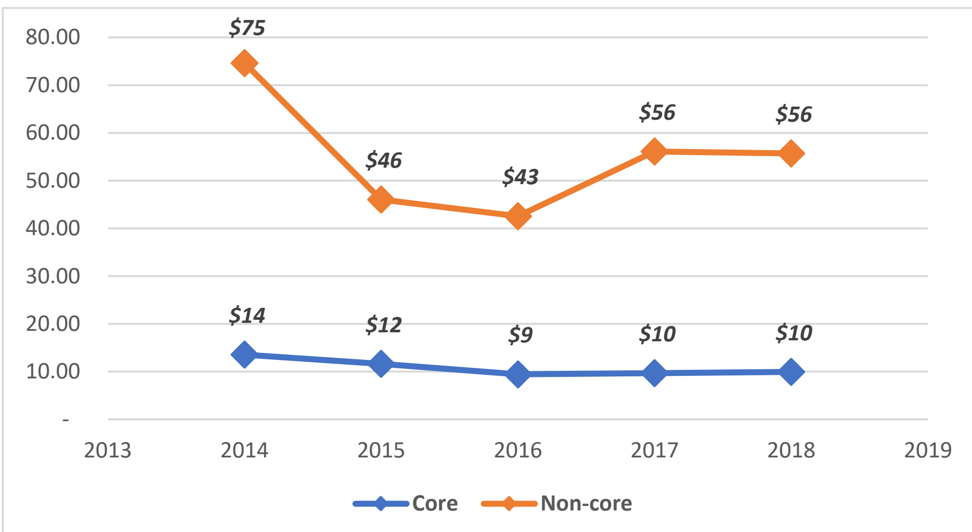
10. The activities of UNCDF are funded by voluntary contributions to regular (core) resources and other (non-core) resources.

11. Total revenue in 2018 was $68.8 million, an increase of $0.3 million (0.4 per cent) from revenue of $68.5 million in 2017. The main sources of revenue in 2018 were the following:

- $65.7 million (95 per cent) from voluntary contributions, compared with $65.9 million (96 per cent) in 2017
- $3.1 million (5 per cent) from investment and other revenue, compared with $2.6 million (4 per cent) in 2017

12. In 2018, core and non-core contributions received by UNCDF remained constant compared with 2017. In 2018, UNCDF received $9.9 million in regular (core) contributions (15 per cent of total resources) and $55.7 million in other (non-core) contributions (85 per cent of total resources).

Figure III.II
Voluntary contributions from core and non-core resources
(Millions of United States dollars)



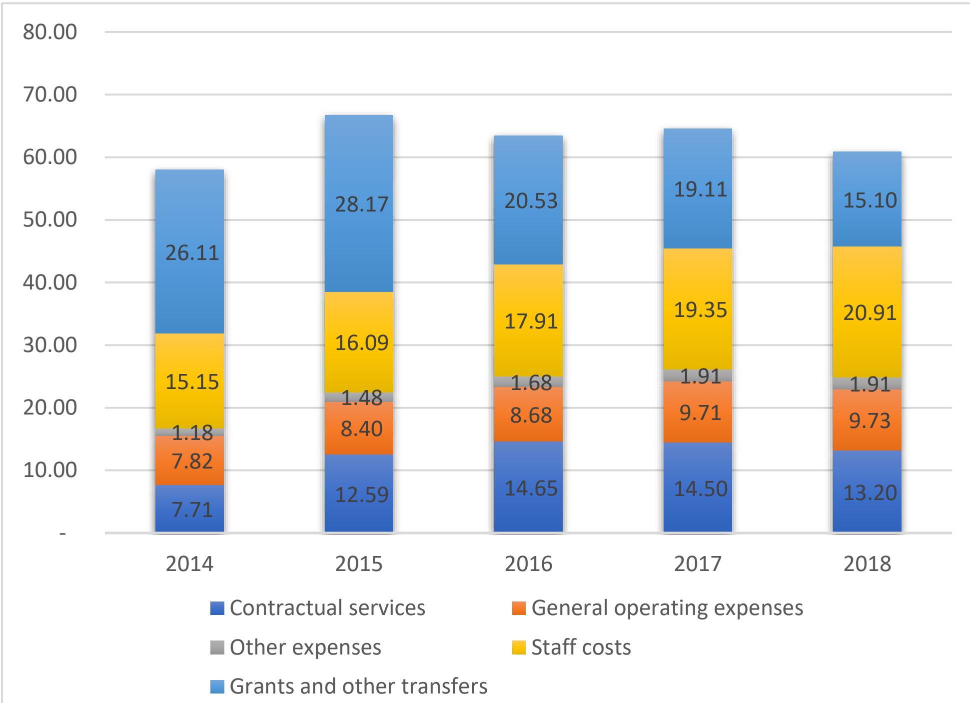
Expense analysis

13. In 2018, UNCDF expenses were $60.9 million ($63.0 million excluding the effect of the elimination of internal UNCDF cost recovery), a decrease of $3.7 million (6 per cent) from 2017. The decrease is due mainly to the impact of project cycles and the increased utilization of loans.

14. Grants and other transfers amounting to $15.1 million in 2018 represent the UNCDF capital investment portion of programme delivery.

15. The other two largest expense categories by nature in 2018 were staff costs ($20.9 million) and contractual services ($13.2 million), which predominantly represent technical assistance provided by UNCDF through its programmes.

Figure III.III
Composition of total expenses by nature
(Millions of United States dollars)



Note: Other expenses include depreciation, amortization, bank fees, supplies and consumables used.

Expenses by cost classification

16. By its decision 2010/32, the Executive Board endorsed the cost definitions and classification of activities and associated costs into two broad categories: (a) development activities, which encompass subcategories for programme activities and development effectiveness activities; and (b) management activities.

17. In 2018, of total expenses of $63.0 million (excluding the effect of the elimination of internal cost recovery), $53.9 million (86 per cent) was spent on programme activities, $4.6 million (7 per cent) on development effectiveness and $4.4 million (7 per cent) on management activities.

D. Surplus/deficit

18. In 2018, UNCDF had a surplus of revenue over expense of $7.9 million, compared with a surplus of $3.9 million in 2017. The increase of $4 million consists of:

- Increase in total revenue of $0.3 million (or 0.4 per cent), from $68.5 million in 2017 to $68.8 million in 2018
- Augmented by a decrease in spending of $3.7 million, from $64.6 million in 2017 to $60.9 million in 2018

E. Budgetary performance

19. The budget of UNCDF is prepared on a modified cash basis and is presented in the financial statements as the statement of comparison of budget and actual amounts

(regular resources) (statement V). In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is also included in note 7.

20. In line with the Fund's strategic framework for the period 2018–2021, UNCDF allocates those budgets into annual amounts in order to provide the budget-to-actual comparison of the annual financial statements as required by IPSAS.

21. For UNCDF, approved budgets are those that permit expenses to be incurred in connection with the development and management activities to be financed from regular resources. The Fund's other resources are a forward estimate and projection based on assumptions about future events and are not formally approved by the Executive Board. Utilization against budget levels for regular resources is shown in table III.1.

Table III.1
Budget utilization rates

	2018		*2017*	
Budget components	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (percentage)*	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (percentage)*
Development activities	13.6	79	10.0	79
Management activities	0.9	78	0.7	81
Total	**14.5**	**79**	**10.7**	**80**

22. Overall, UNCDF utilized 79 per cent of its approved budgeted amount, consistent with the utilization level for 2017 (80 per cent). The actual utilization rate was lower than the annualized budget for 2018 owing mainly to differences in staff costs estimates.

F. Financial position

Assets

23. At the end of 2018, UNCDF held assets of $220.4 million (2017: $183.1 million). The increase is comprised largely of an increase in cash and investments of $17.1 million (18 per cent) and an increase in non-exchange receivables of $16.6 million (21 per cent). In addition, UNCDF issued new loans of $1.4 million, which contributes to the Fund's capital investment portfolio.

24. At the end of 2018, the increase in the Fund's investment balance was placed largely into current investments. The remaining funds were spread throughout cash equivalents and non-current investments. These allocation decisions allowed the portfolio to benefit from any interest hikes. They also maintained the portfolio's objective of ensuring that sufficient funds are available to meet the entity's current obligations.

Liabilities

25. The Fund's total liabilities increased by $28.1 million (33 per cent), from $84.6 million in 2017 to $112.6 million in 2018.

26. The most significant changes in liabilities were a result of the increase of $22.8 million (33 per cent) in deferred revenue. Another notable change in liabilities

was an increase in accounts payable and accrued liabilities of $5.4 million from the previous year.

27. At the end of 2018, UNCDF held after-service health insurance liabilities of $8.6 million (2017: $9.0 million). The decrease is a result largely of the overall increase in the discount rate. The Fund’s after-service health insurance liabilities continue to be fully funded.

Net assets/equity

28. Net assets/equity of $107.8 million in 2018 reflects amounts received as advance funding from UNCDF partners from prior years for activities funded under the integrated resources plan.

29. Net assets/equity includes accumulated surpluses of $101.4 million and operational reserves of $6.4 million.

30. Operational reserves comprised a $4.9 million operational reserve for regular resources and a $1.5 million operational reserve for other resources.

31. During 2018, net assets/equity increased by $9.3 million (9 per cent) as a result of the combined effect of the following factors: (a) a surplus of $7.9 million; (b) actuarial gains of $1.8 million; (c) an increase in funds with specific purposes of $0.5 million; and (d) a decrease in the fair value of available-for-sale investments of $0.9 million.

G. Accountability, governance and risk management

32. The accountability and governance of UNCDF has four facets:

(a) UNCDF governing bodies and governance committees: the General Assembly, the Economic and Social Council, the Executive Board and the Fifth Committee;

(b) UNCDF accountability to its programmatic partners and beneficiaries: donors, programme Governments, United Nations partners, implementing partners and project beneficiaries;

(c) Institutional oversight mechanisms of UNCDF:

(i) Independent external oversight: the Advisory Committee on Administrative and Budgetary Questions, the Board of Auditors, the Joint Inspection Unit and the Audit and Evaluation Advisory Committee;

(ii) Independent internal oversight: the United Nations Development Programme (UNDP) Office of Audit and Investigations, the UNDP Ethics Office and the UNCDF Evaluation Unit;

(d) UNCDF internal accountability: the UNCDF Managing Director, the UNCDF Executive Secretary, the senior management team and regional and country offices.

33. Assurance that all the resources, including financial resources, entrusted to UNCDF have been managed efficiently and effectively to achieve the expected development results is embedded in the way in which UNCDF exercises stewardship over those resources.

34. The Fund has a sound system of internal controls to ensure that effective risk management is integrated into normal business processes and is aligned with the strategic objectives of the organization.

Enterprise risk management

35. UNCDF is exposed to a variety of risks, including those that are environmental, financial, operational, organizational, political, regulatory and strategic in nature. Risk and uncertainty are inherent in many of the Fund's activities, calling for a risk management process that is proactive, easy to follow and adds value to everyday work processes. The enterprise risk management policy provides the foundation and organizational arrangement for managing risks across UNCDF. The policy outlines how the organization ensures that it manages risks effectively and efficiently. Enterprise risk management enables UNCDF to identify, report and analyse a variety of risks and creates an understanding of the Fund's current risk exposure. UNCDF applies risk management across the entire organization. The implementation of the policy contributes to strengthening management practices, decision-making and resource allocation, while at the same time protecting the organization's mandate and maintaining trust and confidence.

36. The Risk Management Group is the senior-level body tasked with analysing and providing oversight of the Fund's risk identification, management and mitigation measures. The Group reviews policies and procedures related to enterprise risk management, including the strategic aspects of business continuity management. The Group also evaluates the overall knowledge management aspect of risks, including capturing and reviewing lessons learned and best practices to apply and disseminate across the organization.

Financial risk management

37. The Fund's operations and business model expose it to a variety of financial risks, including foreign currency exchange rates, interest rates, changes in debt and equity markets and default by debtors in meeting their obligations. The financial regulations and rules of UNCDF, along with its policies and procedures, encompass strong financial risk management that seeks to minimize potential adverse effects on the financial performance of UNCDF. The UNCDF enterprise risk management policy provides the overall foundations and organizational arrangements for managing risk across UNCDF, and describes the approach of UNCDF to, and methodology for, enterprise risk management. The purpose of the framework and process is to ensure that UNCDF has a structured, systematic and integrated approach to risk management.

38. There has been a diversification of UNCDF financing instruments in recent years. The UNCDF least developed country investment platform is helping UNCDF programmes to structure, credit rate and mitigate risks in investment opportunities that are sourced from both the private and public sectors. The Fund has put in place policies on loans and guarantees, strengthened its due diligence requirements, launched a credit scoring model and built a process to support the selection and approval of relevant loan and guarantee transactions.

39. The working capital investments of UNCDF are managed by UNDP under the direct oversight of the UNDP Investment Committee. The investments of UNCDF relating to after-service health insurance are outsourced and managed by external fund managers under established investment guidelines, which are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

40. The risk management policies of UNCDF in relation to treasury operations are aimed at minimizing potential adverse effects on the resources available to UNCDF to fund its development activities. The principal objectives of the Fund's risk management approach are:

(a) Safety: the preservation of capital, provided through investing in high quality fixed-revenue securities, emphasizing the creditworthiness of the issuers;

(b) Liquidity: the flexibility to meet cash requirements through investments in highly marketable fixed-revenue securities and through the structuring of maturities to align with liquidity requirements;

(c) Revenue: the maximization of investment revenue within safety and liquidity parameters, using funds to implement development activities in accordance with the financial regulations and rules of UNCDF and its policies and procedures, which encompass strong risk mitigation and monitoring and assurance mechanisms.

Internal controls

41. The mandate of UNCDF requires it to operate and maintain a presence in high-risk environments where there is a high level of inherent risk, including a high risk to the security of its employees and other assets of the organization. This requires UNCDF to maintain the highest standards of internal control.

42. Maintaining internal controls is a key role of UNCDF management and is an integral part of how UNCDF manages its operations. It is the responsibility of UNCDF management at all levels to:

(a) Establish a strong control environment and culture that promotes effective internal controls;

(b) Identify and assess risks that may affect the achievement of objectives and implement appropriate risk mitigation strategies;

(c) Establish appropriate policies and procedures, systems, monitoring and other control activities that promote and maintain a strong internal control environment;

(d) Monitor the effectiveness of internal controls.

43. The effective application of internal controls within UNCDF is achieved through the following institutionalized processes:

(a) "Front-line" controls: functions carried out by all organizational personnel at field, regional and headquarters offices by applying existing policies and procedures in their daily work to ensure that objectives are met and resources entrusted to UNCDF are properly managed;

(b) Oversight: monitoring of the operational effectiveness of "front-line" controls and mitigation of related risks. Oversight is exercised by regional offices and headquarters and includes functions such as financial performance monitoring, planning and budgeting processes, quality management and assurance, and results and performance management;

(c) Independent internal oversight: performed internally and designed to provide independent and objective assurance of the efficiency and effectiveness of processes and controls put in place by management. Such oversight is undertaken by the UNDP Office of Audit and Investigations, the UNCDF Evaluation Unit and the UNDP Ethics Office;

(d) External oversight: supplementary to oversight performed internally within UNCDF. External oversight is conducted by external bodies, including the Executive Board, the Audit and Evaluation Advisory Committee, and external auditors and regulatory authorities.

Changes in accounting standards and policies

Changes in accounting policies in 2018

44. With regard to IPSAS 23: Revenue from non-exchange transactions, in 2018, UNCDF refined its accounting policy for receivables from non-exchange transactions. Under the new policy, UNCDF recognizes assets when control over the resources is established as a result of past events. Receivables resulting from non-exchange transactions are recognized as assets when it is probable that the future economic benefits or service potential associated with the assets will flow to UNCDF and the fair value of these assets can be measured reliably. Receivables from non-exchange transactions are recognized in full, including for multi-year contributions, at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. The revenue associated with receivables expected in future periods is deferred on the statement of financial position until conditions in contribution agreements, if any, are met, or until funds are to be transferred to UNCDF and intended to be utilized. The change in accounting policy, including the impact on 2017 comparatives, is disclosed in note 5, Prior-period adjustment and change in accounting policy, to the 2018 UNCDF financial statements. UNCDF continues to examine the substance and form of its non-exchange agreements to ensure their alignment with IPSAS 23 as requested by the Board of Auditors.

45. IPSAS 39: Employee benefits, which was issued by the IPSAS Board in July 2016 to replace IPSAS 25, came into effect on 1 January 2018. The new accounting standard, which was issued to align with International Accounting Standard 19, did not have any significant impact on UNCDF financial statements.

Adoption of new accounting standards

46. In August 2018, the IPSAS Board published IPSAS 41: Financial instruments to replace IPSAS 29: Financial instruments: recognition and measurement. The new standard establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29. UNCDF will adopt the new standard as required with effect from 1 January 2022. UNCDF is assessing the impact of the new standard on its financial statements.

47. In February 2019, the IPSAS Board published its strategy and workplan for 2019–2023 and announced that it would focus the majority of its efforts on setting standards on issues specific to the public sector, while maintaining convergence with the International Financial Reporting Standards and developing guidance to meet the broader financial reporting needs of users.

48. Among the ongoing projects as at 31 December 2018 included in the workplan, those that could have a significant impact on UNCDF include:

(a) A project on revenue – exchange and non-exchange, the aim of which is to replace the existing standards for exchange revenue (IPSAS 9 and 11) and update IPSAS 23 for non-exchange revenue;

(b) A project on non-exchange expenses – grants and other transfers, the aim of which is to address the lack of international guidance on the recognition and measurement of non-exchange expenses, which creates a public interest deficit as it leads to inconsistent reporting;

(c) A project on revenue – grants and other transfers.

49. Although these projects are currently active, they have yet to result in exposure drafts; therefore, implementation dates have not been specified and it is unlikely that the projects will be finalized before 2020.

H. Looking forward to 2019 and beyond

50. In 2019, the focus of UNCDF is on three key areas:

(a) UNCDF will scale up solutions that work for least developed countries, such as launching funds managed by third parties to help to crowd in additional resources for local governments and leveraging digital financial technologies to help least developed countries to reap positive benefits from digital transitions;

(b) UNCDF will use its capital mandate to demonstrate how finance can work for the missing middle in least developed countries by assisting in the development of missing middle projects and demonstrating how links can be made to capital markets;

(c) UNCDF will continue to build its partnerships with UNDP and other United Nations agencies and with traditional and new development partners, both public and private, to work together to find innovative financing and development solutions to accelerate progress towards the Sustainable Development Goals.

Chapter IV

Financial statements for the year ended 31 December 2018

United Nations Capital Development Fund
I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 8	5 274	3 867
Investments	Note 9	54 176	38 795
Receivables (non-exchange transactions)	Note 10	53 815	47 759
Receivables (other)	Note 10	8 882	6 676
Advances issued	Note 11	584	544
Loans to financial service providers	Note 12	431	18
Total current assets		**123 162**	**97 659**
Non-current assets			
Investments	Note 9	53 131	52 788
Receivables (non-exchange transactions)	Note 10	42 693	32 112
Loans to financial service providers	Note 12	1 013	121
Property, plant and equipment	Note 13	434	410
Total non-current assets		**97 271**	**85 431**
Total assets		**220 433**	**183 090**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 14	5 790	326
Advances payable	Note 15	365	–
Deferred revenue	Note 15	50 085	37 913
Funds held on behalf of donors	Note 15	–	16
Employee benefits	Note 16	2 428	2 535
Other current liabilities	Note 15	309	–
Total current liabilities		**58 977**	**40 790**
Non-current liabilities			
Deferred revenue	Note 15	42 693	32 112
Employee benefits	Note 16	10 960	11 667
Total non-current liabilities		**53 653**	**43 779**
Total liabilities		**112 630**	**84 569**
Net assets/equity			
Reserves	Note 17	6 400	6 736
Accumulated surpluses	Note 18	101 403	91 785
Total net assets/equity		**107 803**	**98 521**
Total liabilities and net assets/equity		**220 433**	**183 090**

The accompanying notes are an integral part of the financial statements.

United Nations Capital Development Fund
II. Statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	Note	*2018*	*2017 (restated)*
Revenue			
Voluntary contributions	Note 19	65 681	65 884
Investment revenue	Note 20	2 606	2 181
Other revenue	Note 21	502	434
Total revenue		**68 789**	**68 499**
Expenses[a]			
Contractual services	Note 22	13 203	14 504
Staff costs	Note 22	20 915	19 350
Supplies and consumables used	Note 22	809	574
General operating expenses	Note 22	9 726	9 705
Grants and other transfers	Note 22	15 105	19 113
Other expenses	Note 22	1 009	1 186
Depreciation	Note 22	69	62
Bank fees	Note 22	19	91
Total expenses		**60 855**	**64 585**
Surplus/(deficit) for the year		**7 934**	**3 914**

[a] Expenses by cost classification and practice area are reflected in note 27.1.

The accompanying notes are an integral part of the financial statements.

United Nations Capital Development Fund
III. Statement of changes in net assets/equity for the year ended 31 December 2018

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2017	**6 736**	**83 010**	**89 746**
Prior-period adjustment (note 5)	–	8 775	8 775
Balance at 31 December 2017 (restated)	**6 736**	**91 785**	**98 521**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(336)	336	–
Funds with specific purposes (note 18)	–	500	500
Changes in fair value of available-for-sale investments	–	(944)	(944)
Actuarial gains/(losses)	–	1 792	1 792
Surplus for the year	–	7 934	7 934
Total changes in net assets/equity	**(336)**	**9 618**	**9 282**
Balance at 31 December 2018	**6 400**	**101 403**	**107 803**

The accompanying notes are an integral part of the financial statements.

United Nations Capital Development Fund
IV. Cash flow statement for the year ended 31 December 2018

(Thousands of United States dollars)

	2018	*2017 (restated)*
Cash flows from operating activities		
Surplus/(deficit) for the year	7 934	3 914
Adjustments to reconcile deficit for the year to net cash flows		
Depreciation	69	62
Impairment	–	333
Amortization of bond premium	(71)	75
(Gains)/losses on disposal of property, plant and equipment	53	21
Interest received on loans to financial service providers	137	168
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	(16 637)	(78 093)
(Increase)/decrease in receivables (other)	(4 254)	8 148
(Increase)/decrease in advances issued	(40)	119
(Increase)/decrease in inventories	–	–
(Increase)/decrease in loans to financial service providers	(1 305)	202
Changes in liabilities/net assets		
(Decrease)/increase in accounts payable and accrued liabilities	5 464	(340)
(Decrease)/increase in funds held on behalf of donors	(16)	–
(Decrease)/increase in funds received in advance and deferred revenue	22 753	70 025
(Decrease)/increase in advances payable	365	–
(Decrease)/increase in employee benefits	978	708
(Decrease)/increase in other liabilities	309	–
(Decrease)/increase in funds with specific purposes	500	368
Cash flows from/(used in) operating activities	**16 239**	**5 710**
Cash flows from investing activities		
Purchases of investments	(74 655)	(77 996)
Maturities of investments	58 735	58 000
(Increase)/decrease in investments managed by external investment managers	(677)	3 923
Interest and dividends received	1 911	1 502
Purchases of property, plant and equipment	(146)	(25)
Disposal of property, plant and equipment	–	–
Cash flows from/(used in) investing activities	**(14 832)**	**(14 596)**
Cash flows from financing activities	–	–
(Decrease)/increase in cash and cash equivalents	**1 407**	**(8 886)**
Cash and cash equivalents at beginning of the year	**3 867**	**12 753**
Cash and cash equivalents at end of the year (note 8)	**5 274**	**3 867**

The accompanying notes are an integral part of the financial statements.

United Nations Capital Development Fund
V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2018

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference between final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	6 900	6 900	6 252	648
Development effectiveness	6 667	6 667	4 483	2 184
Subtotal	**13 567**	**13 567**	**10 735**	**2 832**
Management activities	891	891	695	196
Total	**14 458**	**14 458**	**11 430**	**3 028**

The accompanying notes are an integral part of these financial statements.

United Nations Capital Development Fund
Notes to the 2018 financial statements

Note 1
Reporting entity

The original mandate of the United Nations Capital Development Fund (UNCDF) from the General Assembly is to "assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans" (see resolution 2186 (XXI) of 13 December 1966). The mandate was complemented in 1973 to serve, first and foremost but not exclusively, the least developed countries.

The Fund has a unique financial mandate within the United Nations system. It provides investment capital and technical support to both the public and private sectors. The ability to provide capital financing, in the form of grants, loans and credit enhancement, and to provide technical expertise in preparing portfolios of sustainable and resilient capacity-building and infrastructure projects, makes its mandate complementary to those of other United Nations entities. It also positions UNCDF as an early-stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and, increasingly, by philanthropic foundations and private sector investors.

UNCDF is headquartered in New York and is on the ground in 31 countries and territories.

The financial statements include only the operations of UNCDF. UNCDF has no subsidiaries or interests in associates or jointly controlled entities.

Note 2
Statement of compliance with the International Public Sector Accounting Standards

The Fund's financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

Note 3
Basis of preparation and authorization to submit financial statements for audit

(a) Basis of measurement

These financial statements have been prepared on an accrual basis of accounting in accordance with IPSAS and the Financial Regulations and Rules of the United Nations Development Programme (UNDP) and annex 1 thereto, which is applicable to UNCDF (hereinafter "UNCDF financial regulations and rules").

UNCDF applies the historical cost principle except where stated in note 4, Significant accounting policies. Accounting policies, including any changes specified in note 5, have been applied consistently throughout the period. The financial period is from January to December.

(b) Foreign currency

The functional and presentation currency of UNCDF is the United States dollar. These financial statements are expressed in thousands of United States dollars unless otherwise stated.

Foreign currency transactions are translated at the date of the transaction into United States dollars at the United Nations operational rate of exchange, which approximates market/spot rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date, and the effects are recognized in the statement of financial performance.

Non-monetary items in foreign currencies measured at historical cost are translated at the exchange rate in effect at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognized in the statement of financial performance.

(c) Critical accounting estimates

The preparation of financial statements in accordance with IPSAS requires UNCDF to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; provision for corporate realignment; classification of financial instruments; and contingent assets and liabilities.

(d) Future accounting changes

The IPSAS Board published IPSAS 41: Financial instruments, which establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29: Financial instruments: recognition and measurement. UNCDF will adopt the new standard as required with effect from 1 January 2022. UNCDF is assessing the impact of the new standard on its financial statements.

(e) Authorization to submit financial statements for audit

These financial statements are approved and certified by the Managing Director of UNCDF, the Executive Secretary of UNCDF, the Deputy Executive Secretary of UNCDF and the Head of the Management Support Unit of UNCDF. In accordance with the UNCDF financial regulations and rules, these financial statements are authorized to be submitted for audit on 30 April 2019.

Note 4
Significant accounting policies

(a) Classification of financial assets

UNCDF classifies financial assets into the following categories in the statement of financial position: held-to-maturity; available for sale; loans and receivables; and fair value through surplus or deficit in the statement of financial performance. The classification depends on the purpose for which the financial assets are acquired and is determined at initial recognition and re-evaluated at each reporting date. All financial assets are initially measured at fair value. UNCDF initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date UNCDF becomes party to the contractual provisions of the instrument.

Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currency are translated into United States dollars at the United Nations operational rate of exchange prevailing at the reporting date, with gains and losses recognized in surplus or deficit in the statement of financial performance.

IPSAS classification	*Type of UNCDF financial asset*
Held-to-maturity	Investments, excluding after-service health insurance investments
Available for sale	After-service health insurance investments
Loans and receivables	Cash and cash equivalents, receivables (exchange and non-exchange), advances (e.g. to staff) and loans to financial service providers
Fair value through surplus or deficit	Derivatives

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturities that UNCDF has the positive intention and ability to hold to maturity. They are initially recorded at fair value plus transaction costs and subsequently recognized at amortized cost calculated using the effective interest method. UNCDF classifies a substantial portion of its investment portfolio as held-to-maturity assets.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that either have been designated in this category or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through surplus or deficit. They are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition or issue of those assets and subsequently reported at fair value, with any resultant fair value gain or losses recognized directly in net assets/equity through the statement of changes in assets/equity, until the financial assets are derecognized, at which time the cumulative gain or loss previously recognized in net assets/equity shall be recognized in surplus or deficit. Fair values used for subsequent measurement are based on quoted market prices from knowledgeable third parties. Interest on available-for-sale financial assets is calculated using the effective interest method and recognized in surplus or deficit.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest method on the respective financial asset.

Cash and cash equivalents consist of cash and short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are net of impairment for restricted-use currencies. Financial instruments classified as cash equivalents comprise investments with a maturity of three months or less from the date of acquisition.

Receivables (non-exchange transactions) comprise contributions receivable that represent amounts due on the basis of dates indicated in signed contribution agreements, including multi-year contributions, recognized in full at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. These non-exchange receivables are stated at carrying value less impairment for estimated irrecoverable amounts. Impairments of contributions receivable are considered on a case-by-case basis.

Receivables (other) represent amounts owed to UNCDF for services provided by it to other entities. In exchange, UNCDF directly receives approximately equal value in the form of cash.

Advances issued represent cash transferred to executing entities/implementing partners as an advance. Advances issued are initially recognized as assets and subsequently converted to expenses when goods are delivered or services are rendered by the executing entities or implementing partners and confirmed by receipt by UNCDF of the applicable certified expense reports, such as financial reports, funding authorization and certification of expense forms or project delivery reports. Once these certified expense reports are received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the time, either from the entities' statements as submitted for audit or from the entities' unaudited statements.

Prepayments are issued where agreements between UNCDF and the executing entity, implementing partner or supplier require upfront payment. Prepayments are recorded as assets until goods or services associated with the prepayments are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

UNCDF provides salary advances for specified purposes in accordance with the Staff Regulations of the United Nations and Staff Rules. These advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value.

Loans to financial service providers

As part of its efforts to support financial inclusion in least developed countries, UNCDF maintains a portfolio of loans extended directly to financial service providers. The loans are "concessional", that is, they offer lower interest rates and longer maturities than those found on the commercial market. The loans help financial service providers demonstrate their potential creditworthiness and their ability to manage debt to grow their portfolios.

Accounting for concessionary loans

A concessionary loan is a loan provided on more favourable terms than the borrower could obtain in the marketplace.

On initial recognition of a concessionary loan, the market-based loan component and discount component are separated and accounted as set out below.

The market-based loan component is accounted as a financial asset classified as loans and receivables. It is initially recognized at the fair value of the loan estimated through the use of the valuation technique and is subsequently accounted at amortized cost using the effective interest method.

The discount component of the concessional loan is recognized as an expense in the statement of financial performance. The discount component is the difference between the nominal value of the loan and the fair value of the loan.

Impairment is recognized if there is objective evidence that UNCDF will be unable to collect all amounts due on a loan according to the original contractual terms.

Individual credit exposures are evaluated on the basis of the borrower's character: overall financial condition, resources and payment record, and prospects for recovery from the realization of collateral or the calling-in of guarantees where applicable. Specific provisions are made when, in the judgment of UNCDF management, the recovery of the outstanding balances is in serious doubt.

The estimated recoverable amount is the present value of expected future cash flows that may result from the restructuring or liquidation of the loan.

The increase in the present value of impaired claims due to the passage of time is reported as income.

Valuation methodology

The Fund's policy is to initially value loans and receivables at fair market value and account for them on the basis of the effective interest method at amortized cost. To this end, UNCDF first determines the market value of the loan at the point of origination. A loan's market value is the price an investor would likely pay in a competitive arm's-length sales process. This price is most often calculated by discounting the loan's contractual cash flows at an applicable market discount rate (a discounted cash flow analysis). Given the prospective nature with which a loan's cash flow can be formulated (owing to its contractual elements), a market participant's yield requirement is typically the key input in a discounted cash flow analysis. The discount rate, or yield, required by a market participant is commensurate with the level of risk being assumed to acquire the instrument. Other factors that also influence the absolute yield requirement include prevailing macro- and microeconomic forces such as local risk-free borrowing rates and interbank borrowing rates, which often form the base index of the absolute yield, as well as commercial lending rates and the inflationary environment.

Owing to the subjectivity involved in concessionary loan pricing, the limited number of market participants within this sector and the accessibility of market information for these types of loans, yields can vary in nature and be fairly wide. Therefore, the analysis focused on the different risk factors associated with the region in which the borrower is located in formulating the credit risk profile being assumed by a market participant in acquiring the loan.

Fair value through surplus or deficit

Financial assets classified at fair value through surplus or deficit are so designated on initial recognition or are held for trading. They are initially recorded at fair value, and any transaction costs are expensed. The assets are measured at fair value at each reporting date, and any resultant fair value gains or losses are recognized through surplus or deficit. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with the investment guidelines of UNDP. UNCDF classifies derivatives as financial assets at fair value through surplus or deficit in the statement of financial performance. The fair value of derivatives is obtained from counterparties and is compared with internal valuations, which are based on valuation methods and techniques generally recognized as standard in the industry. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the reporting date. UNCDF does not apply hedge accounting treatment for derivatives.

All categories of financial assets are assessed at each reporting date to determine whether there is objective evidence that an investment or group of investments is impaired. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in surplus or deficit in the statement of financial performance (directly or through the use of an allowance account) in the year in which they arise.

Inventories

Inventories held for distribution at no charge or for a nominal charge are stated at the lower of cost or current replacement cost. Inventories held for sale are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using the first-in, first-out inventory valuation method. The cost of inventories includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. For inventories acquired through a non-exchange transaction (e.g. donated goods), costs shall be measured at their fair value at the date of acquisition.

Property, plant and equipment

All property, plant and equipment is stated at historical cost, less accumulated depreciation and accumulated impairment losses. It is noted that, on the adoption of IPSAS and its transitional provisions, for opening balances, initial capitalization of property, plant and equipment was at fair value. This includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired without charge or for a nominal consideration, the fair value at the date of acquisition is deemed to be its cost. For recognition of property, plant and equipment as an asset, the threshold is $2,500 or more per unit. For leasehold improvements, it is $50,000.

UNCDF elected to apply the cost model to measurement after recognition, instead of the revaluation model. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to UNCDF and the cost of the item can be measured reliably. Repair and maintenance costs are charged to surplus or deficit in the statement of financial performance in the period in which they are incurred.

Project assets that are not controlled by UNCDF are expensed as incurred. UNCDF is deemed to control an asset if it can use or otherwise benefit from the asset in pursuit of its objectives and if UNCDF can exclude or regulate the access of third parties to the asset. This is the case when UNCDF is implementing the project directly.

Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (see the section entitled "Leases" below).

Depreciation on property, plant and equipment is calculated using the straight-line basis over the estimated useful lives, except for land, which is not subject to depreciation. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, that is, major components of property, plant and equipment. Assets under construction are not depreciated, as these assets are not yet available for use.

The estimated useful lives of property, plant and equipment are as follows:

Class	*Estimated useful life (in years)*
Buildings	10–40
Vehicles	12
Communications and information technology equipment	8–20
Furniture and fixtures	15
Heavy machinery and other equipment	20
Leasehold improvements	Shorter of lease term or life of applicable asset

Given the expected pattern of usage of property, plant and equipment, there are no residual values following full depreciation. A gain or loss from disposal of property, plant and equipment arises where proceeds from disposal differ from its carrying amount. These gains or losses are recognized in surplus or deficit in the statement of financial performance.

UNCDF has no intangible assets.

Impairment of non-cash-generating assets

Property, plant and equipment are reviewed for impairment at each reporting date. For property, plant and equipment, UNCDF reviews for impairment during the semi-annual physical verification process. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use. In assessing value in use, UNCDF applies, depending on the availability of data and the nature of impairment, a depreciated replacement cost approach, a restoration cost approach or a service units approach.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the impairment of value has decreased or no longer exists. An impairment deficit is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment deficit had been recognized.

(b) Classification of financial liabilities

IPSAS classification	*Type of UNCDF financial liabilities*
Other financial liabilities	Accounts payable and accrued liabilities, and other liabilities
Fair value through surplus or deficit	Derivatives

Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities entered into for a duration of less than 12 months are recognized at their carrying value.

Payables and accruals arising from the purchase of goods and services are initially recognized at fair value and subsequently measured at amortized cost when goods are delivered or services rendered and accepted by UNCDF. Liabilities are stated at invoice amounts, less payment discounts, at the reporting date. The liability is estimated in cases where invoices are not available at the reporting date.

Employee benefits

Short-term employee benefits

Short-term employee benefits are those that are expected to be settled within 12 months after the end of the period in which employees render the related service. These benefits include assignment benefits, regular monthly benefits (e.g. wages and salaries), compensated absences (e.g. paid leave such as annual leave), other short-term and non-monetary benefits and the current portion of long-term benefits provided to current employees. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled at the reporting date and represents the amount paid or expected to be paid to settle the liability. Owing to the short-term nature of these entitlements, the liabilities are not discounted for the time value of money. They are presented as current liabilities.

Post-employment benefits

Post-employment benefits are those payable after the completion of employment, but exclude termination payments.

Post-employment benefits include pension plans, post-employment medical care, repatriation grants and other lump sums payable after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

For defined contribution post-employment plans, the obligation for each period is determined by the amounts to be contributed for that period, and no actuarial assumptions are required to measure the obligation or the expense. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, reduced by the fair value of plan assets (if any) at the reporting date. UNCDF did not hold any assets corresponding to the definition of a plan asset.

UNCDF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to staff. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Pension Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The Pension Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNCDF and the Pension Fund, in line with the other organizations participating in the Pension Fund, are not in a position to identify the Capital Development Fund's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNCDF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. UNCDF contributions to the Pension Fund during the financial period are recognized as expenses in the statement of financial performance.

The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the Pension Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments; these can be viewed by visiting the Pension Fund website at www.unjspf.org.

The after-service health insurance programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance terms as those for active staff, on the basis of certain eligibility requirements. The after–service health insurance programme at UNCDF is a defined benefit plan. Accordingly, a liability is recognized to reflect the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and unrecognized past service costs. The latest actuarial valuations for the UNCDF after-service health insurance programme were carried out using the projected unit credit method.

Defined benefit plans

The defined benefit plans of UNCDF include after-service health insurance and certain end-of-service entitlements. The obligation of UNCDF in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that obligation is discounted to determine its present value and stated at the end of the reporting period, less the fair value of plan assets, together with adjustments for unrecognized past service costs. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality credit-rated corporate bonds that have maturity dates approximating the terms of the payment obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in net assets/equity in the period in which they arise. All other changes in the liability for these obligations are recognized in surplus or deficit in the statement of financial performance in the period in which they arise.

Other long-term employee benefits

Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits include the non-current portions of home leave and compensation for death and injury attributable to the performance of duties. These are recognized as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material. Actuarial gains and losses are reported in the statement of changes in net assets/equity.

Termination benefits

Termination benefits are recognized as an expense only when UNCDF is demonstrably committed, without a realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

Leases

Operating lease

Leases are classified as operating leases where UNCDF is the lessee and the lessor retains a significant portion of the risks and rewards inherent to ownership. Payments under operating leases, net of incentives received from the lessor, are recognized on a straight-line basis in the statement of financial performance over the lease term.

Finance lease

Where UNCDF has substantially all the risks and rewards of ownership, leases of tangible assets are classified as financial leases. Initial recognition of a finance lease results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term or their useful lives in accordance with the accounting policies for property, plant and equipment. Each finance lease payment is allocated between the liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense in the statement of financial performance over the term of the lease to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-to-use arrangements

Where UNCDF has signed an agreement for right-to-use assets with legal title/ownership of the assets, for example, through donated use granted to UNCDF at no cost, the transaction is a non-exchange transaction. In this case, an asset and revenue are recognized at the point at which the agreement is entered into. Recognition of an asset is contingent upon satisfying the criteria for such recognition. Valuation of the asset will be the fair value of the resource for which the right to use was acquired at the date of acquisition. The asset is depreciated over the shorter of the asset's useful life or the right-to-use term. Without legal title/ownership, an expense is recognized. Revenue is also recognized in the same amount as the asset/expense, except to the extent that a liability is also recognized.

Deferred revenue

Funding partners provide UNCDF with multi-year agreements that are essential for forward planning and demonstrate the long-term commitment to achieving programmatic results. Deferred revenue comprises mainly multi-year contributions for institutional and programmatic activities in 2019 and subsequent years.

(c) Revenue recognition

Contributions

Voluntary contributions are non-exchange transactions that are recognized as revenue when contribution agreements become enforceable, or when cash is received in the absence of contribution agreements. Depending on the agreements, enforceability occurs upon signature alone or signature and receipt of deposit, or when conditions, if any, set out in contribution agreements are met. Revenue is shown net of returns of unused funds to donors and impairment of receivables.

UNCDF recognizes assets when control over the resources is established as a result of past events. Receivables resulting from non-exchange transactions are recognized as assets when it is probable that the future economic benefits or service potential associated with the assets will flow to UNCDF and the fair value of these assets can be measured reliably. Receivables from non-exchange transactions are recognized in full, including for multi-year contributions, at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. The revenue associated with receivables expected in future periods is deferred on the statement of financial position until conditions in contribution agreements, if any, are met, or until funds are to be transferred to UNCDF and intended to be utilized.

In-kind contributions of goods provided are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to UNCDF and the fair value of these assets can be measured reliably. In-kind contributions from right-to-use arrangements are recognized as revenue and expense at the fair value of the right-to-use arrangement. UNCDF does not recognize or disclose contributions of services in kind as an asset or as revenue.

(d) Expense recognition

Expenses are recognized when goods have been delivered or services rendered and accepted by UNCDF or by UNDP on its behalf or as specified below.

For direct implementation by UNCDF or full country office support for national Government implementation, expenses are recognized when (non-capital) goods or services have been received by UNCDF.

For national implementation or implementation by non-governmental organizations, expenses are recognized when funds are disbursed by executing entities or implementing partners and reported to UNCDF.

Advances transferred to executing entities or implementing partners are recognized as expenses when goods are delivered or services rendered by the executing entities or implementing partners and confirmed by receipt by UNCDF of the applicable certified expense reports, such as financial reports, funding authorization and certification of expense forms or project delivery reports. Once these expense reports have been received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the audited statements of the executing entities or implementing partners or, when such statements are not available for the reporting period, from the entities' statements as submitted for audit or unaudited statements.

(e) Commitments, provisions and contingencies

Commitments

Commitments are future expenses and liabilities to be incurred on contracts entered into at the reporting date that UNCDF has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments relating to employment contracts are excluded. Commitments include:

(i) Capital commitments: the aggregate amount of capital expenses contracted for but not recognized as paid or provided for at the end of the period;

(ii) Contracts for the supply of goods or services that UNCDF is expecting to be delivered in the ordinary course of operations;

(iii) Non-cancellable minimum lease payments;

(iv) Other non-cancellable commitments.

Provisions

A provision is recognized if, as a result of a past event, UNCDF has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenses expected to be required to settle the obligation. The increase in provision owing to the passage of time is recognized as a finance cost.

Contingencies

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable. If it has become virtually certain that an asset is no longer contingent and the asset's value can be measured reliably, the asset and the related revenue are recognized in the period in which the change occurs.

Contingent liabilities

A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recognized in the period in which the change of probability occurs.

Note 5
Prior-period adjustment and change in accounting policy

(a) Prior-period adjustment

A prior-period adjustment was recorded in 2018 in the amount of $8.775 million. For that prior-period adjustment, where it has an impact relating to 2017, the 2017 comparative figures for the individual line item were retrospectively restated. The amount of $8.775 million is an adjustment for a contribution agreement signed in 2017 while cash was received in 2018. The effect of the adjustment is as follows: an increase in contributions revenue of $8.775 million in the 2017 statement of financial performance; an increase in non-exchange receivables of $8.775 million in the 2017 statement of financial position; and an increase in accumulated surpluses of $8.775 million in the 2017 statement of changes in net assets/equity.

(b) Change in accounting policy

The policy for recognizing revenue from voluntary contributions described in note 4, Significant accounting policies, was refined in 2018. Under the previous policy, UNCDF recognized receivables from non-exchange transactions on the basis of payment plan due dates included in the donor agreements, which served as a proxy for identifying the period in which programmatic activities were being carried out. Under the new policy, provided that inflows of resources meet the definition of an asset, receivables from non-exchange transactions are recognized in full, including for multi-year contributions, at the time the agreement is signed, except for agreements that have performance conditions beyond the control of UNCDF. The revenue associated with receivables expected in future periods is deferred on the statement of financial position until conditions in contribution agreements, if any, are met, or until funds are to be transferred to UNCDF and intended to be utilized.

This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. The new policy provides more reliable and relevant information since it simplifies the accounting by recording all future year receivables from non-exchange transactions in the statement of financial position.

For the change in accounting policy, the 2017 comparative balances at the individual financial statement lines were restated. The impact on the 2017 statement of financial position includes a $70.025 million increase in receivables from non-exchange transactions ($37.913 million in current and $32.112 million in non-current assets), with a corresponding increase in deferred revenue.

The following tables detail the changes in comparative information with regard to the prior-period adjustment and the change in accounting policy.

(Thousands of United States dollars)

	31 December 2017 (audited)	*Change in accounting policy*	*Prior-period adjustment*	*31 December 2017 (restated)*
Statement of financial position extract				
Current assets				
Receivables (non-exchange transactions)	1 071	37 913	8 775	47 759
Total current assets	**1 071**	**37 913**	**8 775**	**47 759**
Non-current assets				
Receivables (non-exchange transactions)	–	32 112	–	32 112
Total non-current assets	**–**	**32 112**	**–**	**32 112**
Total assets	**1 071**	**70 025**	**8 775**	**79 871**
Current liabilities				
Funds received in advance and deferred revenue	–	37 913	–	37 913
Total current liabilities	**–**	**37 913**	**–**	**37 913**
Non-current liabilities				
Funds received in advance and deferred revenue	–	32 112	–	32 112
Total non-current liabilities	**–**	**32 112**	**–**	**32 112**
Total liabilities	**–**	**70 025**	**–**	**70 025**
Net assets/equity				
Accumulated surpluses	83 010	–	8 775	91 785
Total net assets/equity	**83 010**	**–**	**8 775**	**91 785**
Total liabilities and net assets/equity	**83 010**	**70 025**	**8 775**	**161 810**

	31 December 2017 (audited)	*Change in accounting policy*	*Prior-period adjustment*	*31 December 2017 (restated)*
Statement of financial performance extract				
Voluntary contributions	57 109	–	8 775	65 884
Total revenue	**59 724**	–	**8 775**	**68 499**
Surplus/(deficit) for the year	**(4 861)**	–	**8 775**	**3 914**

Note 6
Segment reporting

UNCDF classifies all its activities into four segments (regular resources; cost-sharing; trust funds; and reimbursable support services and miscellaneous activities) for purposes of evaluating its past performance in achieving its objectives and making decisions about the future allocation of resources.

(a) Regular resources

Regular resources are all resources of UNCDF that are commingled, untied and unearmarked. These include voluntary contributions; contributions from other governmental, intergovernmental or non-governmental sources; and related interest earnings and miscellaneous revenue.

(b) Cost-sharing

Cost-sharing is a co-financing funding modality under which contributions can be received for specific UNCDF programme activities in line with UNCDF policies, aims and activities. This modality is used for the direct funding of a specific project or group of projects or part of a country programme. Use of donor contributions is normally limited to the duration of a particular project.

(c) Trust funds

Trust funds are a co-financing funding modality established as a separate accounting entity under which UNCDF receives contributions to finance programme activities specified by the contributor. Separate accounting records are kept for each individual trust fund, and financial reporting is at the level of the individual trust fund. Trust funds are required to be reported separately to the UNCDF Executive Board. Trust funds have a centralized signatory authority, and agreements have to be authorized by the Associate Administrator at the headquarters level. Each trust fund has specific terms of reference and a trust fund manager assigned to it.

(d) Reimbursable support services and miscellaneous activities

Reimbursable support services and miscellaneous activities are the resources of UNCDF other than those in the three categories mentioned above, which are received for a specific programme purpose consistent with the policies, aims and activities of UNCDF and for the provision of management and other support services to third parties.

In order to attribute assets to the appropriate segment, UNCDF has allocated cash and investments on the basis of the inter-fund balances between the four segments.

Segment reporting: statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2018	*2017 (restated)*	*2018*	*2017 (restated)*	*2018*	*2017 (restated)*	*2018*	*2017*	*2018*	*2017 (restated)*
Assets										
Current assets										
Cash and cash equivalents	2 091	1 925	2 273	1 405	430	214	480	323	5 274	3 867
Investments	15 984	12 272	27 279	19 196	5 162	2 930	5 751	4 397	54 176	38 795
Receivables (non-exchange transactions)	3 742	1 022	48 003	44 836	2 070	1 901	–	–	53 815	47 759
Receivables (other)	8 605	6 494	275	182	–	–	2	–	8 882	6 676
Advances issued	474	426	106	109	–	5	4	4	584	544
Loans to financial service providers	–	18	431	–	–	–	–	–	431	18
Total current assets	**30 896**	**22 157**	**78 367**	**65 728**	**7 662**	**5 050**	**6 237**	**4 724**	**123 162**	**97 659**
Non-current assets										
Investments	14 939	16 561	27 278	26 219	5 163	4 002	5 751	6 006	53 131	52 788
Loans to financial service providers	177	121	638	–	–	–	198	–	1 013	121
Receivables (non-exchange transactions)	3 040	779	38 311	29 889	1 342	1 444	–	–	42 693	32 112
Property, plant and equipment	234	237	189	160	–	–	11	13	434	410
Total non-current assets	**18 390**	**17 698**	**66 416**	**56 268**	**6 505**	**5 446**	**5 960**	**6 019**	**97 271**	**85 431**
Total assets	**49 286**	**39 855**	**144 783**	**121 996**	**14 167**	**10 496**	**12 197**	**10 743**	**220 433**	**183 090**

Segment reporting: statement of financial position as at 31 December 2018 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2018	*2017 (restated)*	*2018*	*2017 (restated)*	*2018*	*2017 (restated)*	*2018*	*2017*	*2018*	*2017 (restated)*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	5 225	73	458	139	69	85	38	29	5 790	326
Advances payable	–	–	365	–	–	–	–	–	365	–
Deferred revenue	3 742	779	44 273	35 233	2 070	1 901	–	–	50 085	37 913
Funds held on behalf of donors	–	–	–	16	–	–	–	–	–	16
Employee benefits	1 937	2 038	268	271	89	93	134	133	2 428	2 535
Other current liabilities	9	–	146	–	25	–	129	–	309	–
Total current liabilities	**10 913**	**2 890**	**45 510**	**35 659**	**2 253**	**2 079**	**301**	**162**	**58 977**	**40 790**
Non-current liabilities										
Deferred revenue	3 040	779	38 311	29 889	1 342	1 444	–	–	42 693	32 112
Employee benefits	10 643	11 345	59	60	70	70	188	192	10 960	11 667
Total non-current liabilities	**13 683**	**12 124**	**38 370**	**29 949**	**1 412**	**1 514**	**188**	**192**	**53 653**	**43 779**
Total liabilities	**24 596**	**15 014**	**83 880**	**65 608**	**3 665**	**3 593**	**489**	**354**	**112 630**	**84 569**
Net assets/equity										
Reserves	4 900	5 300	–	–	–	–	1 500	1 436	6 400	6 736
Accumulated surpluses	19 790	19 541	60 903	56 388	10 502	6 903	10 208	8 953	101 403	91 785
Total net assets/equity	**24 690**	**24 841**	**60 903**	**56 388**	**10 502**	**6 903**	**11 708**	**10 389**	**107 803**	**98 521**
Total liabilities and net assets/equity	**49 286**	**39 855**	**144 783**	**121 996**	**14 167**	**10 496**	**12 197**	**10 743**	**220 433**	**183 090**

Segment reporting: statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2018	*2017*	*2018*	*2017 (restated)*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017 (restated)*
Revenue												
Voluntary contributions	9 938	9 687	45 866	43 526	9 429	11 992	448	679	–	–	65 681	65 884
Investment revenue	1 198	1 306	128	724	49	33	1 231	118	–	–	2 606	2 181
Other revenue	463	426	(19)	9	7	(6)	2 186	2 683	(2 135)	(2 678)	502	434
Total revenue	**11 599**	**11 419**	**45 975**	**44 259**	**9 485**	**12 019**	**3 865**	**3 480**	**(2 135)**	**(2 678)**	**68 789**	**68 499**
Expenses												
Contractual services	1 492	1 368	10 518	11 955	1 096	1 108	97	73	–	–	13 203	14 504
Staff costs	6 476	5 076	10 012	9 685	1 149	1 499	3 278	3 090	–	–	20 915	19 350
Supplies and consumables used	152	155	609	307	45	107	3	5	–	–	809	574
General operating expenses	2 371	1 935	7 529	8 408	1 546	1 634	415	406	(2 135)	(2 678)	9 726	9 705
Grants and other transfers	833	44	12 247	13 241	2 025	5 828	–	–	–	–	15 105	19 113
Other expenses	432	587	517	494	12	94	48	11	–	–	1 009	1 186
Depreciation	40	40	26	19	–	–	3	3	–	–	69	62
Bank fees	4	3	1	–	14	88	–	–	–	–	19	91
Total expenses	**11 800**	**9 208**	**41 459**	**44 109**	**5 887**	**10 358**	**3 844**	**3 588**	**(2 135)**	**(2 678)**	**60 855**	**64 585**
Surplus/(deficit) for the year	**(201)**	**2 211**	**4 516**	**150**	**3 598**	**1 661**	**21**	**(108)**	**–**	**–**	**7 934**	**3 914**

[a] This adjustment is required to remove the effect of internal UNCDF cost recovery.

Note 7
Comparison to budget

The budget and the accounting basis are different. The statement of comparison of budget and actual amounts (regular resources) (statement V) is prepared on a budget basis, that is, a modified cash basis, and the statement of financial performance (statement II) is prepared on an accounting basis, that is, an accrual basis. For these reasons, the total actual regular resources budget expenditure differs from total financial accounting expenses.

Statement V presents regular resources only. Regular resources are all resources of UNCDF that are commingled, untied and unearmarked. These include voluntary contributions; contributions from other governmental, intergovernmental or non-governmental sources; and related interest earnings and miscellaneous revenue.

The presentation of activities and associated budget expenditures in statement V reflects the cost classification categories, that is: (a) development activities: (i) programmes and (ii) development effectiveness; and (b) management activities. It is noted that the statement of financial performance (statement II) reflects expenses by nature.

For IPSAS reporting purposes, UNCDF approved budgets are those that permit expenses to be incurred in relation to development and management activities to be funded from regular resources. The Fund's other resources are a forward estimate and projection based on assumptions about future events, and thus are not presented in statement V.

Statement V compares the final approved budget with actual amounts calculated on the same basis as the corresponding budget. There are no material differences between the original approved budget and the final approved budget.

Budget utilization levels in 2018 were driven by a combination of the following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) requirements and implementation of the UNCDF strategic framework for 2018–2021.

Accordingly, actual utilization amounts in 2018 against budget levels are as follows:

(a) Development activities: actual utilization of $10.735 million, representing 79 per cent of the annualized approved budget of $13.567 million;

(b) Management activities: actual utilization of $0.695 million, representing 78 per cent of the annualized approved budget of $0.891 million.

Actual net cash flows from operating activities, investing activities and financing activities as presented on a comparable basis reconcile to the amounts presented in the financial statements as follows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual amount on a comparable basis as presented in statement V	**(11 412)**	**(18)**	**–**	**(11 430)**
Basis differences	104	–	–	104
Entity differences	27 547	(14 814)	–	12 733
Net increase/(decrease) in cash and cash equivalents from statement IV	**16 239**	**(14 832)**	**–**	**1 407**

Basis differences include differences between the budget basis (modified cash) and accounting basis (accrual), which result primarily from purchase orders issued but not delivered. These are included in the budget basis (modified cash) but not in the accounting basis (accrual), as the delivery of goods and the rendering of services have not yet occurred for these undelivered purchase orders.

Entity differences between statement V and statement IV include the Fund's other resources, that is, amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities that are incorporated into statement IV but not into statement V.

Timing differences do not exist, as the budget period annualized is the same as the financial statement reporting period.

Note 8
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Cash in bank accounts	61	160
Cash held by external investment managers	219	282
Money market funds	4 994	3 425
Total cash and cash equivalents	**5 274**	**3 867**

The Fund's exposure to credit risks is disclosed in note 23, Financial instruments and risk management.

Note 9
Investments

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current investments		
Investments managed by the United Nations Development Programme	54 165	38 782
Investments managed by external investment managers	11	13
Total current investments	**54 176**	**38 795**
Non-current investments		
Investments managed by the United Nations Development Programme	44 766	44 158
Investments managed by external investment managers	8 365	8 630
Total non-current investments	**53 131**	**52 788**
Total investments	**107 307**	**91 583**

UNCDF investments include held-to-maturity financial assets that are managed by UNDP and available-for-sale financial assets that are managed by external investment managers.

9.1 Investments managed by UNDP: held-to-maturity financial assets

(Thousands of United States dollars)

	1 January 2018	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2018*
Current investments							
Money market instruments	5 000	25 000	(20 000)	–	–	–	10 000
Bonds	33 782	5 015	(38 735)	(62)	–	44 165	44 165
Total current investments	**38 782**	**30 015**	**(58 735)**	**(62)**	**–**	**44 165**	**54 165**
Non-current investments							
Money market instruments	–	–	–	–	–	–	–
Bonds	44 158	44 640	–	133	–	(44 165)	44 766
Total non-current investments	**44 158**	**44 640**	**–**	**133**	**–**	**(44 165)**	**44 766**
Total investments held to maturity	**82 940**	**74 655**	**(58 735)**	**71**	**–**	**–**	**98 931**

As at 31 December 2018, UNCDF did not have any impairment on investments.

The Fund's exposure to credit, market and currency risks and risk management activities related to investments is disclosed in note 23.

9.2 Investments managed by external investment managers: available-for-sale financial assets

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Investments available for sale		
Current investments		
Bonds	11	13
Total current investments	**11**	**13**
Non-current investments		
Equities	5 059	5 437
Bonds	3 306	3 193
Total non-current investments	**8 365**	**8 630**
Total investments managed by external investment managers: available for sale	**8 376**	**8 643**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $0.219 million (2017: $0.282 million) in after-service health insurance investments have been classified under cash and cash equivalents.

Total after-service health insurance investments, including cash and cash equivalents, amounted to $8.6 million (2017: $8.9 million).

As at 31 December 2018, UNCDF did not have any impairment on investments.

The Fund's exposure to credit, market and currency risks and risk management activities related to investments is disclosed in note 23.

Note 10

10.1 Receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (restated)*
Current		
Receivables (non-exchange transactions)	53 815	47 759
Total current receivables (non-exchange transactions)	**53 815**	**47 759**
Non-current		
Receivables (non-exchange transactions)	42 693	32 112
Total non-current receivables (non-exchange transactions)	**42 693**	**32 112**
Total receivables (non-exchange transactions)	**96 508**	**79 871**

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (restated)*
Past due	3 730	9 846
Due in future periods	92 778	70 025
Total receivables (non-exchange transactions)	**96 508**	**79 871**

Contributions receivable include $92.778 million (2017: $70.025 million) committed to UNCDF by donors in signed agreements for future periods. This amount includes $6.782 million (2017: $1.558 million) in receivables for regular resources.

The $3.730 million (2017: $9.846 million) in past-due contributions receivable represents the amount that is already due to UNCDF on the basis of signed donor agreements. Of this amount, $0.456 million (2017: $0.177 million) is aged more than six months.

The Fund’s exposure to credit and currency risk related to receivables is disclosed in note 23.

As at 31 December 2018, UNCDF did not have any impairment on its non-exchange receivables.

10.2 Receivables (other)

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Receivables from the United Nations Development Programme	7 920	5 911
Investment receivables	702	544
Receivables from staff	–	5
Receivables from third parties	260	216
Total receivables (other)	**8 882**	**6 676**

Ageing of receivables (other)

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Less than or equal to six months	8 474	6 266
More than six months	408	410
Total receivables (other)	**8 882**	**6 676**

The Fund's exposure to credit and currency risks related to receivables is disclosed in note 23, Financial instruments and risk management.

Note 11
Advances issued

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Operating funds provided to Governments	102	121
Operating funds provided to executing entities/ implementing partners	–	(5)
Prepayments	20	–
Advances to staff	478	444
Total advances issued, gross	**600**	**560**
Impairment	(16)	(16)
Total advances issued, net	**584**	**544**

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Less than or equal to six months	480	502
More than six months	120	58
Advances issued, gross	**600**	**560**

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current		
Loans to financial service providers	431	18
Total current loans to financial service providers	**431**	**18**
Non-current		
Loans to financial service providers	1 563	671
Impairment	(550)	(550)
Total non-current loans to financial service providers	**1 013**	**121**
Total loans to financial service providers	**1 444**	**139**

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Balance at 1 January	139	536
Revaluation of loans (translation gain/loss at reporting date)	(80)	(6)
Loans impaired	–	(195)
Repayment of loans	(34)	(365)
Disbursement of loans	1 593	169
Reinstatement of impaired loans	–	–
Amortization of loans	(174)	–
Balance at 31 December	**1 444**	**139**

The loan balances comprise performing loans to 10 institutions. The range of discount rates depends on the country in which the loan is issued and varies between 20.75 and 26 per cent.

UNCDF extends loans to financial service providers on the basis of sound business plans demonstrating how the loans will contribute to their reaching financial sustainability. The loans follow two general principles. First, they should not "crowd out" private sources of capital. In other words, UNCDF will not lend to financial service providers that could otherwise use private sources, such as commercial banks. Second, they should avoid exposing the financial service provider to exchange risks (that is, the loan should preferably be in the local currency). Any risks arising from exchange rate fluctuations are fully covered by dedicated programme resources.

Note 13
Property, plant and equipment

UNCDF has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which constitute 97 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 3 per cent of total assets, are used for operations that are not project-specific at UNCDF country offices and headquarters. As at 31 December 2018, UNCDF had a gross carrying amount of $0.027 million of fully depreciated property, plant and equipment that was still in use.

Property, plant and equipment

(Thousands of United States dollars)

	Furniture and fixtures	Communications and information technology equipment	Vehicles	Heavy machinery and other equipment	Total
Balance at 1 January 2018					
Cost	77	152	729	5	963
Accumulated depreciation	(22)	(80)	(450)	(1)	(553)
Carrying amount at 1 January 2018	**55**	**72**	**279**	**4**	**410**
Period ended 31 December 2018					
Additions	–	29	90	27	146
Disposals – cost	–	(40)	(158)	–	(198)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Depreciation	(5)	(16)	(46)	(2)	(69)
Disposals – accumulated depreciation/ depreciation	–	40	105	–	145
Carrying amount at 31 December 2018	**50**	**85**	**270**	**29**	**434**
Balance at 31 December 2018					
Cost	77	141	661	32	911
Accumulated depreciation	(27)	(56)	(391)	(3)	(477)
Carrying amount at 31 December 2018	**50**	**85**	**270**	**29**	**434**

As at 31 December 2018, UNCDF did not have any impairment on property, plant and equipment.

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Payables to third parties	329	230
Accruals	356	35
Payables to staff	47	32
Derivative liability	6	22
Investment settlement payable	5 052	7
Total accounts payable and accrued liabilities	**5 790**	**326**

Note 15

15.1 Advances payable

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Advances payable	365	–
Total advances payable	**365**	**–**

15.2 Deferred revenue

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (restated)*
Current		
Deferred revenue	50 085	37 913
Total current deferred revenue	**50 085**	**37 913**

	31 December 2018	*31 December 2017 (restated)*
Non-current		
Deferred revenue	42 693	32 112
Total non-current deferred revenue	**42 693**	**32 112**
Total deferred revenue	**92 778**	**70 025**

15.3 Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Refunds pending to donors	–	16
Total funds held on behalf of donors	**–**	**16**

15.4 Other current liabilities

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Unapplied deposits	125	–
Other payables	184	–
Total other current liabilities	**309**	**–**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current		
Annual leave	1 916	1 691
Home leave	253	562
After-service health insurance	80	65
Repatriation entitlements	173	213
Death benefits	5	3
Other employee benefits	1	1
Total current employee benefits liabilities	**2 428**	**2 535**
Non-current		
After-service health insurance	8 552	8 984
Repatriation entitlements	2 317	2 524
Home leave	72	134
Death benefits	19	25
Total non-current employee benefits liabilities	**10 960**	**11 667**
Total employee benefits liabilities	**13 388**	**14 202**

The liabilities arising from post-employment benefits are determined by independent actuaries. Employee benefits are established in accordance with the Staff Regulations of the United Nations and Staff Rules.

As at 31 December 2018, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted on 31 December 2018. The decrease in liability for 2018 is largely a result of the overall increase in discount rates.

(a) Defined benefit plans

UNCDF provides its staff and former staff with the following defined benefit plans, which are actuarially valued: after-service health insurance; end-of-service entitlements such as repatriation entitlement; and other benefits such as death benefits.

The movements in the present value of the defined benefit obligation for those plans are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Defined benefit obligation at 1 January 2018	9 049	2 737	28	11 814
Increase in the obligation				
Current service cost	834	277	2	1 113
Interest cost	347	93	1	441
Actuarial losses on disbursement	181	–	–	181
Actuarial losses from experience adjustment	44	–	–	44
Decrease in the obligation				
Actual benefits paid	(248)	(182)	–	(430)
Actuarial (gains) on disbursement	–	(39)	(3)	(42)
Actuarial (gains) from change in financial assumptions	(1 575)	(190)	(1)	(1 766)
Actuarial (gains) from experience adjustment	–	(206)	(3)	(209)
Recognized liability at 31 December 2018	**8 632**	**2 490**	**24**	**11 146**

The value of the defined benefit obligation equals the defined benefit liability that is recognized in the statement of financial position.

The current service cost and interest cost recognized in the statement of financial performance and the statement of financial position are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Current service cost	834	277	2	1 113
Interest cost	347	93	1	441
Total employee benefits expenses recognized	**1 181**	**370**	**3**	**1 554**

The actuarial gains/(losses) recognized in net assets/equity directly are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Actuarial gains/(losses) from change in assumptions	1 531	396	4	1 931
Actuarial gains/(losses) on disbursements	(181)	39	3	(139)
Total	**1 350**	**435**	**7**	**1 792**

In 2018, of the net actuarial gain of $1.792 million, the actuarial gain relating to after-service health insurance from a change in actuarial assumptions was $1.350 million.

The table below provides the amounts for the current and previous four periods of the defined benefit obligation and the experience adjustment arising on the plan liabilities.

(Thousands of United States dollars)

	2018	*2017*	*2016*	*2015*	*2014*
After-service health insurance					
Defined benefit obligation	8 632	9 049	6 105	5 208	10 948
Experience adjustment on plan liabilities	44	1 234	–	(5 126)	(474)
Repatriation					
Defined benefit obligation	2 490	2 736	1 911	1 769	2 088
Experience adjustment on plan liabilities	(206)	744	–	(253)	(119)
Death benefits					
Defined benefit obligation	24	28	32	32	33
Experience adjustment on plan liabilities	(3)	(2)	–	2	2

The next actuarial valuation will be conducted as at 31 December 2019.

(b) Actuarial assumptions

The most recent actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2018. The two important assumptions used by the actuary to determine defined benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate.

To determine the defined benefit obligation, the projected unit credit actuarial method was used. The principal actuarial assumptions are as follows:

	2018	*2017*
Discount rate:		
(a) After-service health insurance	4.55 per cent	3.85 per cent
(b) Repatriation benefits	4.20 per cent	3.53 per cent
(c) Death benefits	4.03 per cent	3.48 per cent
Health-care cost-trend rates:		
(a) United States, non-Medicare	5.57, grading down to 3.85 per cent after 14 years	5.70, grading down to 3.85 per cent after 15 years
(b) United States, Medicare	5.38, grading down to 3.85 per cent after 14 years	5.50, grading down to 3.85 per cent after 15 years
(c) United States, dental	4.73, grading down to 3.85 per cent after 14 years	4.80, grading down to 3.85 per cent after 15 years
(d) Non-United States, Switzerland	3.89, grading down to 3.05 per cent after 9 years	4.00, grading down to 3.05 per cent after 10 years
(e) Non-United States, eurozone	3.91, grading down to 3.65 per cent after 4 years	4.00, grading down to 3.65 per cent after 5 years
Salary scale (varies by age and staff category)	3.47–9.27 per cent	3.47–9.27 per cent
Rate of inflation	2.20 per cent	2.2 per cent
Per capita medical claim cost (varies by age)	$1 142–$17 276	$1 089–$16 345
Actuarial method	Projected unit credit method	Projected unit credit method

Other actuarial assumptions used for the valuation for after-service health insurance relate to: enrolment in plan and Medicare part B participation, number of dependants, age difference between spouses, retiree contributions, age-related increase in claims, Medicare part D retiree drug subsidy and Medicare part B premium.

Assumptions regarding future mortality are based on published statistics and mortality tables. The current rates of death underlying the values of the liabilities in the after-service health insurance and repatriation calculations are as follows:

	2018		*2017*	
Mortality rate – active employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00056	0.00718
Female	0.00031	0.00435	0.00031	0.00435

	2018		*2017*	
Mortality rate – retired employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00062	0.00913	0.00062	0.00913
Female	0.00035	0.00561	0.00035	0.00561

The rates of retirement for Professional staff with 30 or more years of Professional service hired on or after 1 January 1990 and before 1 January 2014 are as follows:

Rate of retirement: Professional staff with 30 or more years of service	*2018*		*2017*	
	At age 55	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.70	0.16	0.70
Female	0.20	0.80	0.20	0.80

For active beneficiaries, the following assumptions were made regarding the probability of marriage at retirement:

Rate of marriage at retirement for active beneficiaries	*2018*	*2017*
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

Should the assumptions about medical cost trends described above change, this would have an impact on the measurement of the after-service health insurance obligation as follows:

(Thousands of United States dollars)

	+1 per cent	*-1 per cent*
Effect of discount rate change on end-of-year liability	(1 658)	2 229
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	2 264	(1 710)

(c) United Nations Joint Staff Pension Fund

UNCDF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Pension Fund, membership of the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNCDF and the Pension Fund, in line with the other organizations participating in the Pension Fund, are not in a position to identify the proportionate share of UNCDF of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNCDF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee benefits. The contributions of UNCDF to the plan during the financial period are recognized as expenses in the statement of financial performance.

The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

The financial obligation of UNCDF to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

During 2017, the Fund identified anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As such, as an exception to the normal biennial cycle, a roll forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements.

The actuarial valuation as at 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll forward). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 roll forward) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2017, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

Should Article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the pension plan of the Pension Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization’s contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2015, 2016 and 2017) amounted to $6,931.39 million, of which 0.13 per cent was contributed by UNCDF.

During 2018, the contribution of UNCDF paid to the Pension Fund amounted to $3.8 million (2017: $3.4 million). Contributions due in 2019 are expected to amount to approximately $3.8 million.

Membership of the Pension Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities is included in the amount.

The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board and to the General Assembly on the audit every year. The Fund publishes quarterly reports on its investments and these can be viewed by visiting its website at www.unjspf.org.

(d) Termination benefits

In the course of normal operations, UNCDF did not incur any costs related to termination benefits.

Note 17
Reserves

(Thousands of United States dollars)

	1 January 2018	*Movements*	*31 December 2018*
Operational reserve	6 736	(336)	6 400
Total reserves	**6 736**	**(336)**	**6 400**

The Fund updated its operational reserve to ensure full compliance with the methodology approved by the Board in September 2018. The formula to calculate the operational reserve for regular resources is 50 per cent of the average of the previous three years of core utilization cash flow-based expenditure (actual budget comparable basis total amount). The formula to calculate the operational reserve for other resources is the average of the previous three years of expenditure multiplied by 2 per cent plus a fixed reserve of $0.4 million for contingent liability risks.

Note 18
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2018 (restated)	*Movements*	*31 December 2018*
Accumulated surpluses	83 746	8 270	92 016
Funds with specific purposes	1 697	500	2 197
Actuarial (losses)/gains	5 544	1 792	7 336
Changes in fair value of available-for-sale investments	798	(944)	(146)
Total accumulated surpluses	**91 785**	**9 618**	**101 403**

Movements in the accumulated surpluses of $8.270 million comprise a surplus for the year of $7.934 million and an operational reserve transfer to accumulated surpluses of $0.336 million. Funds with specific purposes include the information communications technology fund, the learning fund, the reserve for agreed separation and other funds.

Note 19
Voluntary contributions

(Thousands of United States dollars)

	2018	*2017 (restated)*
Contributions	65 867	65 919
Less: returns to donors of unused contributions	(186)	(35)
Total voluntary contributions	**65 681**	**65 884**

For the period 2018–2021, UNDP relies on the UNCDF financial mandate in areas of shared focus in least developed countries. In that context, UNDP provides institutional support to UNCDF. In addition, during 2018, as an in-kind contribution, UNDP directly partially covered the salary costs of 15 UNCDF staff members, amounting to $1.8 million, and general operating expenses, which comprise rent, travel and other costs, amounting to $0.9 million. Furthermore, UNDP provided programme support amounting to $0.7 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2018	*2017*
Investment revenue	2 606	2 181
Total investment revenue	**2 606**	**2 181**

Investment revenue comprises interest earned on bank account balances and loans to financial service providers plus amortized discount, net of amortized premium of $2.170 million (2017: $1.339 million), dividends earned on the UNCDF investment portfolio of $0.098 million (2017: $0.129 million) and realized gains on sale of investments of $0.338 million (2017: 0.713 million).

Note 21
Other revenue

(Thousands of United States dollars)

	2018	*2017*
Foreign exchange gains	24	61
Other miscellaneous revenue	426	373
General management services fees	52	–
Total other revenue	**502**	**434**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses 2018	*Total expenses[a] 2018*	*Programme expenses 2017*	*Total expenses 2017*
22.1 Contractual services				
Contractual services with individuals	9 321	9 628	10 494	10 707
Contractual services with companies	3 326	3 392	3 737	3 752
United Nations Volunteers expenses for contractual services	177	183	45	45
Total contractual services	**12 824**	**13 203**	**14 276**	**14 504**
22.2 Staff costs				
Salary and wages	9 531	13 834	9 376	13 489
Pension benefits	1 707	2 506	1 751	2 334
Post-employment	740	1 872	794	1 201
Appointment and assignment	594	803	433	602
Leave benefits	375	457	384	473
Other staff benefits	1 006	1 443	885	1 251
Total staff costs	**13 953**	**20 915**	**13 623**	**19 350**
22.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	368	384	224	241
Stationery and other office supplies	71	80	78	85
Agricultural, petroleum and metal products	30	34	29	32
Information technology supplies and software maintenance	91	156	70	107
Information technology and communications equipment	57	67	62	66
Other consumables used	77	88	40	43
Total supplies and consumables used	**694**	**809**	**503**	**574**
22.4 General operating expenses				
Travel	3 535	3 927	3 814	4 053
Learning and recruitment	1 638	1 751	1 614	1 709
Rent, leases and utilities	1 074	1 127	1 044	1 107
Reimbursement	83	166	283	289
Communications	674	881	613	865
Security	428	607	420	536
Professional services	398	398	240	264
General management costs[b]	2 211	78	2 790	112
Contribution to United Nations jointly financed activities	241	375	255	344
Contribution to information and communications technology	39	60	43	56
Freight	20	20	31	31
Insurance/warranties	13	17	12	13
Miscellaneous operating expenses	215	319	231	326
Total general operating expenses	**10 569**	**9 726**	**11 390**	**9 705**

	Programme expenses 2018	*Total expenses[a] 2018*	*Programme expenses 2017*	*Total expenses 2017*
22.5 Grants and other transfers				
Grants	15 089	15 090	19 096	19 099
Transfers	15	15	13	14
Total grants and other transfers	**15 104**	**15 105**	**19 109**	**19 113**
22.6 Other expenses				
Foreign exchange losses	73	74	97	97
Losses on sale of fixed assets	66	66	20	21
Sundries	593	869	677	735
Impairment[c]	–	–	333	333
Total other expenses	**732**	**1 009**	**1 127**	**1 186**
22.7 Depreciation				
Depreciation	52	69	48	62
Total depreciation	**52**	**69**	**48**	**62**
22.8 Bank fees				
Bank charges	19	19	91	91
Total bank fees	**19**	**19**	**91**	**91**
Total expenses	**53 947**	**60 855**	**60 167**	**64 585**

[a] Of the total expenses, $53.947 million represents programme expenses and the remaining $6.908 million represents expenses for development effectiveness and management. See note 27.1, Expense by cost classification, for details.

[b] In 2018, of the $2.211 million, $2.135 million is eliminated to remove the effect of internal UNCDF cost recovery.

[c] In 2018, UNCDF did not recognize any impairment.

Note 23
Financial instruments and risk management

The risk management policies of UNCDF, along with its investment policy and guidelines and its financial regulations and rules, are aimed at minimizing potential adverse effects on the resources available to UNCDF to fund its activities.

In its operations, UNCDF is exposed to a variety of financial risks, including:

(a) Credit risk: the risk of financial loss to UNCDF that may arise if an entity or counterparty fails to meet its financial/contractual obligations to UNCDF;

(b) Liquidity risk: the risk that UNCDF might not have adequate funds to meet its obligations as they fall due;

(c) Market risk: risk that UNCDF might incur financial losses on its financial assets owing to unfavourable movements in foreign currency exchange rates, interest rates and/or prices of investment securities.

UNCDF investment activities are carried out by UNDP under a service-level agreement. Under the terms of the service-level agreement, UNDP applies its investment guidelines and governance framework for the benefit of UNCDF. Investments are registered in the name of UNCDF, and marketable securities are held by a custodian appointed by UNDP. The principal investment objectives as stated in the UNDP investment policy and guidelines are:

(a) Safety: preservation of capital, provided through investing in high-quality, fixed-revenue securities emphasizing the creditworthiness of the issuers;

(b) Liquidity: flexibility to meet cash requirements through investments in highly marketable, fixed-income securities and through structuring maturities to align with liquidity requirements;

(c) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

The UNDP Investment Committee, comprising senior management, meets quarterly to review investment portfolio performance and ensure that investment decisions have complied with the established investment guidelines. UNCDF receives a detailed monthly investment performance report from UNDP that shows the composition and performance of the investment portfolio. UNCDF offices review these reports on a regular basis.

The UNCDF financial regulations and rules govern the financial management of UNCDF. The regulations and rules are applicable to all funds and programmes administered by UNCDF and establish the standards of internal control and accountability within the organization.

UNCDF has outsourced the investment management of its after-service health insurance funds to two external investment managers. This was done in order to ensure an adequate level of investment return, given the longer-term nature of the liabilities. As at 31 December 2018, the after-service health insurance portfolio was classified as available for sale. Holdings include equities and fixed-income securities.

The external investment managers are governed by the after-service health insurance investment guidelines. The guidelines ensure that all of the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. The guidelines are reviewed and approved on a periodic basis by the after-service health insurance investment committee.

The table below shows the value of financial assets outstanding at year-end, based on the IPSAS classifications adopted by UNCDF.

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus or deficit*	*Book value*	
					2018	*2017 (restated)*
Cash and cash equivalents	–	–	5 274	–	5 274	3 867
Investments	98 931	8 376	–	–	107 307	91 583
Receivables (non-exchange)	–	–	96 508	–	96 508	79 871
Receivables (other)	–	–	8 882	–	8 882	6 676
Advances	–	–	584	–	584	544
Loans to financial service providers	–	–	1 444	–	1 444	139
Total financial assets	**98 931**	**8 376**	**112 692**	**–**	**219 999**	**182 680**

Held-to-maturity financial assets are carried at amortized cost. At 31 December 2018, the book value of these assets exceeded market value by $0.042 million (2017:

$0.026 million). The carrying values for loans and receivables are a reasonable approximation of their fair value. As at 31 December 2018, UNCDF had no outstanding financial assets recorded at fair value through surplus or deficit.

The table below shows the value of financial liabilities outstanding at year-end, based on the IPSAS classifications adopted by UNCDF.

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus or deficit*	*Book value*	
			2018	*2017 (restated)*
Accounts payable and accrued liabilities	5 784	6	5 790	326
Advances payable	365	–	365	–
Deferred revenue	92 778	–	92 778	70 025
Other current liabilities	309	–	309	–
Funds held on behalf of donors	–	–	–	16
Total financial liabilities	**99 236**	**6**	**99 242**	**70 367**

The carrying value of other liabilities is a reasonable approximation of their fair value. As at 31 December 2018, UNCDF had $0.006 million (2017: 0.022 million) in financial liabilities recorded at fair value through surplus or deficit arising from various forward foreign exchange contracts managed by an external investment manager.

For the year ended 31 December 2018, net gains of $0.052 million (2017: 0.019 million net losses) related to financial assets and liabilities recorded at fair value through surplus or deficit were recognized in the statement of financial performance.

Valuation

The table below presents the fair value hierarchy of the Fund's available-for-sale financial instruments carried at fair value at 31 December 2018.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	5 059	–	–	5 059
Bonds	3 317	–	–	3 317
Total	**8 376**	**–**	**–**	**8 376**

The three fair value hierarchies are defined by IPSAS, on the basis of the significance of the inputs used in the valuation, as:

(a) Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

(c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Analysis of the Fund's credit risk

UNCDF is exposed to credit risk on its outstanding financial asset balances, primarily cash and cash equivalents, financial instruments, receivables (exchange and non-exchange), advances and loans to financial service providers.

UNCDF uses UNDP local bank accounts for its day-to-day financial commitments and does not receive contributions at the country office level. All contributions are made directly to UNCDF or UNDP contribution accounts at UNDP headquarters.

With regard to its financial instruments, the investment guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies set out in the investment guidelines include conservative minimum credit criteria for all issuers with maturity and counterparty limits by credit rating. The investment guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments are limited to fixed-income instruments of sovereigns; supranational, governmental or federal agencies; and banks. Investment activities are carried out by UNDP.

Credit ratings from the three leading credit rating agencies, Moody's, S&P Global Ratings and Fitch, are used to categorize and monitor the credit risk of financial instruments. As at 31 December 2018, the Fund's financial investments managed by UNDP were in high-quality fixed-income instruments, as shown in the table below (presented using the rating convention of S&P Global Ratings).

Concentration by credit rating: investments managed by the United Nations Development Programme

(Thousands of United States dollars)

31 December 2018	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*Total*
Money market instruments	–	–	–	–	5 000	5 000	10 000
Bonds – investments	55 118	4 996	14 962	3 941	9 914	–	88 931
Total	**55 118**	**4 996**	**14 962**	**3 941**	**14 914**	**5 000**	**98 931**

31 December 2017	*AAA*	*AA+*	*AA*	*AA-*	*A*	*Total*
Money market instruments	–	–	5 000	–	–	5 000
Bonds – investments	25 258	4 983	13 215	24 483	10 001	77 940
Total	**25 258**	**4 983**	**18 215**	**24 483**	**10 001**	**82 940**

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2018	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	37	36	36	102	43	11	50	95	263	2 644	3 317
Total	**37**	**36**	**36**	**102**	**43**	**11**	**50**	**95**	**263**	**2 644**	**3 317**

31 December 2017 (restated)	*AAA*	*AA+*	*AA-*	*A+*	*A*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	38	59	66	68	57	165	80	202	2 471	3 206
Total	**38**	**59**	**66**	**68**	**57**	**165**	**80**	**202**	**2 471**	**3 206**

Note: Externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of $2.137 million (2017: $1.980 million), with the remaining balance of $0.507 million (2017: $0.491 million) comprising government bonds.

The credit risk exposure of UNCDF on outstanding non-exchange receivables is mitigated by its financial regulations and rules, which require that, for other resources, expenses be incurred after the receipt of funds from donors. Incurring expenses prior to the receipt of funds is permitted only if specified risk management criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, and private sector donors that do not have significant credit risk.

The investment management function is performed by the UNDP treasury. UNCDF offices do not routinely engage in investment activities.

Analysis of the Fund's liquidity risk

Liquidity risk is the risk that UNCDF might be unable to meet its obligations, including accounts payable and accrued liabilities, and other liabilities, as they fall due.

Investments are made with due consideration of the Fund's cash requirements for operating purposes based on cash flow forecasting. The investment approach considers the timing of future funding needs of the organization when investment maturities are selected. UNCDF maintains a portion of its cash and investments in cash and cash equivalents and current investments, which is sufficient to cover its commitments as and when they fall due, as shown in the table below.

(Thousands of United States dollars)

	31 December 2018	Percentage	31 December 2017	Percentage
Cash balances	280	1	442	1
Cash equivalents	4 994	4	3 425	3
Total cash and cash equivalents	**5 274**	**5**	**3 867**	**4**
Current investments	54 176	48	38 795	41
Non-current investments	53 131	47	52 788	55
Total current and non-current investments	**107 307**	**95**	**91 583**	**96**
Total investments, cash and cash equivalents	**112 581**	**100**	**95 450**	**100**

The Fund's investments are laddered into different maturity dates in order to ensure that it has sufficient funds to meet its current obligations as they become due.

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Money market funds	4 994	3 425
Cash equivalents	**4 994**	**3 425**

UNCDF further mitigates its liquidity risk through its financial regulations and rules, which prohibit offices from entering into commitments, including purchase commitments, unless a budget already exists. Spending is possible after funds have been received and budgets in the Fund's enterprise resource planning system have been updated. Spending ability is constantly revised as commitments are made and expenditures incurred. Spending in the absence of a funded budget has to comply with UNCDF risk management guidelines.

Classification of investments

(Thousands of United States dollars)

	Book value basis	31 December 2018	31 December 2017
Held-to-maturity investments	Amortized cost	98 931	82 940
Available-for-sale investments	Fair value	8 376	8 643
Total investments		**107 307**	**91 583**

The table below presents the interest sensitivity of UNCDF investments based on the duration of its securities. The sensitivity is limited to the fixed-income investments classified as available for sale, which are marked to market through net assets/equity. For that reason, changes in interest rates would have no impact on the UNCDF surplus and deficit.

Available-for-sale fixed-income investments interest rate sensitivity analysis

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2018 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
3 317	100 basis point increase	(50)	–
3 317	50 basis point decrease	25	–

Note: Excludes investments classified as cash and cash equivalents.

Analysis of the Fund's market risk

Market risk is the risk that UNCDF will be exposed to potential financial losses owing to unfavourable movements in the market prices of financial instruments, including movements in interest rates, exchange rates and prices of securities.

Interest rate risk arises from the effects of fluctuations in market interest rates on:

(a) The fair value of financial assets and liabilities;

(b) Future cash flows.

The Fund's investment portfolio is classified as held to maturity, which is not marked to market. Held-to-maturity investments record carrying values that are not affected by changes in interest rates.

Foreign exchange risk

UNCDF is exposed to currency risk arising from financial assets that are denominated in foreign currency and financial liabilities that have to be settled in foreign currency.

UNCDF receives donor contributions primarily in United States dollars and euros. Any contributions received other than in United States dollars are converted immediately to United States dollars using the prevailing exchange rate, since UNCDF holds all funds in United States dollar accounts. At 31 December 2018, all UNCDF investments were denominated in United States dollars.

Accounts payable/accrued liabilities do not constitute any foreign exchange risk.

As shown in the table below, a large portion of UNCDF financial assets and financial liabilities are denominated in United States dollars, thereby reducing overall foreign currency risk exposure.

Currency risk exposure

(Thousands of United States dollars)

	United States dollars	*Euro*	*Swedish krona*	*Other currencies*	*31 December 2018*	*31 December 2017 (restated)*
Cash and cash equivalents	5 260	5	1	8	5 274	3 867
Investments	104 785	1 335	82	1 105	107 307	91 583
Receivables (non-exchange transactions)	15 460	48 713	13 097	19 238	96 508	79 871
Receivables (other)	8 639	4	–	239	8 882	6 676

	United States dollars	*Euro*	*Swedish krona*	*Other currencies*	*31 December 2018*	*31 December 2017 (restated)*
Advances issued	120	4	–	460	584	544
Loans to financial service providers	431	–	–	1 013	1 444	139
Total financial assets	**134 695**	**50 061**	**13 180**	**22 063**	**219 999**	**182 680**
Accounts payable and accrued liabilities	5 760	8	–	22	5 790	326
Advances payable	365	–	–	–	365	–
Deferred revenue	15 460	45 981	13 097	18 240	92 778	70 025
Other current liabilities	309	–	–	–	309	–
Funds held on behalf of donors	–	–	–	–	–	16
Total financial liabilities	**21 894**	**45 989**	**13 097**	**18 262**	**99 242**	**70 367**

As at 31 December 2018, UNCDF held a small portion of investments and other financial assets in several non-United States dollar currencies owing primarily to contributions received in other hard currencies. UNCDF maintains a minimum level of assets in non-United States dollar currencies and, whenever possible, converts any excess balances into United States dollars.

Equity price risk

In 2018, UNCDF held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity. For that reason, changes in prices would have no impact on the UNCDF surplus and deficit.

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2018 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
5 059	5 per cent increase	253	–
5 059	5 per cent decrease	(253)	–

Note 24
Related parties

(a) Key management personnel

The Fund’s leadership structure consists of a four-member Executive Group: the Executive Secretary, the Deputy Executive Secretary and two Directors of the Practice Areas. The Executive Group is responsible for the strategic direction and operational management of UNCDF and is entrusted with significant authority to execute the Fund’s mandate.

(b) Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	4	770	35	805	2 428
Total	**4**	**770**	**35**	**805**	**2 428**

The remuneration paid to key management personnel includes salary, post adjustment and other entitlements as applicable, such as assignment grants, employer contribution to health insurance and pension, dependency allowance, education grants, hardship, mobility and non-removal allowance, real estate agency reimbursement and representation allowance.

Key management personnel are also eligible for post-employment employee benefits, such as after-service health insurance, repatriation benefits and payment of unused annual leave.

(c) Advances

Staff advances are referred to as salary advances at UNCDF. Salary advances are available to all UNCDF staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations and Staff Rules. At 31 December 2018, there were no advances issued to key management personnel and their close family members that would not have been available to all UNCDF staff.

Note 25
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Goods	416	14
Services	470	512
Total open commitments	**886**	**526**

At 31 December 2018, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.886 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Obligations for property leases		
Less than one year	282	282
One to five years	1 128	1 128
Total obligations for property leases	**1 410**	**1 410**

UNCDF contractual leases are typically between 5 and 10 years; however, some leases permit early termination within 30, 60 or 90 days. The table above presents future obligations for the minimum lease term/contractual term of the lease payment.

Note 26
Events after reporting date

The reporting date for these financial statements is 31 December 2018. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 27.1
Additional disclosure

Expenses by cost classification and practice area

Cost classification

(Thousands of United States dollars)

	31 December 2018
Development	
Programme	53 947
Development effectiveness	4 630
Management	4 413
Elimination	(2 135)[a]
Total expenses	**60 855**

[a] This adjustment is required to remove the effect of internal UNCDF cost recovery.

Practice area

(Thousands of United States dollars)

	31 December 2018
Financial inclusion	36 304
Local development finance	15 508
Development effectiveness	4 630
Management	4 413
Total expenses	**60 855**

Note 27.2
Additional disclosure

All trust funds established by the United Nations Capital Development Fund: schedule of financial performance

(Thousands of United States dollars)

Name of trust fund	*Net assets 31 December 2017*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments to net assets*	*Net assets 31 December 2018*
Belgium – Anseba Local Development Fund	3	(3)	–	–	–
Belgium – Projet d'appui au développement local de la région de N'guigmi	(1)	3	–	–	2
Belgium (Belgian Fund for Food Security) – Programme conjoint à Nara-Nioro	86	9	(35)	–	60
Belgium Survival Fund – Programme d'appui au développement économique local 20	20	–	–	–	20
Belgium Survival Fund – Projet d'appui à la décentralisation, à la déconcentration et au développement économique local au Bénin	6	–	–	–	6
Bill and Melinda Gates Foundation – least developed countries fund	58	–	9	–	67
Canadian International Development Agency – Appui à la gouvernance locale dans le département du Nord-Est en Haïti	28	–	–	–	28
Belgian Fund for Food Security – Collectivités territoriales et développement local à Tombouctou et à Mopti – Mali	75	–	–	–	75
Belgian Fund for Food Security – Projet d'appui au développement communautaire en province de Byumba – Rwanda	286	–	–	–	286
France – Projet d'appui à la commune urbaine de Diffa, Niger	4	–	–	–	4
Japan – District Development Programme 2 – gender mainstreaming component	122	–	–	–	122
Livelihoods and food security trust fund	5	(3)	–	–	2
Luxembourg – Programme d'appui à la décentralisation en milieu rural	8	–	–	–	8
Multi-donor trust fund – pass-through trust fund	3 692	2 269	(2 870)	–	3 091
Norway – Environmental Guidelines Conference	3	(3)	–	–	–
Spain – Spain Millennium Development Goals – water and sanitation	17	(1)	–	–	16
United Nations Fund for International Partnerships – International Year of Microcredit, 2005	10	–	–	–	10
Last mile finance trust fund	2 481	7 214	(2 990)	–	6 705
Total	**6 903**	**9 485**	**(5 886)**	**–**	**10 502**