A/75/5/Add.2

United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2019

and

Report of the Board of Auditors

General Assembly

Official Records
Seventy-fifth Session
Supplement No. 5B

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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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Letters of transmittal and certification

Letter dated 23 April 2020 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 Office of Finance and Management Services 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 2019, 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, Office of Finance and Management Services, UNCDF

Letter dated 21 July 2020 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 2019.

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

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 2019, 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 2019 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 2019, 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

21 July 2020

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. 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 2019, 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 2019. An early part of the audit was carried out at two country offices (November 2019 and January 2020) and at UNCDF headquarters in New York (October 2019 and January 2020). From 13 April 2020 onward, the Board conducted the audit remotely owing to the coronavirus disease (COVID-19) global pandemic.

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 have 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 2019 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, 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 any significant errors, omissions or misstatements from the review of the operations and financial records of UNCDF. The Board noted that UNCDF continued to acquire increasing amounts of voluntary contributions for

programme activities. Against this background, UNCDF should adapt its internal processes to adequately respond to a possibly higher programme volume. The Board also noted that, in some areas, UNCDF had potential to further enhance its processes and procedures to ensure efficiency and effectiveness in using resources from funding partners. For instance, this applied to the management of its consultants and individual contractors.

Key findings

Enterprise and programme risk management

In the UNCDF enterprise risk management policy, a risk register is described as a risk management tool that serves as a record of all risks identified by the unit. For each risk identified, the risk register should include information such as likelihood, consequences and treatment options.

The Board noted that the UNCDF risk management platform served as its risk register. The platform included risks at the programme level. For global and regional programmes, the risk management platform did not include risks identified in the countries in which the programmes were implemented. The Board holds that such practices limit UNCDF from having a holistic appreciation of the risks in question.

The Board further noted that the risk management platform was not designed to distinguish between the risks from different programme layers, for example, global and local layers. The Board holds that different layers in the risk management platform could facilitate risk management for programme managers and programme area units (practices). Different layers could also facilitate the consolidation and aggregation of risks identified at the local level.

Management of individual contractors

The work and performance of an individual contractor needs to be evaluated and monitored by the responsible manager on a regular basis to ensure that the contractual obligations are fully met. The key elements for such monitoring are the deliverables, time frame and costs. The Board found that the set-up of purchase orders in Atlas, the enterprise resource planning system, did not facilitate such monitoring. In some cases, deliverables were entered in a consolidated manner into the purchase orders contained in Atlas. Efficient monitoring of deliverables in those cases required the related contract and the terms of reference. The Board holds that the entry of individual deliverables into the purchase orders contained in Atlas could facilitate the monitoring of the deliverables.

Amendments to an individual contract may be made when it is extended beyond the initial contract period and/or when there are minor modifications to the contract provisions. Amendments can be made owing to unforeseen circumstances or incidents that cause delays to the completion of work or owing to additional activities in line with the original terms of reference. The justification provided should explain why additional work is being executed through an amendment and not through the issuance of another contract. Any substantial revision of the terms of reference and/or revised deliverables requires a new competitive process.

The Board noted from its selected sample of individual contracts that contracts were amended with up to three extensions. Among them, the Board found some cases in which UNCDF had significantly raised the original contract value, by up to 177 per cent. In these cases, the Board also noted that the amendments added deliverables and outputs or changed those set out in the contract and/or in the terms of reference. In accordance with the policy on individual contracts, in both cases, UNCDF should have considered these amendments to be substantial contract revisions that required a new competitive process.

Recommendations

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

Enterprise and programme risk management

(a) **Review and define its risk management platform to formalize the arrangement and risk recording system across its organization in order to comply with its enterprise risk management policy and to record risks identified;**

Management of individual contractors

(b) **Assess whether monitoring of travel expenses and deliverables against contracts may be facilitated by additional guidance on how contracts should be translated into purchase orders;**

(c) **Enhance compliance with the policy on individual contracts by initiating new competitive processes in case of substantial contract revisions or provide appropriate justifications for direct contracting and strengthen the instrument of procurement planning.**

Previous recommendations

As at 31 May 2020, UNCDF had implemented all eight recommendations made for 2018 and previous years (100 per cent) (see the annex to the present report). The Board was pleased to note the successful implementation of the recommendations.

Key facts

$10.1 million	Approved budget (regular resources)[1]
$7.9 million	Revenue (regular resources)
$9.6 million	Actual expenses (regular resources). Only regular resources are budgeted and approved by the Executive Board
$143.6 million	Revenue from voluntary contributions
$26.2 million	Actual expenses for grants and transfers
156	Total number of staff
$21.1 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 2019, 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 2019, 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 2019 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.

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

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

5. The Board continued to work collaboratively with the Office of Audit and Investigations of UNDP to provide coordinated audit 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.

6. The audit was carried out on-site at two UNCDF country offices, in November 2019 and January 2020, and at UNCDF headquarters in New York, in October 2019 and January 2020, and was subsequently carried out remotely, from 13 April to 12 June 2020, owing to the coronavirus disease (COVID-19) global pandemic. The latter period included the final audit of the financial statements.

7. The auditors engaged in discussions with UNCDF management to continuously assess the impacts of the COVID-19 global pandemic on the entity. The Board noted that UNCDF closely monitored possible impacts of the pandemic in its risk management group and addressed the risks in its programme risks. UNCDF disclosed the COVID-19 global pandemic in 2020 as a non-adjusting event after the reporting date, briefly describing its main impacts, in note 26 to the financial statements.

B. Findings and recommendations

1. Follow-up of previous recommendations

8. The Board noted that eight recommendations were outstanding when its report for the financial year ended 31 December 2018 was issued. The Board found that UNCDF had subsequently implemented all eight recommendations (100 per cent). Details are shown in the annex to the present report.

9. The Board sees continuing good progress in the implementation of recommendations from prior years. This applies to all recommendations made in prior years in the areas of management of property, plant and equipment, non-exchange transactions, management of loans and guarantees and monitoring of grants in Atlas.

2. Financial overview

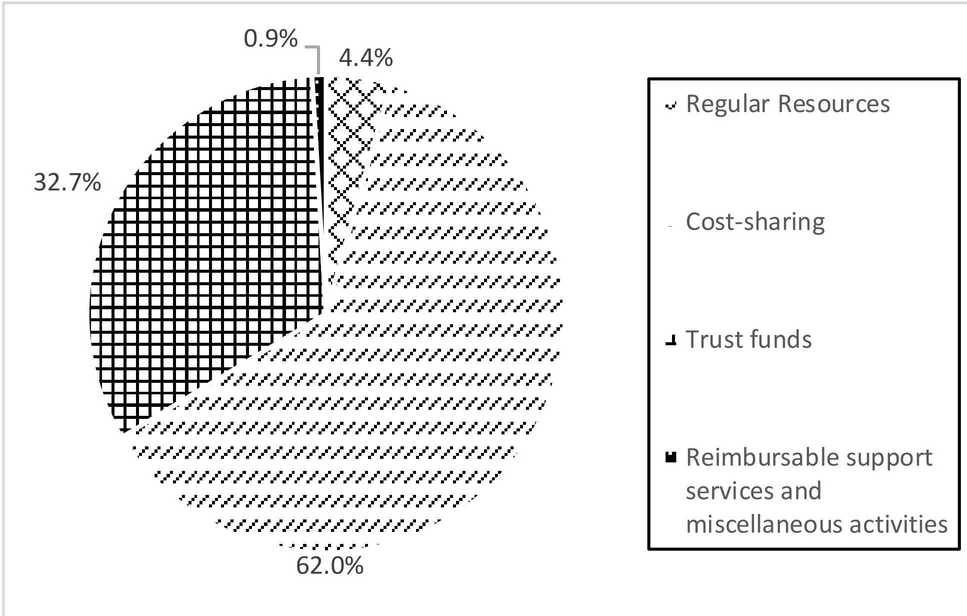
Revenue and expenses

10. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2019, total revenue amounted to $147.64 million (2018: $94.12 million, restated) and total expenses amounted to $73.57 million (2018: $60.86 million), resulting in a surplus of $74.07 million (2018: $33.26 million, restated). The total voluntary contributions to the Fund were $143.61 million (2018: $91.01 million, restated), equivalent to 97.2 per cent (2018: 96.7 per cent) of total revenue (net of returns to donors for unused contributions).

11. Voluntary contributions increased by $52.60 million (57.8 per cent) to $143.61 million compared with 2018 contributions of $91.01 million (restated). The increase reflects strong donor support for projects in 2019 and following years. The amount of voluntary contributions comprised regular resources of $6.27 million (4.4 per cent), cost-sharing of $89.00 million (62.0 per cent), trust funds amounting to $47.00 million (32.7 per cent) and reimbursable support services and miscellaneous

activities amounting to $1.34 million (0.9 per cent). These contribution levels are shown in figure II.I.

Figure II.I
Comparative voluntary contributions for regular and other resources

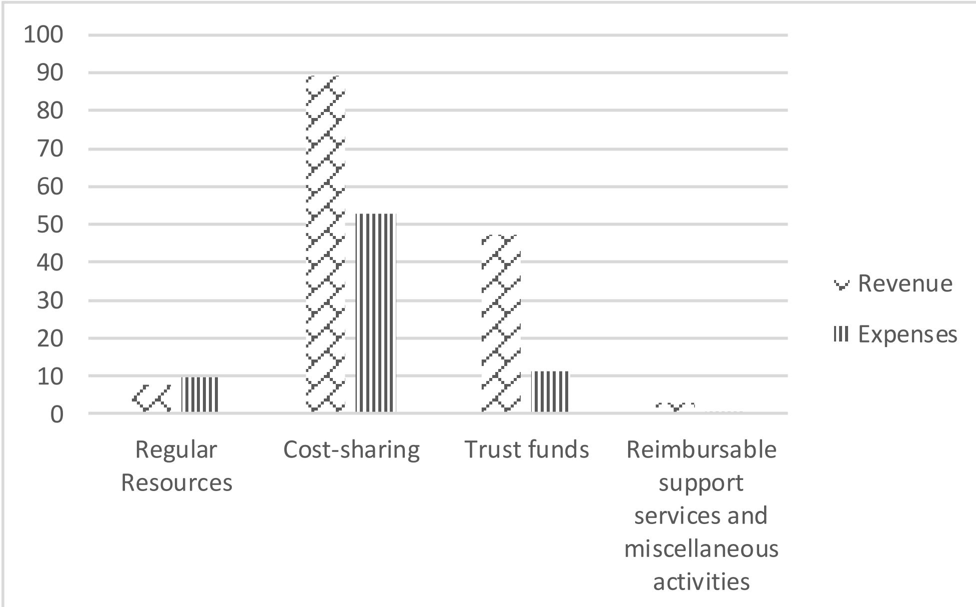


Source: Analysis by the Board of UNCDF 2019 financial statements.

12. Total expenses increased by 20.9 per cent, from $60.86 million in 2018 to $73.57 million in 2019. The breakdown by segment was: cost-sharing expenses of $52.64 million (71.6 per cent); trust fund expenses of $11.20 million (15.2 per cent); and regular resources expenses of $9.58 million (13.0 per cent). The breakdown of expenses by segment also shows an amount of $4.60 million under reimbursable support services and miscellaneous expenses, less recovery of $4.44 million.

13. The classification of the expenses by nature indicates that $26.20 million (35.6 per cent) was spent for grants and other transfers; $21.06 million (28.6 per cent) for staff costs; $10.26 million (13.9 per cent) for general operating expenses, net of $4.44 million for cost recovery; $14.13 million (19.3 per cent) for contractual services; and $1.92 million (2.6 per cent) for supplies and consumables, other expenses, depreciation and bank charges. Comparative revenue 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 2019 financial statements.

Ratio analysis

14. The analysis by the Board of the Fund's main financial ratios (see table II.1 below) shows a strong increase in the ratio of assets to liabilities in 2019 compared with 2018. The increase in the ratio of assets to liabilities is the result of an increase in multi-year contributions that led to increased assets and net assets but not to increased liabilities compared with 2018.

Table II.1
Ratio analysis

Description of ratio	*31 December 2019*	*31 December 2018 (restated)*
Current ratio[a]		
Current assets: current liabilities	31.35	13.96
Total assets: total liabilities[b]	14.20	9.13
Cash ratio[c]		
Cash plus investments: current liabilities	15.65	6.69
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	31.14	13.84

Source: Analysis by the Board of UNCDF 2019 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.

15. The current assets of UNCDF as at 31 December 2019 were $172.11 million, or 31.4 times the current liabilities of $5.49 million, which indicates the Fund's ability to meet its short-term obligations. Similarly, total assets of $295.20 million exceeded total liabilities of $20.79 million, which indicates a healthy financial position. An increase in the current ratio and the quick ratio is attributed mainly to an increase in cash and cash equivalents and in the receivables from non-exchange transactions for multi-year contributions and a decrease in accounts payable.

16. 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 2019, UNCDF held a reserve of $6.2 million compared with a reserve of $6.4 million reported on 31 December 2018. The difference of $0.2 million represents an operational reserve transfer to the accumulated surplus of the year.

3. Financial statements and accounting-related matters

Treatment of non-exchange transactions

17. In 2019, UNCDF further refined its accounting treatment of non-exchange transactions pursuant to IPSAS 23: Revenue from non-exchange transactions. Under the new policy, receivables and revenue are recognized in full – including multi-year contributions – at the time the agreement is signed, provided that inflows of resources meet the definition of an asset and that no conditions exist. If contribution agreements have conditions, UNCDF recognizes a liability, and revenue recognition is deferred until such conditions are met.

18. UNCDF applied the change in accounting policy retrospectively in accordance with IPSAS 3: Accounting policies, change in accounting estimates and errors. Figures for prior years were restated.

19. The Board welcomed the effort made by UNCDF to further review its contribution agreements and, on the basis of that analysis, to refine its policies and procedures, as well as to fully implement the corresponding recommendation of the Board.

4. Audit by the Office of Audit and Investigations

20. The Board noted that the Office of Audit and Investigations performed an internal audit on UNCDF in February and March 2020. In its audit report number 2198 dated 14 May 2020, the Office gave an overall rating of partially satisfactory/some improvements needed.

21. The Board further noted that the Office of Audit and Investigations made observations in the areas of risk management, project administration, administrative services and communication and information technology. As a result, the Board adjusted its risk assessment for the financial audit. However, the adjustment did not lead to the detection of material misstatements in the financial statements. In addition, the Board refers to the similar observations that it has made in the present report. The Board further noted that the internal report did not cover the management of individual contractors, and, thus, the Board covered this topic in greater detail in its report.

5. Enterprise and programme risk management

Risk management platform as a risk register

22. UNCDF has set up its own policies and guidance for programme and project management in chapter two of its operations manual. The policies and procedures as well as roles and responsibilities for risk management at UNCDF are set out in the enterprise risk management policy.

23. UNCDF implements its programmes using global, regional and local programmes. UNCDF implements global and regional programmes in more than one country.

24. UNCDF sets up its programmes using a "one award – multiple projects" structure in Atlas, which means that it creates a new project in Atlas for every donor, even if this results in multiple projects for the same programme. UNCDF stated that this approach makes it impractical to use Atlas risk logs to collect and monitor project and programme risks. To address this shortcoming, in 2018, UNCDF devised a new platform using its intranet SharePoint site to regularly collect, update and monitor the risks/issues logs (risk management platform). The risk management platform serves as the main risk register for UNCDF.

25. In the enterprise risk management policy, a risk register is described as a risk management tool that serves as a record of all risks identified by a unit. For each risk identified the risk register should include information such as likelihood, consequences and treatment options. The UNCDF operations manual states that projects are not required to enter risk logs into Atlas and that logs are to be updated on the dedicated platform.

26. The Board noted that the risk management platform included UNCDF programmes and collected the risks identified at the programme level. Those are risks that potentially affect the programme as a whole, for example, financial risks (contributions and foreign exchange rates) or risks that might apply to different countries of implementation.

27. During its visit to country programme offices, the Board noted that programme managers keep project risk logs locally in Atlas for risks identified in the country of implementation. The risk management platform did not include those risks identified in the countries of implementation.

28. The Board further noted that, in its report number 2198 dated 14 May 2020, the Office of Audit and Investigation had made similar observations.

29. **The Board recommends that UNCDF review and define its risk management platform to formalize the arrangement and risk recording system across its organization in order to comply with its enterprise risk management policy and to record risks identified.**

30. UNCDF agreed with the recommendation.

Consolidation and escalation of risks

31. UNCDF classifies its risks using a colour scale according to the combination of probability and impact of the risk pursuant to the guidelines of the international standard on risk management (ISO 31000). UNCDF uses green for acceptable risks that require no action. Yellow risks require treatment within an acceptable time frame. Orange risks need to be reported to the superior as soon as possible while activities may continue. Red risks need to be reported to the superior immediately and activities giving rise to the risk should be stopped.

32. The Board noted that the enterprise risk management policy requires the escalation and reporting of risks by programme managers only for risks classified as orange or red. Risks at the country level assessed as green or yellow are currently not included in risk reports owing to the definition provided in the enterprise risk management policy.

33. The Board further noted that the risk management platform was not designed to distinguish between the risks from different programme layers, for example global and local layers. The Board holds that different layers in the risk management platform could facilitate risk management for programme managers and programme area units (practices). Different layers could also facilitate the consolidation and aggregation of risks identified at the local level.

34. The Board further holds that yellow and green risks at the country level may occur in more than one or all of the countries in which global and regional programmes are being implemented. Even if the individual risk at the country level does not need to be escalated, the occurrence of a risk in different countries potentially aggregates its impact on the programme and, thus, may require action. This assessment may only be made at the headquarters level of the practices with an overview of the risks identified.

35. The enterprise risk management policy does not explicitly provide for the possibility that risks can be escalated by senior management of the practices. The Board holds that, in the case that locally identified risks aggregate as a result of their occurrence in several different locations, the possibility for practices at the headquarters level to escalate risks might enhance risk management.

36. **The Board recommends that UNCDF enhance the risk management platform in a way that allows for the consolidation and aggregation of risks identified for the programmes at the country level.**

37. **The Board also recommends that UNCDF assess, for possible inclusion in the enterprise risk management policy, whether risk management would be enhanced if risks could be escalated by superiors**.

38. UNCDF agreed with the recommendations.

6. Management of individual contractors

39. The UNCDF workforce covers staff and non-staff contract modalities. In 2019, UNCDF incurred staff expenses of approximately $21.1 million, while expenses on service contracts were about $1.8 million and expenses on individual contractors (international and local) amounted to $8.7 million.

40. UNCDF has opted to comply with the Financial Rules and Regulations and the Programme and Operations Policies and Procedures of UNDP, where applicable. For managing individual contractors, UNCDF applies UNDP policies on individual contractors.

Current use of individual contracts

41. The policy on individual contracts guides UNCDF on how to administer and manage the individual contract modality. Individual contracts are used to hire personnel to perform time-bound and non-staff tasks aimed at delivering clear and quantifiable outputs. This modality may be used at headquarters and at the country level. The Board found instances of non-compliance with this policy.

42. Pursuant to the UNDP policy on individual contracts, a number of circumstances indicate that an individual contract is not the appropriate contract modality and that other modalities need to be taken into account. For instance, if the terms of reference

or the job title are similar to any of those in the generic terms of reference of UNCDF staff, an individual contract is not the appropriate modality. The policy also stipulates that an individual contract should not be used if it is difficult to quantify or identify the outputs because the tasks are a going concern or need to be performed on a continuous basis. In addition, the policy stipulates that an individual contract is specifically designed for engaging individuals who are paid for the outputs that they produce for UNCDF. For this reason, individual contractors may be paid a fixed and identical amount every calendar month only in exceptional cases. Fixed-term appointments, temporary assignments and service contracts are the appropriate contract modality where monthly payments are required.

43. The Board identified one case from its sample in which the contractual conditions indicated that a fixed-term agreement would have been the appropriate contract modality. In this case, the individual contractor had two consecutive contracts (including amendments) from February 2016 to December 2019. The total engagement time of the consultant was 46 months, thereby exceeding the cumulative contract duration of 24 months. The individual contract described deliverables that contributed towards UNCDF goals and did not define quantifiable deliverables but rather reflected tasks that were of a continuous nature. These deliverables could not be completed within a specified time. The Board noted a lack of documentation indicating that all available modalities had been assessed before it was decided that an individual contract was the appropriate modality. Such an assessment is required pursuant to the policy on individual contracts.

44. The Board found that UNCDF justified its non-compliance with operational or programmatic needs, by referring, for instance, to the non-flexible staff modalities and the utilization of the most appropriate contract type available under the current framework. In the view of the Board, such practice might also be attributed to a limited acceptance of the requirements and an underestimation of the risks resulting from an inappropriate use of the modalities.

45. The new "People for 2030" strategy of UNDP is aimed at, among other things, revising and streamlining its current workforce contract modalities. For instance, UNDP plans to identify criteria to ensure the appropriate use of contract modalities covering individual contracts, service contracts and other flexible contract modalities.

46. The Board holds that the implementation of the "People for 2030" strategy concerning the workforce contract modalities might be an opportunity for UNCDF to address its need for more flexible contract arrangements. The Board further holds that clear criteria for making a distinction between staff and non-staff tasks and functions and the introduction of other flexible contract modalities may also enhance appropriate use of the individual contract modality.

47. **The Board recommends that UNCDF consult with UNDP on the revision by UNDP of contract modalities in order to assess whether the changes and new approaches envisaged by UNDP may be transferred to UNCDF.**

48. UNCDF agreed with the recommendation.

Monitoring of contracts

49. The work and performance of an individual contractor need to be evaluated and monitored by the responsible manager on a regular basis to ensure that the contractual obligations are fully met. The key elements for such monitoring are the deliverables, time frame and costs. The conditions of an individual contract and the terms of reference are the basis for contract management. Related payments need to be certified by the responsible manager to ensure that the contractual obligations are fully met.

50. The Board noted that the monitoring of deliverables against the output stipulated in the contract could be enhanced and better documented. In some cases, the Board found that deliverables reported by consultants in certificates of payment deviated from contracts and corresponding terms of reference with regard to either content, contract duration or value. In one case, the Board also found deviations in travel expenses claimed by the individual contractor.

51. The Board further found that the set-up of purchase orders in Atlas did not facilitate such monitoring. In some cases, deliverables were entered in a consolidated manner into the purchase orders contained in Atlas. Efficient monitoring of deliverables in those cases required the contract and the terms of reference. The Board holds that the entry of individual deliverables into purchase orders contained in Atlas could facilitate the monitoring of deliverables. The Board noted that the same applied to travel expenses claimed by individual contractors.

52. **The Board recommends that UNCDF assess whether monitoring of travel expenses and deliverables against contracts could be facilitated through additional guidance on how contracts should be translated into purchase orders.**

53. UNCDF agreed with the recommendation.

Use of amendments and direct contracting

54. The policy on individual contracts states that amendments to an individual contract may be made when it is extended beyond the initial contract period and/or when there are minor modifications to the contract provisions. Amendments can be made owing to unforeseen circumstances or incidents that cause delays to the completion of work or owing to additional activities in line with the original terms of reference. The justification provided should explain why additional work is being executed through an amendment and not through the issuance of another contract. Any substantial revision to the terms of reference and/or revised deliverables requires a new competitive process.

55. The Board noted from its selected sample of individual contracts that contracts were amended with up to three extensions. Among them, the Board found some cases in which UNCDF had significantly raised the original contract value, by up to 177 per cent. In these cases, the Board also noted that the amendments added deliverables and outputs or changed those set out in the contract and/or in the terms of reference. In accordance with the policy on individual contracts, in both cases, UNCDF should have considered these amendments to be substantial contract revisions that required a new competitive process.

56. In one of these cases, the Board noted that UNCDF was aware that such an amendment constituted a case of direct contracting. Pursuant to the policy on individual contracts, a single candidate for an individual contract may be considered only if an appropriate justification for the direct contracting has been provided in accordance with regulation 121.05 of the Financial Rules and Regulations. However, the justification documented by UNCDF in this case did not meet these requirements.

57. UNCDF explained that the organization was continuously receiving funding from partners. These funds enabled UNCDF to extend certain projects to more countries and the need for amendments in the cases identified by the Board was not always foreseeable. UNCDF further explained that its operations called for very specific knowledge that could be provided only by a limited number of individuals.

58. The Board is of the opinion that UNCDF should strengthen the instrument of procurement planning (forecasting and quantification) to ensure that business units realistically determine the need for and value of a contract prior to procurement.

59. **The Board recommends that UNCDF enhance compliance with the policy on individual contracts by initiating new competitive processes in case of substantial contract revisions or provide appropriate justifications for direct contracting and strengthen the instrument of procurement planning.**

60. UNCDF agreed with the recommendation.

Contract duration and related controls

61. The policy on individual contracts states that the duration of an individual contract should be directly related to the required outputs/deliverables in accordance with the terms of reference. An engagement by the same business unit under the same contract (including amendments and extensions) and the same (or essentially the same) terms of reference requires the approval of the Regional Bureau Director or the Resident Representative prior to the issuance of an individual contract or any amendment, if the contract exceeds a single or cumulative period of 24 months. The policy further states that a series of two or more individual contracts, when awarded to the same individual by the same business unit over a period exceeding 24 months, is also subject to approval by the Regional Bureau Director or the Resident Representative, regardless of differences in the terms of reference, project context or selection process.

62. The Board noted cases where UNCDF did not comply with the above requirements and went beyond the 24-month rule. While the Board is aware that UNCDF has a different organizational structure to UNDP, it nevertheless holds that the mechanisms mentioned and adherence to the policy on individual contracts constitute important controls with regard to contract duration. The control function of the Regional Bureau Director or the Resident Representative should be clarified in the organizational structure of UNCDF.

63. **The Board recommends that UNCDF should adapt the control functions included in the policy on individual contracts to its organizational structure.**

64. UNCDF agreed with the recommendation.

Signature dates on contracts and amendments

65. The policy on individual contracts refers to the signature date in different paragraphs. For example, no work may be conducted before the contract is signed by both contract parties. Another example is that a contract may be amended only during the contract period.

66. The Board noted that none of the reviewed contracts showed the signature dates of both contract parties, UNCDF and the individual contractor. Furthermore, 4 of 10 amendments did not show the signature dates of both contract parties. The Board holds that the signature dates on contracts and amendments are necessary to document compliance with the policy on individual contractors.

67. **The Board recommends that UNCDF take measures to ensure that contracts and amendments for individual contractors are signed by both contract parties with the date of signature.**

68. UNCDF agreed with the recommendation.

Observations related to the country level

69. During its visits to country programme offices, the Board found that individual contracts were also managed at the country level. The Board noted that some of the findings mentioned above were derived from individual contracts managed at the country level.

70. The Board also noted that the offices were sometimes staffed with a very small number of programme staff. Staff members specialized in procurement and/or the management of individual contractors were generally not available. The Board holds that enhanced supervision could lead to behavioural change and, thus, could enhance the management of individual contracts and compliance with the policy on individual contracts at the country level.

71. The Board noted that, in 2018, UNCDF assessed the compliance of country teams with policies on and procedures for managing individual contracts. The Board welcomed the fact that UNCDF addressed the revealed deficiencies with different measures, such as additional training for international and national staff or improved guidance provided by regional teams to country teams in 2019 and 2020. The Board intends to further monitor whether the measures have the expected results.

72. **The Board recommends that UNCDF enhance supervision on managing individual contracts for the country teams where limited compliance with the policy was observed in order to foster behavioural change.**

C. Disclosures by management

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

73. The administration informed the Board that, in accordance with financial rule 126.17, in 2019, UNCDF had write-offs in the amount of $571,143.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

75. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements in such a way that it can reasonably expect to identify 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.

76. 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 enquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Office of Audit and Investigations.

77. UNCDF reported two cases of presumptive fraud during 2019. The cases involved other failures to comply with obligations. The amount involved is unknown.

D. Acknowledgement

78. 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

21 July 2020

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2018

No.	*Audit report year*	*Report reference*	*Summary of recommendations 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. 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 it is officially released. The estimated implementation date is June 2019.	The Board noted that UNCDF had drafted a policy on the review of the useful life of property, plant and equipment to address this recommendation. The policy gives guidance on how the annual review shall be performed. UNCDF approved the policy in June 2019. The Board considers the recommendation to be implemented.	X			
2	2018	A/74/5/Add.2, chap. II, para. 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: Revenue from non-exchange transactions.	UNCDF has implemented this audit observation by refining its revenue recognition policy in 2019. This change in accounting policy was applied retrospectively to the 2019 financial statements. The restatement of comparative amounts has been performed for prior year periods. Please refer to note 5 to the 2019 financial statements for further details.	The Board noted that UNCDF has further refined its policies and procedures to enhance the recognition of non-exchange transactions pursuant to IPSAS 23. UNCDF has reviewed its contribution agreements. Identified necessary changes in accounting have been applied to the financial records and prior year adjustments were made retrospectively. The Board considers the recommendation to be implemented.	X			

No.	Audit report year	Report reference	Summary of recommendations 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	2018	A/74/5/Add.2, chap. II, para. 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.	UNCDF has updated its loan and guarantee policy to include the option.	The Board noted that UNCDF had created an addendum to the loan and guarantee policy. The addendum gives UNCDF the option to finalize the loan repayment schedule after the disbursement of the principal amount. The Board considers the recommendation to be implemented.	X			
4	2018	A/74/5/Add.2, chap. II, para. 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.	UNCDF has implemented this recommendation by updating the loan agreement template to include the option to finalize the loan repayment schedule after disbursement of the principal amount. Please refer to the new template, pages 5 and 6, article 3.1.1.	The Board noted that UNCDF had revised its standard loan agreement. The standard loan agreement now includes a more flexible approach for UNCDF to change the loan repayment schedule. The Board considers the recommendation to be implemented.	X			
5	2018	A/74/5/Add.2, chap. II, para. 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.	UNCDF has implemented this recommendation by ensuring that final loan repayment schedules are signed by both the borrower and the lender.	The Board noted that the new standard loan agreement includes a phrase to the effect that amended repayment schedules must be executed by both contract parties. UNCDF further provided examples of the implementation of that section. The Board considers the recommendation to be implemented.	X			

No.	Audit report year	Report reference	Summary of recommendations 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	2018	A/74/5/Add.2, chap. II, para. 38	The Board recommends that UNCDF strengthen quality assurance and quality review mechanisms to foster more consistent and coherent loan agreements.	UNCDF has implemented this recommendation by establishing clear roles and responsibilities for loan processes, including review and quality assurance. Please refer to the documents provided listing roles and responsibilities, as well as a sample of a loan agreement signed since the introduction of the new process, which provides evidence for quality assurance.	The Board noted that UNCDF had assigned clear roles and responsibilities in the administration of loans and guarantees and documented the roles and responsibilities in an instruction note by the Least Developed Countries Investment Platform Unit. The note includes review and quality assurance for loan agreements. The Board considers the recommendation to be implemented.	X			
7	2018	A/74/5/Add.2, chap. II, para. 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.	UNCDF updated its loan and guarantee policy to clarify the requirements for payments made in local currencies.	The Board noted that UNCDF had created an addendum to its loan and guarantee policy. The addendum clarifies that all payments in local currency of principal, interest and any amount falling due under the borrower or guarantee agreement must be deposited in a designated UNDP bank account. The Board considers the recommendation to be implemented.	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Summary of recommendations 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*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
8	2018	A/74/5/Add.2, chap. II, para. 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.	UNCDF has implemented this recommendation by making grant module usage mandatory. In addition, UNCDF has completed the impact assessment of the UNCDF grants module (please see the file provided for details).	The Board noted that UNCDF had performed a review and assessment of the mandatory use of the UNCDF grants module in Atlas. The report showed that UNCDF had reviewed the 100 most recent grants. UNCDF found that all grants were entered into Atlas and complied with the guidelines of entering risks, impact and monitoring and evaluation as requested. The Board randomly tested the grants entered into Atlas and did not reveal anything to the contrary. The Board considers the recommendation to be implemented.	X			
Total					**8**	**8**	**0**	**0**	**0**
Percentage					**100**	**100**	**0**	**0**	**0**

Chapter III
Financial report for the year ended 31 December 2019

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 2019. 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 2019 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. 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, 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.

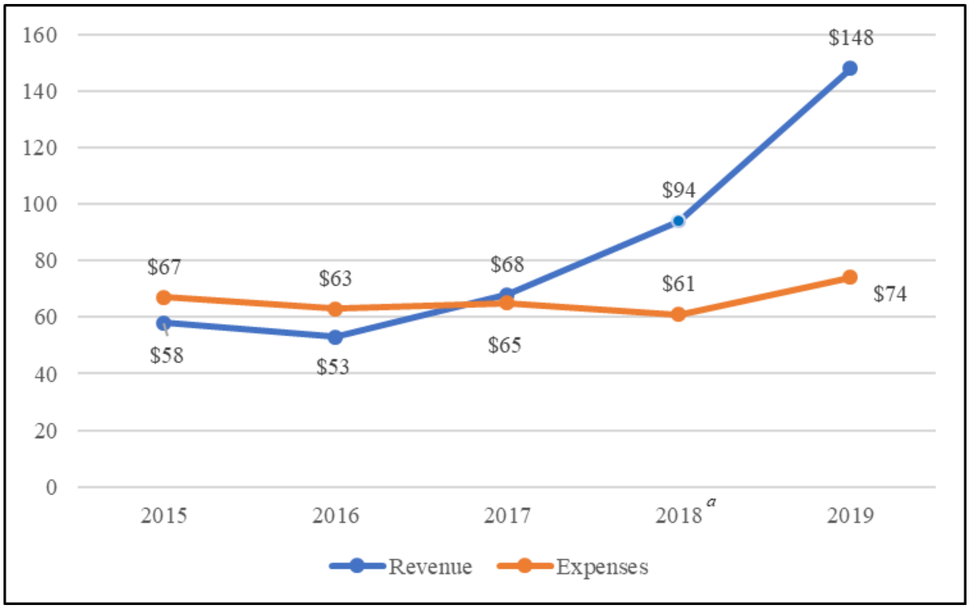
7. The financial reporting objective of UNCDF is to provide users of the financial statements with transparent, comprehensive and understandable financial information.

B. Summary financial results and highlights

8. Total revenue increased by 56.9 per cent, from $94.1 million in 2018 (restated) to $147.6 million in 2019. Total expenses increased by 20.9 per cent, from $60.9 million in 2018 to $73.6 million in 2019. Total accumulated surpluses and reserves increased by 38.5 per cent, from $198.1 million in 2018 (restated) to $274.4 million at the end of 2019. That increase is attributable primarily to a surplus of the year of $74.1 million. The recorded increase in total revenue and expenses indicate a resonance of the capital mandate of UNCDF and its contribution to accelerating financing for the 2030 Agenda.

9. At the end of 2019, UNCDF had total assets of $295.2 million, up from $222.5 million in 2018 (restated). The increase is attributable primarily to an increase in receivables from non-exchange transactions of $44.6 million, and an increase in cash and investments of $30.3 million.

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



[a] In 2019, UNCDF changed its accounting policy for revenue recognition. The 2018 amounts were restated in line with that change in policy. See note 5, Change in accounting policy, in the UNCDF financial statements.

C. Financial performance

Revenue analysis

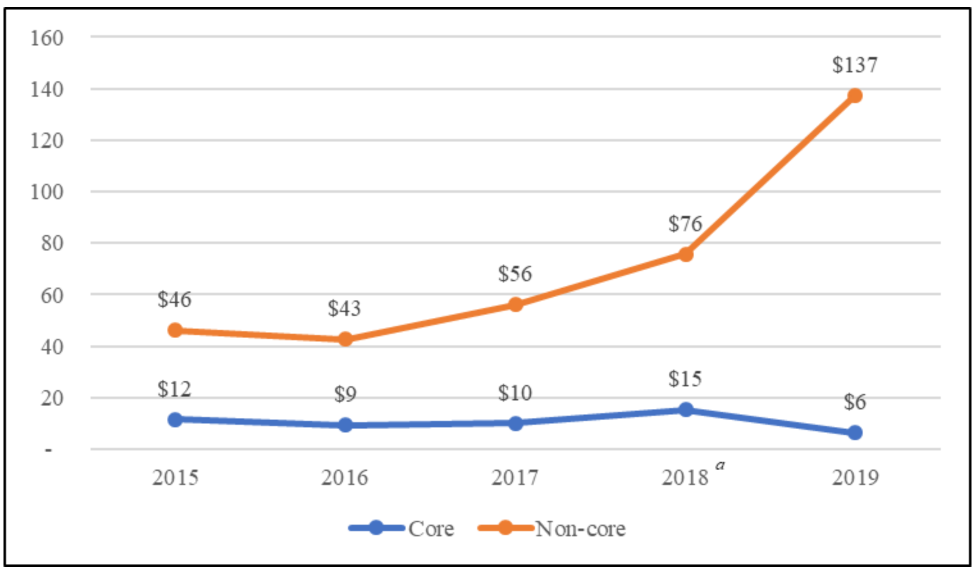
10. The activities of UNCDF are funded by voluntary contributions to regular (core) resources and other (non-core) resources.

11. Total revenue in 2019 was $147.6 million, an increase of $53.5 million (56.9 per cent) from revenue of $94.1 million in 2018 (restated). The main sources of revenue in 2019 were the following:

- $143.6 million (97 per cent) from voluntary contributions, compared with $91.0 million (97 per cent) in 2018 (restated);
- $4.0 million (3 per cent) from investment and other revenue, compared with $3.1 million (3 per cent) in 2018.

12. In 2019, UNCDF recognized $6.3 million in regular (core) contributions (4 per cent of total resources) and $137.3 million in other (non-core) contributions (96 per cent of total resources). The decrease in regular (core) contribution of $9.0 million is due to a difference in timing as a result of revenue policy change. Core contributions of $3.7 million were recognized in 2018 while cash was received in 2019.

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



[a] In 2019, UNCDF changed its accounting policy for revenue recognition. The 2018 amounts were restated in line with that change in policy. See note 5, Change in accounting policy, in the UNCDF financial statements.

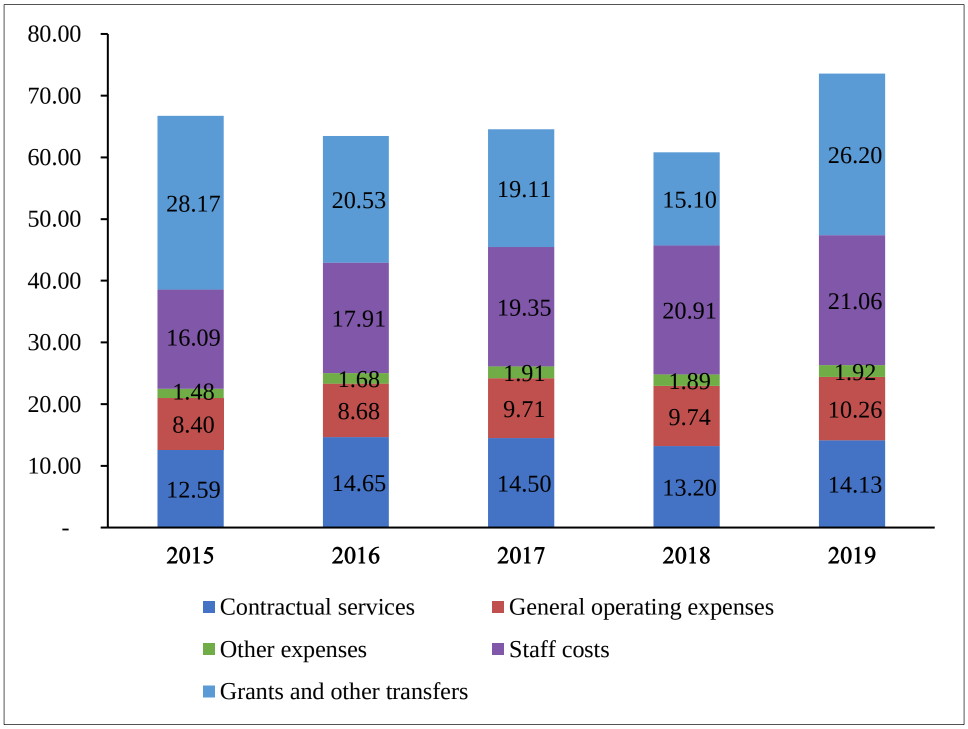
Expense analysis

13. In 2019, UNCDF expenses were $73.6 million ($78.0 million excluding the effect of the elimination of internal UNCDF cost recovery), an increase of $12.7 million (21 per cent) from 2018. The increase is due mainly to the impact of programme cycles, where several large programmes started the implementation in 2019.

14. Grants and other transfers amounting to $26.2 million in 2019 represent the UNCDF capital investment portion of programme delivery.

15. The other two largest expense categories by nature in 2019 were staff costs ($21.1 million) and contractual services ($14.1 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 2019, of total expenses of $78.0 million (excluding the effect of the elimination of internal cost recovery), $69.1 million (88 per cent) was spent on programme activities, $4.4 million (6 per cent) on development effectiveness and $4.6 million (6 per cent) on management activities.

D. Surplus/deficit

18. In 2019, UNCDF had a surplus of revenue over expense of $74.1 million, compared with a surplus of $33.3 million in 2018 (restated). The increase of $40.8 million consists of:

- Increase in total revenue of $53.5 million (or 57 per cent), from $94.1 million in 2018 (restated) to $147.6 million in 2019.
- Reduced by an increase in spending of $12.7 million, from $60.9 million in 2018 to $73.6 million in 2019.

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

	2019		*2018*	
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	8.9	92	13.6	79
Management activities	1.3	92	0.9	78
Total	**10.2**	**92**	**14.5**	**79**

22. Overall, UNCDF utilized 92 per cent of its approved budgeted amount, a better performance compared to the utilization level for 2018 (79 per cent).

F. Financial position

Assets

23. At the end of 2019, UNCDF held assets of $295.2 million (2018 restated: $222.5 million). The increase is comprised largely of an increase in non-exchange receivables of $44.6 million (61 per cent), and an increase in cash and investments of $30.3 million (42 per cent).

24. At the end of 2019, the increase in the Fund's investment balance was placed largely into cash equivalent and current investments. The remaining funds were spread throughout 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 decreased by $3.6 million (15 per cent), from $24.4 million in 2018 (restated) to $20.8 million in 2019.

26. The most significant changes in liabilities were a result of the decrease in accounts payable and accrued liabilities of $4.2 million from the previous year.

27. At the end of 2019, UNCDF held after-service health insurance liabilities of $12.6 million (2018 restated: $13.1 million). The Fund's after-service health insurance liabilities continue to be fully funded.

Net assets/equity

28. Net assets/equity of $274.4 million in 2019 reflects amounts received as advance funding from UNCDF partners for activities funded under the integrated resources plan.

29. Net assets/equity includes accumulated surpluses of $268.2 million and operational reserves of $6.2 million. As a result of the change in revenue recognition policy detailed in note 5, accumulated surpluses at 31 December 2019 now include receivables for future periods of $133.9 million. Under the financial regulations and rules of UNCDF, the organization is only permitted to spend when the cash is received.

30. Operational reserves comprised a $4.7 million operational reserve for regular resources and a $1.5 million operational reserve for other resources.

31. During 2019, net assets/equity increased by $76.3 million (39 per cent) as a result of the combined effect of the following factors: (a) a surplus of $74.1 million; (b) actuarial gains of $1.1 million; and (c) an increase in the fair value of available-for-sale investments of $1.1 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 2019

44. With regard to IPSAS 23: Revenue from non-exchange transactions, in 2019, UNCDF refined its accounting policy for recognizing revenue from voluntary contributions. Under the previous policy, UNCDF recognized revenue 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, revenue from non-exchange transactions is recognized in full, including for multi-year contributions, at the time the contribution agreement is signed, where no performance conditions are present. If contribution agreements with performance conditions beyond the control of UNCDF are identified, revenue recognition is deferred until such conditions are met. This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. Therefore, the restatement of comparative amounts has been performed for prior year periods. The new policy provides more reliable information since it better reflects the substance of the underlying transaction. The change in accounting policy, including the impact on 2018 comparatives, is disclosed in note 5, Prior-period adjustment and change in accounting policy, to the 2019 UNCDF financial statements.

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 2019. The new accounting standard was issued to align with International Accounting Standard 19 and did not have any significant impact on the Programme's financial statements.

Adoption of new accounting standards

46. 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 public sector-specific issues while maintaining convergence with the International Financial Reporting Standards and developing guidance to meet users' broader financial reporting needs.

47. The IPSAS Board has 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 be adopting the new standard, as required, effective 1 January 2022. UNCDF is assessing the impact of the new standard on its financial statements.

48. The IPSAS Board has approved exposure draft 70: Revenue with performance obligations, and agreed on an exposure period of six months from the date of publication. Exposure draft 70 is based on International Financial Reporting Standard 15: Revenue from Contracts with Customers, and has been expanded to apply to binding arrangements that are not necessarily contractual. Exposure draft 70 has a broadened scope with a greater emphasis on the transfer of goods or services to third-party beneficiaries. Exposure draft 71, Revenue without performance obligations, was also approved and updates IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). It addresses revenue that arises from binding arrangements with present obligations that are not performance obligations, and revenue not related to binding arrangements. The related exposure draft 72: Transfer expenses, was also approved and relates to transactions where an entity transfers resources to another party without directly receiving anything in return. The accounting for transfer

expenses with performance obligations mirrors the accounting for revenue with performance obligations in exposure draft 70.

49. UNCDF shall continue to monitor the progression of these exposure drafts and related accounting standards, noting that their application may have an impact on the UNCDF financial standards. An assessment of impact on the UNCDF financial statements in advance of the issuance of any new standards and subsequent implementation is ongoing.

H. Looking forward to 2020 and beyond

Events after reporting date

50. The reporting date for the present financial report is 31 December 2019. With the COVID-19 pandemic outbreak, UNCDF has implemented its business continuity plan to mitigate the operational risks arising from the crisis.

51. The development challenges facing communities across the world are expected to be amplified within least developed countries, where institutional, financial and social resilience might be further impaired by the pandemic outbreak. At this time, UNCDF continues to engage with traditional and emerging partners, the United Nations system and host Governments to support their development ecosystems, formulate policy responses at the local and regional levels, and promote the transformational effect that inclusive financial markets would have for poor and excluded people and communities.

52. Based on the most recent assessment by management, UNCDF continues to operate as a going concern. In line with its enterprise risk management policy, the financial impact shall be assessed on a periodic basis throughout the pandemic emergency.

Looking forward

53. In the year ahead, UNCDF will engage closely to support the preparatory process for the Fifth United Nations Conference on Least Developed Countries, to be held in 2021, to help shape the new agenda for the least developed countries.

54. In local development finance, UNCDF will continue to promote fiscal decentralization for inclusive local economic development and launch a third-party managed fund for municipal infrastructure. UNCDF will also continue to roll out implementation of its new strategy on leaving no one behind in the digital era and support the implementation of the recommendations emerging from the Task Force on Digital Financing of the Sustainable Development Goals.

55. On the basis of the progress with the least developed countries investment platform, UNCDF will scale-up its investments in enterprises that contribute to achieving the Sustainable Development Goals through its on-balance sheet loans to early-stage growth enterprise (once fully capitalized in accordance with the UNCDF strategic framework) as well as through the newly launched third-party-managed fund called the BUILD Fund.

56. Finally, UNCDF will continue to expand its partnerships in order to deepen collaboration with UNDP and other United Nations agencies and to seek new partnerships with traditional and new development partners, as well as the private sector and foundations, to define and deliver solutions to scale-up last-mile financing of the Sustainable Development Goals in least developed countries.

Chapter IV

Financial statements for the year ended 31 December 2019

United Nations Capital Development Fund

I. Statement of financial position as at 31 December 2019

(Thousands of United States dollars)

	Note	*31 December 2019*	*31 December 2018 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 8	32 164	5 274
Investments	Note 9	53 682	54 176
Receivables (non-exchange transactions)	Note 10	78 826	54 765
Receivables (other)	Note 10	6 176	8 882
Advances issued	Note 11	622	584
Loans to financial service providers	Note 12	638	431
Total current assets		**172 108**	**124 112**
Non-current assets			
Investments	Note 9	57 040	53 131
Receivables (non-exchange transactions)	Note 10	64 353	43 804
Loans to financial service providers	Note 12	1 075	1 013
Property, plant and equipment	Note 13	620	434
Total non-current assets		**123 088**	**98 382**
Total assets		**295 196**	**222 494**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 14	1 602	5 790
Advances payable	Note 15	358	365
Deferred revenue	Note 15	–	–
Employee benefits	Note 16	2 534	2 428
Other current liabilities	Note 15	993	309
Total current liabilities		**5 487**	**8 892**
Non-current liabilities			
Accounts payable and accrued liabilities	Note 14	29	–
Deferred revenue	Note 15	–	–
Employee benefits	Note 16	15 269	15 474
Total non-current liabilities		**15 298**	**15 474**
Total liabilities		**20 785**	**24 366**
Net assets/equity			
Reserves	Note 17	6 200	6 400
Accumulated surpluses	Note 18	268 211	191 728
Total net assets/equity		**274 411**	**198 128**
Total liabilities and net assets/equity		**295 196**	**222 494**

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 2019

(Thousands of United States dollars)

	Note	*2019*	*2018 (restated)*
Revenue			
Voluntary contributions	Note 19	143 610	91 013
Investment revenue	Note 20	3 585	2 606
Other revenue	Note 21	446	502
Total revenue		**147 641**	**94 121**
Expenses[a]			
Contractual services	Note 22	14 132	13 203
Staff costs	Note 22	21 061	20 915
Supplies and consumables used	Note 22	977	809
General operating expenses	Note 22	10 259	9 745
Grants and other transfers	Note 22	26 200	15 105
Other expenses	Note 22	870	1 009
Depreciation	Note 22	74	69
Total expenses		**73 573**	**60 855**
Surplus/(deficit) for the year		**74 068**	**33 266**

[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 2019

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2018	**6 400**	**101 403**	**107 803**
Change in accounting policy (note 5)	–	94 839	94 839
Prior-period adjustment (note 5)	–	(4 514)	(4 514)
Balance at 31 December 2018 (restated)	**6 400**	**191 728**	**198 128**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(200)	200	–
Funds with specific purposes (note 18)	–	6	6
Changes in fair value of available-for-sale investments	–	1 141	1 141
Actuarial gains/(losses)	–	1 068	1 068
Surplus for the year	–	74 068	74 068
Total changes in net assets/equity	**(200)**	**76 483**	**76 283**
Balance at 31 December 2019	**6 200**	**268 211**	**274 411**

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 2019

(Thousands of United States dollars)

	2019	*2018 (restated)*
Cash flows from operating activities		
Surplus/(deficit) for the year	74 068	33 266
Adjustments to reconcile deficit for the year to net cash flows		
Depreciation	74	69
Impairment	141	–
Amortization of bond premium	(346)	(71)
(Gains)/losses on disposal of property, plant and equipment	4	53
Interest received on loans to financial service providers	378	137
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	(44 610)	(18 698)
(Increase)/decrease in receivables (other)	(257)	(4 254)
(Increase)/decrease in advances issued	(38)	(40)
(Increase)/decrease in loans to financial service providers	(389)	(1 305)
Changes in liabilities/net assets		
(Decrease)/increase in accounts payable and accrued liabilities	(4 159)	5 464
(Decrease)/increase in funds held on behalf of donors	–	(16)
(Decrease)/increase in funds received in advance and deferred revenue	–	(518)
(Decrease)/increase in advances payable	(7)	365
(Decrease)/increase in employee benefits	969	978
(Decrease)/increase in other liabilities	684	309
(Decrease)/increase in funds with specific purposes	6	500
Cash flows from/(used in) operating activities	**26 518**	**16 239**
Cash flows from investing activities		
Purchases of investments	(94 396)	(74 655)
Maturities of investments	92 753	58 735
(Increase)/decrease in investments managed by external investment managers	(285)	(677)
Interest and dividends received	2 564	1 911
Purchases of property, plant and equipment	(263)	(146)
Disposal of property, plant and equipment	(1)	–
Cash flows from/(used in) investing activities	**372**	**(14 832)**
Cash flows from financing activities	–	–
(Decrease)/increase in cash and cash equivalents	**26 890**	**1 407**
Cash and cash equivalents at beginning of the year	**5 274**	**3 867**
Cash and cash equivalents at end of the year (note 8)	**32 164**	**5 274**

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 2019

(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	3 833	3 833	3 787	46
Development effectiveness	5 021	5 021	4 361	660
Subtotal	**8 854**	**8 854**	**8 148**	**706**
Management activities	1 287	1 287	1 187	100
Total	**10 141**	**10 141**	**9 335**	**806**

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

United Nations Capital Development Fund
Notes to the 2019 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, in addition to its global and regional operations, is on the ground in 31 least developed countries.

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; classification of financial instruments; valuation of investment assets; revenue recognition; 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, effective 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 Office of Finance and Management Services of UNCDF. In accordance with the UNCDF financial regulations and rules, these financial statements are authorized to be submitted for audit on 30 April 2020.

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.

(c) Revenue recognition

Contributions (non-exchange revenue)

Voluntary contributions are non-exchange transactions that are recognized as revenue when contribution agreements become enforceable, or in some instances when cash is received in accordance with the financial regulations and rules of UNCDF. 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 when the fair value can be measured reliably. Receivables from non-exchange transactions are recognized in full with the corresponding revenue, including for multi-year contributions, at the time the agreement is signed. For agreements that have conditions, including those that are beyond the control of UNCDF, a liability is recorded on the statement of financial position until the condition is satisfied, after which the amount of the reduction in the liability is recognized as revenue.

Enforceability of agreements occurs upon signature.

Revenue from voluntary contributions is shown net of impairment of receivables and return of unused funds to donors.

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 those assets can be measured reliably. In-kind contributions from right-to-use arrangements are recognized as revenue and expenses at the fair value of the right-to-use assets. UNCDF does not recognize or disclose contributions of services in kind as an asset and revenue as permitted by IPSAS.

(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 2019 in the amount of $4.514 million. For that prior-period adjustment, where it has an impact relating to 2018, the 2018 comparative figures for the individual line item were retrospectively restated. The amount of $4.514 million is an adjustment for after-service health insurance liability as per updated census data. The effect of the adjustment is as follows: an increase in employee benefits liability of $4.514 million in the 2018 statement of financial position; and a decrease in accumulated surpluses of $4.514 million in the 2018 statement of changes in net assets/equity.

(b) Change in accounting policy

The policy for recognizing revenue from voluntary contributions (non-exchange transactions) described in note 4, Significant accounting policies, was refined in 2019. Under the previous policy, UNCDF recognized revenue 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, revenue from non-exchange transactions is recognized in full, including for multi-year contributions, at the time the contribution agreement is signed. This is because all earmarked agreements are taken to have stipulations that are merely restrictions rather than conditions. If contribution agreements have conditions, UNCDF recognizes a liability, and revenue recognition is deferred until such conditions are met.

This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. The restatement of comparative amounts has been performed for prior year periods. The new policy provides more reliable and relevant information since it better reflects the substance of the underlying transaction while also further simplifying the accounting for voluntary contributions.

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 2018 (audited)	*Change in accounting policy*	*Prior-period adjustment*	*31 December 2018 (restated)*
Statement of financial position extract				
Current assets				
Receivables (non-exchange transactions)	53 815	950	–	54 765
Total current assets	**123 162**	**950**	–	**124 112**
Non-current assets				
Receivables (non-exchange transactions)	42 693	1 111	–	43 804
Total non-current assets	**97 271**	**1 111**	**–**	**98 382**
Total assets	**220 433**	**2 061**	**–**	**222 494**
Current liabilities				
Deferred revenue	50 085	(50 085)	–	–
Total current liabilities	**58 977**	**(50 085)**	**–**	**8 892**
Non-current liabilities				
Deferred revenue	42 693	(42 693)	–	–
Employee benefits	10 960	–	4 514	15 474
Total non-current liabilities	**53 653**	**(42 693)**	**4 514**	**15 474**
Total liabilities	**112 630**	**(92 778)**	**4 514**	**24 366**
Net assets/equity				
Accumulated surpluses	101 403	94 839	(4 514)	191 728
Total net assets/equity	**107 803**	**94 839**	**(4 514)**	**198 128**
Total liabilities and net assets/equity	**220 433**	**2 061**	**–**	**222 494**

	31 December 2018 (audited)	*Change in accounting policy*	*Prior-period adjustment*	*31 December 2018 (restated)*
Statement of financial performance extract				
Voluntary contributions	65 681	25 332	–	91 013
Total revenue	**68 789**	**25 332**	**–**	**94 121**
Surplus/(deficit) for the year	**7 934**	**25 332**	**–**	**33 266**

(c) Reclassification of comparatives

To improve presentation, $0.019 million was reclassified in the comparatives from bank fees expenses to general operating expenses. There was no change in 2018 total expenses. The statement of financial performance in note 6, Segment reporting, and note 22, Expenses, were adjusted accordingly to reflect this reclassification of comparative figures.

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 have a centralized signatory authority and are required to be reported separately to the UNCDF Executive Board. 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 2019

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2019	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018*	*2019*	*2018 (restated)*
Assets										
Current assets										
Cash and cash equivalents	8 674	2 091	14 652	2 273	6 027	430	2 811	480	32 164	5 274
Investments	13 109	15 984	25 308	27 279	10 411	5 162	4 854	5 751	53 682	54 176
Receivables (non-exchange transactions)	4 178	3 798	62 860	48 928	11 788	2 039	–	–	78 826	54 765
Receivables (other)	5 841	8 605	280	275	20	–	35	2	6 176	8 882
Advances issued	491	474	25	106	105	–	1	4	622	584
Loans to financial service providers	–	–	638	431	–	–	–	–	638	431
Total current assets	**32 293**	**30 952**	**103 763**	**79 292**	**28 351**	**7 631**	**7 701**	**6 237**	**172 108**	**124 112**
Non-current assets										
Investments	14 332	14 939	26 639	27 278	10 959	5 163	5 110	5 751	57 040	53 131
Receivables (non-exchange transactions)	–	3 006	52 942	39 286	11 411	1 512	–	–	64 353	43 804
Loans to financial service providers	–	177	685	638	310	–	80	198	1 075	1 013
Property, plant and equipment	252	234	360	189	–	–	8	11	620	434
Total non-current assets	**14 584**	**18 356**	**80 626**	**67 391**	**22 680**	**6 675**	**5 198**	**5 960**	**123 088**	**98 382**
Total assets	**46 877**	**49 308**	**184 389**	**146 683**	**51 031**	**14 306**	**12 899**	**12 197**	**295 196**	**222 494**

Segment reporting: statement of financial position as at 31 December 2019 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2019	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018*	*2019*	*2018 (restated)*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	145	5 225	741	458	635	69	81	38	1 602	5 790
Advances payable	–	–	358	365		–	–	–	358	365
Deferred revenue	–	–	–	–	–	–	–	–	–	–
Funds held on behalf of donors	–	–	–	–	–	–	–	–	–	–
Employee benefits	1 997	1 937	284	268	120	89	133	134	2 534	2 428
Other current liabilities	25	9	795	146	44	25	129	129	993	309
Total current liabilities	**2 167**	**7 171**	**2 178**	**1 237**	**799**	**183**	**343**	**301**	**5 487**	**8 892**
Non-current liabilities										
Accounts payable and accrued liabilities	–	–	–	–	29	–	–	–	29	–
Deferred revenue	–	–		–	–	–	–	–	–	–
Employee benefits	14 903	15 157	81	59	70	70	215	188	15 269	15 474
Total non-current liabilities	**14 903**	**15 157**	**81**	**59**	**99**	**70**	**215**	**188**	**15 298**	**15 474**
Total liabilities	**17 070**	**22 328**	**2 259**	**1 296**	**898**	**253**	**558**	**489**	**20 785**	**24 366**
Net assets/equity										
Reserves	4 700	4 900	–	–	–	–	1 500	1 500	6 200	6 400
Accumulated surpluses	25 107	22 080	182 130	145 387	50 133	14 053	10 841	10 208	268 211	191 728
Total net assets/equity	**29 807**	**26 980**	**182 130**	**145 387**	**50 133**	**14 053**	**12 341**	**11 708**	**274 411**	**198 128**
Total liabilities and net assets/equity	**46 877**	**49 308**	**184 389**	**146 683**	**51 031**	**14 306**	**12 899**	**12 197**	**295 196**	**222 494**

Segment reporting: statement of financial performance for the year ended 31 December 2019

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2019	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (reclassified)*	*2019*	*2018*	*2019*	*2018 (restated)*
Revenue												
Voluntary contributions	6 271	15 278	89 001	64 755	47 002	10 532	1 336	448	–	–	143 610	91 013
Investment revenue	1 503	1 198	235	128	275	49	1 572	1 231	–	–	3 585	2 606
Other revenue	116	463	144	(19)	–	7	4 626	2 186	(4 440)	(2 135)	446	502
Total revenue	**7 890**	**16 939**	**89 380**	**64 864**	**47 277**	**10 588**	**7 534**	**3 865**	**(4 440)**	**(2 135)**	**147 641**	**94 121**
Expenses												
Contractual services	1 482	1 492	11 009	10 518	1 539	1 096	102	97	–	–	14 132	13 203
Staff costs	4 735	6 476	10 717	10 012	2 005	1 149	3 604	3 278	–	–	21 061	20 915
Supplies and consumables used	150	152	692	609	107	45	28	3	–	–	977	809
General operating expenses	2 271	2 375	9 658	7 530	2 237	1 560	533	415	(4 440)	(2 135)	10 259	9 745
Grants and other transfers	602	833	20 253	12 247	5 258	2 025	87	–		–	26 200	15 105
Other expenses	300	432	277	517	51	12	242	48		–	870	1 009
Depreciation	41	40	31	26	–	–	2	3		–	74	69
Total expenses	**9 581**	**11 800**	**52 637**	**41 459**	**11 197**	**5 887**	**4 598**	**3 844**	**(4 440)**	**(2 135)**	**73 573**	**60 855**
Surplus/(deficit) for the year	**(1 691)**	**5 139**	**36 743**	**23 405**	**36 080**	**4 701**	**2 936**	**21**	**–**	**–**	**74 068**	**33 266**

[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 2019 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 2019 against budget levels are as follows:

(a) Development activities: actual utilization of $8.148 million, representing 92 per cent of the annualized approved budget of $8.854 million;

(b) Management activities: actual utilization of $1.187 million, representing 92 per cent of the annualized approved budget of $1.287 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	**(9 277)**	**(58)**	**–**	**(9 335)**
Basis differences	8	–	–	8
Entity differences	35 787	430	–	36 217
Net increase/(decrease) in cash and cash equivalents from statement IV	**26 518**	**372**	**–**	**26 890**

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 2019	*31 December 2018*
Cash in bank accounts	904	61
Cash held by external investment managers	428	219
Money market funds	30 832	4 994
Total cash and cash equivalents	**32 164**	**5 274**

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 2019	*31 December 2018*
Current investments		
Investments managed by the United Nations Development Programme	53 532	54 165
Investments managed by external investment managers	150	11
Total current investments	**53 682**	**54 176**
Non-current investments		
Investments managed by the United Nations Development Programme	47 388	44 766
Investments managed by external investment managers	9 652	8 365
Total non-current investments	**57 040**	**53 131**
Total investments	**110 722**	**107 307**

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 2019	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2019*
Current investments							
Money market instruments	10 000	17 412	(20 000)	59	–	–	7 471
Bonds	44 165	29 599	(57 753)	127	–	29 923	46 061
Total current investments	**54 165**	**47 011**	**(77 753)**	**186**	**–**	**29 923**	**53 532**
Non-current investments							
Money market instruments	–	–	–	–	–	–	–
Bonds	44 766	47 385	(15 000)	160	–	(29 923)	47 388
Total non-current investments	**44 766**	**47 385**	**(15 000)**	**160**	**–**	**(29 923)**	**47 388**
Total investments held to maturity	**98 931**	**94 396**	**(92 753)**	**346**	**–**	**–**	**100 920**

As at 31 December 2019, 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 2019	*31 December 2018*
Investments available for sale		
Current investments		
Bonds	150	11
Total current investments	**150**	**11**
Non-current investments		
Equities	6 234	5 059
Bonds	3 418	3 306
Total non-current investments	**9 652**	**8 365**
Total investments managed by external investment managers: available for sale	**9 802**	**8 376**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $0.428 million (2018: $0.219 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 $10.2 million (2018: $8.6 million).

As at 31 December 2019, 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 2019	*31 December 2018 (restated)*
Current		
Receivables (non-exchange transactions)	78 826	54 765
Total current receivables (non-exchange transactions)	**78 826**	**54 765**
Non-current		
Receivables (non-exchange transactions)	64 353	43 804
Total non-current receivables (non-exchange transactions)	**64 353**	**43 804**
Total receivables (non-exchange transactions)	**143 179**	**98 569**

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2019	*31 December 2018 (restated)*
Past due	9 240	3 730
Due in future periods	133 939	94 839
Total receivables (non-exchange transactions)	**143 179**	**98 569**

Contributions receivable include $133.939 million (2018: $94.839 million) pledged to UNCDF by donors in signed agreements for future periods. This amount includes $3.242 million (2018: $6.803 million) in receivables for regular resources.

The $9.240 million (2018: $3.730 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, none (2018: $0.456 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 2019, UNCDF did not have any impairment on its non-exchange receivables.

10.2 Receivables (other)

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Receivables from the United Nations Development Programme	5 093	7 920
Receivables from UN-Women	9	–
Investment receivables	748	702
Receivables from third parties	326	260
Total receivables (other)	**6 176**	**8 882**

Ageing of receivables (other)

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Less than or equal to six months	5 733	8 474
More than six months	443	408
Total receivables (other)	**6 176**	**8 882**

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 2019	31 December 2018
Operating funds provided to Governments	106	102
Prepayments	23	20
Advances to staff	509	478
Total advances issued, gross	**638**	**600**
Impairment	(16)	(16)
Total advances issued, net	**622**	**584**

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Less than or equal to six months	592	480
More than six months	46	120
Advances issued, gross	**638**	**600**

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Current		
Loans to financial service providers	638	431
Total current loans to financial service providers	**638**	**431**
Non-current		
Loans to financial service providers	1 195	1 563
Impairment	(120)	(550)
Total non-current loans to financial service providers	**1 075**	**1 013**
Total loans to financial service providers	**1 713**	**1 444**

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Balance at 1 January	**1 444**	**139**
Revaluation of loans (translation gain/loss at reporting date)	28	(80)
Loans impaired	(120)	–
Repayment of loans	(297)	(34)
Disbursement of loans	738	1 593
Amortization of loans	(80)	(174)
Balance at 31 December	**1 713**	**1 444**

The loan balances comprise performing loans to 13 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 81 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 19 per cent of total assets, are used for operations that are not project-specific at UNCDF country offices and headquarters.

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 2019					
Cost	77	141	661	32	911
Accumulated depreciation	(27)	(56)	(391)	(3)	(477)
Carrying amount at 1 January 2019	**50**	**85**	**270**	**29**	**434**
Period ended 31 December 2019					
Additions	4	25	234	–	263
Disposals – cost	–	–	–	(4)	(4)
Depreciation	(6)	(16)	(51)	(1)	(74)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Disposals – accumulated depreciation/ depreciation	–	–	–	1	1
Carrying amount at 31 December 2019	**48**	**94**	**453**	**25**	**620**
Balance at 31 December 2019					
Cost	81	166	895	28	1 170
Accumulated depreciation	(33)	(72)	(442)	(3)	(550)
Carrying amount at 31 December 2019	**48**	**94**	**453**	**25**	**620**

As at 31 December 2019, 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 2019	*31 December 2018*
Current		
Payables to third parties	881	329
Accruals	637	356
Payables to staff	23	47
Finance guarantee liabilities	19	–
Payables to United Nations	39	–
Derivative liability	3	6
Investment settlement payable	–	5 052
Total current accounts payable and accrued liabilities	**1 602**	**5 790**
Non-current		
Finance guarantee liabilities	29	–
Total non-current accounts payable and accrued liabilities	**29**	**–**
Total accounts payable and accrued liabilities	**1 631**	**5 790**

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

Note 15

15.1 Advances payable

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Advances payable	358	365
Total advances payable	**358**	**365**

15.2 Other current liabilities

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Unapplied deposits	125	125
Other payables	868	184
Total other current liabilities	**993**	**309**

15.3 Deferred revenue

As a result of the change in revenue recognition policy detailed in note 5, deferred revenue has been restated.

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2019	*31 December 2018 (restated)*
Current		
Annual leave	1 940	1 916
Home leave	198	253
After-service health insurance	182	80
Repatriation entitlements	210	173
Death benefits	4	5
Other employee benefits	–	1
Total current employee benefits liabilities	**2 534**	**2 428**
Non-current		
After-service health insurance	12 462	13 066
Repatriation entitlements	2 694	2 317
Home leave	59	72
Death benefits	54	19
Total non-current employee benefits liabilities	**15 269**	**15 474**
Total employee benefits liabilities	**17 803**	**17 902**

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 2019, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted on 31 December 2019. The slight difference in liability for 2019 is mainly a result of experience adjustment.

(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 2019 (restated)	13 146	2 489	24	15 659
Increase in the obligation				
Current service cost	758	232	2	992
Interest cost	391	100	2	493
Actuarial losses on disbursement	116	90	–	206
Actuarial losses from change in financial assumptions	–	300	8	308
Actuarial losses from change in demographic assumptions	–	–	2	2
Actuarial losses from experience adjustment	–	–	25	25
Decrease in the obligation				
Actual benefits paid	(199)	(271)	–	(470)
Actuarial (gains) on disbursement	–	–	(5)	(5)
Actuarial (gains) from change in financial assumptions	(1 025)	–	–	(1 025)
Actuarial (gains) from change in demographic assumptions	(31)	(3)	–	(34)
Actuarial (gains) from experience adjustment (restated)	(512)	(33)	–	(545)
Recognized liability at 31 December 2019	**12 644**	**2 904**	**58**	**15 606**

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	758	232	2	992
Interest cost	391	100	2	493
Total employee benefits expenses recognized	**1 149**	**332**	**4**	**1 485**

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	1 568	(264)	(35)	1 269
Actuarial gains/(losses) on disbursements	(116)	(90)	5	(201)
Total	**1 452**	**(354)**	**(30)**	**1 068**

In 2019, of the net actuarial gain of $1.068 million, the actuarial gain relating to after-service health insurance from a change in actuarial assumptions was $1.452 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)

	2019	*2018 (restated)*	*2017*	*2016*	*2015*
After-service health insurance					
Defined benefit obligation	12 644	13 146	9 049	6 105	5 208
Experience adjustment on plan liabilities	(512)	4 558	1 234	–	(5 126)
Repatriation					
Defined benefit obligation	2 904	2 489	2 736	1 911	1 769
Experience adjustment on plan liabilities	(33)	(206)	744	–	(253)
Death benefits					
Defined benefit obligation	58	24	28	32	32
Experience adjustment on plan liabilities	25	(3)	(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 2019. 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:

	2019	*2018*
Discount rate:		
(a) After-service health insurance	3.42 per cent	4.55 per cent
(b) Repatriation benefits	3.07 per cent	4.20 per cent
(c) Death benefits	2.39 per cent	4.03 per cent

	2019	2018
Health-care cost-trend rates:		
(a) United States, non-Medicare	5.44, grading down to 3.85 after 13 years	5.57, grading down to 3.85 per cent after 14 years
(b) United States, Medicare	5.26, grading down to 3.85 after 13 years	5.38, grading down to 3.85 per cent after 14 years
(c) United States, dental	4.66, grading down to 3.85 after 13 years	4.73, grading down to 3.85 per cent after 14 years
(d) Non-United States, Switzerland	3.76, grading down to 2.85 after 8 years	3.89, grading down to 3.05 per cent after 9 years
(e) Non-United States, eurozone	3.83, grading down to 3.65 after 3 years	3.91, grading down to 3.65 per cent after 4 years
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.47–9.27 per cent
Rate of inflation	2.20 per cent	2.20 per cent
Per capita medical claim cost (varies by age)	$932–$13 819	$1 142–$17 276
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:

	2019		2018	
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	0.00037	0.00522	0.00031	0.00435

	2019		2018	
Mortality rate – retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
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	*2019*		*2018*	
	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	*2019*	*2018*
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)

	+0.5 per cent	*-0.5 per cent*
Effect of discount rate change on end-of-year liability	(1 286)	1 497
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	1 445	(1 256)

(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 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 Fund. UNCDF and the Pension Fund, in line with the other organizations participating in 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 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 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 of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The latest actuarial valuation for the Fund was completed as at 31 December 2017, and the valuation as at 31 December 2019 is currently being performed. A roll forward of the participation data as at 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 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. The funded ratio was 102.7 per cent 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 (2016, 2017 and 2018) amounted to $7,131.56 million, of which 0.16 per cent was contributed by UNCDF.

During 2019, the contribution of UNCDF paid to the Pension Fund amounted to $4.0 million (2018: $3.8 million). Contributions due in 2019 are expected to amount to approximately $4.0 million.

Membership of the 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.

On 11 March of 2020 the World Health Organization declared the COVID-19 novel coronavirus to be a global pandemic. The extent of the impact of COVID-19 on the financial performance of the Fund will depend on future developments, including: (a) the duration and spread of the outbreak; (b) the restrictions and advisories in effect; (c) the effects on the financial markets; and (d) the effects on the global economy, all of which are highly uncertain and cannot be reliably predicted.

(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 2019	*Movements*	*31 December 2019*
Operational reserve	6 400	(200)	6 200
Total reserves	**6 400**	**(200)**	**6 200**

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 2019 (restated)	*Movements*	*31 December 2019*
Accumulated surpluses	186 855	74 268	261 123
Funds with specific purposes	2 197	6	2 203
Actuarial (losses)/gains	2 822	1 068	3 890
Changes in fair value of available-for-sale investments	(146)	1 141	995
Total accumulated surpluses	**191 728**	**76 483**	**268 211**

Movements in the accumulated surpluses of $74.268 million comprise a surplus for the year of $74.068 million, and an operational reserve transfer to accumulated surpluses of $0.200 million. Funds with specific purposes include the information communications technology fund, the learning fund, the reserve for agreed separation and other funds.

As a result of the change in revenue recognition policy detailed in note 5, accumulated surpluses at 31 December 2019 now include receivables for future periods of $133.939 million (2018 (restated): $94.839 million). Under the financial regulations and rules of UNCDF, the organization is only permitted to spend when the cash is received.

Note 19
Voluntary contributions

(Thousands of United States dollars)

	2019	*2018 (restated)*
Contributions	144 285	91 199
Less: returns to donors of unused contributions	(675)	(186)
Total voluntary contributions	**143 610**	**91 013**

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 2019, 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 $1.1 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2019	*2018*
Investment revenue	3 585	2 606
Total investment revenue	**3 585**	**2 606**

Investment revenue comprises interest earned on bank account balances and loans to financial service providers plus amortized discount, net of amortized premium of $3.180 million (2018: $2.170 million), dividends earned on the UNCDF investment portfolio of $0.102 million (2018: $0.098 million) and realized gains on sale of investments of $0.303 million (2018: 0.338 million).

Note 21
Other revenue

(Thousands of United States dollars)

	2019	*2018*
Foreign exchange gains	172	24
Other miscellaneous revenue	99	426
General management services fees	175	52
Total other revenue	**446**	**502**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses 2019	*Total expenses[a] 2019*	*Programme expenses 2018 (reclassified)*	*Total expenses 2018 (reclassified)*
22.1 Contractual services				
Contractual services with individuals	10 071	10 509	9 321	9 628
Contractual services with companies	2 983	3 070	3 326	3 392
United Nations Volunteers expenses for contractual services	526	553	177	183
Total contractual services	**13 580**	**14 132**	**12 824**	**13 203**
22.2 Staff costs				
Salary and wages	9 736	13 853	9 531	13 834
Pension benefits	1 885	2 663	1 707	2 506
Post-employment	805	1 748	740	1 872
Appointment and assignment	762	907	594	803
Leave benefits	357	466	375	457
Other staff benefits	920	1 424	1 006	1 443
Total staff costs	**14 465**	**21 061**	**13 953**	**20 915**
22.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	436	443	368	384
Stationery and other office supplies	92	100	71	80
Agricultural, petroleum and metal products	48	53	30	34
Information technology supplies and software maintenance	65	128	91	156
Information technology and communications equipment	150	161	57	67
Other consumables used	54	92	77	88
Total supplies and consumables used	**845**	**977**	**694**	**809**
22.4 General operating expenses				
Travel	4 071	4 442	3 535	3 927
Learning and recruitment	1 447	1 578	1 638	1 751
Rent, leases and utilities	1 150	1 247	1 074	1 127
Reimbursement	140	160	83	166
Communications	791	996	674	881
Security	433	589	428	607
Professional services	82	109	398	398
General management costs[b]	4 518	79	2 211	78
Contribution to United Nations jointly financed activities	250	362	241	375
Contribution to information and communications technology	89	129	39	60
Freight	12	12	20	20
Insurance/warranties	23	28	13	17
Miscellaneous operating expenses	432	528	234	338
Total general operating expenses	**13 438**	**10 259**	**10 588**	**9 745**

	Programme expenses 2019	*Total expenses[a] 2019*	*Programme expenses 2018 (reclassified)*	*Total expenses 2018 (reclassified)*
22.5 Grants and other transfers				
Grants	26 127	26 140	15 089	15 090
Transfers	57	60	15	15
Total grants and other transfers	**26 184**	**26 200**	**15 104**	**15 105**
22.6 Other expenses				
Foreign exchange losses	(10)	(10)	73	74
Losses on sale of fixed assets	4	4	66	66
Sundries	384	735	593	869
Impairment[c]	141	141	–	–
Total other expenses	**519**	**870**	**732**	**1 009**
22.7 Depreciation				
Depreciation	57	74	52	69
Total depreciation	**57**	**74**	**52**	**69**
Total expenses[a]	**69 088**	**73 573**	**53 947**	**60 855**

[a] Of the total expenses, $69.088 million represents programme expenses and the remaining $4.485 million represents expenses for development effectiveness and management. See note 27.1, Expense by cost classification, for details.

[b] In 2019, of the $4.518 million, $4.440 million is eliminated to remove the effect of internal UNCDF cost recovery.

[c] In 2019, UNCDF recognized impairment of $0.120 million relating to loans to financial service providers and $0.021 million relating to receivables (other).

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 2019, 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*	
					2019	*2018 (restated)*
Cash and cash equivalents	–	–	32 164	–	32 164	5 274
Investments	100 920	9 802	–	–	110 722	107 307
Receivables (non-exchange)	–	–	143 179	–	143 179	98 569
Receivables (other)	–	–	6 176	–	6 176	8 882
Advances	–	–	622	–	622	584
Loans to financial service providers	–	–	1 713	–	1 713	1 444
Total financial assets	**100 920**	**9 802**	**183 854**	**–**	**294 576**	**222 060**

Held-to-maturity financial assets are carried at amortized cost. At 31 December 2019, the book value of these assets exceeded market value by $0.399 million (2018: ($0.042) million). The carrying values for loans and receivables are a reasonable approximation of their fair value. As at 31 December 2019, 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*	
			2019	*2018 (restated)*
Accounts payable and accrued liabilities	1 628	3	1 631	5 790
Advances payable	358	–	358	365
Other current liabilities	993	–	993	309
Total financial liabilities	**2 979**	**3**	**2 982**	**6 464**

The carrying value of other liabilities is a reasonable approximation of their fair value. As at 31 December 2019, UNCDF had $0.003 million (2018: 0.006 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 2019, net gains of $0.022 million (2018: 0.052 million net gains) related to financial assets and liabilities recorded at fair value through surplus or deficit were recognized in the statement of financial performance.

The carrying value of financial guarantee liabilities of $0.048 million is a reasonable approximation of their fair value. In 2019, UNCDF deployed a partial credit guarantee; the underlying guaranteed asset was a $0.454 million senior loan disbursed to a greenfield operation. The UNCDF guarantee provided a 50 per cent coverage of the guaranteed party's net losses of principal provided by the guaranteed party to the qualifying borrower. The guaranteed ceiling was $0.227 million, which represented the maximum liability of UNCDF under the loan guarantee agreement as at 31 December 2019. The duration of the loan guarantee agreement is until the end of 2024.

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 2019.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	6 234	–	–	6 234
Bonds	3 568	–	–	3 568
Total	**9 802**	**–**	**–**	**9 802**

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 2019, 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 2019	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*Total*
Money market instruments	2 490	4 981	–	–	–	–	7 471
Bonds – investments	46 102	5 095	4 979	4 994	22 279	10 000	93 449
Total	**48 592**	**10 076**	**4 979**	**4 994**	**22 279**	**10 000**	**100 920**

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**

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2019	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	36	24	90	81	18	27	42	97	488	2 665	3 568
Total	**36**	**24**	**90**	**81**	**18**	**27**	**42**	**97**	**488**	**2 665**	**3 568**

31 December 2018 (restated)	*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**

Note: Externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include $2.127 million (2018: 1.926 million) in exchange traded funds of fixed-income investments with the remaining balance of $ 0.538 million (2018: 0.718 million) comprising government and corporate bond funds.

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 2019	*Percentage*	*31 December 2018*	*Percentage*
Cash balances	1 332	1	280	1
Cash equivalents	30 832	21	4 994	4
Total cash and cash equivalents	**32 164**	**22**	**5 274**	**5**
Current investments	53 682	38	54 176	48
Non-current investments	57 040	40	53 131	47
Total current and non-current investments	**110 722**	**78**	**107 307**	**95**
Total investments, cash and cash equivalents	**142 886**	**100**	**112 581**	**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 2019	*31 December 2018*
Money market funds	30 832	4 994
Cash equivalents	**30 832**	**4 994**

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 2019*	*31 December 2018*
Held-to-maturity investments	Amortized cost	100 920	98 931
Available-for-sale investments	Fair value	9 802	8 376
Total investments		**110 722**	**107 307**

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 2019 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
3 568	100 basis point increase	(64)	–
3 568	50 basis point decrease	32	–

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 2019, UNCDF investments were primarily 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 2019*	*31 December 2018 (restated)*
Cash and cash equivalents	32 107	6	1	50	32 164	5 274
Investments	108 063	1 319	53	1 287	110 722	107 307
Receivables (non-exchange transactions)	56 445	42 766	35 363	8 605	143 179	98 569
Receivables (other)	5 835	–	–	341	6 176	8 882
Advances issued	447	32	–	143	622	584
Loans to financial service providers	–	–	–	1 713	1 713	1 444
Total financial assets	**202 897**	**44 123**	**35 417**	**12 139**	**294 576**	**222 060**
Accounts payable and accrued liabilities	1 111	314	–	206	1 631	5 790
Advances payable	358	–	–	–	358	365
Other current liabilities	993	–	–	–	993	309
Total financial liabilities	**2 462**	**314**	–	**206**	**2 982**	**6 464**

As at 31 December 2019, 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 2019, 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 2019 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
6 233	5 per cent increase	312	–
6 233	5 per cent decrease	(312)	–

For information on the potential impact of the COVID-19 pandemic on financial instruments and risk management, refer to disclosures in note 26. Events after reporting date.

Note 24
Related parties

(a) Key management personnel

The Fund's leadership structure consists of a five-member Executive Group: the Executive Secretary, the Deputy Executive Secretary, two Directors of the Practice Areas and the Director of the least developed country investment platform. 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	5	858	205	1 063	3 000
Total	**5**	**858**	**205**	**1 063**	**3 000**

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 2019, 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 2019	*31 December 2018*
Goods	48	416
Services	271	470
Total open commitments	**319**	**886**

At 31 December 2019, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.319 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Obligations for property leases		
Less than one year	305	282
One to five years	1 529	1 128
Total obligations for property leases	**1 834**	**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

On 30 January 2020, the Director-General of the World Health Organization declared the outbreak of the COVID-19 novel coronavirus a “public health emergency of international concern”. On 11 March 2020, the Director-General revised the characterization of the COVID-19 outbreak as a pandemic.

The impact of the COVID-19 outbreak occurred after the reporting date of 31 December 2019. While the COVID-19 outbreak had had no impact on the financial assets of UNCDF at the reporting date or at the date on which the financial statements were authorized for issue, the extent of its impact on the financial performance of UNCDF will depend on future developments, including: (a) the duration and spread of the outbreak; (b) the restrictions and advisories in place; (c) the effects on the financial markets; and (d) the effects on the global economy, all of which are highly uncertain and cannot be reliably predicted.

Despite the recent financial performance of the markets owing to the outbreak of COVID-19, at the time of reporting the principal of the UNCDF working capital portfolio remains safe, in line with the investment policy on working capital, as it holds high-quality assets aimed at preserving principal. The investment income on reinvested funds could be affected owing to lower interest rates in 2020. Any changes in the value of the after-service health insurance portfolio of UNCDF (managed by an external manger), which is classified as available for sale and has a different investment policy, has no impact on reported surplus and deficit for 2019. However, the value of that portfolio is affected owing to market volatility and the nature of investments in the portfolio. The investment income may also be affected. The present paragraph should be read in conjunction with note 23, Financial instruments and risk management.

The impact of the COVID-19 outbreak on the ability of UNCDF funding partners to meet their future voluntary contributions is not yet visible. The pandemic has had an impact on the operations of programme Governments and implementing partners, which may have an effect on the delivery of UNCDF, as well as revenue linked to delivery and the achievement of planned development results in 2020. The organization is monitoring the situation closely as events unfold, including with respect to its loans portfolio, and is implementing mitigation measures, including by providing additional support to country offices and partners aimed at facilitating continued operations.

There have been no other 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 an impact on these financial statements.

Note 27.1
Additional disclosure

Expenses by cost classification and practice area

Cost classification

(Thousands of United States dollars)

	31 December 2019
Development	
Programme	69 088
Development effectiveness	4 354
Management	4 571
Elimination	(4 440)[a]
Total expenses	**73 573**

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

Practice area

(Thousands of United States dollars)

	31 December 2019
Financial inclusion	36 022
Local development finance	28 626
Development effectiveness	4 354
Management	4 571
Total expenses	**73 573**

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 2018 (restated)*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments to net assets*	*Net assets 31 December 2019*
Belgium – Projet d'appui au développement local de la région de N'guigmi	2	(2)	–	–	–
Belgium (Belgian Fund for Food Security) – Programme conjoint à Nara-Nioro	60	(60)	–	–	–
Belgian Fund for Food Security – Programme d'appui au développement économique local	20	(20)	–	–	–
Belgian Fund for Food Security – 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	67	–	–	–	67
Canada (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	(112)	(10)	–	–
Livelihoods and Food Security Trust Fund	2	(2)	–	–	–
Luxembourg – Programme d'appui à la décentralisation en milieu rural	8	(1)	(7)	–	–
Multi-donor trust fund – Pass-through trust fund	5 498	7 137	(6 337)	–	6 298
Spain – Millennium Development Goals – Water and sanitation	16	(16)	–	–	–
United Nations Fund for International Partnerships – International Year of Microcredit, 2005	10	(10)	–	–	–
Last mile finance trust fund	7 849	40 734	(4 844)	–	43 739
Total	**14 053**	**47 277**	**(11 198)**	**–**	**50 132**

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