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**Annual review of the financial situation of the United Nations
Capital Development Fund, 2023**

Report of the Managing Director*

Summary

This report provides an overview of the financial position of the United Nations Capital Development Fund (UNCDF) at the end of 2023 and of its financial performance for 2023. In 2023, UNCDF maintained an overall positive financial position and liquidity, despite a 17 per cent decrease in revenue and 13 per cent decrease in expenses. The decrease in revenue is due to an increase in donor refunds and the decrease in expenses is mainly due to a decrease in grants and other transfers of \$14.6 million in 2023.

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* As stated in General Assembly resolution 2321 (XXII), the UNDP Administrator performs the functions of the Managing Director of UNCDF.



I. Introduction and overview

1. This report provides an overview of the financial position of the United Nations Capital Development Fund (UNCDF) at the end of 2023 and of its financial performance for the year. In 2023, UNCDF maintained an overall positive financial position and liquidity, despite a 17 per cent decrease in revenue and 13 per cent decrease in expenses. The decrease in revenue is due to an increase in donor refunds and the decrease in expenses is mainly due to a decrease in grants and other transfers of \$14.6 million in 2023.

2. In 2023, UNCDF implemented programmes in 41 of the 46 least developed countries, leveraging its capital mandate to help them pursue inclusive growth. With its capital mandate and instruments, UNCDF offers “last-mile” finance models through financial inclusion and localized investments that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

II. Financial highlights for 2023

A. Summary of the UNCDF financial situation

Table 1. UNCDF financial situation, 2022-2023
(In millions of United States dollars)

	2023	2022	Increase/ (decrease)	% change
Revenue	168	202	(34)	(17)%
Expense	101	116	(15)	(13)%
Surplus	67	86	(19)	(22)%
Assets	485	417	68	16%
Liabilities	24	19	5	26%
Net assets	461	398	63	16%
<u>Composed of:</u>				
Accumulated surplus	453	391	62	16%
Reserves	8	7	1	14%
	461	398	63	16%

B. Revenue

3. Total revenue decreased by 17 per cent, to \$168 million (2022: \$202 million), the decrease is mainly due to an increase in donor refunds from \$0.4 million in 2022 to \$51.5 million in 2023 as explained in paragraph 5. Contributions of \$158 million (2022: \$199 million) represent 94 per cent of the total revenue, with the remaining 6 per cent consisting of investment revenue and other miscellaneous revenue.

4. While the accounting policy allows UNCDF to recognize revenue for the full value of contribution agreements (including multi-year agreements) in the year an agreement is signed, under the UNCDF Financial Regulations and Rules, UNCDF is permitted to spend only up to the amount of cash received. Hence, in the following sections of this document, where applicable, “annual contributions” are presented to align to the past revenue recognition policies for contributions i.e., cash received in a reporting year, plus receivables due in a reporting year.

Table 2. UNCDF revenue, 2022-2023
(In millions of United States dollars)

Resources	2023	2022	Increase/ (decrease)	Percentage change
Revenue				
Voluntary contributions				
Annual contributions	78	179	(101)	(56)%
Elimination of the effect of refund	51	(51)	=	0%
Adjusted annual contributions	129	128	1	1%
Net movement of future due contributions	80	20	60	>100%
Voluntary contributions, net	158	199	(41)	(21)%
Investment revenue	8	3	5	>100%
Other revenue	9	7	2	29%
Total revenue before elimination	175	209	(34)	(16)%
Elimination – internal UNCDF cost recovery	(7)	(7)	-	0%
Total revenue after elimination	168	202	(34)	(17)%

5. Contributions to UNCDF are either regular (core) resources and other (non-core) resources. In 2023, annual contributions to regular resources decreased to \$6.3 million (2022: \$9.6 million), the decrease is mainly due to a reduced contribution from one donor. Annual contributions to other resources decreased to \$71.3 million (2022: \$169.2 million), the decrease is mainly due to \$51.1 million being received in 2022 but refunded in 2023. Excluding the effect of this contribution in 2022 and refund in 2023, the total annual contribution would have increased from \$127.7 million in 2022 to \$129.3 million in 2023 as shown in the highlighted section in table 2 above and in figure I. The ratios between regular and other resources as a percentage of total annual contributions in 2023 were 8 per cent and 92 per cent respectively.

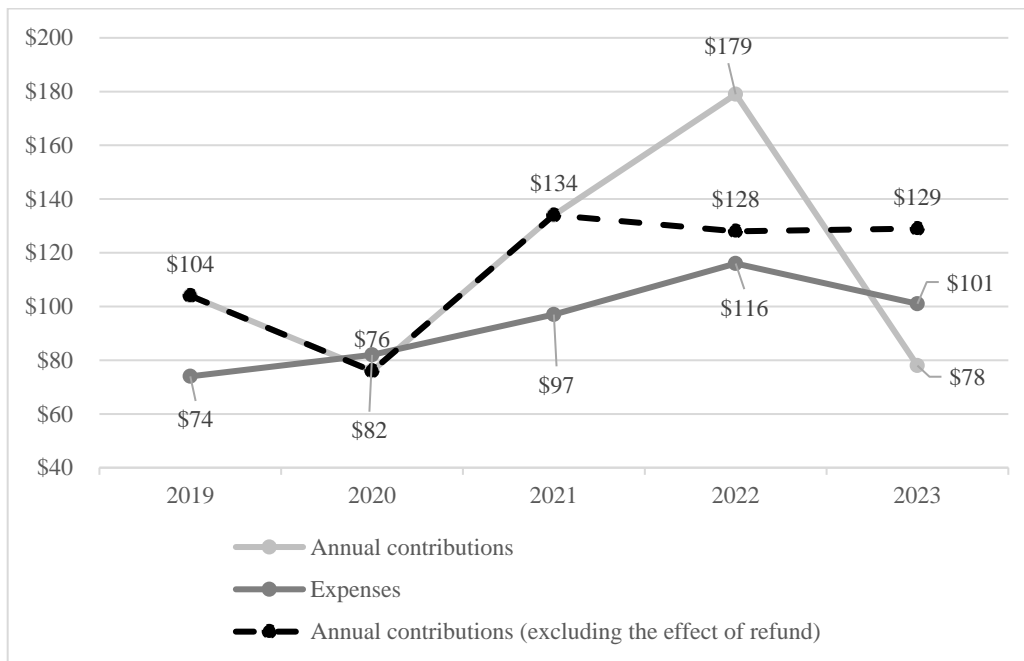
C. Expenses

6. Total expenses decreased by \$15 million, to \$101 million (2022: \$116 million). The decrease in expenses is mainly due a decrease in grants and other transfers by \$14.6 million in 2023.

7. Included in total expenses is the “other capital investment” portion of programme delivery comprising grants and other transfers amounting to \$30.2 million (2022: \$44.8 million).

8. In 2023, of total expenses of \$107.5 million (before the elimination of internal cost recovery), \$95.3 million (89 per cent) was spent on programme activities, \$6.4 million (6 per cent) on development effectiveness and \$5.8 million (5 per cent) on management activities.

Figure I. Trends in total annual contributions and expenses, 2019-2023^a
(In millions of United States dollars)



^a The in-year deficit for 2020 and 2023 was funded from the drawdown on surplus accumulated from previous years.

D. Others

9. In addition, UNCDF received \$2.7 million (2022: \$2.7 million) from the United Nations Development Programme (UNDP) towards the UNCDF institutional budget which funded management expenditures, including rent; and \$1.2 million (2022: \$1.3 million) towards the UNCDF programme budget which funded technical expenditures.

10. At the end of 2023, UNCDF held assets of \$485 million (2022: \$417 million). The increase is driven largely by an increase in receivables (non-exchange transactions) of \$64.1 million (37.4 per cent) and an increase in receivables (other) of \$23.7 million (over 100 per cent).

11. At the end of 2023, UNCDF held liabilities of \$24 million (2022: \$19 million), including \$14.2 million (2022: \$11.4 million) in after-service health insurance liabilities. These liabilities continue to be fully funded.

12. Net assets/equity of \$461 million in 2023 included \$453 million in accumulated surplus and \$8 million for operational reserve. Of the \$453 million accumulated surplus, \$235 million represents contributions yet to be received from donors as at 31 December 2023; \$89 million represents contributions to other resources received but earmarked for multi-year activities; \$73 million represents contributions to other resources received in the last quarter of the year and hence only budgeted in 2024; and \$56 million represents general accumulated balances.

13. UNCDF continued to apply the UNDP cost-recovery policy. Only one new waiver in the general management support fee was granted during 2023. The financial impact of this waiver was minimal and estimated at \$0.2 million.

14. UNCDF had 23 concessional loans with a total fair value of \$2.4 million and two guarantees with total exposure of \$0.3 million outstanding as at 31 December 2023. In addition, UNCDF had five portfolio guarantees outstanding with a total guarantee ceiling of \$0.9 million which represents the maximum value of any potential liability generated from these operations. The outstanding investments were made in the areas of agribusiness, clean energy, financial inclusion and women's economic empowerment in a number of least developed countries including Burkina Faso, the

Democratic Republic of the Congo, Ethiopia, Myanmar, Papua New Guinea, Sierra Leone, Uganda, the United Republic of Tanzania and Zambia.

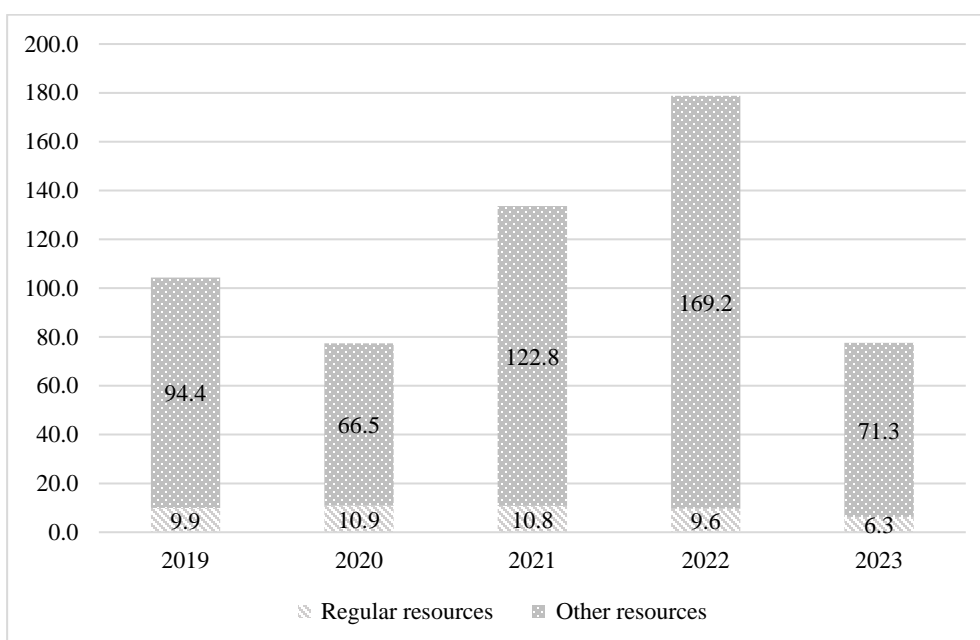
15. The UNCDF last-mile finance trust funds provide loosely earmarked funding for innovative finance and business models to promote sustainable development in the “last mile” area of least developed countries. As at 31 December 2023, last-mile finance trust funds have a resource balance of \$43.6 million which has been earmarked for future-year programme activities.

III. Partnerships

16. UNCDF continues to maintain partnerships with the Governments of donor countries and multilateral partners. Figure II shows the trend in total annual contributions from 2019 to 2023 by type of resources.

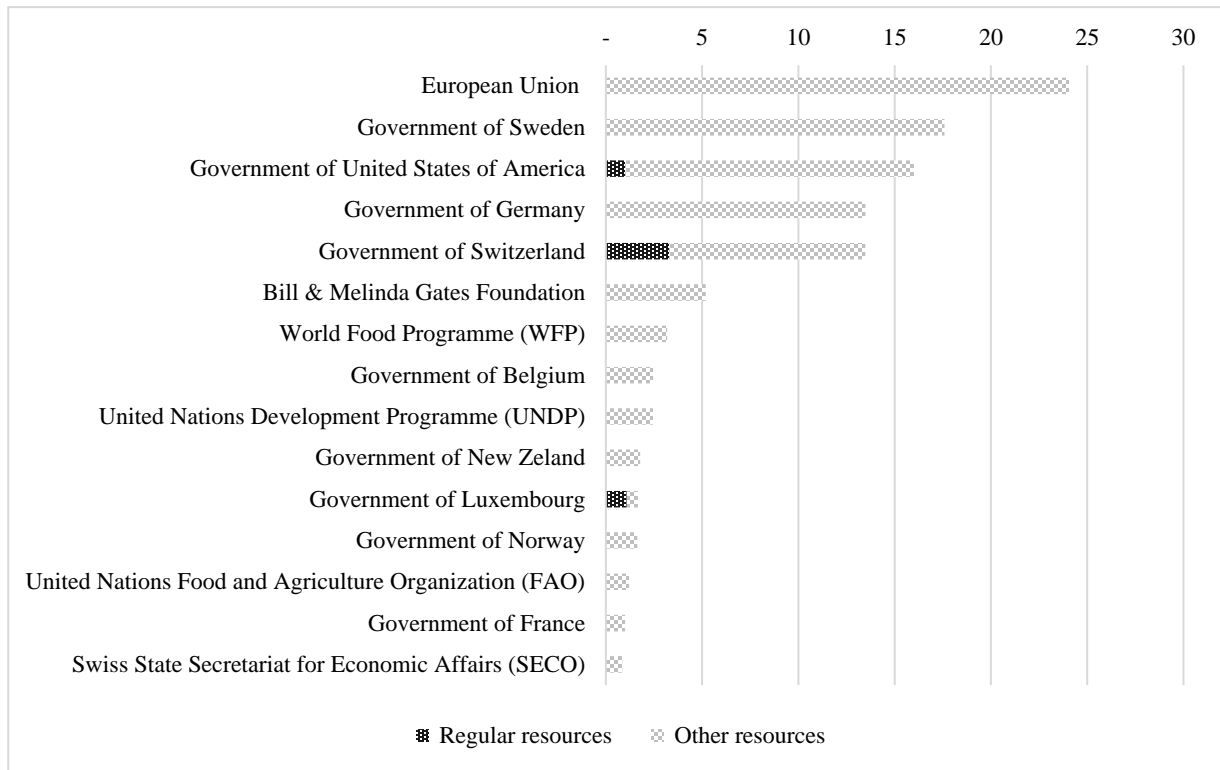
Figure II. Total annual contributions, 2019-2023

(In millions of United States dollars)



17. UNCDF received contributions from 38 development partners in 2023 (2022: 41 partners). Figure III shows annual contributions from the top 15 funding partners to UNCDF, which totalled \$100.6 million, while total annual contribution totalled \$77.6 million due to an increase in donor refund as explained in paragraph 5. In 2022 the top 15 funding partners total annual contribution amounted to \$172.1 million which represented 96 per cent of total annual contribution.

Figure III. Total annual contributions, top 15 funding partners, 2023
(In millions of United States dollars)



18. Annual contributions to UNCDF regular resources from funding partners amounted to \$6.3 million (compared to \$9.6 million in 2022). The number of regular resource partners declined to seven, a downward trend from nine in 2022 and 11 in 2021. UNCDF is developing new partnerships and a communications strategy to strengthen its positioning and engagement with key partners and stakeholders to seek to reverse this downward trend. Contributions to regular resources remain short of the \$25 million annual target required to ensure a meaningful presence in all 45 least developed countries and provide resources to invest in priority projects in these countries, as envisaged in the UNCDF's strategic framework, 2022-2025. This concerning decline in regular resources impacts the ability of UNCDF to effectively oversee and manage its diverse programme portfolio; recruit and retain crucial personnel in essential corporate oversight functions; maintain a robust presence across all 45 least developed countries; drive innovation; and pilot critical financing solutions to address pressing development challenges.

19. Annual contribution to other resources decreased from previous fiscal years: \$169.2 million in 2022 to \$71.3 million in 2023 mainly due to an increase in donor refund as explained in paragraph 5. UNCDF is committed to expanding collaboration with the United Nations system, providing its unique expertise and instruments at the service of other United Nations entities. In 2023, it undertook 69 joint initiatives with various United Nations partners. UNCDF received substantial financial support, securing \$26.2 million from United Nations pooled funds and other entities, further demonstrating the value proposition it brings to collaborative development ventures.