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United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2015

and

Report of the Board of Auditors

United Nations • New York, 2016

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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Contents

Letters of transmittal and certification

Letter dated 30 April 2016 from the Managing Director and the Executive Secretary of the United Nations Capital Development Fund and the Assistant Administrator and Director and the Chief Finance Officer/Comptroller of the Bureau for Management Services of the United Nations Development Programme 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 2015, 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 were 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 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 previous recommendations of the Board of Auditors and UNDP internal auditors were reviewed by 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*) Helen **Clark**
Managing Director
United Nations Capital Development Fund

(*Signed*) Judith **Karl**
Executive Secretary
United Nations Capital Development Fund

(*Signed*) Jens **Wandel**
Assistant Administrator and Director
Bureau for Management Services
United Nations Development Programme

(*Signed*) Darshak **Shah**
Chief Finance Officer/Comptroller
Bureau for Management Services
United Nations Development Programme

Letter dated 30 June 2016 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 2015.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Capital Development Fund (UNCDF) for the year ended 31 December 2015, which comprise the statement of financial position (statement I) as at 31 December 2015, the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV), the statement of comparison of budget and actual amounts (statement V) and the notes to the financial statements.

Management's responsibility for the financial statements

The Managing Director is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Capital Development Fund as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Capital Development Fund 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 (applicable to the United Nations Capital Development Fund) 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 the United Nations Capital Development Fund.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the United Kingdom of
Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2016

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. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the national level, to reduce poverty and support local economic development. By identifying those market segments where innovative financing models can have a transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes towards the achievement of a number of the Sustainable Development Goals. UNCDF has its headquarters in New York and operates in 31 countries and territories.

The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2015. The audit was carried out at UNCDF headquarters in New York, in the Lao People's Democratic Republic and at the Sierra Leone country office.

Scope of the report

The present report covers matters that in the opinion of the Board should be brought to the attention of the General Assembly and has been discussed with UNCDF management, whose views have been duly 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 2015 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

Audit opinion

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

Overall conclusion

The Board did not identify material misstatements that would have affected its opinion on the UNCDF financial statements, but continued to note improvements in the preparation and presentation of the financial statements. However, the Board noted areas where there was scope for improvement relating to programme and project management, governance arrangement and grants and loan management.

Key findings

The Board highlights the key findings set out below.

Non-assessment of implementing partners' capacity

Two projects, for financing the poor and for technical assistance, with a total budget of $28.90 million, were being implemented in Sierra Leone and the Lao People's Democratic Republic under the national implementation modality. The Board noted that the implementing partners' capacity had not been assessed before the implementation phase of the projects, as required under United Nations Development Programme (UNDP) Programme Operations Policies and Procedures and the operations manual. The Board is of the view that, by starting project implementation before performing capacity assessments of implementing partners, UNCDF will not have a reliable basis for determining their capacity to manage resources. This creates the risk of reliance on implementing partners with inadequate capacity to deliver the project on time and realize the targeted outcomes.

Delays in project closure

The Board noted delays in project closure at the Sierra Leone country office whereby two projects were operationally closed after the project end dates and three projects had been operationally closed since 2013 but their financial closure was delayed for periods ranging between 82 and 88 days. While there was no evidence of losses of the unspent funds, the Board considers that the delayed financial closure of the projects exposed UNCDF to the risk of misuse of the unspent balances.

Assessment of loan impairment, risk and write-off

An impairment allowance of $690,000 was created in 2013 for seven loans disbursed to financial service providers between 2006 and 2008. The allowance has been maintained at the same value from the date of creation to 31 December 2015. However, UNCDF was unable to provide evidence to substantiate the follow-up undertaken, such as performing due diligence to identify the possibility of recovering the loans, or instances where management has confirmed that the loans will not be recovered and therefore should be written off. In the absence of evidence of follow-up action, decisions to retain or write off the loans and to record their worthiness in the financial statements will not have an appropriate basis. This is because the UNCDF loan policy requires all reasonable efforts to be exhausted and documented before subsequent steps such as write-off can be considered. The Board considers that the lack of evidenced actions increases the risks of non-recoverability of the loans from the financial service providers.

Recommendations

The Board made recommendations based on its audit that are contained in the main body of the present report. The main recommendations are that UNCDF:

Non-assessment of implementing partners' capacity

(a) **(i) Conduct an assessment of all implementing partners before commencing the project implementation phase; and (ii) ensure that a capacity assessment is undertaken whenever there is a change in implementation modality;**

Delays in project closure

(b) **(i) Speed up the transfer of project assets and certify final combined delivery reports; and (ii) complete refunds to donors in a timely manner, so that projects are financially closed within 12 months of being operationally closed;**

Assessment of loan impairment, risk and write-off

(c) **(i) Conduct due diligence with respect to long-outstanding loans and maintain proper evidence to support action taken on the loans, including the write-off of loans whose recoverability is uncertain; and (ii) ensure that the impairment allowance for the loans is reviewed every year to ascertain its relevance and is supported by proper evidence of the approach used.**

Key facts	
$15.83 million	Approved budget (core resources)
$11.97 million	Revenue (core resources)
$13.34 million	Actual expenses (core resources)[a]
$39.71 million	Approved budget for grants and transfers
$28.17 million	Actual expenses for grants and transfers
116	Total number of staff
$16.09 million	Staff costs

[a] Only core resources are budgeted and approved by the Executive Board. Other resources (non-core) are not budgeted.

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 achieving the Millennium Development Goals. UNCDF has its headquarters in New York and operates in 31 countries and territories. In addition UNCDF is also operational 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 2015, 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/2003/7 and 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 presented fairly the financial position of UNCDF as at 31 December 2015 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) (applicable to UNCDF). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting

evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial statements, the Board carried out reviews of UNCDF operations under financial regulation 7.5 of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNCDF operations.

5. The Board coordinates with the Office of Audit and Investigations in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that can be placed on the work of the Office. The present report relates to audits performed at the country offices visited and at the headquarters of the Fund.

6. The Board's observations and conclusions were discussed with UNCDF management and, where appropriate, their views have been reflected in the present report. The Board considers that its recommendations may have wider application across all UNCDF locations.

B. Findings and recommendations

1. Follow-up of previous recommendations

7. The Board reviewed a total of 16 prior recommendations made from 2013 to 31 December 2014, of which 12 recommendations (75 per cent) had been fully implemented, 3 (19 per cent) were under implementation and 1 (6 per cent) had been overtaken by events. The Board considers that there are positive improvements in the implementation of audit recommendations. Details of the status of implementation of the recommendations are shown in the annex.

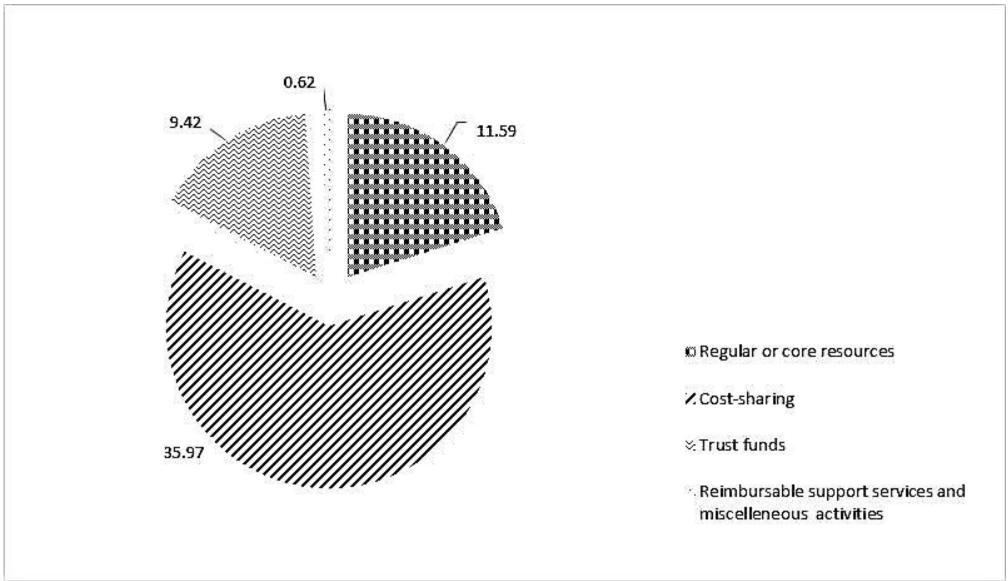
2. Financial overview

Revenue and expenses

8. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2015, total revenue amounted to $58.42 million (2014: $89.06 million) and total expenses amounted to $66.73 million (2014: $57.97 million), resulting in a deficit of $8.31 million (2014: a surplus of $31.09 million). During 2015, total voluntary contributions to the Fund were $57.60 million, equivalent to 98.61 per cent of total revenue (net of returns to donors for unused contributions).

9. Voluntary contributions decreased by $30.57 million (34 per cent) in 2015, compared with contributions of $88.17 million in 2014. The amount of voluntary contributions comprised regular or core resources of $11.59 million (20 per cent), cost-sharing of $35.97 million (63 per cent), trust funds amounting to $9.42 million (16 per cent) and reimbursable support services and miscellaneous activities amounting to $0.62 million (1 per cent). These contribution levels are shown in figure I.

Figure I
Comparative contributions for regular and other resources
(Millions of United States dollars)

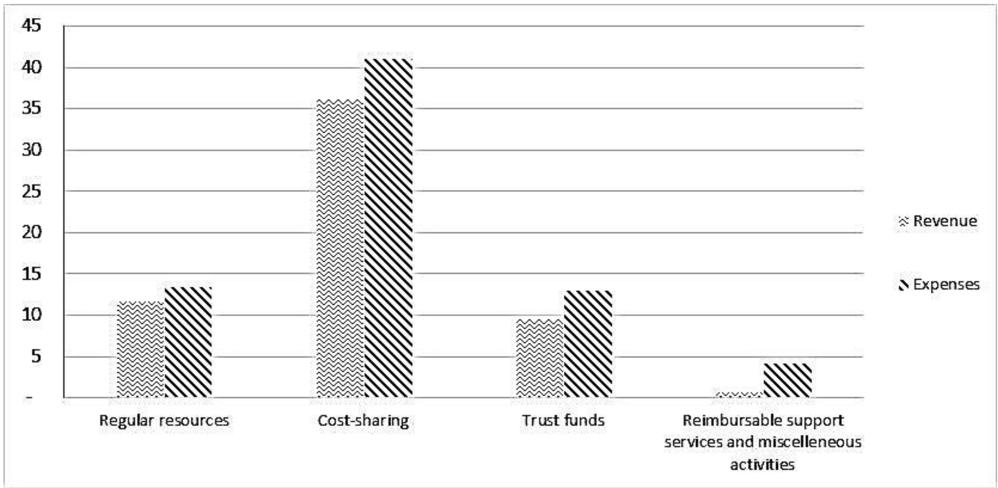


Source: Board's analysis of UNCDF 2015 financial statements.

10. Expenses during the reporting period, as reported in the statement of financial performance (statement II), amounted to $66.73 million. The breakdown by segment was: cost-sharing expenses, $40.93 million (61 per cent); regular resource expenses, $13.34 million (20 per cent); trust fund expenses, $12.88 million (19 per cent). The breakdown of expenses by segment also takes into account $4.07 million from reimbursable support services and miscellaneous activities, less cost recovery of $4.49 million.

11. The classification of the expenses by nature indicates that $28.17 million (42 per cent) was spent for grants and other transfers; $16.09 million (24 per cent) for staff costs; $8.40 million (13 per cent) for general operating expenses, net of $4.50 million for cost recovery; $12.59 million (19 per cent) for contractual services; and $1.48 million (2 per cent) for supplies and consumables, other expenses, depreciation and finance cost. Comparative revenues and expenses by segment are shown in figure II.

Figure II
Comparative revenue and expenses
(Millions of United States dollars)



Source: Board's analysis of UNCDF 2015 financial statements.

Ratio analysis

12. An analysis of the Fund's main financial ratios indicates that the liquidity ratios have slightly declined in 2015 compared with 2014. The overall position shows that UNCDF has sufficient assets to meet its short-term and long-term liabilities where current assets are 17 times the current liabilities and total assets are 10 times the total liabilities, as shown in table 1.

Table 1
Ratio analysis

Description of ratio	*31 December 2015*	*31 December 2014*
Current ratio[a]		
Current assets: current liabilities	17.99	22.50
Total assets: total liabilities[b]	**10.25**	**7.62**
Cash ratio[c] - Cash + investments: current liabilities	15.61	17.35
Quick ratio[d] - Cash + investments + accounts receivable: current liabilities	18.19	22.04

Source: Board's analysis of UNCDF 2014 and 2015 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 there are in current assets to cover current liabilities.
[d] The quick ratio is more conservative than the current ratio, because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid position.

13. In accordance with its financial regulations and rules, UNCDF maintains reserves in its account at the level of at least 20 per cent of project commitments. UNCDF reported accumulated operating reserves of $14.39 million, equivalent to 20 per cent of project commitments but slightly lower than the reserve of $14.42 million held as at 31 December 2014. The Fund also reported cash and investments of $108.5 million (2014: $111.8 million); thus an adequate level of liquidity continued to be provided. The decrease in investments was mainly due to the maturity of invested funds and decisions of the Treasury to invest based on the needs for and availability of funds for programmes.

3. Programme and project management

Non-assessment of implementing partners' capacity

14. The Programme Operations Policies and Procedures specify that the national implementation modality is used when the national authorities have adequate capacity to undertake the functions and activities of a project. Accordingly, section 3.6 of the UNCDF operations manual requires UNCDF to assess the capacity of the implementing partners during the formulation stage of the project. This assessment takes into account their capability to manage resources in terms of: (a) financial management; (b) performance monitoring and reporting; and (c) internal audit.

15. The Board reviewed two projects for financing the poor and technical assistance, with a total budget of $28.90 million, which are being implemented in Sierra Leone and in the Lao People's Democratic Republic under the national implementation modality. The Board noted that, contrary to the requirements of the Programme Operations Policies and Procedures and the UNCDF operations manual (2013), neither of the selected implementing partners was assessed before starting the project implementation phase.

16. Management explained that the two cases in Sierra Leone and the Lao People's Democratic Republic were exceptions due to the fact that the implementation modality was changed from directly implemented projects to the national implementation modality to enhance the sustainability of development projects by increasing national ownership of and commitment to development activities. A capacity assessment was later conducted for the Lao implementing partner and in Sierra Leone the assessment was under way.

17. The Board is of the view that, by starting project implementation before performing capacity assessments of implementing partners, UNCDF will not have a reliable basis for determining their capacity to manage resources in terms of financial performance, monitoring and reporting. This creates the risk of relying on an implementing partner with inadequate capacity to deliver projects on time and realize the targeted outcomes.

18. **UNCDF agreed with the Board's recommendation that it: (a) conduct an assessment of all implementing partners before they commence the project implementation phase; and (b) ensure that a capacity assessment is undertaken whenever there is a change in implementation modality.**

Delays in project closure

19. Paragraph 2.1 of the Programme Operations Policies and Procedures, under programme and project management on project closure, requires financial closure of

a project to be accomplished within 12 months after the month of operational closure or termination. Further, it specifies that, between operational and financial closure, the implementing partner is required to identify and settle all financial obligations and prepare a final expenditure report. According to the Programme Operations Policies and Procedures, no adjustments can be made to a financially closed project.

20. At the Sierra Leone country office, the Board noted that two projects with total expenditure of $7.12 million had been operationally closed after the project end dates; and three projects with total expenditure of $7.79 million had been operationally closed since 2013 but their financial closure had been delayed for periods ranging between 82 and 88 days. Furthermore, another project, with a budget of $800,000, which was due for closure in June 2014 was still ongoing at year end.

21. UNCDF explained that the delays had been caused by various factors, including delayed combined delivery reports certification, the processes for the transfer of assets to the "Local governance and economic development" project, the processes for refunding balances to the donor, the need to complete payment processes, and the pending assets transfer to the implementing partner.

22. While there was no evidence of losses of the unspent funds, the Board considers that the delay in financial closure of the projects exposes UNCDF to the risk of misuse of the unspent balances.

23. **UNCDF agreed with the Board's recommendations that it: (a) speed up the transfer of project assets and certify final combined delivery reports; and (b) complete refunds to donors in a timely manner so that projects are financially closed within 12 months after being operationally closed.**

Delays in certification of combined delivery reports

24. The combined delivery report is a report which reflects the expenses and funds utilized on a project. According to the Programme Operations Policies and Procedures, the combined delivery report should be prepared and certified by UNCDF and implementing partners on a quarterly and yearly basis. Presentation of the signed combined delivery report is considered a prerequisite for continuing to give advances to the project and for processing direct payments, or for any other service requested for the project.

25. For 2015, the Lao People's Democratic Republic country office had five ongoing projects (expenses: $1.44 million) and one operationally closed project (expenses: $137.28). The Board reviewed 10 combined delivery reports for the five ongoing projects for the first and second quarters and one for the operationally closed project. Out of the 10 combined delivery reports reviewed for the ongoing projects, six were for national implementation modality projects in the local development finance practice area, four were for national implementation modality projects under the financial inclusive practice area, and the operationally closed project was in the financial inclusive practice area.

26. The Board noted delays in the signing and certification of combined delivery reports, such that four combined delivery reports from the first quarter for projects numbered 85175 and 81814, which were supposed to have been signed in April 2015, were signed on 7 October 2015, five months late. Furthermore, the second

quarter combined delivery report for project 81814 was signed on 22 September, three months late, instead of in July 2015. Another six combined delivery reports for three projects (numbered 76452, 86116 and 81697) for the first and second quarters were signed after a delay of more than two months from the end of the respective quarters. The final combined delivery report for project 79468, which was operationally closed in December 2014, was not signed until 15 September 2015.

27. Management explained that headquarters has to ensure that all project transactions, i.e. payroll, general management support fees, depreciation and other adjustments, are properly posted before the combined delivery reports are signed. Moreover, the reports have to be submitted to the implementing partners for review and signature. This is a process which takes time and results in delays in the certification of the combined delivery reports. Furthermore, management explained that the reports for the two projects with ID Nos. 81814 and 85175 had not been issued because no expenditure had been recorded in the first and second quarters. Nevertheless, the Board considers that there is no exemption in the Programme Operations Policies and Procedures for not signing combined delivery reports on the ground of there having been no expenditure.

28. The Board is of the view that delays in the preparation and certification of combined delivery reports by UNCDF and its implementing partners increase the risk that previous expenditure errors posted in Atlas will not be rectified in a timely manner and thus that the accuracy of project expenditure in the financial statements will be affected.

29. **UNCDF agreed with the Board's recommendation that it expedite combined delivery report certification to ensure that quarterly combined delivery reports are prepared on time and certified by implementing partners and UNCDF in compliance with the Programme Operations Policies and Procedures.**

Inconsistent project outcomes

30. The Board noted that the country office in the Lao People's Democratic Republic was implementing two projects under the United Nations Development Assistance Framework (UNDAF) 2012 to 2015 cycle. The projects were (i) "Making access to finance more inclusive for poor people" (MAFIPP) and (ii) "Governance and public administration reform-strengthening capacity service delivery", with total budgets of $9.80 million and $12.60 million respectively. Both projects were scheduled to be implemented from 2012 to 2017.

31. The Board found that three key documents, namely the project document, UNDAF and the 2015 annual workplan for MAFIPP, the project document for which was revised in 2013, have included a different outcome No. 1 for the same programme (table 2).

Table 2
Inconsistent outcome No. 1 reporting in project documents and the United Nations Development Assistance Framework

Source	*Outcome No. 1*
MAFIPP project document	Improved and equitable access to land, social and economic services
UNDAF	By 2015, more equitable and sustainable growth promoted for poor people in the Lao People's Democratic Republic
Annual workplan, 2015	The livelihoods of the poor, vulnerable and food insecure populations are enhanced through sustainable development

Source: Audit review of MAFIPP project.

32. Management explained that the project document had been drawn up during the old 2007-2011 UNDAF cycle and that the outcome in the project document and the 2015 annual workplan were linked to the previous UNDAF outcome and country programme outcome, for the period 2007-2011. Moreover, the project document revision prepared during 2013 and 2014 to include new donor funding in 2013 and 2014 did not change the outcome to reflect UNDAF outcome No. 1 of the current 2012-2015 UNDAF cycle. Management confirmed that the country office and the national implementing partner, the Bank of the Lao People's Democratic Republic, had jointly signed a note for the file linking the MAFIPP programme with the new UNDAF outcome and ensuring compliance with the Programme and Operations Policies and Procedures.

33. The Board is of the view that inconsistent information in UNDAF, the annual workplan and programme documents may lead to difficulties in monitoring and evaluating projects. Also, had the project management team committee carried out reviews, they would have assisted management to detect the inconsistency noted. Moreover, while the note for the file was prepared in December 2015 as a corrective control, UNCDF needs to improve its quality assurance mechanisms to function as a preventive control.

34. **UNCDF agreed with the Board's recommendation that it: (a) ensure the timely revision of outcomes in the project document and the annual workplan, and their correlation with the outcomes in UNDAF; and (b) enforce the quality assurance mechanism by reviewing information in UNDAF, the project document and the annual workplan to ensure consistency.**

Non-performance of final project review

35. The Board found that UNCDF had not conducted the final review of three projects costing $5.10 million implemented in 2015 by the Sierra Leone country office, contrary to paragraph 2.2 of the Programme and Operations Policies and Procedures with regard to project management on closing a project, which requires a final project review to be conducted during the final quarter of the project's duration. Of the three projects, the "Microfinance investment and technical assistance facility" (MITAF I), with a total budget of $1.10 million, was extended to MITAF II, but in the absence of a final review report there were no lessons learned that could be considered in the preparation of MITAF II.

36. Management explained that the final evaluation of MITAF I was undertaken when the project was being redesigned and that the outcomes of the lesson learned exercise were taken into consideration in the project document for MITAF II. However, the Board noted that management performed a final evaluation and not the final project review[1] as required under the Programme and Operations Policies and Procedures. Also, the results of the lesson learned exercise included an evaluation stating that MITAF I had been successful and that the major implementing partner expressed consent for MITAF II. That statement was later refuted by the implementing partner.[2]

37. The Board is of the view that UNCDF would have avoided issues affecting MITAF II, including the delays in programme implementation, if the lessons learned exercise from MITAF I and the final project assessment had been carried out before the planning for MITAF II was undertaken. Further, the lessons learned from MITAF I would have assisted in the overall project performance and sustainability of results of MITAF II.

38. **UNCDF agreed with the Board's recommendation that it: (a) comply with the Programme and Operations Policies and Procedures in conducting final project reviews and draw upon lessons learned in a timely manner in future; and (b) incorporate lessons learned into future programme documents.**

4. Information and communications technology

Project management — loan management system

39. UNCDF started a project for a loan management system (Pamira Banker) in November 2012 for a contract sum of $80,250 which was later revised to $97,250 as a result of the additional time required to finalize reports for audit trails and debugging. Similarly, the project execution time frame was changed to from November 2012 to January 2013 and later, the action plan was updated to from March to September 2015.

40. The Board noted that although the revised time frame of November 2012 to January 2013 involved the testing and roll-out of the system, the roll-out was not done in the way planned. Further review of the new project action plan (with a time frame of March to September 2015) showed that the project team did not follow the plan and, as a result, all activities were delayed. For example, requests for system modifications sent to the vendor (tracked on the worksheet) had 15 pending items for change as at 6 October 2015.

41. Management explained that the contract was signed in October 2012; testing and set-up were carried out in 2013. However, owing to the introduction of IPSAS, some elements in the contract were revised to align them with the standards. Testing of the system was finalized in 2014 and the system was piloted in 2015, although not fully put into production. Management also explained that the ongoing enhancement of the system was intended to fit the loan management processes into the loan management system and that piloting of the system had been rescheduled to be completed in December 2015.

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[1] The final project review is an internal self-assessment, usually done in the third or fourth quarter of project implementation, and its results can be used to inform the final evaluation, which is an external assessment.

[2] Minutes of a meeting on 12 December 2013 between the implementing partner and UNDP/UNCDF.

42. The Board is concerned that UNCDF will not realize the benefits of automating the loan management processes in a timely manner. This is because it has taken longer than planned and there is no specific timeline to complete the remaining tasks; meanwhile UNCDF office continues incurring annual maintenance fees of $10,000 and additional costs from project scope increase as a result of amending the contract in July 2013. Furthermore, the technology is changing frequently and a point may be reached where the system may not accommodate further business requirements.

43. **The Board recommends that UNCDF: (a) specify and document all loan management system requirements based on the loan policy; (b) revisit and update details in the project plan based on specified requirements, including timelines; and (c) monitor the implementation of project activities to avoid further delays.**

5. Grants and loans management

Assessment of loans impairment, risk and write-off

44. The UNCDF loan policy provides for the impairment of outstanding loans on the basis of their status and management makes an accounting provision for it in the financial statements. A loan will only be considered for write-off after the UNCDF Risk Management Committee determines that all reasonable efforts have been exhausted and documented, including the assessment of recommendations from the relevant investment committee.

45. The financial statements for 2015 reported an allowance for impairment of seven loans to financial service providers amounting to $690,000 which was created in 2013 and maintained at the same value up to 2015. The allowance was for loans disbursed between 2006 and 2008 to financial service providers in Guinea Bissau (4 loans), Sierra Leone (1 loan), South Sudan (1 loan) and Togo (1 loan). A summary of the impairment allowance for the loans is shown in table 3.

Table 3
Loans impairment allowance at 31 December 2015

Country	*Outstanding balance at 31 December 2015 (United States dollars)*	*Disbursement date*	*Percentage of repayment*
Guinea-Bissau	26 642	12/01/2006	40
	31 431	10/07/2006	30
	22 044	12/01/2006	50
	26 723	12/01/2006	40
Sierra Leone	99 057	02/09/2009	21
South Sudan	372 569	15/11/2008	28
Togo	112 304	1/11/2006	50
Total	**690 770**		

Source: UNCDF loan follow-up sheet as at 31 December 2015.

46. However, UNCDF was unable to provide evidence to substantiate the follow-up made, such as the performance of due diligence to identify the possibility of recovering the loans, or instances where management had confirmed that the loans would not be recovered and therefore should be written off. In the absence of evidence of follow-up action, decisions to retain or write off the loans and to record their worthiness in financial statements will not have an appropriate basis in line with the UNCDF loan policy. The Board considers that the lack of evidenced actions also increases the risk of non-recoverability of the loans from the financial service providers. Table 4 shows loans impairment from 2012 to 2015.

Table 4
Allowance for impairment of loans, 2012 to 2015
(Thousands of United States dollars)

Description	*2012*	*2013*	*2014*	*2015*
Short-term:				
Loans to financial service provider	–	783	523	384
Long term:				
Loans to financial service provider	2 298	1 237	941	1 194
Less: impairment allowance	(690)	(690)	(690)	(690)
Total loans to financial service providers	1 608	1 330	774	888

Source: UNCDF financial statements for financial years ended 31 December 2012, 2013, 2014 and 2015.

47. Management explained that documents would be collected to substantiate the write-off request and due diligence tests would be conducted to confirm the probability/possibility of recovering the loans. Finally, the documents would be submitted to the UNDP Office of Audit and Investigations for verification and recommendation for the Administrator’s approval.

48. The Board considers that the lack of evidenced actions also increases the risks of the financial service providers defaulting on repaying the loans.

49. **UNCDF agreed with the Board’s recommendation that it: (a) conduct due diligence on long-outstanding loans and maintain proper evidence to support action taken on the loans, including the write-off of loans whose recoverability is uncertain; and (b) ensure that the impairment allowance for the loans is reviewed every year to ascertain its relevance, supported by proper evidence of the approach used.**

C. Disclosures by management

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

50. There were no write-offs of losses to disclose for the period under review as confirmed by management.

2. Ex gratia payments

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

Cases of fraud and presumptive fraud

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

53. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or that have been brought to its attention. The Board also enquires whether management has any knowledge of any actual, suspected or alleged fraud; this includes enquiries of the Office of Audit and Investigations. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in the Board's report.

54. In 2015 the Board did not identify any cases of fraud or presumptive fraud. Based on the disclosure made by UNCDF, nothing came to the attention of management that would constitute fraud or presumptive fraud during the reporting period.

D. Acknowledgement

55. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Managing Director and staff of the United Nations Capital Development Fund.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the United Kingdom of
Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2016

Annex

Status of implementation of recommendations for the year ended 31 December 2014

						Status after verification				
No.	*Report*	*Paragraph reference*	*Board's summary of recommendations*	*UNCDF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
1.	A/69/5/Add.2	19	In paragraph 19, the Board recommended that UNCDF adopt and fully implement an enterprise-wide risk management process for the planning, monitoring and evaluating stages of its programmes and operational activities in line with its enterprise risk management framework.	UNCDF developed enterprise risk management policy which was approved by the Associate Administrator on 7 June 2016.	The Board verified the enterprise resource management policy approved by the UNDP Associate Administrator on 7 June 2016.	✓				
2.	A/69/5/Add.2	24	In paragraph 24, UNCDF agreed with the Board's recommendation that it require all its country offices to prepare combined delivery reports and ensure that they are signed by counterparts in a timely manner, in accordance with the requirements of the Programme and Operations Policies and Procedures.	UNCDF noted the audit recommendation and agreed to comply with generating the combined delivery reports as soon as closing of the quarters is finalized and having the relevant responsible persons sign the reports. A note is being sent to all staff to ensure that the reports are produced and signed on time, and the headquarters Finance Unit will follow up with all offices. In 2014, in the case of Myanmar and Fiji, which are part of the direct implementation modality project, there is no need for counterparts to sign the	Implemented in accordance with the action plan.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
				combined delivery reports. This is reflected in the two countries' management responses.						
3.	A/69/5/Add.2	33	In paragraph 33, UNCDF agreed with the Board's recommendation that UNCDF improve its assurance of financial information by auditing any project that entailed cumulative expenses of $300,000 during a particular year in accordance with the requirements of the Programme and Operations Policies and Procedures.	UNCDF headquarters has submitted the list of national implementation modality projects to the region concerned for national implementation modality audit for 2014, for coordination with UNDP in the respective country offices so they may be audited together with UNDP projects. The project with a cumulative budget of $300,000 has been audited.	Implemented in accordance with the action plan.	✓				
4.	A/69/5/Add.2	37	In paragraph 31, the Board recommended that UNCDF (a) ensure that, wherever the posts of Programme Officers were abolished, an appropriate handing over mechanism is established to ensure their responsibilities are assigned to other designated officers for proper project delivery; (b) perform final	The current evaluation policy of UNDP, introduced in 2011, includes the provisions for evaluation for UNCDF, including the mandatory criteria for evaluation. These are: (a) at least one strategic or thematic assessment per year in response to corporate priorities; (b) midterm or final evaluations of selected projects in critical areas of relevance to the two UNCDF practice areas of local development and inclusive finance; (c) project evaluations when required by a partnership protocol; (d) participation in evaluations	This recommendation has been overtaken by events owing to the change of evaluation policy in 2011. The current evaluation policy of UNDP includes the provisions for evaluation for UNCDF, including the mandatory criteria for evaluation.				✓	

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			project evaluations that were supposed to have been completed in 2013; (c) sign the memorandum of understanding with UNDP for the monitoring and management of the two remaining global projects scheduled to be finalized in 2017.	of joint programmes, as required by approved joint programme documents These criteria superseded the criteria in the previous evaluation policy which required UNCDF to evaluate all projects and programmes of at least $2.5 million or of a duration of at least five years.						
5.	A/69/5/Add.2	41	In paragraph 41, UNCDF agreed with the Board's recommendation that it prepare complete annual workplans with performance indicators, baseline information and targets to conform with the results-based budgeting framework as required by the Programme and Operations Policies and Procedures.	To ensure systematic corporate-wide results-based planning and monitoring, since 2015, the Executive Office of UNCDF has organized planning sessions for its entire programme/project portfolio. Each project/programme has been requested to enter its budget in Atlas and submit its annual workplan to headquarters, specifying the project/programme financial information, quarterly investment plan, the budget amount and categories, expected results, risk analyses, challenges encountered, procurement and travel.	The Board noted management efforts and has reviewed the corporate results-based planning. The recommendation has been implemented in accordance with the action plan.	✓				

No.	Report	Paragraph reference	Board’s summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
6.	A/69/5/Add.2	30	In paragraph 30, UNCDF agreed with the Board’s recommendation that it (a) ensure its completed projects are closed in a timely manner as stated in the Programme and Operations Policies and Procedures; (b) obtain from the beneficiaries duly certified receipts for the transferred assets to avoid any risk that losses will occur without detection by management; and (c) comply with the requirements of the Programme and Operations Policies and Procedures by refunding the balance or seek the consent of the donor with respect to applying the funds to other unearmarked activities.	(a) already closed in accordance with the Board’s assessment; (b) assets for all projects are transferred to counterparts and it is ensured that receipt is acknowledged; (c) it is ensured that all unused funds are refunded to the donors.	Implemented in accordance with the action plan.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
7.	A/69/5/Add.2	44	In paragraph 44, UNCDF agreed with the Board's recommendation that it monitor its budget performance closely and ensure that any emerging challenges to budget implementation are addressed in a timely manner.	As follow-up to the audit recommendation, UNCDF has planned and uploaded the annual project planning templates for 2015.	Implemented after re-assessment.	✓				
8.	A/70/5/Add.2	19	In paragraph 19, UNCDF agreed with the Board's recommendation that it work closely with UNDP to gain access to the tools and platforms and effectively utilize them for the strategic planning, monitoring and reporting of its programmes and activities in order to deliver better results.	UNCDF has now developed with the cooperation of the UNDP Office of Information Systems and Technology an advanced business intelligence platform providing essential information to support planning, monitoring and decision-making functions.	Implemented. The Board noted and accessed the business intelligence platform developed by UNCDF.	✓				
9.	A/70/5/Add.2	23	In paragraph 23, UNCDF agreed with the Board's recommendation that it ensure that all offices prepare procurement requisition plans, and that the plans are consolidated in line with the	Implemented in accordance with the action plan. UNCDF accessed the procurement online tool and noted that, in 2015, offices prepared and uploaded the procurement requisition plans, and the plans were consolidated in line with the Programmes Operations Policies and Procedures.	The Board accessed the procurement online tool and noted that, in 2015, offices prepared and uploaded the procurement requisition plans, and the plans were					

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			Programmes Operations Policies and Procedures.		consolidated in line with the Programmes Operations Policies and Procedures.					
10.	A/70/5/Add.2	27	In paragraph 27, UNCDF agreed with the Board's recommendation that it: (a) continue strengthening the oversight mechanism to ensure that performance management development plans and assessments are completed in a timely manner and reviewed and approved by managers; and (b) develop a clear action plan in collaboration with UNDP to ensure that the performance management and development process is used in talent management and the assessment of results, competency domains and staff capacity.	The talent management review group had its first meeting and agreed on the actions to be taken after the finalization of previous performance management development plans (2013/2014). At this meeting, specific actions were agreed upon that linked talent management to staff ratings of performance management development plans. These actions will be taken up by management in the ensuing months.	The Board has verified the management responses and closed the recommendation.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
11.	A/70/5/Add.2	31	In paragraph 31, UNCDF agreed with the recommendation that: (a) it expedite the process of operational closure for all projects based on their end dates and review the project status in Atlas in a timely manner to comply with the Programmes Operations Policies and Procedures; (b) the Investment Committee, UNDP and UNCDF accelerate the process of approving budgets at project inception to allow swifter budget approval by the Multi-Partner Trust Fund Office to facilitate the implementation of phase II projects.	UNCDF managed to close financially 80 per cent of the projects, a few are closed operationally and are awaiting donor confirmation and the remaining projects are ongoing.	Implementation of part (a) of the recommendation is in progress. Management initiatives are noted. More efforts are needed to financially close more than 80 per cent of the projects. The Board is of the view that it is reasonable to achieve a financial closure rate of projects of at least 90 per cent. Implementation of part (b) of the recommendation is in progress; management has to update the implementation status of part (b).		✓			
12.	A/70/5/Add.2	36	In paragraph 36, UNCDF agreed with the Board's recommendation that it: (a) maintain liaison with donors to agree on mechanisms for disposing of any remaining balances to include in future	(a) UNCDF managed to facilitate the refund of unused funds to donors and in some cases obtained confirmation from donors for the reallocation of the unused resources to other projects. In future, UNCDF will enforce the terms of the cost-sharing agreements in regard to refunds. (b) and (c) To expedite	Part (a) implemented; parts (b) and (c) are in progress because the evidence in respect of refunds or reprogramming ($1.3 million) from 22 inactive trust funds has not		✓			

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			trust fund agreements; (b) establish timelines and take all measures necessary to refund or reprogramme $1.3 million from 22 inactive trust funds; and (c) expedite the process of financial closure of all long-outstanding operationally closed projects and review in a timely manner the project status in Atlas to comply with policies and procedures in the operational and financial closure of projects.	closure and the refund of unused funds to donors, UNCDF hired a consultant, who has been working to complete this important task on a priority basis. As a result, more than 80 per cent of the old projects are closed financially and unused funds have been refunded to donors.	been made available for audit verification.					
13.	A/70/5/Add.2	40	In paragraph 40, UNCDF agreed with the Board's recommendation that it: (a) enhance follow-up of grantees to ensure that they meet milestones and that budgeted grants are issued in a timely manner; (b) ensure that no microfinance institution is approved to carry out UNCDF operations and to receive grants	Part (a): UNCDF provided for the Board's review a sample of completed quarterly reports for March and September 2015. Part (b) was implemented based on the interim audit of 2015. Part (c): UNCDF provided for the Board's review performance milestones for performance-based agreements. Part (d): it was not necessary to recoup any funds in 2015.	Implemented.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			without having valid licences and fulfilling host country operational requirements; (c) adhere to the signed financing agreements and disbursement conditions; and (d) promptly collect funds from grantees who fail to meet the agreed conditions.							
14.	A/70/5/Add.2	44	In paragraph 44, UNCDF agreed with the Board's recommendation that the Fiji regional office comply with the Programmes Operations Policies and Procedures to ensure that (a) performance indicators, baseline information and targets are established at each country office for each output of the projects so as to assess the regional impact, outcome, baseline information, indicators and targets; (b) the annual output targets are included in the annual	To ensure systematic corporate-wide results-based planning and monitoring, since 2015, the UNCDF Executive Office has organized planning sessions for its entire programme/project portfolio. Each project/programme has been requested to enter its Atlas budget and submit its annual workplan, specifying the project/programme financial information, the quarterly investment plan, the budget amount and categories, expected results, risk analyses, challenges encountered, procurement and travel plans. As part of the process, each project manager presents their annual workplan and development results to the Executive Office and practice directors. Implementation of the results-based workplan was prioritized with the support of diverse units.	The Board reviewed supporting documents and tools, and noted remarkable progress in the implementation of its recommendation.	✓				

						Status after verification				
No.	*Report*	*Paragraph reference*	*Board's summary of recommendations*	*UNCDF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
			workplans of projects to serve as the reference points in the corporate results monitoring systems; and (c) all annual workplans are prepared, signed and dated, as well as approved by the investment committee.	The outcomes of the discussion were presented to the senior management team and corporate targets were approved at the corporate level. For monitoring purposes, a traffic-light rating system was introduced to reflect expenditure performance for the period against the quarterly targets.						
15.	A/70/5/Add.2	47	In paragraph 47, the Board recommended that UNCDF align the activities involved in project budgeting and execution to ensure efficient and timely delivery of targeted project budget performance.	In 2015, UNCDF has taken the following steps to ensure the alignment of activities involved in project budgeting and execution: From the beginning of 2015, the management of UNCDF provided clear directions to all projects to ensure project budgets were realistic and aligned with the annual workplan, while fully accounting for implementation challenges, risks and mitigating factors. To be more specific, a programme fact sheet has been developed for each programme that sets out the project period, source of funds, funding gap, investment plan, country of implementation, expected results for 2015, risks, problems encountered in the past and any support required from headquarters. Furthermore, to make the tool operational and for smooth programme implementation at all levels, the Deputy	The Board reviewed developed tools and noted remarkable progress in the implementation of the recommendation.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
				Executive Secretary, along with the directors of the practice areas (the financial inclusion practice area and the local development practice area) conducted a thorough discussion with the project managers and technical advisors at headquarters and at regional and country offices. In addition to aligning the budget with the planned results at the beginning of the year, UNCDF developed and operationalized a business intelligence tool which has been instrumental in providing early information on implementation challenges and performance to project managers and to senior management for timely intervention. The steps taken in response to the audit recommendation have resulted in 77 per cent of the projects achieving a delivery rate of more than 80 per cent during the year.						
16.	A/70/5/Add.2	50	In paragraph 50, UNCDF agreed with the Board's recommendation that it perform analysis: (a) to substantiate the reserve amount in terms of percentage, to establish its reserve in line with the risk mitigation	A consultant is being retained to review matters related to the operational reserve.	Management's response has been noted. Implementation of the recommendation is pending the accomplishment of the consultant's work.		✓			

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			strategy or framework component; and (b) to establish the method for the calculation of reserves to mitigate risks associated with cost-sharing and trust funds with respect to expenditure-related risks, structural risks and liability risks, and submit it for further Executive Board approval.							
	Total					**12**	**3**	**–**	**1**	**–**
	Percentage					**75**	**19**	**–**	**6**	**–**

Chapter III
Financial report for the year ended 31 December 2015

A. Introduction

1. In accordance with financial regulation 26.01 of the United Nations Capital Development Fund (UNCDF) financial regulations and rules (which comprise the United Nations Development Programme (UNDP) Financial Regulations and Rules and annex 1 thereto, which is applicable to UNCDF), the UNDP Administrator/ Managing Director of UNCDF hereby submits the financial statements of UNCDF for the year ended 31 December 2015.

2. The report of the United Nations Board of Auditors, together with their opinion on the financial statements, and the comments of UNCDF on the substantive observations are submitted in accordance with financial regulation 4.04.

3. The original UNCDF mandate 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. UNCDF has a unique financial mandate within the United Nations system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing, in the form of grants, loans and credit enhancement, and technical expertise in preparing portfolios of sustainable and resilient capacity-building and infrastructure projects, makes its mandate complementary to those of other United Nations agencies. 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.

B. Financial performance

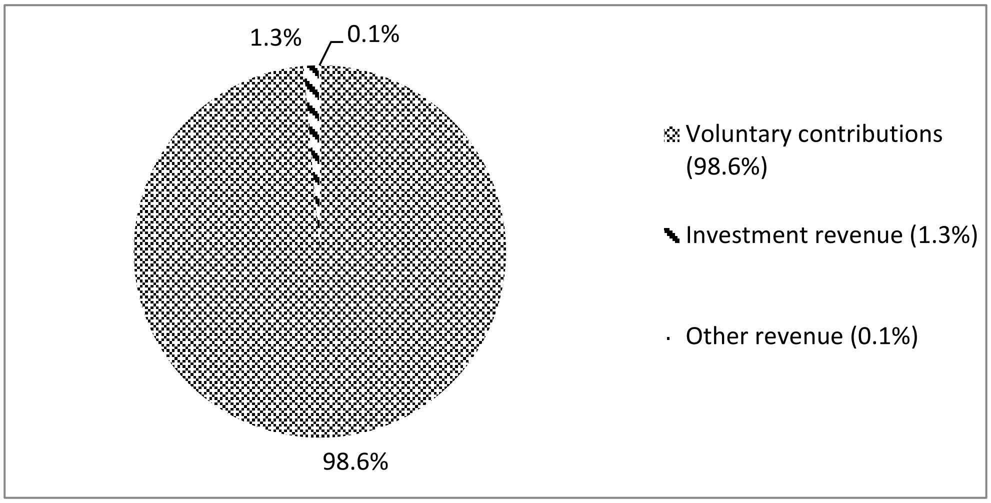
4. The total revenue for UNCDF for 2015 was $58.4 million (2014: $89.1 million), compared with total expenses of $66.7 million (2014: $58.0 million), resulting in a deficit of $8.3 million (2014: a surplus of $31.1 million).

Revenue analysis

Revenue by nature

5. The total revenue for UNCDF in 2015 was $58.4 million, of which $57.6 million (98.6 per cent) was from voluntary contributions, a net amount of $0.76 million (1.3 per cent) was from investment revenue such as interest from loans and interest earned from cash investments, and $0.04 million (0.1 per cent) was from other revenue.

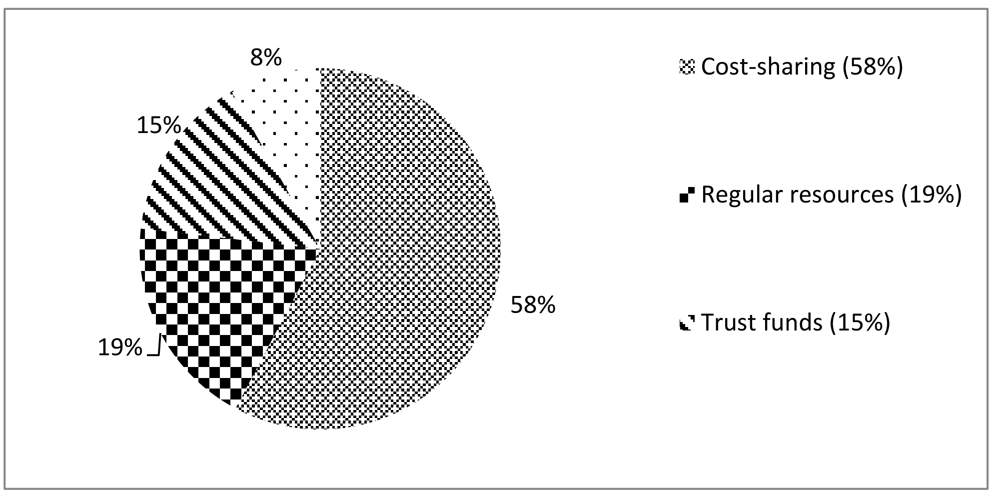
Figure III.I
Composition of total revenue in 2015, by nature



Revenue by segment

6. Analysis of revenue[3] by segment shows that cost-sharing is the largest revenue source, providing 58 per cent of UNCDF revenue in 2015, followed by regular resources (19 per cent), trust funds (15 per cent) and reimbursable support services and miscellaneous activities (8 per cent).

Figure III.II
Composition of total revenue in 2015, by segment



7. Total revenue decreased by 34.4 per cent in 2015 to $58.4 million from $89.1 million in 2014. The decrease in revenue was evident in all segments: cost-sharing (42 per cent), trust funds (12 per cent), reimbursable support services (15 per cent) and regular resources (15 per cent).

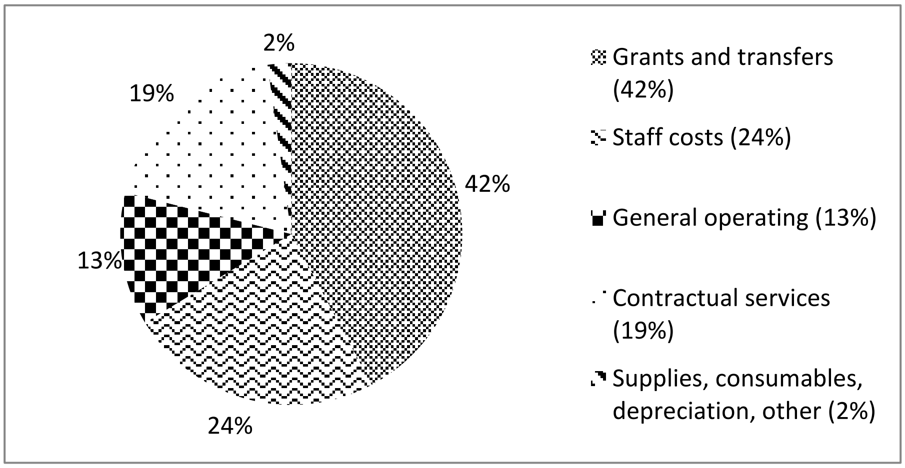
[3] Excludes elimination for inter-fund transactions.

Expenses analysis

Expenses by nature

8. The Fund's expenses in 2015 were $66.7 million. As shown in figure III.III, the largest expense category by nature was grants and other transfers ($28.2 million, or 42 per cent). The remaining categories were staff costs ($16.1 million, or 24 per cent), general operating expenses ($8.4 million, or 13 per cent), contractual services with individuals and companies ($12.6 million, or 19 per cent) and supplies, consumables, depreciation and other expenses ($1.4 million, or 2 per cent).

Figure III.III
Composition of total expenses in 2015, by nature

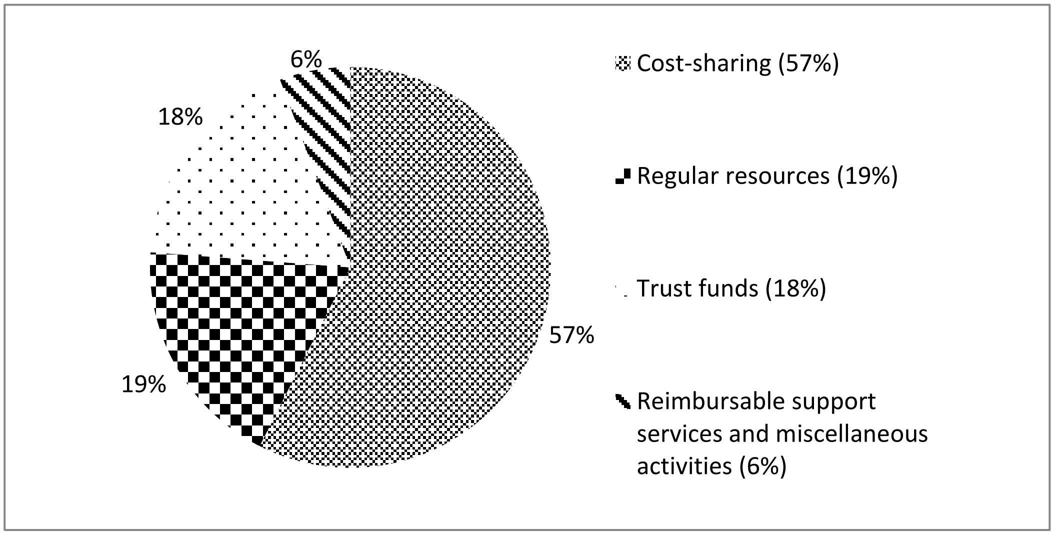


Expenses by segment

9. Of the total expenses,[1] 57 per cent related to cost sharing, 19 per cent to regular resources, 18 per cent to trust funds and 6 per cent to reimbursable support services and miscellaneous activities (see fig. III.IV).

Figure III.IV

Composition of total expenses in 2015, by segment

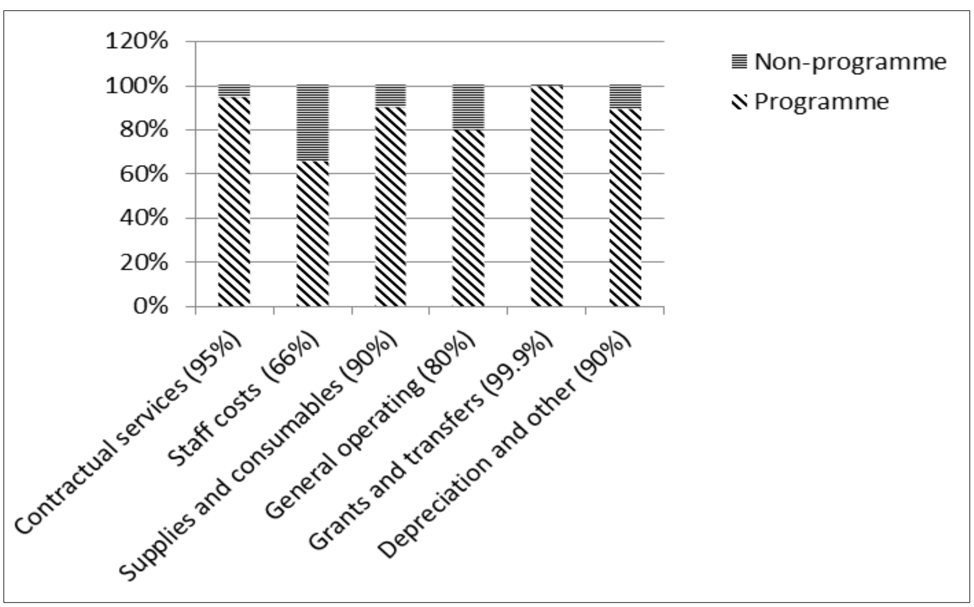


Expenses relating to programme

10. Of the total expenses of $66.7 million for 2015, $63.2 million comprised programme expenses, reflecting the development nature of UNCDF operations. By expense category, programme expenses made up 95 per cent of total contractual services with individuals and companies, 66 per cent of staff costs, 90 per cent of supplies and consumables, 80 per cent of general operating expenses, 99.9 per cent of grants and other transfers, and 90 per cent of depreciation and other expenses.

Figure III.V

Proportion of programme expenses to total expenses, by nature



Financial performance by segment

11. Regular resources, cost-sharing and trust funds had deficits of $1.4 million, $4.6 million and $3.4 million, respectively, for the year 2015, while reimbursable support services and miscellaneous activities had a surplus of $1.1 million. Financial performance by segment is summarized in table III.1.

Table III.1
Summary of financial performance by segment in 2015
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Inter-fund elimination*	*Total*
Total revenue	11.9	36.3	9.5	5.2	(4.5)	58.4
Total expenses	13.3	40.9	12.9	4.1	(4.5)	66.7
Surplus/(deficit) for the year	**(1.4)**	**(4.6)**	**(3.4)**	**1.1**	**–**	**(8.3)**
Total accumulated surpluses	**9.4**	**70.2**	**5.3**	**7.8**	**–**	**92.7**

Summary of financial performance by segment in 2014
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Inter-fund elimination*	*Total*
Total revenue	14.2	62.7	10.7	6.1	(4.6)	89.1
Total expenses	11.6	30.4	17.0	3.6	(4.6)	58.0
Surplus/(deficit) for the year	**2.6**	**32.3**	**(6.3)**	**2.5**	**–**	**31.1**
Total accumulated surpluses	**6.9**	**74.0**	**8.3**	**6.2**	**–**	**95.4**

C. Budgetary performance

12. The Fund’s budget continues to be prepared on a modified cash basis, as presented in financial statements V (a) and (b) and note 7. Comparison to budget. In order to facilitate a comparison between the budget and the financial statements prepared under the International Public Sector Accounting Standards (IPSAS), a reconciliation of the budget to the cash flow statement is also included in note 7.

13. 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.2.

Table III.2
Budget utilization rates for 2015

Budget component	*Annualized approved budget (millions of United States dollars)*	*Actual utilization rate (percentage)*
Development activities	14.6	82
Management activities	1.2	77
Total	**15.8**	**82**

D. Financial position

Assets

14. The Fund's current assets of $69.6 million (2014: $61.3 million) comprise largely investments ($54.2 million), cash and cash equivalents ($6.2 million) and receivables for exchange and non-exchange transactions ($7.9 million). These items represent $68.3 million, or 98.1 per cent, of total current assets. Non-current assets of $49.0 million (2014: $65.2 million) are primarily investments ($48.1 million), loans to financial service providers ($0.5 million) and property, plant and equipment ($0.4 million).

Cash, cash equivalents and investments

15. At 31 December 2015, UNCDF held cash, cash equivalents and investments of $108.5 million (2014: $111.8 million). The Fund's investment revenue was $0.8 million in 2015.

Receivables

16. At 31 December 2015, UNCDF had non-exchange and exchange receivables of $7.9 million (2014: $12.8 million), which consists of contributions receivable from UNDP, contributions not yet received from donors for which contribution agreements have been signed, and advances provided to implementing partners that need to be prorated and allocated to their respective projects.

Advances issued

17. In fulfilling its mandate, UNCDF transfers cash to executing entities/implementing partners as cash advances. Advances issued are recognized as assets and converted to expenses when the goods are delivered or the services are rendered by the executing entities/implementing partners and confirmed by receipt by UNCDF of certified expense 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 of reporting, either from the entities' statements as submitted for audit or from the entities' unaudited statements.

18. At 31 December 2015, UNCDF had outstanding advances of $0.87 million (2014: $0.72 million). This consists of $0.52 million in advances to Governments plus executing entities/implementing partners and the remaining $0.40 million comprises primarily advances to staff, offset by an impairment of $0.05 million.

Property, plant and equipment and intangible assets

19. At 31 December 2015, UNCDF held property, plant and equipment of $0.40 million (2014: $0.41 million). Of total property, plant and equipment, $0.27 million represents vehicles, $0.065 million represents furniture and fixtures, $0.055 million represents information and communications technology equipment and the remainder represents heavy machinery and other equipment. All management assets and project assets that UNCDF controls are capitalized by UNCDF. Project assets that are not controlled by UNCDF are expensed as incurred.

Liabilities

20. The Fund's current liabilities of $3.9 million (2014: $2.7 million) are primarily employee benefits of $2.0 million and accrued liabilities of $1.7 million. Employee benefits include annual leave of $1.4 million, home leave of $0.4 million and repatriation entitlements of $0.1 million, among others. Non-current liabilities of $7.7 million (2014: $13.9 million) consist of $5.2 million (67 per cent) in after-service health insurance liabilities, $1.6 million (21 per cent) in repatriation entitlements and $0.9 million (12 per cent) in other employee benefits.

21. The liabilities arising from post-employment benefits and other long-term employee benefits are determined by independent actuaries and are established in accordance with the Staff Rules and Staff Regulations of the United Nations. Liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by an actuarial valuation conducted as at 31 December 2015.

Employee benefits

22. IPSAS requires recording (but not necessarily full funding) of all accumulated employee benefits liabilities in the financial statements, although the disbursements for these benefits will occur over several decades. The principal liability is after-service health insurance, valued at $5.2 million.

Accumulated surplus

23. At 31 December 2015, the Fund's accumulated surplus and reserves were $107.1 million, reflecting a decrease of 3 per cent compared with $109.9 million at 31 December 2014.

Financial position by segment

24. The Fund's financial position by segment is summarized in table III.3.

Table III.3
Summary of financial position by segment

	Assets		*Liabilities*		*Net assets/equity*	
	Millions of United States dollars	*Percentage of total assets*	*Millions of United States dollars*	*Percentage of total liabilities*	*Millions of United States dollars*	*Percentage of total net assets/equity*
As at 31 December 2015						
Regular resources	30.8	26	9.1	78	21.7	20
Cost-sharing	71.2	60	0.9	8	70.3	66
Trust funds	6.5	5	1.2	11	5.3	5
Reimbursable support services	10.1	9	0.3	3	9.8	9
Total	**118.6**	**100**	**11.5**	**100**	**107.1**	**100**
As at 31 December 2014						
Regular resources	32.4	26	13.0	78	19.4	18
Cost-sharing	75.6	60	1.6	10	74.0	67
Trust funds	9.2	7	1.0	6	8.2	8
Reimbursable support services	9.2	7	1.0	6	8.2	7
Total	**126.4**	**100**	**16.6**	**100**	**109.8**	**100**

E. Risk management

25. The Fund’s risk management policies are aimed at minimizing potential adverse effects on the resources available to UNCDF to fund its activities. The principal objectives of the Fund’s risk management approach 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-revenue securities and through structuring maturities to align with liquidity requirements; and (c) revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

26. UNCDF investments are managed by UNDP, which has an Investment Committee comprising senior management that meets quarterly to review the Fund’s investment portfolio performance and ensure that investment decisions are in compliance with the established investment guidelines.

F. Corporate realignment

27. UNCDF corporate realignment, begun in 2014, resulted in reducing the salary burden on regular/core resources to invest more in country presence, streamlining the organizational structure for improved accountability and delegation of authority, improving the synergies between practices, and strengthening administrative functions and processes. In 2015, a total of $0.571 million in expenses was incurred

in connection with the realignment. Note 26, Corporate realignment, provides an illustration of the impact of these realignment expenses on the statement of financial performance.

The realignment was designed to achieve six broad objectives:

(a) Reinvest in country presence in the Least Developed Countries where UNCDF should be engaged;

(b) Clarify delegations of authority, accountabilities, standard procedures, and systems (in response to audit findings);

(c) Invest in cross-practice synergies and knowledge management;

(d) Ensure the organization's financial sustainability;

(e) Improve operational efficiency and drive delivery commensurate with the growth in non-core resources;

(f) Maximize results on the ground.

Chapter IV
Financial statements for the year ended 31 December 2015

United Nations Capital Development Fund
I. Statement of financial position at 31 December 2015

(Thousands of United States dollars)

	Note	*31 December 2015*	*31 December 2014*
Assets			
Current assets			
Cash and cash equivalents	Note 8	6 248	12 063
Investments	Note 9	54 162	35 174
Receivables (non-exchange transactions)	Note 10	5 471	5 883
Receivables (exchange transactions)	Note 10	2 515	6 914
Advances issued	Note 11	865	720
Loans to financial service providers	Note 12	384	523
Inventories	Note 13	2	3
Total current assets		**69 647**	**61 280**
Non-current assets			
Investments	Note 9	48 115	64 530
Loans to financial service providers	Note 12	504	251
Property, plant and equipment	Note 14	400	406
Total non-current assets		**49 019**	**65 187**
Total assets		**118 666**	**126 467**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 15	1 688	522
Employee benefits	Note 16	2 044	2 201
Provision for corporate realignment	Note 26	138	–
Total current liabilities		**3 870**	**2 723**
Non-current liabilities			
Employee benefits	Note 16	7 705	13 874
Total non-current liabilities		**7 705**	**13 874**
Total liabilities		**11 575**	**16 597**
Net assets			
Reserves	Note 17	14 391	14 420
Accumulated surpluses	Note 18	92 700	95 450
Total net assets/equity		**107 091**	**109 870**
Total liabilities and net assets/equity		**118 666**	**126 467**

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 2015

(Thousands of United States dollars)

	Note	*2015*	*2014*
Revenue			
Voluntary contributions	Note 19	57 602	88 173
Investment revenue	Note 20	764	392
Other revenue	Note 21	49	499
Total revenue		**58 415**	**89 064**
Expenses[a]			
Contractual services	Note 22	12 592	7 708
Staff costs	Note 22	16 089	15 154
Supplies and consumables used	Note 22	864	624
General operating expenses	Note 22	8 400	7 821
Grants and other transfers	Note 22	28 167	26 113
Other expenses	Note 22	510	383
Depreciation	Note 22	48	54
Finance costs	Note 22	60	114
Total expenses		**66 730**	**57 971**
Surplus/(deficit) for the year		**(8 315)**[b]	**31 093**

[a] Expenses by practice area and cost classification are reflected in note 28.1, Expenses by cost classification and practice area.

[b] Deficit for the year draws down on the unspent accumulated surplus resource balances.

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 2015

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2014	**14 420**	**95 450**	**109 870**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(29)	29	–
Funds with specific purposes (note 18)	–	(1 325)	(1 325)
Actuarial gains/(losses)	–	6 861	6 861
Deficit for the year	–	(8 315)	(8 315)
Total revenue and expense recognized directly in net assets/equity	**(29)**	**(2 750)**	**(2 779)**
Balance at 31 December 2015	**14 391**	**92 700**	**107 091**

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 2015

(Thousands of United States dollars)

	2015	*2014*
Cash flows from operating activities		
Surplus/(deficit) for the period	(8 315)	31 093
Adjustments to reconcile deficit for the period to net cash flows		
Depreciation	48	54
Impairment	–	40
Amortization of bond premium	899	1 218
(Gains)/losses on disposal of property, plant and equipment	2	22
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	412	(2 185)
(Increase)/decrease in receivables (exchange transactions)	2 842	510
Interest received on loans	6	36
(Increase)/decrease in advances issued	(145)	271
(Increase)/decrease in inventories	1	(1)
(Increase)/decrease in loans to financial service providers	(114)	556
Changes in liabilities/net assets		
(Decrease)/increase in accounts payable and accrued liabilities	1 166	(213)
(Decrease)/increase in employee benefits	535	943
(Decrease)/increase in provision for restructuring	138	–
(Decrease)/increase in funds with specific purposes	(1 325)	556
Cash flows from/(used in) operating activities	**(3 850)**	**32 900**
Cash flows from investing activities		
Purchases of investments	(69 920)	(120 684)
Maturities of investments	66 448	81 920
Interest received	1 551	1 416
Purchases of property, plant and equipment	(44)	(4)
Cash flows from/(used in) investing activities	**(1 965)**	**(37 352)**
Cash flows from financing activities	**–**	**–**
(Decrease)/increase in cash and cash equivalents	**(5 815)**	**(4 452)**
Cash and cash equivalents at beginning of the period	**12 063**	**16 515**
Cash and cash equivalents at end of the period (note 8)	**6 248**	**12 063**

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

United Nations Capital Development Fund
V (a). Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2015

(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	9 144	9 144	8 075	1 069
Development effectiveness	5 440	5 440	3 890	1 550
Subtotal	**14 584**	**14 584**	**11 965**	**2 619**
Management activities	1 245	1 245	956	289
Total	**15 829**	**15 829**	**12 921**	**2 908**

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

United Nations Capital Development Fund
V (b). Statement of comparison of budget and actual amounts (regular resources) for the biennium 2014-2015

(Thousands of United States dollars)

	Final approved budget			*Actual expenditure on a comparable basis (note 7)*			*Difference: final approved biennium budget and biennium actual expenditure*
	2015	*2014*	*Biennium*	*2015*	*2014*	*Biennium*	
Development activities							
Programme	9 144	8 143	17 287	8 075	6 637	14 712	2 575
Development effectiveness	5 440	3 267	8 707	3 890	2 081	5 971	2 736
Subtotal	**14 584**	**11 410**	**25 994**	**11 965**	**8 718**	**20 683**	**5 311**
Management activities	1 245	2 847	4 092	956	2 444	3 400	692
Total	**15 829**	**14 257**	**30 086**	**12 921**	**11 162**	**24 083**	**6 003**

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

Note 1
Reporting entity

The original UNCDF mandate 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.

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

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

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

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

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

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

(a) Basis of measurement

These financial statements have been prepared on an accrual basis of accounting in accordance with IPSAS and the UNDP Financial Regulations and Rules 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 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 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 period in which the estimates are revised and in any future period affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; provision for corporate realignment; classification of financial instruments; and contingent assets and liabilities.

(d) Authorization to submit financial statements for audit

These financial statements are approved and certified by the Administrator of UNDP and Managing Director of UNCDF, the Executive Secretary of UNCDF, the Assistant Administrator and Director of the Bureau for Management Services of UNDP and the Chief Finance Officer and Comptroller of UNDP. In accordance with the UNCDF financial regulations and rules, these financial statements are authorized to be submitted for audit on 30 April 2016.

Note 4
Significant accounting policies

(a) Financial assets classification

UNCDF classifies financial assets into the following categories in the statement of financial performance: 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, and 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
Available for sale	None
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 classified 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 have either 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 de-recognized, 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. At 31 December 2015, UNCDF had no financial assets classified as available for sale.

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 rate 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 comprise contributions receivable. Contributions receivable represent uncollected revenue committed to UNCDF by donors based on enforceable commitments that are recognized as revenue. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts. Impairments of contributions receivable are considered on a case-by-case basis.

Exchange receivables 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 then converted to expense 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 of reporting, 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 a current asset until goods or services associated with them are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

UNCDF provides advances to staff for up to 12 months for specified purposes in accordance with the Staff Rules and Staff Regulations of the United Nations. 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 small 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.

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 local currency).

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 follows.

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, 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 the 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 which 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), typically a market participant's yield requirement is 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. As such, 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

Fair value through surplus or deficit financial assets 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. At 31 December 2015, UNCDF had no open foreign exchange derivative instruments positions in this asset category and did not have embedded derivatives requiring separate accounting at fair value through surplus or deficit. 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), cost shall be measured at its 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. 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, i.e., 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 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

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 biannual 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) Financial liabilities classification

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 nominal 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 cost, 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 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 in the Pension Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNCDF and the Pension Fund, in line with the other organizations participating in the Pension Fund, are not in a position to identify the 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: Employee benefits. UNCDF contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the 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 United Nations 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, based on 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 cost. 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 benefit 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 to a reserve 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 and 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 the right to use assets without 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 and the right-to-use term. Revenue is also recognized in the same amount as the asset, except to the extent that a liability is also recognized.

(c) Revenue recognition

Contributions

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

Governments make pledges for regular resources voluntary contributions; however, in a few cases the pledged funds are not paid to UNCDF. As the probability of inflow is not certain, UNCDF does not treat those amounts as contingent assets.

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

(d) Expense recognition

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

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

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

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

(e) Commitments, provisions and contingencies

Commitments

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

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

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

(iii) Non-cancellable minimum lease payments;

(iv) Other non-cancellable commitments.

Provisions

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

Contingencies

Contingent assets

A contingent asset is 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
Reclassification of comparatives

To accurately reflect the comparative of other expenses, the amount reflected under foreign exchange losses is reclassified to sundries, losses on sale of fixed assets is reclassified to foreign exchange losses, and sundries is reclassified to losses on sale of fixed assets.

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 for 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. Cost-sharing has a decentralized signatory authority, and agreements are signed at the country office level.

(c) Trust funds

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

(d) Reimbursable support services and miscellaneous activities

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

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

Segment reporting: statement of financial position at 31 December 2015

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2015	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*
Assets										
Current assets										
Cash and cash equivalents	1 361	3 300	4 101	7 272	206	591	580	900	6 248	12 063
Investments	13 439	7 133	34 178	23 269	1 719	1 891	4 826	2 881	54 162	35 174
Receivables (non-exchange transactions)	–	3	2 092	2 699	2 968	2 968	411	213	5 471	5 883
Receivables (exchange transactions)	2 489	6 897	26	17	–	–	–	–	2 515	6 914
Advances issued	426	203	320	158	109	356	10	3	865	720
Loans to financial service providers	384	523	–	–	–	–	–	–	384	523
Inventories	–	–	–	–	–	–	2	3	2	3
Total current assets	**18 099**	**18 059**	**40 717**	**33 415**	**5 002**	**5 806**	**5 829**	**4 000**	**69 647**	**61 280**
Non-current assets										
Investments	12 279	13 708	30 076	42 176	1 513	3 426	4 247	5 220	48 115	64 530
Loans to financial service providers	139	251	364	–	1	–	–	–	504	251
Property, plant and equipment	329	354	52	46	–	–	19	6	400	406
Total non-current assets	**12 747**	**14 313**	**30 492**	**42 222**	**1 514**	**3 426**	**4 266**	**5 226**	**49 019**	**65 187**
Total assets	**30 846**	**32 372**	**71 209**	**75 637**	**6 516**	**9 232**	**10 095**	**9 226**	**118 666**	**126 467**

Segment reporting: statement of financial position at 31 December 2015 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2015	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	23	93	572	75	1 075	354	18	–	1 688	522
Employee benefits	1 457	1 497	326	386	129	158	132	160	2 044	2 201
Accrued restructuring	138	–	–	–	–	–	–	–	138	–
Total current liabilities	**1 618**	**1 590**	**898**	**461**	**1 204**	**512**	**150**	**160**	**3 870**	**2 723**
Non-current liabilities										
Employee benefits	7 487	11 371	20	1 137	43	451	155	915	7 705	13 874
Total non-current liabilities	**7 487**	**11 371**	**20**	**1 137**	**43**	**451**	**155**	**915**	**7 705**	**13 874**
Total liabilities	**9 105**	**12 961**	**918**	**1 598**	**1 247**	**963**	**305**	**1 075**	**11 575**	**16 597**
Net assets/equity										
Reserves	12 390	12 420	–	–	–	–	2 001	2 000	14 391	14 420
Accumulated surplus	9 351	6 991	70 291	74 039	5 269	8 269	7 789	6 151	92 700	95 450
Total net assets/equity	**21 741**	**19 411**	**70 291**	**74 039**	**5 269**	**8 269**	**9 790**	**8 151**	**107 091**	**109 870**
Total liabilities and net assets/equity	**30 846**	**32 372**	**71 209**	**75 637**	**6 516**	**9 232**	**10 095**	**9 226**	**118 666**	**126 467**

Segment reporting: statement of financial performance for the year ended 31 December 2015

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2015	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*	*2015*	*2014*
Revenue												
Voluntary contributions	11 593	13 537	35 968	62 532	9 418	10 718	623	1 386	–	–	57 602	88 173
Investment revenue	365	155	357	198	42	39	–	–	–	–	764	392
Other revenue	9	465	18	17	–	12	4 514	4 672	(4 492)	(4 667)	49	499
Total revenue	**11 967**	**14 157**	**36 343**	**62 747**	**9 460**	**10 769**	**5 137**	**6 058**	**(4 492)**	**(4 667)**	**58 415**	**89 064**
Expenses												
Contractual services	1 614	1 640	9 425	4 521	1 059	1 319	494	228	–	–	12 592	7 708
Staff costs	5 375	5 284	7 555	6 200	740	1 342	2 419	2 328	–	–	16 089	15 154
Supplies and consumables used	258	218	432	276	129	114	45	16	–	–	864	624
General operating expenses	2 144	2 256	7 880	7 103	1 789	2 158	1 079	971	(4 492)	(4 667)	8 400	7 821
Grants and other transfers	3 586	1 964	15 478	12 157	9 103	11 992	–	–	–	–	28 167	26 113
Other expenses	317	204	150	141	13	19	30	19	–	–	510	383
Depreciation	40	48	6	5	–	–	2	1	–	–	48	54
Finance costs	9	11	6	1	45	102	–	–	–	–	60	114
Total expenses	**13 343**	**11 625**	**40 932**	**30 404**	**12 878**	**17 046**	**4 069**	**3 563**	**(4 492)**	**(4 667)**	**66 730**	**57 971**
Surplus/(deficit)[b] for the year	**(1 376)**	**2 532**	**(4 589)**	**32 343**	**(3 418)**	**(6 277)**	**1 068**	**2 495**	**–**	**–**	**(8 315)**	**31 093**

[a] This adjustment is required to remove the effect of internal UNCDF cost recovery.
[b] Deficit for the year draws down on the unspent accumulated surplus resource balances.

Note 7
Comparison to budget

The budget and the accounting basis are different. Statement V (statements V (a) and V (b)), Statement of comparison of budget and actual amounts (regular resources), is prepared on the budget basis, that is, a modified cash basis, and statement II, Statement of financial performance, is prepared on an accounting basis, that is, an accrual basis.

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

For these reasons, the total actual regular resources budget expenditure differs from total financial accounting expenses.

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. In addition to the annual statement of comparison of budget and actual amounts (regular resources), at the end of the second year of the two-year period, UNCDF also presents a biennial statement of comparison of budget and actual amounts (regular resources).

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.

Material differences between the original approved budget and the final approved budget are nil, because the original approved budget equates to the final approved budget. Budget utilization levels in 2015 and in the biennium 2014-2015 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 plan for 2014-2017.

Accordingly, actual utilization amounts in the year 2015 against budget levels are as follows:

(a) Development activities: actual utilization of $11.965 million, representing 82.0 per cent of the annualized approved budget of $14.584 million;

(b) Management activities: actual utilization of $0.956 million, representing 76.8 per cent of the annualized approved budget of $1.245 million.

Accordingly, actual utilization amounts in the biennium 2014-2015 against budget levels are as follows:

(a) Development activities: actual utilization of $20.683 million, representing 79.6 per cent of the annualized approved budget of $25.994 million;

(b) Management activities: actual utilization of $3.400 million, representing 83.1 per cent of the annualized approved budget of $4.092 million.

During 2015 and the biennium 2014-2015, UNCDF revised the annual spending limits, noting the reduced level of voluntary contributions. This resulted in lower budget expenditure compared with the annualized budget for 2015 and the two-year budget for 2014-2015 approved by UNCDF.

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	(12 911)	(10)	–	(12 921)
Basis differences	(36)	(5)	–	(41)
Entity differences	9 097	(1 950)	–	7 147
Net increase/(decrease) in cash and cash equivalents from statement IV	**(3 850)**	**(1 965)**	**–**	**(5 815)**

A reconciliation of the biennium 2014-2015 statement V to statement IV is not prepared, as UNCDF does not present a biennial cash flow statement.

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 but not in the accounting basis, 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 2015	*31 December 2014*
Cash in bank accounts	1 008	694
Money market funds	5 240	11 369
Total cash and cash equivalents	**6 248**	**12 063**

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

Note 9
Investment portfolio: held-to-maturity financial assets

(Thousands of United States dollars)

	1 January 2015	Purchases	Maturities	Amortization	Realized gains/(losses)	Reclassification non-current to current	31 December 2015
Current investments							
Money market instruments	–	10 000	(10 000)	–	–	–	–
Bonds	35 174	28 191	(51 460)	(484)	–	42 741	54 162
Total current investments	**35 174**	**38 191**	**(61 460)**	**(484)**	**–**	**42 741**	**54 162**
Non-current investments							
Bonds	64 530	31 729	(4 988)	(415)	–	(42 741)	48 115
Total non-current investments	**64 530**	**31 729**	**(4 988)**	**(415)**	**–**	**(42 741)**	**48 115**
Total investments	**99 704**	**69 920**	**(66 448)**	**(899)**	**–**	**–**	**102 277**

At 31 December 2015, UNCDF did not have any impairment on its investments. The Fund's exposure to credit risks and risk management activities related to investments is disclosed in note 23, Financial instruments and risk management.

Note 10
10.1 Receivables non-exchange transactions

(Thousands of United States dollars)

	31 December 2015	31 December 2014
Contributions receivable	5 471	5 883
Total receivables non-exchange transactions	**5 471**	**5 883**

Ageing of receivables non-exchange transactions

(Thousands of United States dollars)

	31 December 2015	31 December 2014
Less than 6 months	5 044	5 883
More than 6 months	427	–
Total receivables non-exchange transactions	**5 471**	**5 883**

Contributions receivable represent uncollected revenue committed to UNCDF by donors. At 31 December 2015, UNCDF did not have any impairment on its receivables. The Fund's exposure to credit and currency risks related to receivables is disclosed in note 23, Financial instruments and risk management.

10.2 Receivables exchange transactions

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Receivables from the United Nations Development Programme	1 858	6 315
Receivables from the United Nations Entity for Gender Equality and the Empowerment of Women	4	2
Investment assets and receivables	620	575
Receivables from staff	7	5
Receivables from third parties	26	17
	2 515	**6 914**

Ageing of receivables exchange transactions

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Less than 6 months	2 413	6 914
More than 6 months	102	–
Total receivables exchange transactions	**2 515**	**6 914**

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 2015	*31 December 2014*
Non-exchange transactions		
Operating funds provided to Governments	483	316
Operating funds provided to executing entities/ implementing partners	40	40
Subtotal	**523**	**356**
Exchange transactions		
Advances to staff	398	420
Subtotal	**398**	**420**
Total advances issued, gross	**921**	**776**
Impairment	(56)[a]	(56)
Total advances issued, net	**865**	**720**

[a] There is no change to the impairment of $0.56 million which was recognized in the statement of financial performance in prior years.

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Less than 6 months	762	617
More than 6 months	159	159
Total	**921**	**776**

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current		
Loans to financial service providers	384	523
Total current loans to financial service providers	**384**	**523**
Non-current		
Loans to financial service providers	1 194	941
Impairment	(690)[a]	(690)
Total non-current loans to financial service providers	**504**	**251**
Total loans to financial service providers	**888**	**774**

[a] There is no change to the impairment of $0.690 million which was recognized in the statement of financial performance in prior years.

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Balance at 1 January	774	1 330
Loans revaluation (translation gain/loss at reporting date)	(213)	(60)
Valuation of loans (valuation difference between cost and fair value)	–	(19)
Loans repayment	(10)	(477)
Disbursement of loan	337	–
Balance at 31 December	**888**	**774**

The loans provided, totalling $0.888 million, are to four institutions and are performing loans in accordance with the contractual arrangement. The range of discount rates depends on the country the loan is issued in and varies between 9 per cent and 15 per cent.

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Inventories		
Office supplies	2	3
Total inventories	**2**	**3**

Note 14
Property, plant and equipment

UNCDF has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which constitute 96 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 4 per cent of total assets, are used for non-project specific operations at UNCDF country offices and headquarters. At 31 December 2015, UNCDF had a gross carrying amount of $0.061 million of fully depreciated property, plant and equipment that was still in use.

Total assets

(Thousands of United States dollars)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Balance at 1 January 2015					
Cost	77	85	681	20	863
Accumulated depreciation	(7)	(59)	(385)	(6)	(457)
Carrying amount at 1 January 2015	**70**	**26**	**296**	**14**	**406**
Period ended 31 December 2015					
Additions	–	37	7	–	44
Adjustments to cost	–	(3)	–	–	(3)
Depreciation	(5)	(6)	(36)	(1)	(48)
Adjustments to accumulated depreciation/ depreciation	–	1	–	–	1
Carrying amount at 31 December 2015	**65**	**55**	**267**	**13**	**400**
Balance at 31 December 2015					
Cost	77	119	688	20	904
Accumulated depreciation	(12)	(64)	(421)	(7)	(504)
Carrying amount at 31 December 2015	**65**	**55**	**267**	**13**	**400**

At 31 December 2015, UNCDF did not have any impairment on property, plant and equipment.

Note 15
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Payables to third parties	1 656	460
Accruals	12	36
Payables to staff	20	20
Payables to the United Nations Population Fund	–	6
Total accounts payable and accrued liabilities	**1 688**	**522**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current		
Annual leave	1 407	1 361
Home leave	421	370
After-service health insurance	38	108
Repatriation entitlements	129	312
Death benefits	3	4
Other employee benefits	46	46
Total current employee benefit liabilities	**2 044**	**2 201**
Non-current		
After-service health insurance	5 170	10 840
Repatriation entitlements	1 640	1 776
Home leave	135	135
Death benefits	29	29
Other employee benefits	731	1 094
Total non-current employee benefit liabilities	**7 705**	**13 874**
Total employee benefit liabilities	**9 749**	**16 075**

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

At 31 December 2015, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted as at 31 December 2015

(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:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Defined benefit obligation at 1 January 2015	10 948	2 088	33	13 069
Increase in the obligation				
Current service cost	693	350	3	1 046
Interest cost	426	66	1	493
Actuarial losses on disbursement	43	260	–	303
Decrease in the obligation				
Actual benefits paid	(155)	(583)	–	(738)
Actuarial (gains) on disbursement	–	–	(4)	(4)
Actuarial (gains) from change in assumptions	(6 747)	(412)	(1)	(7 160)
Recognized liability at 31 December 2015	**5 208**	**1 769**	**32**	**7 009**

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	693	350	3	1 046
Interest cost	426	66	1	493
Total employee benefits expenses recognized	**1 119**	**416**	**4**	**1 539**

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	6 747	412	1	7 160
Actuarial gains/(losses) on disbursements	(43)	(260)	4	(299)
Total	**6 704**	**152**	**5**	**6 861**

In 2015, of the net actuarial gain of $6.861 million, the actuarial gain relating to after-service health insurance from a change in actuarial assumptions was $6.747 million.

The following table provides the amounts, for the current and previous three periods, of the defined benefits obligation and the experience adjustment arising on the plan liabilities:

(Thousands of United States dollars)

	2015	*2014*	*2013*	*2012*
After-service health insurance				
Defined benefits obligation	5 208	10 948	7 899	12 640
Experience adjustment on plan liabilities	(5 126)	(474)	(136)	(145)
Repatriation				
Defined benefits obligation	1 769	2 088	1 979	1 865
Experience adjustment on plan liabilities	(253)	(119)	163	(1)
Death benefits				
Defined benefits obligation	32	33	26	35
Experience adjustment on plan liabilities	2	2	(4)	–

The next actuarial valuation will be conducted as at 31 December 2016.

(b) Actuarial assumptions

The last actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2015. The two important assumptions used by the actuary to determine defined-benefits liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate.

The principal actuarial assumptions used to determine the defined benefits obligation are as follows:

	2015	*2014*
Discount rate:		
After-service health insurance	4.27 per cent	3.91 per cent
Repatriation benefits	3.71 per cent	3.44 per cent
Death benefits	3.52 per cent	3.30 per cent
Expected rate of medical cost increase for after-service health insurance (varies by medical plan)	4-6.4 per cent	5-6.8 per cent
Per capita medical claim cost (varies by age)	$989-$14,492	$942-$13,569
Salary scale (varies by age and staff category)	4.5-9.8 per cent	5.5-10.8 per cent
Rate of inflation	2.25 per cent	2.25 per cent
Actuarial method	Projected unit credit method	Projected unit credit method

Other actuarial assumptions used for the valuation for after-service health insurance are: enrolment in plan and Medicare part B participation dependents, 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:

Rate of death pre-retirement	*At age 20*	*At age 69*
Male	0.00065	0.00906
Female	0.00034	0.00645

Rate of death post-retirement	*At age 20*	*At age 70*
Male	0.00072	0.01176
Female	0.00037	0.00860

The rates of retirement for Professionals with 30 or more years of professional service hired on or after 1 January 1990 are as follows:

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

Sensitivity analysis

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

(Thousands of United States dollars)

	+1 per cent	*-1 per cent*
Effect of change in health-care cost trend rates on year-end accumulated defined benefit obligation	1 475	(1 092)
Effect of change in discount rate on year-end accumulated defined benefit obligation	(1 088)	1 417
Effect of change in rate of medical costs on combined service and interest cost components of net periodic post-employment medical costs	228	(163)

(c) United Nations Joint Staff Pension Fund

The Pension Fund's Regulations 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 United Nations 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 only payable if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at 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 actuarial valuation completed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent. The latest actuarial valuation was conducted as at 31 December 2013.

At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, 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 Fund. 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 this report, the General Assembly has not invoked the provision of article 26.

During 2015, the contribution of UNCDF to the United Nations Joint Staff Pension Fund amounted to $2.4 million (2014: $2.72 million). The amount includes the organizational share and the contributions made by the participants. Contributions due in 2016, dependent on staffing and changes in pensionable remuneration, are expected to remain at $2.4 million.

(d) Termination benefits

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

(e) Future implementation of General Assembly resolution 70/244

In its resolution 70/244, adopted in December 2015, the General Assembly decided on a series of changes to the conditions of service and future entitlements of all staff serving in the United Nations common system. Significant changes include: (a) the mandatory age of separation for staff recruited before 1 January 2014 will be raised by the organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff; (b) a revised base/floor scale of gross and net salaries for staff in the Professional and higher categories will take effect from 1 January 2016; and (c) proposals on the United Nations common system compensation package will come into force on 1 July 2016. While these decisions do not affect the 2015 financial statements, the implementation of these decisions and its effect on the 2016 and future employee benefit liabilities are currently under evaluation.

Note 17
Reserves

(Thousands of United States dollars)

	1 January 2015	*Movements*	*31 December 2015*
Operational reserve	14 420	(29)	14 391
Total reserves	**14 420**	**(29)**	**14 391**

The operational reserve, established in 1979 by the Governing Council (now the Executive Board) to ensure adequate liquidity for UNCDF, is maintained at the level of 20 per cent of project commitments. The project commitments at the end of 2015 were $61.96 million; thus the 20 per cent operational reserve set aside is $12.39 million. In addition, the management established a reserve of $2 million from extrabudgetary resources to cover staff costs in case of a resource variability situation.

Note 18
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2015	*Movements*	*31 December 2015*
Accumulated surpluses	90 780	(8 286)	82 494
Funds with specific purposes	2 251	(1 325)	926
Actuarial (losses)/gains	2 419	6 861	9 280
Total	**95 450**	**(2 750)**	**92 700**

Movements in the accumulated surpluses of ($8.286 million) comprise a deficit for the year of ($8.315) million and an operational reserve transfer to accumulated surpluses of $0.029 million.

The movements in funds with specific purposes include movements in the information communications technology fund ($0.115 million), the security fund $0.800 million and the learning fund ($0.076 million), as well as reimbursement costs for United Nations jointly financed activities $0.543 million, the appendix D fund $0.084 million and the malicious acts insurance policy premium $0.089 million.

Note 19
Voluntary contributions

(Thousands of United States dollars)

	2015	*2014*
Contributions	58 053	88 382
Less: Returns to donors of unused contributions	(451)	(209)
Total voluntary contributions, net	**57 602**	**88 173**

For the period 2014-2017, UNDP will rely 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 2015, as an in-kind contribution, UNDP directly covered the salary costs of 15 UNCDF staff members, amounting to $2.6 million, and general operating expenses, which comprise rent, travel and other costs, amounting to $0.3 million. Further, UNDP provided programme support amounting to $0.9 million.

In-kind contributions, in the amount of $0.070 million, relating to rent of the Ethiopia office are included in the contributions amount of $58.053 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2015	*2014*
Interest revenue and amortized premium/discount	764	392
Total	**764**	**392**

Investment revenue comprises interest plus amortized discount, net of amortized premium, earned on the UNCDF investment portfolio of $0.646 million, interest earned on bank account balances of $0.040 million and loans to financial service providers of $0.078 million.

Note 21
Other revenue

(Thousands of United States dollars)

	2015	*2014*
Foreign exchange gains	20	41
Loans valuation and other miscellaneous revenue	29	458
Total	**49**	**499**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses[a] 2015	*Total expenses 2015*	*Programme expenses 2014 (reclassified)*	*Total expenses 2014 (reclassified)*
22.1 Contractual services				
Contractual services with individuals	11 345	11 772	6 507	6 703
Contractual services with companies	544	770	937	986
United Nations Volunteers expenses for contractual services	49	50	19	19
Subtotal	**11 938**	**12 592**	**7 463**	**7 708**
22.2 Staff costs				
Salary and wages	6 712	9 742	7 555	9 888
Pension benefits	1 061	1 621	1 291	1 814
Post-employment	845	2 147	1 270	1 647
Appointment and assignment	605	827	456	456
Leave benefits	275	368	313	326
Other staff benefits	1 111	1 384	633	1 023
Subtotal	**10 609**	**16 089**	**11 518**	**15 154**

	Programme expenses[a] 2015	*Total expenses 2015*	*Programme expenses 2014 (reclassified)*	*Total expenses 2014 (reclassified)*
22.3 Supplies and consumables used				
Security-related goods and materials	–	–	–	6
Maintenance costs for property, plant and equipment and project-related supplies	384	391	261	269
Stationery and other office supplies	41	58	44	58
Agricultural, petroleum and metal products	48	51	43	52
Information technology supplies and software maintenance	69	78	45	55
Information technology and communications equipment	178	224	127	139
Other consumables used	56	62	22	45
Subtotal	**776**	**864**	**542**	**624**
22.4 General operating expenses				
Travel	3 603	3 819	2 575	2 705
Learning and recruitment	1 422	1 512	1 504	1 528
Rent, leases, utilities	577	1 211	786	1 009
Reimbursement	35	339	61	687
Communications	447	642	430	524
Security	286	410	343	456
Professional services	8	8	95	114
General management costs	4 510[b]	18	4 738	71
Contribution to United Nations jointly financed activities	147	229	144	196
Contribution to information and communications technology	74	115	94	134
Freight	35	36	12	14
Insurance/warranties	7	9	14	41
Miscellaneous operating expenses	33	52	325	342
Subtotal	**11 184**	**8 400**	**11 121**	**7 821**
22.5 Grants and other transfers				
Grants	28 132	28 132	26 065	26 065
Transfers	2	35	45	48
Subtotal	**28 134**	**28 167**	**26 110**	**26 113**
22.6 Other expenses				
Foreign exchange losses	315	343	150	166
Losses on sale of fixed assets	2	2	17	17
Sundries	141	165	188	160
Impairment	–	–	–	40
Subtotal	**458**	**510**	**355**	**383**

	Programme expenses[a] 2015	*Total expenses 2015*	*Programme expenses 2014 (reclassified)*	*Total expenses 2014 (reclassified)*
22.7 Depreciation				
Depreciation	35	48	45	54
Subtotal	**35**	**48**	**45**	**54**
22.8 Finance costs				
Bank charges	60	60	114	114
Subtotal	**60**	**60**	**114**	**114**
Total	**63 194**	**66 730**	**57 268**	**57 971**

[a] Of the total expenses, $63.194 million represents programme expenses and the remaining $3.536 million represents expenses for development effectiveness and management.

[b] Of the $4.510 million, $4.492 million is eliminated to remove the effect of internal UNCDF cost recovery.

Note 23
Financial instruments and risk management

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

- Credit risk: the risk of financial loss to UNCDF may arise if an entity or counterparty fails to meet its financial/contractual obligations to UNCDF
- Liquidity risk: risk that UNCDF might not have adequate funds to meet its obligations as they fall due
- 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:

- Safety: preservation of capital, provided through investing in high-quality, fixed-revenue securities emphasizing the creditworthiness of the issuers
- Liquidity: flexibility to meet cash requirements through investments in highly marketable, fixed-income securities and through structuring maturities to align with liquidity requirements
- 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.

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.

There were no significant changes in the UNCDF risk management framework in 2015.

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*	
					2015	*2014*
Cash and cash equivalents	–	–	6 248	–	6 248	12 063
Investments	102 277	–	–	–	102 277	99 704
Receivables: non-exchange	–	–	5 471	–	5 471	5 883
Receivables: exchange	–	–	2 515	–	2 515	6 914
Advances	–	–	865	–	865	720
Loans to financial service providers	–	–	888	–	888	774
Total financial assets	**102 277**	**–**	**15 987**	**–**	**118 264**	**126 058**

Held-to-maturity financial assets are carried at amortized cost and, at 31 December 2015, the book value of these assets exceeded market value by $0.088 million. The carrying values for loans and receivables are a reasonable approximation of their fair value. At 31 December 2015, UNCDF had no outstanding balances of financial assets classified as available for sale or 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*	
			2015	*2014*
Accounts payable and accrued liabilities	1 688	–	1 688	522
Total financial liabilities	**1 688**	**–**	**1 688**	**522**

At 31 December 2015, UNCDF had no outstanding financial liabilities recorded at fair value through surplus or deficit. The carrying value of other liabilities is a reasonable approximation of their fair value.

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 the Fund's 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, Standard & Poor's and Fitch, are used to categorize and monitor the credit risk of financial instruments. At 31 December 2015, the Fund's financial investments were in high-quality fixed-income instruments, as shown in the table below (presented using Standard & Poor's rating convention).

Concentration by credit rating

(Thousands of United States dollars)

31 December 2015	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*Total*
Bonds	71 864	16 377	4 996	4 004	5 036	–	102 277
Total	**71 864**	**16 377**	**4 996**	**4 004**	**5 036**	**–**	**102 277**

31 December 2014	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*Total*
Bonds	61 349	19 055	5 054	4 124	10 122	–	99 704
Total	**61 349**	**19 055**	**5 054**	**4 124**	**10 122**	**–**	**99 704**

Note: Excludes investments classified as cash equivalents.

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 to 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 selecting investment maturities. UNCDF maintains a portion of its cash and investments in cash and cash equivalents (6 per cent) and current investments (50 per cent) sufficient to cover its commitments as and when they fall due, as shown in the table below.

(Thousands of United States dollars)

	31 December 2015	*Percentage*	*31 December 2014*	*Percentage*
Cash balances	1 008	1	694	1
Cash equivalents	5 240	5	11 369	10
Total cash and cash equivalents	**6 248**	**6**	**12 063**	**11**
Current investments	54 162	50	35 174	31
Non-current investments	48 115	44	64 530	58
Total short- and long-term investments	**102 277**	**94**	**99 704**	**89**
Total investments, cash and cash equivalents	**108 525**	**100**	**111 767**	**100**

Although UNCDF had a slightly larger percentage of the portfolio invested in bonds at year-end 2015 than it did at year-end 2014, these investments were placed in highly liquid securities with relatively short-term maturities (half of which are under 1 year). In the unlikely event of insufficient funds for current obligations, UNCDF could easily liquidate such investments with minimal transaction cost and delay.

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Money market funds	5 240	11 369
Cash equivalents	**5 240**	**11 369**

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.

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 market interest rate fluctuations on:

(a) 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 which 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 2015, all UNCDF investments were denominated in United States dollars.

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

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	*Other currencies*	*31 December 2015*	*31 December 2014*
Cash and cash equivalents	6 248	–	6 248	12 063
Investments	102 277	–	102 277	99 704
Receivables, non-exchange transactions	5 471	–	5 471	5 883
Receivables, exchange transactions	2 515	–	2 515	6 914
Advances issued	865	–	865	720
Loans to financial service providers	456	432	888	774
Total financial assets	**117 832**	**432**	**118 264**	**126 058**
Accounts payable and accrued liabilities	1 688	–	1 688	522
Total financial liabilities	**1 688**	–	**1 688**	**522**

Note 24
Related parties

(a) Key management personnel

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

(b) Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	4	769	216	985	1 671
Total	**4**	**769**	**216**	**985**	**1 671**

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 allowances, 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 Rules and Staff Regulations of the United Nations. At 31 December 2015, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNCDF staff.

Note 25
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Property, plant and equipment	–	25
Goods	63	210
Services	350	514
Total	**413**	**749**

At 31 December 2015, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.413 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Obligations for property leases		
Less than 1 year	326	308
1 to 5 years	1 304	1 234
Total	**1 630**	**1 542**

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.

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Obligations for operating leases		
Less than 1 year	–	7
1 to 5 years	–	–
Total	**–**	**7**

Note 26
Corporate realignment

The Fund's corporate realignment, begun in 2014, resulted in reducing the salary burden on regular/core resources to invest more in country presence, streamlining the organizational structure for improved accountability and delegation of authority, improving the synergies between practices, and strengthening administrative functions and processes. In 2015, a total of $0.571 million in expenses was incurred in connection with the realignment. This includes a corporate realignment provision of $0.138 million that has been recognized as at 31 December 2015 to account for the estimated separation costs which are expected to be incurred in the year 2016 relating to direct expenses that are not associated with the ongoing activities of UNCDF.

Details of the corporate realignment expenses on statement II, Statement of financial performance for the year ended 2015, are provided below:

(Thousands of United States dollars)

Expenses	*Expenses from statement of financial performance 2015*	*Realignment expenses*	*Total excluding realignment expenses*
Contractual services	12 592	(40)	12 552
Staff costs	16 089	(531)	15 559
Supplies and consumables used	864	–	864
General operating expenses	8 400	–	8 400
Grants and other transfers	28 167	–	28 167
Other expenses	510	–	510
Depreciation	48	–	48
Finance costs	60	–	60
Total	**66 730**	**(571)**	**66 160**

Note 27
Events after reporting date

The reporting date for these financial statements is 31 December 2015. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 28.1
Additional disclosure

Expenses by cost classification and practice area

Cost classification

(Thousands of United States dollars)

	31 December 2015
Development	
Programme	63 194
Development effectiveness	3 715
Management	4 312
Elimination	(4 492)[a]
Total	**66 730**

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

Practice area

(Thousands of United States dollars)

	31 December 2015
Financial Inclusion	34 010
Local development finance	24 693
Development effectiveness	3 715
Management	4 312
Total	**66 730**

Note 28.2
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 2014*	*Revenue/ Adjustments*	*(Expenses)*	*Adjustments recognised directly in closing net assets*	*Net assets 31 December 2015*
Belgium — Anseba Local Development Fund	478	4	–	–	482
Belgium — Appui au développement communal et aux initiatives	1	–	–	–	1
Belgium — Projet d'appui au développement local de la région de Mayahi	–	1	–	–	1
Belgium — Projet d'appui au développement local de la région de N'guigmi	1	2	–	–	3
Belgium — Projet de développement des ressources agro-pastorales de la province du Namentenga au Burkina Faso	–	2	–	–	2
Belgium (Belgian Fund for Food Security) — MLI/C02/12 — Programme conjoint UNCDF/Belgian Fund for Food Security à Nara-Nioro	1 702	607	(1 037)	–	1 272
Belgium Survival Fund — Programme d'appui au développement économique local	1 537	(3)	(1 176)	–	358
Belgium Survival Fund — Projet d'appui à la décentralisation, à la déconcentration et au développement économique local au Bénin	154	1	(148)	–	7
Bill and Melinda Gates Foundation — Least Developed Countries Fund	169	(1)	(175)	142	135
Consultative Group to Assist the Poor — Joint donor training initiative	2	–	–	(2)	–
Canadian International Development Agency — Appui à la gouvernance locale dans le départment du Nord-Est en Haiti	84	(62)	5	–	27
Belgian Fund for Food Security — Collectivités territoriales et développement local à Tombouctou et à Mopti — Programme de Mali	276	1	(203)	–	74
Belgian Fund for Food Security — Projet d'appui au développement communautaire en province de Byumba — Rwanda	284	–	–	–	284
France — Projet d'appui à la commune urbaine de Diffa — Niger	138	265	(399)	–	4
France — Projet d'appui à la décentralisation et au développement local — Mauritanie	269	(264)	–	–	5
Japan — District Development Programme 2 — Gender mainstreaming component	121	1	–	–	122
Livelihoods and Food Security Trust Fund	1 967	439	(2 294)	–	112
Luxembourg — Mali project	2	–	–	–	2
Luxembourg — Programme d'appui à la décentralisation en milieu rural	62	–	(52)	–	10

Name of trust fund	*Net assets 31 December 2014*	*Revenue/ Adjustments*	*(Expenses)*	*Adjustments recognised directly in closing net assets*	*Net assets 31 December 2015*
Luxembourg — Projet d’appui aux communes rurales de Mopti	–	2	–	–	2
Multi-donor Trust Fund — Pass-through Trust Fund	969	8 476	(7 399)	278	2 324
Spain — Millennium Development Goals — Water and sanitation	4	2	–	–	6
Spain — Spain Millennium Development Goals	15	(12)	–	–	3
Sweden — United Nations Advisory Group	23	–	–	–	23
United Nations Fund for International Partnerships — International Year of Microcredit, 2005	11	(1)	–	–	10
Total	**8 269**	**9 460**	**(12 878)**	**418**	**5 269**