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United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2016

and

Report of the Board of Auditors

United Nations • New York, 2017

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 18 April 2017 from the Administrator of the United Nations Development Programme and Managing Director of the United Nations Capital Development Fund, the Executive Secretary of the Fund, the Assistant Administrator and Director of the Bureau for Management Services of the United Nations Development Programme and the Chief Finance Officer/ Comptroller, 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 2016, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

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

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

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

(*Signed*) Helen **Clark**
Administrator, UNDP/Managing Director, UNCDF

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

(*Signed*) Jens **Wandel**
Assistant Administrator and Director
Bureau for Management Services
UNDP

(*Signed*) Darshak **Shah**
Chief Finance Officer/Comptroller
Bureau for Management Services
UNDP

Letter dated 30 June 2017 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 2016.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Chapter I

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

Opinion

We have audited the financial statements of the United Nations Capital Development Fund (UNCDF), which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNCDF as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

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

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

The Managing Director of UNCDF is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter IV, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

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

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

Chapter II
Long-form report of the Board of Auditors

Summary

By its resolution 2186 (XXI) of 13 December 1966, the General Assembly established the United Nations Capital Development Fund (UNCDF), as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. The programmes of UNCDF also help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners to create maximum impact in terms of the achievement of the Sustainable Development Goals (2016-2030), following the end of the period of implementation adopted for the Millennium Development Goals (2000-2015). UNCDF has its headquarters in New York and operates in 30 countries and territories. In addition, UNCDF has also operated in other countries, mainly through its global thematic initiatives.

The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2016. The audit was carried out at UNCDF headquarters in New York and through visits to the country offices in Bangladesh, Mozambique and Rwanda.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2016 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

Audit opinion

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

Overall conclusion

The Board did not identify significant errors, omissions or misstatements from the review of the financial records of UNCDF. However, the Board noted scope for improvement in the areas of programme and project management, human resources management and loan management. The Board considers that UNCDF needs to

enhance its processes in these areas to ensure efficiency and effectiveness in the use of resources from donors to deliver the intended programmes.

Key findings and recommendations

The main findings are summarized below.

Programme and project management

The UNCDF country office in Mozambique has two projects: the food security and nutrition project and a Local Climate Adaptive Living (LoCAL) Facility project under the LoCal global programme. The LoCAL project had a budget of $3.12 million and the food security and nutrition project had a budget of $9.16 million, with both projects approved for a period of five years from 2014 to 2018. The country office in Rwanda has one ongoing project on support for the development and implementation of value chains programme to be implemented from 2014 to 2018 with a budget of $533,984. The Board's review of these projects identified the deficiencies described below.

Lack of approved annual workplans

The project on support for the development and implementation of value chains programme in Rwanda did not have an approved annual workplan. The country office attributed the lack of an approved workplan to factors such as the delayed receipt of final reports from the lead agency, the United Nations Development Programme (UNDP), which would be the basis for preparation of the annual workplan. The Board considers that the country office needs to prepare its annual workplans to facilitate allocation of annual authorized spending limits for its projects and to implement the activities which are stipulated in the project document.

Procurement and contract management

Vendor data management

The Board noted that the bank details for 43 approved vendors showed that some bank accounts are used by more than one vendor. The details show that each of the 20 available bank accounts was used by two vendors and one of the available bank accounts was used by three vendors. The Board was informed that UNCDF was in the process of implementing a mechanism to review and clean up the vendor database, which will be done on quarterly basis. The Board is of the view that management needs to institute preventive controls since having vendors with the same bank account numbers poses the risk of making transactions and payments to the wrong vendor.

Recommendations

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

Lack of approved annual workplans

(a) **Ensure that an annual workplan is prepared and approved for the project on support for the development and implementation of value chains programme in Rwanda;**

Vendor data management

(b) **Review and update bank information for vendors regularly so that multiple vendors do not have the same bank account number.**

Key facts	
$8.80 million	Approved budget (core resources)[1]
$10.02 million	Revenue (core resources)
$8.01 million	Actual expenses (core resources) Only core resources are budgeted and approved by the Executive Board. Other resources (non-core) are not budgeted
$26.20 million	Approved budget for grants and transfers
$20.52 million	Actual expenses for grants and transfers
136	Total number of staff
$17.91 million	Staff cost

A. Mandate, scope and methodology

1. By its resolution 2186 (XXI), the General Assembly established UNCDF as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. UNCDF programmes also help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Sustainable Development Goals. UNCDF has its headquarters in New York and operates in 30 countries and territories. In addition, UNCDF also operates in other countries mainly through its global thematic initiatives.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2016, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations (ST/SGB/2013/4), 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 2016 and its financial performance and cash flows for the financial year then ended, in accordance with 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 UNDP, which are also 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

[1] Core resources refer to unearmarked resources which do not entail restrictions set by donors.

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

5. The Board coordinates with the Office of Audit and Investigations of UNDP 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 visited country offices and the headquarters of UNCDF.

6. The Board's observations and conclusions were discussed with UNCDF management and, where appropriate, their views have been reflected in the present report.

B. Findings and recommendations

1. Follow-up of previous recommendations

7. The Board noted that of the 10 recommendations made up to 31 December 2015, six (60 per cent) were fully implemented, two (20 per cent) were under implementation, one (10 per cent) has not been implemented and one (10 per cent) was overtaken by events. Details of the status of implementation of these recommendations are shown in annex I to the present report.

8. The recommendation that has been overtaken by events is on the implementation of the loan management system (PamiraBanker), whereby the project on the development of the system was decommissioned after an assessment established that it would not be cost effective to continue the project.

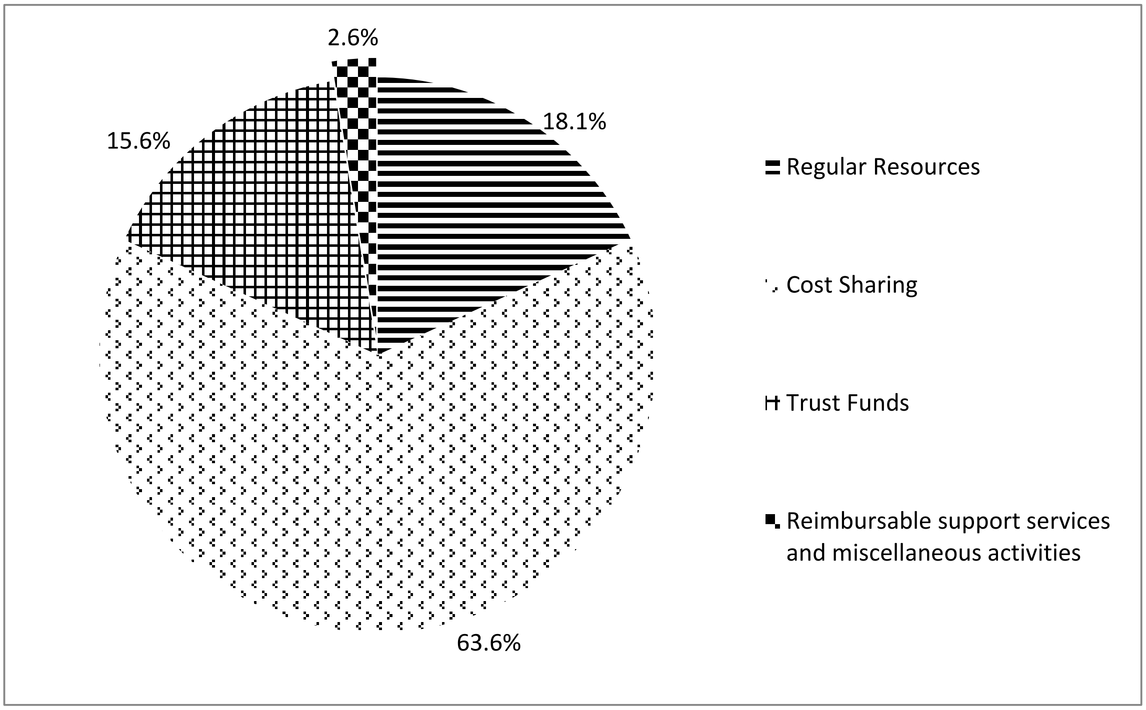
2. Financial overview

Revenue and expenses

9. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2016, total revenue amounted to $53.13 million (2015: $58.42 million) and total expenses amounted to $63.45 million (2015: $66.73 million), resulting in a deficit of $10.32 million (2015: $8.32 million). The total voluntary contributions to the Fund were $51.97 million, equivalent to 97.8 per cent of total revenue (net of returns to donors for unused contributions).

10. Voluntary contributions decreased by $5.63 million (9.8 per cent) compared with 2015 contributions of $57.60 million, reflecting decreased donor support for projects. The amount of voluntary contributions comprised regular resources of $9.43 million (18.1 per cent), cost-sharing of $33.08 million (63.6 per cent), trust funds amounting to $8.13 million (15.6 per cent) and reimbursable support services and miscellaneous activities amounting to $1.34 million (2.6 per cent). These contribution levels are shown in figure II.I.

Figure II.I
Comparative contributions for regular and other resources

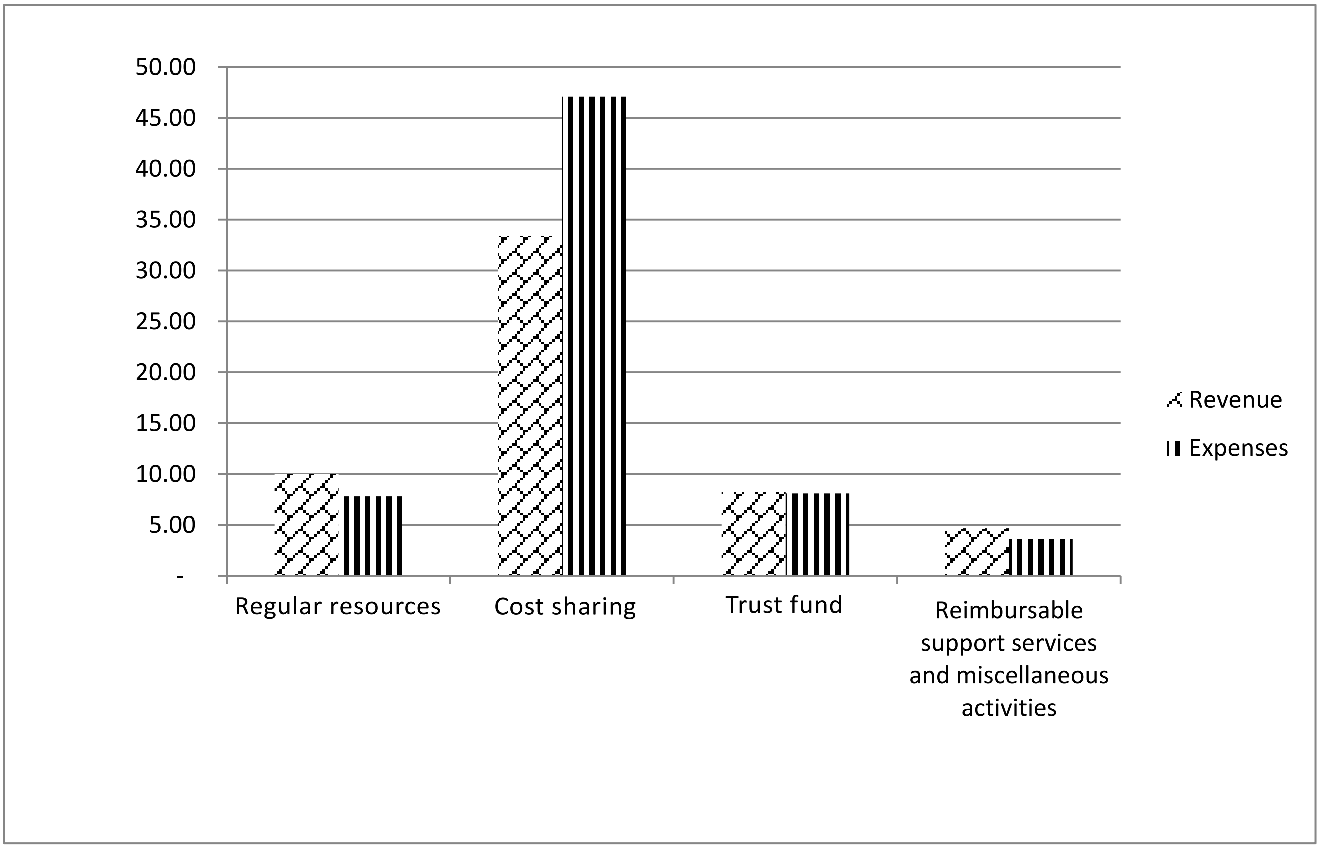


Source: Analysis by the Board of UNCDF 2016 financial statements.

11. Expenses reported for the year 2016 decreased slightly, by 5 per cent, from $66.73 million in 2015 to $63.45 million in 2016. The breakdown by segment was: cost-sharing expenses of $47.12 million (75 per cent); regular resources expenses of $7.83 million (12 per cent); and trust fund expenses of $8.12 million (13 per cent). The breakdown of expenses by segment also takes into account an amount of $3.66 million under reimbursable support services and miscellaneous expenses, less recovery of $3.29 million.

12. The classification of expenses by nature indicates spending of $20.53 million (32.36 per cent) for grants and other transfers, $17.91 million (28.23 per cent) for staff costs, $8.68 million (13.68 per cent) for general operating expenses (net of $3.29 million for cost recovery), $14.65 million (23.09 per cent) for contractual services and $1.67 million (2.64 per cent) for supplies and consumables, other expenses, depreciation and finance costs. Comparative revenues and expenses by segment are shown in figure II.II.

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



Source: Analysis by the Board of UNCDF 2016 financial statements.

Ratio analysis

13. The analysis by the Board of the main financial ratios of UNCDF (see table II.1) shows a slight decrease in the ratio of assets to liabilities in 2016 compared with 2015. The other ratios have improved, implying a stronger liquidity position. The slight decline in the ratio of assets to liabilities is a result of the decline in long-term investments from decreased resources for investment in the current year compared with 2015.

Table II.1
Ratio analysis

Description of ratio	*31 December 2016*	*31 December 2015*
Current ratio[a]		
Current assets: current liabilities	27.0	18.0
Total assets: total liabilities[b]		
Assets: liabilities	9.8	10.3
Cash ratio[c]		
Cash plus investments: current liabilities	20.4	15.6

Description of ratio	*31 December 2016*	*31 December 2015*
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	26.63	17.67

Source: Analysis by the Board of UNCDF 2016 financial statements.

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

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

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

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

14. The current assets of UNCDF as at 31 December 2016 were $80.29 million, or more than 27 times the current liabilities of $2.97 million, indicating the Fund's strong ability to meet its short-term obligations. Similarly, total assets of $107.8 million exceeded total liabilities of $10.99 million, indicating a healthy financial position. Increases in the current ratio and the quick ratio are mainly attributed to a huge increase in receivables relating to exchange transactions by $14.1 million (564 per cent) and slight decrease in current liabilities, by 23 per cent.

15. In accordance with its financial regulations and rules, UNCDF maintains reserves in its accounts at the level of at least 20 per cent of project commitments. As at 31 December 2016, UNCDF held a reserve of $14.07 million, which is within the required level although it is slightly lower than the reserve of $14.39 million reported as at 31 December 2015.

3. Programme and project management

16. As part of the audit for the financial year ended 31 December 2016, the Board visited the country offices of UNCDF in Rwanda, Bangladesh and Mozambique. In the Rwanda country office, the Board noted that UNCDF had two projects. The first project was ongoing with a budget of $533,984 to be implemented from 2014 to 2018. The second project was operationally closed. The Bangladesh country office had nine ongoing projects with a total budget of $2.76 million. The Mozambique country office had two projects, to be implemented from 2014 to 2018 with a total budget of $12.28 million.

17. The Board's review of these projects identified deficiencies as highlighted below.

Signing of the project documents by the UNCDF senior official

18. The project in Rwanda on support for the development and implementation of the value chains programme is being implemented jointly by the UNCDF country office and the Food and Agriculture Organization of the United Nations (FAO), the United Nations Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), the World Food Programme (WFP), the World Health Organization (WHO), the United Nations Conference on Trade and Development (UNCTAD), the Economic Commission for Europe (ECA), the International Labour Organization (ILO) and the International Trade Centre (ITC) during the period 2014-2018. The implementing partners are the Ministry of Finance and Economic Planning, the Ministry of Agriculture and Animal Resources, the Ministry of Trade and Industry and the Ministry of East African Community of Rwanda.

19. The Board found that while FAO, UNIDO, UNDP, WFP, WHO, the Ministry of Finance and Economic Planning, the Ministry of Agriculture and Animal Resources, the Ministry of Trade and Industry, the Ministry of East African Community and the Rwanda Development Board had signed the project document in 2015, the Executive Secretary of UNCDF did not countersign the joint project documents until April 2017. This is contrary to the UNDP Programme and Operations Policies and Procedures, which are applicable to UNCDF and which require project documents to be signed before the project starts. Other agencies that had not signed the project documents were UNCTAD, ECA, ILO and ITC.

20. Management explained that UNCDF will do a full review of the case and ensure proper actions are taken, including measures to ensure appropriate controls are in place.

21. **The Board recommends that UNCDF ensure that the necessary controls are in place so that in future joint project documents are signed before implementation of the project starts.**

Lack of approved annual workplans

22. In the period 2014-2016, the project on support for the development and implementation of the value chains programme in Rwanda reported total expenditure of $89,959. However, the project was implemented without approval of the annual workplans. According to part 2.4.1 of the UNCDF operational manual, the annual workplan translates the results and resources framework agreed in the project document into actionable reality and facilitates management of the project during implementation. The Board considers that without the annual workplan it will be difficult to track expenditure, as well as to manage the project in other aspects such as monitoring, reporting, evaluation, audit and controlling allocation in accordance with the annual authorized spending limits for the project.

23. The Board is of the view that the country office needs to prepare annual workplans which will enable them to allocate resources in line with annual authorized spending limits for projects.

24. **UNCDF agreed with the Board's recommendation to ensure that an annual workplan is prepared and approved in a timely manner for the project on support for the development and implementation of value chains programme in Rwanda.**

Slow pace of project budget implementation

25. The project on support for the development and implementation of value chains programme in Rwanda had an estimated budget of $533,984 for the activities related to output number 2.3 of the programme document (2014-2018). However, during the time frame from 2014 to November 2016, only $124,000 was received for the whole programme. Of the amount received, only $89,959 (16.84 per cent of the project budget, or 72.54 per cent of the amount received) was spent; $12,539 in the first year and $77,420 in the second year. The disbursement and spending patterns for the funds for the first two years of project implementation highlighted a slow pace in the implementation of the planned activities in Rwanda.

26. UNCDF attributed the slow pace of implementation to delay in the disbursement of budgeted funds for the projects. They also stated they have no control over the allocation of funds since this is managed by UNDP and that UNDP cannot allocate funds until they are received from donors. UNCDF informed the Board that it was finalizing a programme document that is more focused on financial inclusion, entitled "Rwanda financial inclusion programme" and going

forward significant efforts to mobilize resources will be undertaken under this programme after 2016. They also informed the Board that UNCDF had achieved a delivery rate of 84 per cent across the organization, compared with a delivery rate of 73 per cent for 2015.

27. The Board considers that, in order for the UNCDF country office in Rwanda to run its operations smoothly and to integrate itself properly into the United Nations Development Assistance Framework[2] and country programme document, it needs to actively participate in mobilizing resources jointly and individually so as to support the achievement of its individual and joint workplan results.

28. **The Board recommends that UNCDF ensure that the country office in Rwanda expedite the finalization of the Rwanda financial inclusion programme document and put it to use so that more resources are mobilized and projects are implemented as expected.**

Monitoring, issue and risk logs not activated and updated in the Atlas system

29. Atlas is an enterprise resource planning system used by UNCDF to assist it to achieve results. The central features of Atlas include a planning, budgeting and reporting system, a web-based integrated project, financial and human resources management system, and a real-time tracking and reconciliation system. The Programme and Operations Policies and Procedures, under project implementation, require an issue log (the log that enables project auditing) and a risk log (based on initial risk) to be activated in Atlas. The risk log is required to be updated by a project manager by reviewing the external environment that may affect project implementation. The manager is required to track and provide solutions to potential problems or request changes. The project risk log should be activated and regularly updated to ensure ongoing learning and adaptation within the organization and to facilitate the preparation of the lessons learned report at the end of the project. A monitoring schedule plan is also required to be activated in Atlas and updated to track key management actions and events.

30. From a review of nine ongoing projects in Bangladesh and two projects (one ongoing and the other operationally closed) in Rwanda, the Board noted that for all the projects, monitoring, issue[3] and risk logs in the Atlas system were not activated and updated to track key management actions and events.

31. UNCDF explained that it has developed a business intelligence platform to provide essential information to support project planning, monitoring and decision-making functions. The platform provides access for the country office to monitor both the project financial information and implementation and the project risk management, and also assimilates issues related to the project for audit purposes. The platform was used in a pilot phase for some projects in 2016 and it worked successfully. The next phase is scheduled to be initiated by UNCDF headquarters and involves instructing all project managers to put all information relating to projects on a business intelligence platform that incorporates risks, issues and

[2] The United Nations Development Assistance Framework is instrumental in helping the United Nations system to identify joint programming opportunities and thus maximize the impact of United Nations development activities and produce concrete results. It also sets up a monitoring and evaluation plan that will help the United Nations system, the Government and development partners to keep track of progress towards agreed collective indicators according to United Nations development goals. The Framework is then linked with country priorities, which leads to the preparation of the country programme document.

[3] In the Atlas system, a tab labelled "Issue" is aimed at capturing activities and indicators or problems that may result in risks for a particular project.

monitoring, so that both the project managers and senior management can benefit from using the information for monitoring and decision-making.

32. While noting management's explanations, the Board is concerned that delays in activating and updating project risk, issue and monitoring logs in Atlas will affect updating project information in the corporate planning system. This will eventually make it difficult for management to identify risks and take appropriate actions in a timely manner.

33. **UNCDF agreed with the Board's recommendation to ensure that the risk, issue and monitoring logs for all projects in the Rwanda and Bangladesh country offices are activated in Atlas in a timely manner as the primary source of project information.**

4. Procurement and contract management

Vendor data management

34. The vendor management standard operating procedure, under the heading of vendor modification, requires that there be only one valid bank account for each vendor and that old bank account information should be overridden by adding new banking details in the same location.

35. The Board reviewed vendor data in Atlas as at 4 May 2017 and noted that bank details for 43 approved vendors showed some bank accounts as being used by more than one vendor. The details show that each of the 20 available bank accounts was used by two vendors and one of the available bank accounts was used by three vendors.

36. Management informed the Board that the Atlas enterprise resource planning system used by UNCDF does not have a mechanism to check for the existence of vendors with duplicate bank accounts, but they will implement a vendor review and clean-up mechanism on a quarterly basis to maintain a clean vendor database.

37. While acknowledging management's explanations, the Board considers that UNCDF needs to institute preventive controls because having vendors with the same bank account numbers poses a risk of making transactions with and payments to the wrong vendor.

38. **The Board recommends that UNCDF review and correct the bank information of vendors regularly so that multiple vendors do not have the same bank account numbers.**

5. Loan management

Loan management system

39. In its previous report in 2015 (A/71/5/Add.2), the Board raised concerns over delays and changing time frames for completion of the project to create a system for managing UNCDF loans (PamiraBanker). The project was initiated in November 2012 at an initial cost of $80,250, which later rose to $99,000 as a result of changes in the time frame for completion of the project. The Board's concern was that UNCDF would not realize the benefits of automating the loan management process because of the delay in the rollout of the system, taking into account frequent changes in technology.

40. UNCDF had decommissioned the project in December 2015, despite the expenditure already incurred in developing the PamiraBanker system. The Board noted in May 2017 that UNCDF was changing the PamiraBanker system to a

different system. The Board further observed that the UNCDF loan policy still states that PamiraBanker software is its official application for managing loans.

41. UNCDF explained that the system was decommissioned because it was impossible to implement UNCDF requirements in the application. They further explained that the project had not been well managed and requirements had not been well specified. As a result, the Fund had continued to incur development costs while it was not certain whether the objectives would be met. They had decided to start afresh with a different project while taking into account lessons learned from the previous project to ensure success.

42. While acknowledging management's efforts to decommission the project in order to avoid further costs to the organization and its plan to take advantage of lessons learned from the previous project, the Board is of the view the failure of the project highlights inadequacies in project preparation. With clear project specifications and a plan for integration with the Atlas system for proper support, the risk of project failure would have been minimized. The Board is also concerned that the loan policy still refers to PamiraBanker as its loan management system and that there was no adequate preparation for the new project on loan management to confirm that management is making the best use of the lessons learned. The Board considers that UNCDF needs to use comprehensive project management guidelines such as those used by UNDP to avoid the shortfalls experienced in the development of the first project.

43. **The Board recommends that UNCDF: (a) update the loan policy to remove the reference to PamiraBanker as the entity's loan management system; and (b) document system requirement specifications, taking into consideration the need for integration with Atlas, to be used as a baseline for acquiring the new loan management system.**

6. Human resources management

Management of annual leave balances and leave plans

44. The Programme and Operations Policies and Procedures explain that annual leave is granted by UNDP to provide staff members with periods of time off from work at full pay for personal reasons and for purposes of health, rest and recreation. Subject to the exigencies of service, staff members are expected to use their leave within the period in which it is earned. In addition, the policy on annual leave explains that advance planning of leave is essential to ensure that the office can operate efficiently at all times and to allow as much notice as possible for staff members to arrange their own leave plans.

45. From its review of monthly leave balance reports for 2016, the Board noted that, as at 31 December 2016, 27 (19 per cent) out of 136 staff had accumulated leave balances which ranged from 60 to 82.5 days. As a result, leave balances which exceeded 60 days were forfeited on 31 March 2017. Further, the Board noted that UNCDF did not have leave plans for the year under audit.

46. Management stated that they have not received any concerns from staff for not being able to take their leave. They also explained that the leave planning is decentralized to the unit level and each manager is encouraged to plan the absences of staff members considering the priorities of the team and local work schedules and conditions. Furthermore, the existence of an annual leave plan at the corporate level is not considered practical, as UNCDF staff work in more than 30 different duty stations, which may have different working week and holiday schedules.

47. The Board notes management's explanations, and also notes that it did find that leave plans were in place at the unit level. The Board considers that UNCDF

needs to comply with its policy by ensuring that leave plans are in place and that the reasons for the increasing number of untaken leave days are identified and addressed.

48. **The Board recommends that UNCDF develop leave plans and amend them periodically to reflect changes, and that it identify and address the reasons for the increasing number of untaken leave days so as to ensure proper management of staff in line with the requirements of the Programme and Operations Policies and Procedures on staff leave.**

Talent development centre (learning management system)

49. Under the talent management system (formerly the learning management system) there are mandatory training courses to be completed by all UNCDF staff. These courses include “Basic security in the field: staff safety, health and welfare”, “Advanced security in the field”, “Prevention of workplace harassment, sexual harassment and abuse of authority”, “I know gender”, “Ethics and integrity at the United Nations”, “United Nations human rights responsibilities” and the UNDP/ UNCDF legal framework. The mandatory courses, such as those on basic security in the field and advanced security in the field, are to be taken within the first three months of employment.

50. As at 12 May 2017, the status of completion of mandatory training courses in the learning management system showed that, of 136 staff training records reviewed by the Board, the following numbers of staff had not completed the respective courses: 25 (basic security in the field), 32 (advanced security in the field), 20 (prevention of harassment), 16 (gender), 11 (ethics and integrity), 39 (legal framework) and 39 (human rights responsibilities).

51. UNCDF assured the Board that management will continue their efforts to achieve full completion of mandatory courses for the existing staff, as well as for newly recruited staff within the first three months following their appointment, as required by the policies. UNCDF also stated that in 2016 it had introduced measures that improved the completion rates compared with previous years.

52. While acknowledging management’s explanations, the Board is of the view that mandatory training courses are important because they strengthen staff knowledge that would minimize security and safety risks, create a harmonious working environment that is free from intimidation, hostility, offence and any form of harassment and retaliation, and promote the importance of gender equality for the success of UNCDF.

53. **The Board recommends that UNCDF ensure that all staff members complete mandatory training courses on time.**

C. Disclosures by management

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

54. The administration informed the Board that in accordance with financial rule 126.13, UNCDF had write-offs in the amount of $39,702 in the year 2016.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

56. 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 irregularities (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

57. During the audit, the Board makes enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to their attention. The Board also inquires whether management has any knowledge of any actual, suspected or alleged fraud, and this includes enquiries addressed to 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 audit report.

58. In 2016, the Board did not identify any cases of fraud other than a case of fraud and presumptive fraud which had been reported and disclosed by management. UNCDF reported one case of fraud or presumptive fraud to the Board in 2016 in relation to which the estimated loss is yet to be determined (details are provided in annex II to the present report). The Board considers that UNCDF needs to thoroughly review underlying circumstances that led to the case, identify the possible gaps and develop a comprehensive counter-fraud strategy to minimize fraud risks and associated loss.

D. Acknowledgement

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

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

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

30 June 2017

Annex I

Status of implementation of recommendations up to the year ended 31 December 2015

						Status after verification			
No.	*Audit report*	*Paragraph reference*	*Summary of recommendations of the Board*	*Response by the United Nations Capital Development Fund*	*Assessment by the Board*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	2014 A/70/5/Add.2, chap. II	31	**Operational closure of projects and initiation of new projects** UNCDF agreed with the Board's recommendation that it should: (a) 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 Programme and Operations Policies and Procedures; and (b) the investment committee, UNDP and UNCDF should accelerate the process of approving the budgets at project inception to allow swifter budget approval by the Multi-Partner Trust Fund Office to facilitate the implementation of phase II projects.	For (a), as advised, UNCDF managed to financially close 93 per cent of the projects. The details were shared with the auditors in the Comprehensive Audit and Recommendations Database system. For (b), currently there are no projects that have completed phase I and are moving to phase II.	The Board notes actions taken by management and considers the recommendation to have been implemented.	✓			
2	2014 A/70/5/Add.2, chap. II	36	**Inactive and non-closed projects** 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 trust fund agreements; (b) establish timelines and take all necessary measures to refund or reprogramme the $1.3 million from 22 inactive	For (a), UNCDF facilitated the refund of unused funds to donors and for some projects obtained permission from donors to reallocate the unused resources to other projects. For the future, UNCDF will enforce the terms stated on the cost-sharing agreement in connection with the refund of unused funds. For (b), out of the 22 inactive trust funds identified, currently 19 trust funds	With regard to (a), the Board noted that unused funds due to donors have been reprogrammed or refunded. The recommendation is closed. With regard to (b), the Board reviewed actions taken by UNCDF regarding inactive trust funds with balances. The Board noted that 85 per cent of the funds have already been closed and significant funds have been reprogrammed or	✓			

No.	Audit report	Paragraph reference	Summary of recommendations of the Board	Response by the United Nations Capital Development Fund	Assessment by the Board	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			trust funds; and (c) expedite the process of financial closure of all long-outstanding operationally closed projects and review in a timely manner project status in Atlas to comply with policies and procedures in the operational and financial closure of projects.	(85 per cent) have been closed in Atlas and their status changed to inactive, with no balance. Concerning the outstanding balance of $1.3 million, UNCDF managed to reprogramme and refund $562,000. For the remaining amount, UNCDF has already communicated with the donors and is awaiting confirmation concerning the next step. For (c), UNCDF has managed to financially close 93 per cent of the projects. Details were provided to the auditors for verification.	refunded. The recommendation is closed. With regard to (c), the Board verified action taken by management and has closed the recommendation.				
3	2014 A/70/5/Add.2, chap. II	50	**Reserve calculations and assumptions** 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 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 to the Executive Board for approval.	UNCDF employed a consultant to (a) substantiate the UNCDF operational reserve amount in terms of calculation methodology in line with the organization's risk management framework; and (b) establish the method for calculation of reserves to mitigate risks associated with cost-sharing and trust funds with respect to expenditure-related risks, structural risks and liability risks for further Executive Board approval. The consultant's final report has the following key recommendations for further Executive Board consideration: • UNCDF should update the methodology for calculation of the regular (core) resource activities	The Board noted the progress made by UNCDF in this area. With regard to (a) and (b), the Board has seen the executive summary of the consultant's report issued in July 2016 and the annex to the presentation. That report recommended that UNCDF make changes in reserve amounts in terms of a percentage, so as to establish its reserve in line with the risk mitigation strategy or framework component, and to also change the method for the calculation of reserves for UNCDF. The Board categorizes this recommendation as under implementation, while awaiting the approval of the Executive Board in 2017. UNCDF needs to liaise with		✓		

No.	Audit report	Paragraph reference	Summary of recommendations of the Board	Response by the United Nations Capital Development Fund	Assessment by the Board	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				reserve because the formula does not address the current UNCDF business model. The proposal is to use 50 per cent (equivalent to six months) of the average of the previous three years' core resources cash flow-based expenditure. • UNCDF should establish a reserve for other (non-core) resource activities. In relation to structural and liability risks, the consultants proposed 0.667 per cent of UNCDF $58 million in resources for non-core activity (equal to $387,000, rounded to a fixed amount of $400,000) as part of the reserve for other non-core activities. Given that the audit recommendation requested a review of the methodology for further Executive Board approval, UNCDF has effectively concluded the review and will proceed to present the revised methodology to the Executive Board for approval of a change in operational reserve calculations. The remaining action by the Executive Board is outside the influence of UNCDF and UNCDF therefore considers this recommendation to have been implemented.	UNDP and update the Board of Auditors once the Executive Board has approved the consultant's report to allow UNCDF to implement the suggested changes.				

No.	Audit report	Paragraph reference	Summary of recommendations of the Board	Response by the United Nations Capital Development Fund	Assessment by the Board	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
4	2015 A/71/5/Add.2, chap. II	18	**Programme and project management** UNCDF agreed with the Board's recommendations 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.	For (a), UNCDF conducted capacity assessments for projects implemented under national implementation modalities. Samples of the reports on the capacity assessments done in Mozambique and Bangladesh have been provided to the auditors. For (b), there are no new changes in modality of implementation from direct implementation modalities to national implementation modalities.	The Board received and verified two reports provided by management. However, the reports covered macro-level assessments of the harmonized approach to cash transfers conducted in Bangladesh and Mozambique at the country/ national level. The Board audit recommendation required micro-level assessments of the harmonized approach to cash transfers to be conducted for implementing partners who work with UNCDF in country offices in implementing various projects.	✓			
5	2015 A/71/5/Add.2, chap. II	23	**Delays in project closure** 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.	UNCDF will expedite the transfer of project assets and finalize all the required activities to close the projects in line with the Programme and Operations Policies and Procedures.	The assessment of the implementation status has not yet been updated.			✓	
6	2015 A/71/5/Add.2, chap. II	29	**Delays in certification of combined delivery reports** 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 UNCDF headquarters finance unit notified all project focal points that immediately after the quarterly closures are completed combined delivery reports implemented under the national implementation modality must be printed, reviewed and signed. Sample of combined delivery reports	The Board acknowledges progress recorded by management in implementing the recommendation. The Board reviewed a sample of combined delivery reports for 2016 for one country office and the guidance email from headquarters to the country offices on the need to ensure that combined delivery	✓			

No.	Audit report	Paragraph reference	Summary of recommendations of the Board	Response by the United Nations Capital Development Fund	Assessment by the Board	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			the Programmes and Operations Policies and Procedures.	from the Bangladesh county office and a copy of the communication have been provided to the Board.	reports are signed in a timely manner. In addition, verification carried out in country offices visited in 2016 revealed that the recommendation is being implemented.				
7	2015 A/71/5/Add.2, chap. II	34	**Inconsistent project outcomes** UNCDF agreed with the Board's recommendation that it: (a) ensure the timely revision of outcomes in the project document and annual workplans, and their correlation with the outcomes in the United Nations Development Assistance Framework; and (b) enforce the quality assurance mechanism by reviewing information in the Development Assistance Framework, the project document and the annual workplan to ensure consistency.	Corrective measures have been implemented for the making access to finance more inclusive for poor people programme to align the project document to the updated United Nations Development Assistance Framework. Management has made arrangements to monitor the Framework and country programme document schedule and flag upcoming changes to practices to regional and country teams. A new country focal point structure has been developed to ensure timely Framework and country programme document alignment. A new country programme and annual workplan submitted following the audit findings clearly show strong alignments with the outcomes in the Framework.	(a) is considered implemented as the Board did not find any problems in the 2016 audit concerning differences between annual workplans and the Development Assistance Framework or in terms of correlation of outcomes. (b) is considered implemented as the Board did not find any problems in the 2016 audit concerning the consistency of information in the Framework, the project documents and the annual workplans.	✓			
8	2015 A/71/5/Add.2, chap. II	38	**Non-performance of final review** UNCDF agreed with the Board's recommendation that it: (a) comply with the Programme and Operations Policies and Procedures in conducting final project	Measures have been taken by management to ensure proper conduct of project reviews in accordance with the Programme and Operations Policies and Procedures and to monitor compliance (with support from the Programme	Implemented in accordance with the action plan, and in 2016 the Board did not find similar issues. With regard to (a), the Board noted the final evaluation report for a project in the Lao People's Democratic Republic, and for	✓			

No.	Audit report	Paragraph reference	Summary of recommendations of the Board	Response by the United Nations Capital Development Fund	Assessment by the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			reviews and draw upon lessons learned in a timely manner in future; and (b) incorporate lessons learned into future programme documents.	Management Support Unit) once a project closure is reported. Revision was made to the Project Appraisal Committee standard operating procedure checklist to ensure monitoring of relevant final project reviews and incorporation of lessons learned in project appraisal processes (Programme Approval Committee checklist prepared). The case of a recent project review, with the minutes of the final project review held in December 2016, is the Lao People's Democratic Republic project on the national governance and public administration reform programme: strengthening capacity and service delivery of local administrations (2012-2016).	(b), the lessons learned have been incorporated into future programme documents.				
9	2015 A/71/5/Add.2, chap. II	43	**Project management loan management system** The Board recommended 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.	In 2016, UNCDF worked with the UNDP Office of Information Management and Technology in developing a grants management module in Atlas. The module allows fully managing the grants payment process and keeps records of all information regarding a grant and its performance during the grant life cycle, linking the accounts payable details (voucher number) to the information on the grant in the module. To develop the technical specifications of the module,	The Board noted management's responses, but the responses and attachments relate to the UNCDF grant management module, while the Board's recommendation was specifically related to the loan management system. Based on the discussion of 9 May 2017 between UNCDF and Board, it was understood that the audit recommendations and the UNCDF action plan on this matter have been overtaken by events because the Board's recommendation was on the				✓

No.	Audit report	Paragraph reference	Summary of recommendations of the Board	Response by the United Nations Capital Development Fund	Assessment by the Board	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				UNCDF worked with the UNDP Office of Information Management and Technology, with the technical specifications and the scope of work being duly signed by the parties. UNCDF also developed a business intelligence dashboard to monitor grant performance with a step by step guide for using the module attached for easy reference.	loan management system which UNCDF had decided not to use since December 2015. In this regard, the Board suggested that UNCDF update again the implementation status in the Comprehensive Audit and Recommendations Database system so as to elaborate on what had happened regarding the implementation of the recommendations and on the agreed action plan aimed at improving the loan management system, and that it link those issues with the current situation.				
10	2015 A/71/5/Add.2, chap. II	49	**Assessment of loan impairment, risk and write-off** UNCDF agreed with the Board's recommendation that it: (a) conduct due diligence of 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 each year to ascertain its relevance, supported by proper evidence of the approach used.	UNCDF will (a) carry out and document a review of loan recoverability and provide for impairment where necessary; and (b) carry out due diligence and a write-off process should there be adequate evidence that the possibility of recovery is remote.	In progress. For (a), the Office of Audit and Investigation has not yet reached a conclusion for writing off the loans. In addition, Management has yet to approve the write-offs. (b) has been implemented, as in the final audit of 2016 UNCDF made provision of $355,442 for two impaired loans for which recoverability was uncertain.		✓		
	Total					**6**	**2**	**1**	**1**
	Percentage					**60**	**20**	**10**	**10**

Annex II

Cases of fraud and presumptive fraud: disclosure by management

Case received in 2016 and still pending

Region	*Date reported or detected*	*Nature*	*Amount involved*	*Description of the issue*
Arab States	11 February 2016	Procurement fraud	..	A staff member allegedly engaged in irregularities in the implementation of a programme

Chapter III
Financial report for the year ended 31 December 2016

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 2016.

2. The report of the Board of Auditors, together with its 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 private sectors. 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

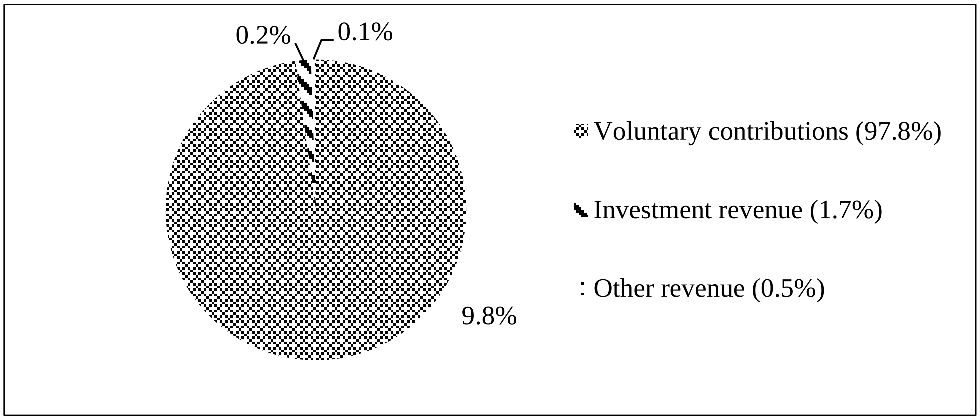
4. The total revenue for UNCDF for 2016 was $53.1 million (2015: $58.4 million), compared with total expenses of $63.4 million (2015: $66.7 million), resulting in a deficit of $10.3 million (2015: a deficit of $8.3 million). The deficit for the year draws down on the non-core unspent accumulated surplus resource balances.

Revenue analysis

Revenue by nature

5. The total revenue for UNCDF in 2016 was $53.1 million, of which $52.0 million (97.8 per cent) was from voluntary contributions, a net amount of $0.9 million (1.7 per cent) was from investment revenue such as interest from loans and interest earned from cash investments, and $0.3 million (0.5 per cent) was from other revenue.

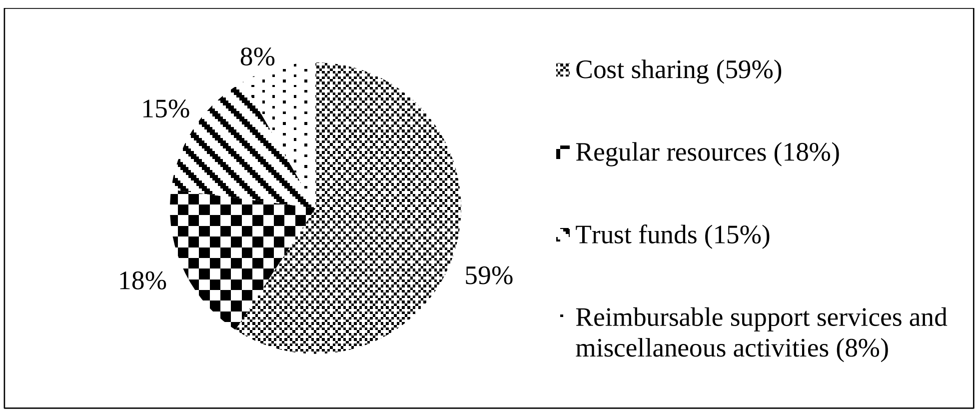
Figure III.I
Composition of total revenue in 2016, by nature



Revenue by segment

6. Analysis of revenue[4] by segment shows that cost-sharing is the largest revenue source, providing 59 per cent of the Fund's revenue in 2016, followed by regular resources (18 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 2016, by segment



7. Total revenue decreased by 9.1 per cent in 2016 to $53.1 million from $58.4 million in 2015. The decrease in revenue was evident in all segments: cost-sharing (8 per cent), trust funds (13 per cent), reimbursable support services (9 per cent) and regular resources by (16 per cent).

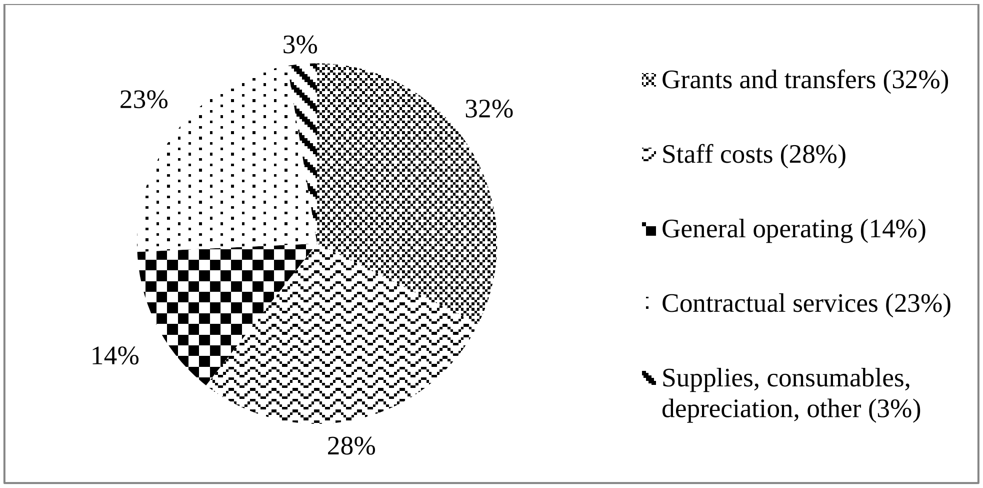
[4] Excludes elimination for inter-fund transactions.

Expenses analysis

Expenses by nature

8. The Fund's expenses in 2016 were $63.4 million. As shown in figure III.III, the largest expense category by nature was grants and other transfers ($20.5 million, or 32 per cent). The remaining categories were staff costs ($17.9 million, or 28 per cent), general operating expenses ($8.7 million, or 14 per cent), contractual services with individuals and companies ($14.7 million, or 23 per cent) and supplies, consumables, depreciation and other expenses ($1.6 million, or 3 per cent).

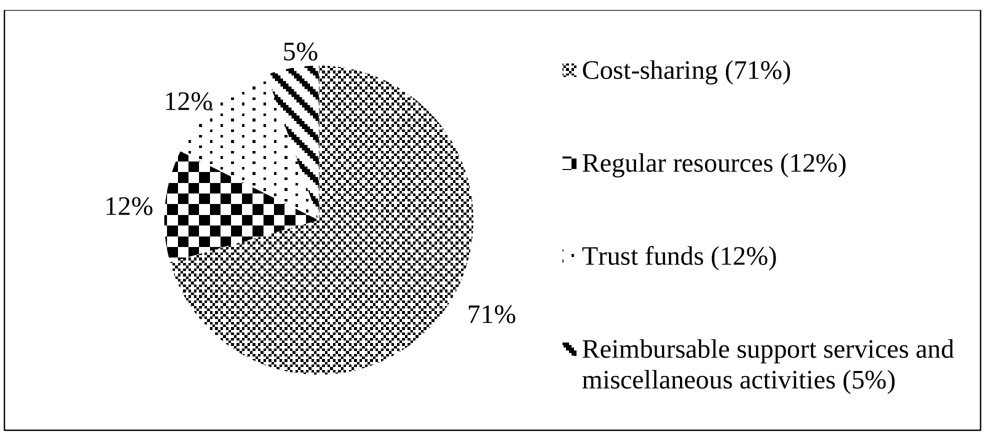
Figure III.III
Composition of total expenses in 2016, by nature



Expenses by segment

9. Of the total expenses,[4] 71 per cent related to cost-sharing, 12 per cent to regular resources, 12 per cent to trust funds and 5 per cent to reimbursable support services and miscellaneous activities (see figure III.IV).

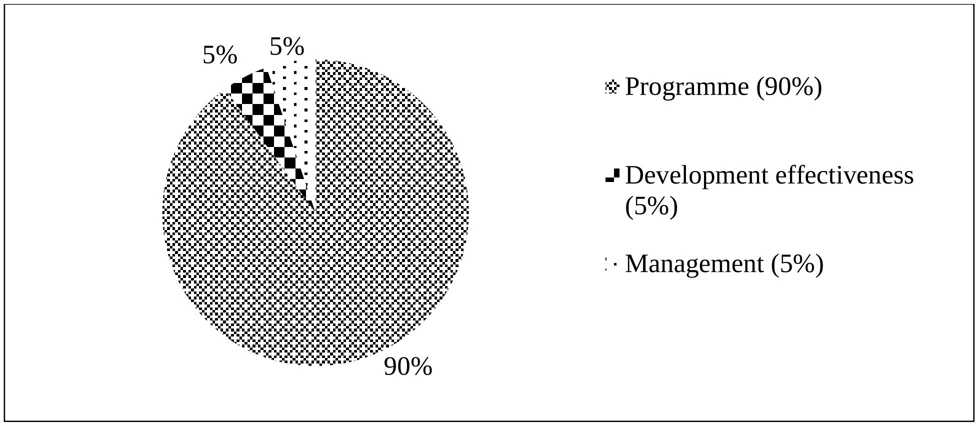
Figure III.IV
Composition of total expenses in 2016, by segment



Expenses by cost classification

10. Of the total expenses[1] of $66.7 million for 2016, $60.0 million was spent on programme activities, $3.2 million on development effectiveness and $3.5 million on management (see figure III.V).

Figure III.V
Composition of total expenses in 2016, by cost classification

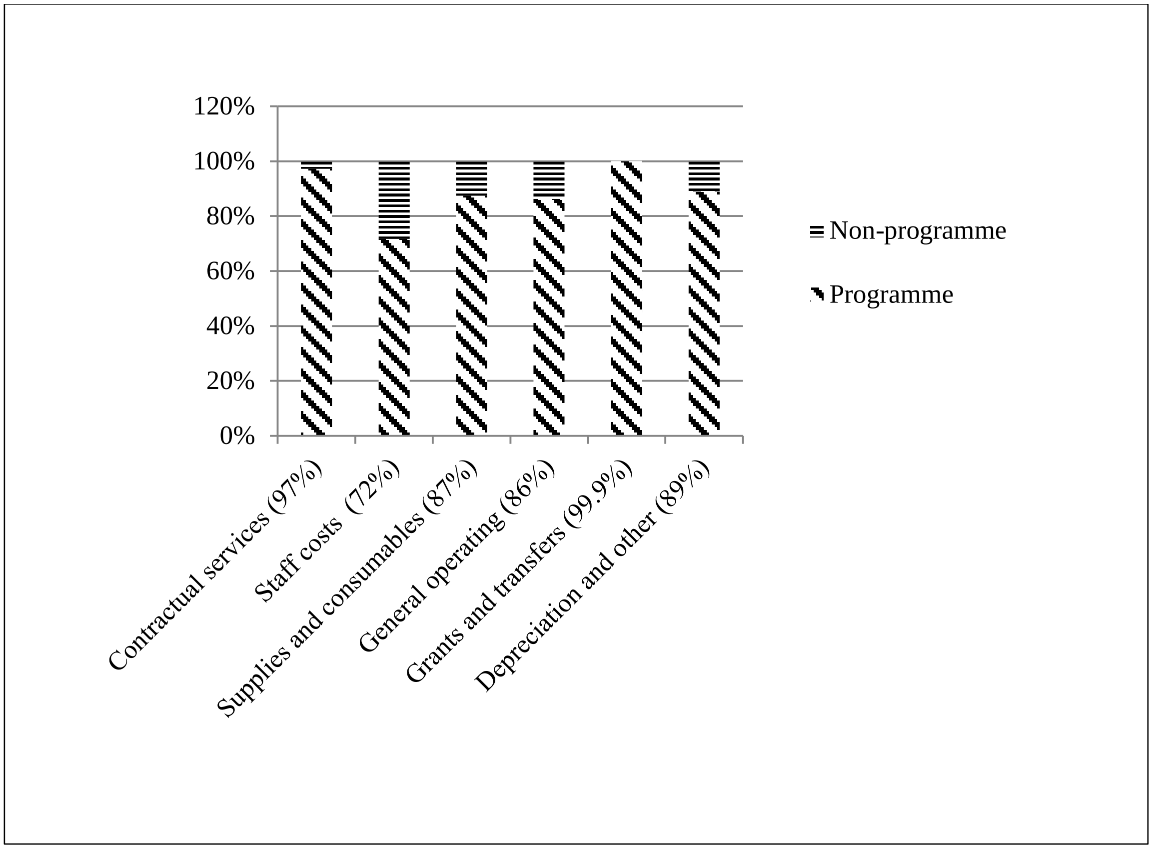


Expenses relating to programme

11. In terms of the expense categories attributed to UNCDF programme activities, $60.0 million of the total expenses of UNCDF comprised programme expenses, reflecting the development nature of the Fund's operations. By expense category, programme expenses made up 97 per cent of total contractual services with individuals and companies, 72 per cent of staff costs, 87 per cent of supplies and consumables used, 86 per cent of general operating expenses,[5] 99.9 per cent of grants and other transfers, and 89 per cent of depreciation and other expenses.

[5] Includes elimination for inter-fund transactions.

Figure III.VI
Proportion of programme expenses to total expenses, by nature



Financial performance by segment

12. For the year 2016, cost-sharing had a deficit of $13.7 million, while regular resources, trust funds and reimbursable support services and miscellaneous activities had surpluses of $2.2 million, $0.2 million and $1.0 million, respectively. Financial performance by segment is summarized in table III.1.

Table III.1
Summary of financial performance by segment in 2016
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Inter-fund elimination*	*Total*
Total revenue	10.02	33.44	8.27	4.69	(3.29)	53.13
Total expenses	7.83	47.12	8.12	3.66	(3.29)	63.45
Surplus/(deficit) for the year	**2.19**	**(13.68)**	**0.15**	**1.03**	–	**(10.32)**
Total accumulated surpluses	**11.90**	**56.61**	**5.41**	**8.82**	–	**82.75**

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**

C. Budgetary performance

13. The Fund's budget continues to be prepared on a modified cash basis, as presented in financial statements V 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.

14. 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 2016

Budget component	*Annualized approved budget (millions of United States dollars)*	*Actual utilization rate (percentage)*
Development activities	8.0	93
Management activities	0.8	78
Total	**8.8**	**91**

D. Financial position

Assets

15. The Fund's current assets of $80.3 million (2015: $69.6 million) comprise largely investments ($48.0 million), cash and cash equivalents ($12.7 million) and receivables for exchange and non-exchange transactions ($18.4 million). These items represent $79.1 million, or 98.6 per cent, of total current assets. Non-current assets of $27.5 million (2015: $49.0 million) are primarily investments ($27.0 million), loans to financial service providers ($0.1 million) and property, plant and equipment ($0.4 million).

Cash, cash equivalents and investments

16. At 31 December 2016, UNCDF held cash, cash equivalents and investments of $87.7 million (2015: $108.5 million). The Fund's investment revenue was $0.9 million in 2016.

Receivables

17. At 31 December 2016, UNCDF had non-exchange and exchange receivables of $18.4 million (2015: $7.9 million), which consist 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

18. 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.

19. At 31 December 2016, UNCDF had outstanding advances of $0.67 million (2015: $0.87 million). This consists of $0.27 million in advances to Governments plus executing entities/implementing partners, and the remaining $0.40 million comprises primarily advances to staff.

Property, plant and equipment and intangible assets

20. At 31 December 2016, UNCDF held property, plant and equipment of $0.47 million (2015: $0.40 million). Of total property, plant and equipment, $0.31 million represents vehicles, $0.06 million represents furniture and fixtures, $0.08 million represents communications and information 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

21. The Fund's current liabilities of $3.0 million (2015: $3.9 million) are primarily employee benefits of $2.3 million and accrued liabilities of $0.7 million. Employee benefits include annual leave of $1.5 million, home leave of $0.6 million and repatriation entitlements of $0.1 million, among others. Non-current liabilities of $8.0 million (2015: $7.7 million) consist of $6.1 million (76 per cent) in after-service health insurance liabilities, $1.8 million (22 per cent) in repatriation entitlements and $0.1 million (2 per cent) in other employee benefits.

22. 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 Regulations of the United Nations and Staff Rules. Liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by an actuarial valuation conducted as at 31 December 2016.

Employee benefits

23. IPSAS requires the recording (but not necessarily the 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 $6.1 million.

Accumulated surplus

24. At 31 December 2016, the Fund's accumulated surplus and reserves were $96.8 million, reflecting a decrease of 10 per cent compared with $107.1 million at 31 December 2015.

Financial position by segment

25. 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 2016						
Regular resources	33.8	32	9.9	89	24.0	25
Cost-sharing	57.2	53	0.6	5	56.6	58
Trust funds	5.7	5	0.3	3	5.4	6
Reimbursable support services	11.1	10	0.3	3	10.8	11
Total	**107.8**	**100**	**11.1**	**100**	**96.8**	**100**
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**

E. Accountability, governance and risk management

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

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

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

(c) Institutional oversight mechanisms of UNCDF:

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

(ii) Independent internal oversight: the Office of Audit and Investigations, the Ethics Office and the Evaluation Office;

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

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

28. UNCDF has implemented a sound system of internal controls to ensure that effective risk management is integrated into normal business processes and is aligned with the strategic objectives of the organization. Regarding the risk management of cash and investments, the risk management policies of UNCDF in relation to treasury operations are aimed at minimizing potential adverse effects on the resources available to UNCDF to fund its development activities. The principal objectives of the Fund's risk management approach are: (a) safety, that is, the preservation of capital, provided through investing in high-quality fixed-revenue securities, emphasizing the creditworthiness of the issuers; (b) liquidity, that is, the flexibility to meet cash requirements through investments in highly marketable fixed-revenue securities and through the structuring of maturities to align with liquidity requirements; and (c) revenue, that is, the maximization of investment revenue within safety and liquidity parameters. UNCDF utilizes funds to implement development activities in accordance with its financial regulations and rules and its policies and procedures, which encompass strong risk mitigation and monitoring and assurance mechanisms.

F. Corporate realignment

29. The Fund's corporate realignment began in 2014 and was fully implemented in 2016. The realignment resulted in reducing the salary burden on regular/core resources, streamlining the organizational structure for improved accountability and delegation of authority, improving the synergies between practices, and strengthening administrative functions and processes. A provision of $0.138 million made in the year 2015 to account for estimated separation costs was fully paid in the year 2016. The realignment was designed to achieve six broad objectives:

(a) Reinvest in country presences 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.

G. Looking forward to 2017 and beyond

30. Looking ahead, UNCDF will continue to use its capital mandate to expand the frontiers of finance in least developed countries. It has launched a least developed country investment platform that will provide — through grants, reimbursable grants, loans and guarantees — seed funding to de-risk and "prime the pump" for investors' uptake in local initiatives that are under the radar of institutional investors. As part of this work, UNCDF is also strengthening its ability to issue and manage loans, given that there are an increasing number of cases where loans can be the most appropriate tool for creating the market incentives that leverage other resources and for nurturing the local private sector. Finally, to make all of this happen, UNCDF will continue to seek to diversify its funding and partnership base even as it works with Member States to ensure a strong core resource envelope to deliver on its goals.

Chapter IV

Financial statements for the year ended 31 December 2016

United Nations Capital Development Fund
I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Note	*31 December 2016*	*31 December 2015*
Assets			
Current assets			
Cash and cash equivalents	Note 8	12 753	6 248
Investments	Note 9	48 019	54 162
Receivables (non-exchange transactions)	Note 10	1 778	5 471
Receivables (exchange transactions)	Note 10	16 632	2 515
Advances issued	Note 11	663	865
Loans to financial service providers	Note 12	442	384
Inventories	Note 13	–	2
Total current assets		**80 287**	**69 647**
Non-current assets			
Investments	Note 9	26 951	48 115
Loans to financial service providers	Note 12	94	504
Property, plant and equipment	Note 14	468	400
Total non-current assets		**27 513**	**49 019**
Total assets		**107 800**	**118 666**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 15	666	1 688
Funds held on behalf of donors	Note 16	16	–
Employee benefits	Note 17	2 291	2 044
Provision for corporate realignment	Note 27	–	138
Total current liabilities		**2 973**	**3 870**
Non-current liabilities			
Employee benefits	Note 17	8 013	7 705
Total non-current liabilities		**8 013**	**7 705**
Total liabilities		**10 986**	**11 575**
Net assets			
Reserves	Note 18	14 067	14 391
Accumulated surpluses	Note 19	82 747	92 700
Total net assets/equity		**96 814**	**107 091**
Total liabilities and net assets/equity		**107 800**	**118 666**

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 2016
(Thousands of United States dollars)

	Note	*2016*	*2015*
Revenue			
Voluntary contributions	Note 20	51 972	57 602
Investment revenue	Note 21	881	764
Other revenue	Note 22	277	49
Total revenue		**53 130**	**58 415**
Expenses[a]			
Contractual services	Note 23	14 652	12 592
Staff costs	Note 23	17 912	16 089
Supplies and consumables used	Note 23	652	864
General operating expenses	Note 23	8 682	8 400
Grants and other transfers	Note 23	20 525	28 167
Other expenses	Note 23	910	510
Depreciation	Note 23	71	48
Finance costs	Note 23	43	60
Total expenses		**63 447**	**66 730**
Surplus/(deficit) for the year[b]		**(10 317)**	**(8 315)**

[a] Expenses by practice area and cost classification are reflected in note 29.1, Expenses by cost classification and practice area.

[b] Deficit for the year draws down on the non-core 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 2016

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2015	**14 391**	**92 700**	**107 091**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(324)	324	–
Funds with specific purposes (note 18)	–	403	403
Changes in fair value of available-for-sale investments	–	183	183
Actuarial gains/(losses)	–	(546)	(546)
Deficit for the year	–	(10 317)	(10 317)
Total revenue and expense recognized directly in net assets/equity	**(324)**	**(9 953)**	**(10 277)**
Balance at 31 December 2016	**14 067**	**82 747**	**96 814**

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 2016

(Thousands of United States dollars)

	2016	*2015*
Cash flows from operating activities		
Surplus/(deficit) for the year	(10 317)	(8 315)
Adjustments to reconcile deficit for the year to net cash flows		
Depreciation	71	48
Amortization of bond premium	492	899
(Gains)/losses on disposal of property, plant and equipment	–	2
Adjustment on property, plant and equipment	(119)	–
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	3 693	412
(Increase)/decrease in receivables (exchange transactions)	(16 060)	2842
Interest received on loans	180	6
(Increase)/decrease in advances issued	202	(145)
(Increase)/decrease in inventories	2	1
(Increase)/decrease in loans to financial service providers	352	(114)
Changes in liabilities/net assets		
(Decrease)/increase in accounts payable and accrued liabilities	(1 022)	1 166
(Decrease)/increase in funds held on behalf of donors	16	–
(Decrease)/increase in employee benefits	9	535
(Decrease)/increase in provision for corporate realignment	(138)	138
(Decrease)/increase in funds with specific purposes	403	(1 325)
Cash flows from/(used in) operating activities	**(22 236)**	**(3 850)**
Cash flows from investing activities		
Purchases of investments	(25 163)	(69 920)
Maturities of investments	63 946	66 448
(Increase)/decrease in investments managed by external investment manager	(11 785)	–
Interest and dividends received	1 763	1 551
Purchases of property, plant and equipment	(20)	(44)
Cash flows from/(used in) investing activities	**28 741**	**(1 965)**
Cash flows from financing activities	–	–
(Decrease)/increase in cash and cash equivalents	**6 505**	**(5 815)**
Cash and cash equivalents at beginning of the year	**6 248**	**12 063**
Cash and cash equivalents at end of the year (note 8)	**12 753**	**6 248**

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

United Nations Capital Development Fund
V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2016

(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	4 530	4 530	4 130	400
Development effectiveness	3 439	3 439	3 243	196
Subtotal	**7 969**	**7 969**	**7 373**	**596**
Management activities	826	826	643	183
Total	**8795**	**8795**	**8 016**	**779**

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

United Nations Capital Development Fund
Notes to the 2016 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 private sectors. 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 30 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 year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; provision for corporate realignment; classification of financial instruments; and contingent assets and liabilities.

(d) 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 2017.

Note 4
Significant accounting policies

(a) Financial assets classification

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

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that either have been designated in this category or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through surplus or deficit. They are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition or issue of those assets and subsequently reported at fair value, with any resultant fair value gain or losses recognized directly in net assets/equity through the statement of changes in assets/equity, until the financial assets are 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.

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 on the basis of 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 subsequently 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, 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 the prepayments 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 Regulations of the United Nations and Staff Rules. These advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value.

Loans to financial service providers

As part of its efforts to support financial inclusion in least developed countries, UNCDF maintains a 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 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. Therefore, the analysis focused on the different risk factors associated with the region in which the borrower is located in formulating the credit risk profile being assumed by a market participant in acquiring the loan.

Fair value through surplus or deficit

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. UNCDF does not apply hedge accounting treatment for derivatives.

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

Inventories

Inventories held for distribution at no charge or for a nominal charge are stated at the lower of cost or current replacement cost. Inventories held for sale are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using the first-in, first-out inventory valuation method. The cost of inventories includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. For inventories acquired through a non-exchange transaction (e.g., donated goods), costs shall be measured at 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. It is noted that, on the adoption of IPSAS and its transitional provisions, for opening balances, initial capitalization of property, plant and equipment was at fair value. This includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired without charge or for a nominal consideration, the fair value at the date of acquisition is deemed to be its cost. For recognition of property, plant and equipment as an asset, the threshold is $2,500 or more per unit. For leasehold improvements, it is $50,000.

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

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

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

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

The estimated useful lives are as follows:

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

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

UNCDF has no intangible assets.

Impairment of non-cash-generating assets

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

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

(b) 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 carrying value.

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

For defined contribution post-employment plans, the obligation for each period is determined by the amounts to be contributed for that period, and no actuarial assumptions are required to measure the obligation or the expense. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service 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 Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

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

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

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

The after-service health insurance programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance terms as those for active staff, 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
Prior-period adjustments and reclassification of comparatives

In 2016, there were no prior-period adjustments or reclassifications of 2015 comparatives.

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 as at 31 December 2016

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
Assets										
Current assets										
Cash and cash equivalents	2 718	1 361	7 693	4 101	788	206	1 554	580	12 753	6 248
Investments	8 602	13 439	30 222	34 178	3 095	1 719	6 100	4 826	48 019	54 162
Receivables (non-exchange transactions)	–	–	1 778	2 092	–	2 968	–	411	1 778	5 471
Receivables (exchange transactions)	16 560	2 489	72	26	–	–	–	–	16 632	2 515
Advances issued	390	426	210	320	56	109	7	10	663	865
Loans to financial service providers	442	384	–	–	–	–	–	–	442	384
Inventories	–	–	–	–	–	–	–	2	–	2
Total current assets	**28 712**	**18 099**	**39 975**	**40 717**	**3 939**	**5 002**	**7 661**	**5 829**	**80 287**	**69 647**
Non-current assets										
Investments	4 734	12 279	17 035	30 076	1 744	1 513	3 438	4 247	26 951	48 115
Loans to financial service providers	94	139	–	364	–	1	–	–	94	504
Property, plant and equipment	291	329	161	52	–	–	16	19	468	400
Total non-current assets	**5 119**	**12 747**	**17 196**	**30 492**	**1 744**	**1 514**	**3 454**	**4 266**	**27 513**	**49 019**
Total assets	**33 831**	**30 846**	**57 171**	**71 209**	**5 683**	**6 516**	**11 115**	**10 095**	**107 800**	**118 666**

Segment reporting: statement of financial position as at 31 December 2016 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	315	23	224	572	96	1 075	31	18	666	1 688
Funds held on behalf of donors	–	–	16	–	–	–	–	–	16	–
Employee benefits	1 720	1 457	325	326	129	129	117	132	2 291	2 044
Accrued restructuring	–	138	–	–	–	–	–	–	–	138
Total current liabilities	**2 035**	**1 618**	**565**	**898**	**225**	**1 204**	**148**	**150**	**2 973**	**3 870**
Non-current liabilities										
Employee benefits	7 825	7 487	–	20	43	43	145	155	8 013	7 705
Total non-current liabilities	**7 825**	**7 487**	**–**	**20**	**43**	**43**	**145**	**155**	**8 013**	**7 705**
Total liabilities	**9 860**	**9 105**	**565**	**918**	**268**	**1 247**	**293**	**305**	**10 986**	**11 575**
Net assets/equity										
Reserves	12 067	12 390	–	–	–	–	2 000	2 001	14 067	14 391
Accumulated surplus	11 904	9 351	56 606	70 291	5 415	5 269	8 822	7 789	82 747	92 700
Total net assets/equity	**23 971**	**21 741**	**56 606**	**70 291**	**5 415**	**5 269**	**10 822**	**9 790**	**96 814**	**107 091**
Total liabilities and net assets/equity	**33 831**	**30 846**	**57 171**	**71 209**	**5 683**	**6 516**	**11 115**	**10 095**	**107 800**	**118 666**

Segment reporting: statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
Revenue												
Voluntary contributions	9 425	11 593	33 080	35 968	8 132	9 418	1 335	623	–	–	51 972	57 602
Investment revenue	460	365	345	357	–	42	76	–	–	–	881	764
Other revenue	138	9	13	18	130	–	3 281	4 514	(3 285)	(4 492)	277	49
Total revenue	**10 023**	**11 967**	**33 438**	**36 343**	**8 262**	**9 460**	**4 692**	**5 137**	**(3 285)**	**(4 492)**	**53 130**	**58 415**
Expenses												
Contractual services	1 019	1 614	12 261	9 425	1 115	1 059	257	494	–	–	14 652	12 592
Staff costs	4 156	5 375	10 593	7 555	601	740	2 562	2 419	–	–	17 912	16 089
Supplies and consumables used	58	258	484	432	64	129	46	45	–	–	652	864
General operating expenses	1 692	2 144	8 368	7 880	1 203	1 789	704	1 079	(3 285)	(4 492)	8 682	8 400
Grants and other transfers	377	3 586	15 057	15 478	5 079	9 103	12	–	–	–	20 525	28 167
Other expenses	489	317	332	150	14	13	75	30	–	–	910	510
Depreciation	41	40	27	6	–	–	3	2	–	–	71	48
Finance costs	2	9	1	6	40	45	–	–	–	–	43	60
Total expenses	**7 834**	**13 343**	**47 123**	**40 932**	**8 116**	**12 878**	**3 659**	**4 069**	**(3 285)**	**(4 492)**	**63 447**	**66 730**
Surplus/(deficit) for the year	**2 189**	**(1 376)**	**(13 685)**	**(4 589)**	**146**	**(3 418)**	**1 033**	**1 068**	**–**	**–**	**(10 317)**	**(8 315)**

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

Note 7
Comparison to budget

The budget and the accounting basis are different. Statement V, 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.

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 2016 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 2016 against budget levels are as follows:

(a) Development activities: actual utilization of $7.373 million, representing 92.5 per cent of the annualized approved budget of $7.969 million;

(b) Management activities: actual utilization of $0.643 million, representing 77.8 per cent of the annualized approved budget of $0.826 million.

During 2016, 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 2016 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	**(8 012)**	**(4)**	**–**	**(8 016)**
Basis differences	46	–	–	**46**
Entity differences	(14 270)	28 745	–	**14 475**
Net increase/(decrease) in cash and cash equivalents from statement IV	**(22 236)**	**28 741**	**–**	**6 505**

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 2016	*31 December 2015*
Cash in bank accounts	1 168	1 008
Cash held by external investment manager	411	–
Money market funds	5 905	5 240
Bonds	5 269	–
Total cash and cash equivalents	**12 753**	**6 248**

The Fund's exposure to credit risks is disclosed in note 24, Financial instruments and risk management.

Note 9
Investments

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Current investments		
Investments managed by UNDP	48 019	54 162
Investments managed by external investment manager	–	–
Total current investments	**48 019**	**54 162**
Non-current investments		
Investments managed by UNDP	14 983	48 115
Investments managed by external investment manager	11 968	–
Total non-current investments	**26 951**	**48 115**
Total investments	**74 970**	**102 277**

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

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

(Thousands of United States dollars)

	1 January 2016	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2016*
Current investments							
Bonds	54 162	10 156	(58 946)	(355)	–	43 002	48 019
Total current investments	**54 162**	**10 156**	**(58 946)**	**(355)**	**–**	**43 002**	**48 019**
Non-current investments							
Bonds	48 115	15 007	(5 000)	(137)	–	(43 002)	14 983
Total non-current investments	**48 115**	**15 007**	**(5 000)**	**(137)**	–	**(43 002)**	**14 983**
Total investments held to maturity	**102 277**	**25 163**	**(63 946)**	**(492)**	**–**	**–**	**63 002**

As at 31 December 2016, UNCDF did not have any impairment on investments.

The exposure to UNCDF from credit, market and currency risks and risk management activities related to investments is disclosed in note 24.

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

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Investments available for sale		
Non-current investments		
Equities	7 428	–
Bonds	4 540	–
Total non-current investments	**11 968**	**–**
Total investments managed by external investment manager: available for sale	**11 968**	**–**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $0.411 million in after-service health insurance investments have been classified under cash and cash equivalents.

Total after-service health insurance investments, including cash and cash equivalents, amounted to $12.4 million (2015: $0.00 million).

As at 31 December 2016, UNCDF did not have any impairment on investments.

The exposure to UNCDF from credit, market and currency risks and risk management activities related to investments is disclosed in note 24

Note 10

10.1 Receivables non-exchange transactions

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Contributions receivable	1 778	5 471
Total receivables non-exchange transactions	**1 778**	**5 471**

Ageing of receivables non-exchange transactions

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Less than 6 months	1 778	5 044
More than 6 months	–	427
Total receivables non-exchange transactions	**1 778**	**5 471**

Contributions receivable represent uncollected revenue committed to UNCDF by donors. As at 31 December 2016, 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 24, Financial instruments and risk management.

10.2 Receivables exchange transactions

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Receivables from the United Nations Development Programme	10 815	1 858
Receivables from the United Nations Entity for Gender Equality and the Empowerment of Women	–	4

	31 December 2016	*31 December 2015*
Receivables from the United Nations Population Fund	14	–
Investment assets and receivables	5 699	620
Receivables from staff	8	7
Receivables from third parties	78	26
Derivative assets	18	–
Total receivables exchange transactions	**16 632**	**2 515**

Ageing of receivables exchange transactions

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Less than 6 months	16 259	2 413
More than 6 months	373	102
Total receivables exchange transactions	**16 632**	**2 515**

The Fund's exposure to credit and currency risks related to receivables is disclosed in note 24, Financial instruments and risk management.

Note 11
Advances issued

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Non-exchange transactions		
Operating funds provided to Governments	279	483
Operating funds provided to executing entities/ implementing partners	–	40
Advances issued: non-exchange transactions	**279**	**523**
Exchange transactions		
Advances to staff	400	398
Advances issued: exchange transactions	**400**	**398**
Total advances issued, gross	**679**	**921**
Impairment[a]	(16)	(56)
Total advances issued, net	**663**	**865**

[a] There is a reduction in the impairment of $0.40 million which was recognized in the statement of financial performance in prior years.

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Less than 6 months	557	762
More than 6 months	122	159
Advances issued: non-exchange and exchange transactions, gross	**679**	**921**

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Current		
Loans to financial service providers	797	384
Impairment	(355)[a]	–
Total current loans to financial service providers	**442**	**384**
Non-current		
Loans to financial service providers	686	1194
Impairment	(592)[a]	(690)[a]
Total non-current loans to financial service providers	**94**	**504**
Total loans to financial service providers	**536**	**888**

[a] In 2016, additional impairment of $0.355 million was applied to current loan balances and recognized in the statement of financial performance (see note 23, Expenses). There is a reduction in the impairment of $0.098 million for non-current loans which was recognized in the statement of financial performance in prior years.

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Balance at 1 January	888	774
Loans revaluation (translation gain/loss at reporting date)	(37)	(213)
Loans impaired	(355)	–
Loans repayment	(20)	(10)
Disbursement of loan	–	337
Reinstatement of impaired loans	60	–
Balance at 31 December	**536**	**888**

The loan balances comprise loans to five institutions and amount to $0.536 million. Three of those loans are performing loans. The range of discount rates depends on the country in which the loan is issued and varies between 9 per cent and 15 per cent.

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Inventories		
Office supplies	–	2
Total inventories	**–**	**2**

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 98 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 2 per cent of total assets, are used for non-project specific operations at UNCDF country offices and headquarters. As at 31 December 2016, UNCDF had a gross carrying amount of $0.068 million of fully depreciated property, plant and equipment that was still in use.

Property, plant and equipment

(Thousands of United States dollars)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Balance at 1 January 2016					
Cost	77	119	688	20	904
Accumulated depreciation	(12)	(64)	(421)	(7)	(504)
Carrying amount at 1 January 2016	**65**	**55**	**267**	**13**	**400**
Period ended 31 December 2016					
Additions	-	35	106	5	146
Adjustments to cost	-	-	(7)	-	(7)
Depreciation	(5)	(11)	(54)	(1)	(71)
Carrying amount at 31 December 2016	**60**	**79**	**312**	**17**	**468**
Balance at 31 December 2016					
Cost	77	154	787	25	1043
Accumulated depreciation	(17)	(75)	(475)	(8)	(575)
Carrying amount at 31 December 2016	**60**	**79**	**312**	**17**	**468**

As at 31 December 2016, 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 2016	*31 December 2015*
Payables to third parties	449	1 656
Accruals	177	12
Payables to staff	15	20
Payables to the United Nations Entity for Gender Equality and the Empowerment of Women	25	–
Total accounts payable and accrued liabilities	**666**	**1 688**

Note 16
Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Refunds pending to donors	16	–
Total funds held on behalf of donors	**16**	**–**

Note 17
Employee benefits

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Current		
Annual leave	1 549	1 407
Home leave	570	421
After-service health insurance	48	38
Repatriation entitlements	117	129
Death benefits	4	3
Other employee benefits	3	46
Total current employee benefits liabilities	**2 291**	**2 044**
Non-current		
After-service health insurance	6 057	5 170
Repatriation entitlements	1 794	1 640
Home leave	134	135
Death benefits	28	29
Other employee benefits	–	731
Total non-current employee benefits liabilities	**8 013**	**7 705**
Total employee benefits liabilities	**10 304**	**9 749**

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

As at 31 December 2016, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by applying roll-forward principles to valuation conducted on 31 December 2015. The roll-forward principles allow for the use of the same census data and actuarial assumptions as those used last year, with updated financial assumptions such as discount rates and inflation in health-care costs. The increase in liability for 2016 is due largely to the overall decrease in discount rates.

(a) Defined benefit plans

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Defined benefit obligation at 1 January 2016	5 208	1 769	32	7 009
Increase in the obligation				
Current service cost	445	184	2	631
Interest cost	222	63	1	286
Actuarial losses on disbursement	140	361	–	501
Actuarial losses from change in assumptions	270	27	–	297
Decrease in the obligation				
Actual benefits paid	(180)	(493)	–	(673)
Actuarial (gains) on disbursement	–	–	(3)	(3)
Recognized liability at 31 December 2016	**6 105**	**1 911**	**32**	**8 048**

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	445	184	2	631
Interest cost	222	63	1	286
Total employee benefits expenses recognized	**667**	**247**	**3**	**917**

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	(270)	(27)	–	(297)
Actuarial gains/(losses) on disbursements	(140)	(112)[a]	3	(249)
Total	**(410)**	**(139)**	**3**	**(546)**

[a] The amount of $0.112 million is the net amount of the $0.361 million in actuarial losses on disbursement and the $0.249 million adjustment made during the year.

In 2016, of the net actuarial loss of $0.546 million, the actuarial loss relating to after-service health insurance from a change in actuarial assumptions was $0.270 million.

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

(Thousands of United States dollars)

	2016	*2015*	*2014*	*2013*	*2012*
After-service health insurance					
Defined benefit obligation	6 105	5 208	10 948	7 899	12 640
Experience adjustment on plan liabilities	–	(5 126)	(474)	(136)	(145)
Repatriation					
Defined benefit obligation	1 911	1 769	2 088	1 979	1 865
Experience adjustment on plan liabilities	–	(253)	(119)	163	(1)
Death benefits					
Defined benefit obligation	32	32	33	26	35
Experience adjustment on plan liabilities	–	2	2	(4)	–

The next actuarial valuation will be conducted as at 31 December 2017.

(b) Actuarial assumptions

The most recent 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 benefit 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 benefit obligation are as follows:

	2016	*2015*
Discount rate		
After-service health insurance	4.09 per cent	4.27 per cent
Repatriation benefits	3.59 per cent	3.71 per cent
Death benefits	3.41 per cent	3.52 per cent
Expected rate of medical cost increase for after-service health insurance (varies by medical plan)	4-6.0 per cent	4-6.4 per cent
Per capita medical claim cost (varies by age)	$1,052-$15,419	$989-$14,492
Salary scale (varying by age and staff category)	4.5-9.8 per cent	4.5-9.8 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, dependant, 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 Professional staff with 30 or more years of Professional service hired on or after 1 January 1990 and before 1 January 2014 are as follows:

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

Sensitivity analysis

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

(Thousands of United States dollars)

	+1 per cent	*-1 per cent*
Effect of discount rate change on end-of-year liability	(1 278)	1 665
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	1 729	(1 281)

(c) United Nations Joint Staff Pension Fund

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

The financial obligation of UNCDF to the Pension Fund consists of its mandated contribution, at the rate established by the 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 payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The actuarial valuation performed 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 as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2017.

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 91.20 per cent (86.20 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 as at 31 December 2016 also exceeded the actuarial value of all accrued liabilities as at 31 December 2013. At the time of reporting, the General Assembly had not invoked the provision of article 26.

During 2016, the contribution of UNCDF paid to the Pension Fund amounted to $3.4 million (2015: $2.4 million). The amount includes the organizational share and the contributions made by the participants. Contributions due in 2017, dependent on staffing and changes in pensionable remuneration, are expected to remain at $3.4 million.

(d) Termination benefits

In the course of normal operations, UNCDF did not incur any termination benefits. The accrued termination benefit arising in the year 2015 owing to the realignment was fully paid during the year 2016.

(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 included: (a) the mandatory age of separation for staff recruited before 1 January 2014 would 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 would take effect from 1 January 2016; and (c) proposals on the United Nations common system compensation package would come into force on 1 July 2016.

Note 18
Reserves

(Thousands of United States dollars)

	1 January 2016	*Movements*	*31 December 2016*
Operational reserve	14 391	(324)	14 067
Total reserves	**14 391**	**(324)**	**14 067**

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 2016 were $60.33 million; thus, the 20 per cent operational reserve set aside is $12.07 million. In addition, management established a reserve of $2 million from extrabudgetary resources to cover staff costs in case of a resource variability situation.

Note 19
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2016	*Movements*	*31 December 2016*
Accumulated surpluses	82 494	(9 993)	72 501
Funds with specific purposes	926	403	1 329
Actuarial (losses)/gains	9 280	(546)	8 734
Changes in fair value of available-for-sale investments	–	183	183
Total accumulated surpluses	**92 700**	**(9 953)**	**82 747**

Movements in the accumulated surpluses of ($9.993 million) comprise a deficit for the year of ($10.317 million) and an operational reserve transfer to accumulated surpluses of $0.324 million.

The movement in funds with specific purposes include the information communications technology fund ($0.057 million), the security fund ($0.026

million), the learning fund ($0.299 million), reimbursement costs for United Nations jointly financed activities ($0.019 million) and the malicious acts insurance policy premium ($0.002 million).

Note 20
Voluntary contributions
(Thousands of United States dollars)

	2016	*2015*
Contributions	54 524	58 053
Less: returns to donors of unused contributions	(2 552)	(451)
Total voluntary contributions	**51 972**	**57 602**

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 2016, as an in-kind contribution, UNDP directly partially covered the salary costs of 15 UNCDF staff members, amounting to $2.2 million, and general operating expenses, which comprise rent, travel and other costs, amounting to $0.6 million. Furthermore, UNDP provided programme support amounting to $0.8 million.

At 31 December 2016, UNCDF had $38.908 million in non-regular resources contribution agreements signed with donors for which revenue will be recorded in future accounting periods in accordance with revenue-recognition accounting policy.

Note 21
Investment revenue
(Thousands of United States dollars)

	2016	*2015*
Investment revenue	881	764
Total investment revenue	**881**	**764**

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

Note 22
Other revenue
(Thousands of United States dollars)

	2016	*2015*
Foreign exchange gains	164	20
Other miscellaneous revenue	113	29
Total other revenue	**277**	**49**

Note 23
Expenses

(Thousands of United States dollars)

	Programme expenses[a] 2016	*Total expenses 2016*	*Programme expenses 2015*	*Total expenses 2015*
23.1 Contractual services				
Contractual services with individuals	9 857	10 140	11 345	11 772
Contractual services with companies	4 236	4 331	544	770
United Nations Volunteers expenses for contractual services	153	181	49	50
Total contractual services	**14 246**	**14 652**	**11 938**	**12 592**
23.2 Staff costs				
Salary and wages	8 854	12 056	6 712	9 742
Pension benefits	1 649	2 249	1 061	1 621
Post-employment	612	1 058	845	2 147
Appointment and assignment	785	958	605	827
Leave benefits	429	477	275	368
Other staff benefits	684	1 114	1 111	1 384
Total staff costs	**13 013**	**17 912**	**10 609**	**16 089**
23.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	307	315	384	391
Stationery and other office supplies	41	60	41	58
Agricultural, petroleum and metal products	27	34	48	51
Information technology supplies and software maintenance	60	68	69	78
Information technology and communications equipment	42	43	178	224
Other consumables used	93	132	56	62
Total supplies and consumables used	**570**	**652**	**776**	**864**
23.4 General operating expenses				
Travel	3 361	3 595	3 603	3 819
Learning and recruitment	1 368	1 417	1 422	1 512
Rent, leases, utilities	603	858	577	1 211
Reimbursement	226	250	35	339
Communications	563	735	447	642
Security	404	524	286	410
Professional services	311	491	8	8
General management costs	3 459[b]	177	4 510	18
Contribution to United Nations jointly financed activities	250	341	147	229
Contribution to information and communications technology	116	158	74	115
Freight	37	39	35	36
Insurance/warranties	6	8	7	9
Miscellaneous operating expenses	67	89	33	52
Total general operating expenses	**10 771**	**8 682**	**11 184**	**8 400**

	Programme expenses[a] 2016	*Total expenses 2016*	*Programme expenses 2015*	*Total expenses 2015*
23.5 Grants and other transfers				
Grants	20 503	20 515	28 132	28 132
Transfers	9	10	2	35
Total grants and other transfers	**20 512**	**20 525**	**28 134**	**28 167**
23.6 Other expenses				
Foreign exchange losses	81	81	315	343
Losses on sale of fixed assets	–	–	2	2
Sundries	374	474	141	165
Impairment	355[c]	355[c]	–	–
Total other expenses	**810**	**910**	**458**	**510**
23.7 Depreciation				
Depreciation	57	71	35	48
Total depreciation	**57**	**71**	**35**	**48**
23.8 Finance costs				
Bank charges	43	43	60	60
Total finance costs	**43**	**43**	**60**	**60**
Total expenses	**60 022**	**63 447**	**63 194**	**66 730**

[a] Of the total expenses, $60.022 million represents programme expenses and the remaining $3.425 million represents expenses for development effectiveness and management.

[b] Of the $3.459 million, $3.285 million is eliminated to remove the effect of internal UNCDF cost recovery.

[c] In 2016, UNCDF recognized $0.355 million as impairment relating to loans to financial service providers (see note 12).

Note 24
Financial instruments and risk management

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

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

- 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.

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

In 2016, UNCDF outsourced the investment management of its after-service health insurance funds to external investment managers. This was done in order to ensure an adequate level of investment return, given the longer-term nature of the liabilities. As at 31 December 2016, this portfolio was classified mainly as available for sale. Holdings include equities and fixed-income securities.

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

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

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus or deficit*	*Book value*	
					2016	*2015*
Cash and cash equivalents	–	–	12 753	–	12 753	6 248
Investments	63 002	11 968	–	–	74 970	102 277
Receivables: non-exchange	–	–	1 778	–	1 778	5 471
Receivables: exchange	–	–	16 614	18	16 632	2 515
Advances	–	–	663	–	663	865
Loans to financial service providers	–	–	536	–	536	888
Total financial assets	**63 002**	**11 968**	**32 344**	**18**	**107 332**	**118 264**

Held-to-maturity financial assets are carried at amortized cost, and, at 31 December 2016, the book value of these assets exceeded market value by \$0.047 million (2015: \$0.088 million). The carrying values for loans and receivables are a reasonable approximation of their fair value. As at 31 December 2016, UNCDF had \$0.018 million in financial assets recorded at fair value through surplus and deficit arising from various foreign exchange contracts managed by an external investment manager.

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 2016*	*Book value 2015*
Accounts payable and accrued liabilities	666	–	666	1 688
Funds held on behalf of donors	16	–	16	–
Total financial liabilities	**682**	**–**	**682**	**1 688**

As at 31 December 2016, 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.

For the year ended 31 December 2016, net gains of $0.138 million related to financial assets and liabilities recorded at fair value through surplus and deficit were recognized in the statement of financial performance.

Valuation

The table below presents the fair value hierarchy of the Fund's available-for-sale financial instruments carried at fair value at 31 December 2016.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	7 428	–	–	7 428
Bonds	4 540	–	–	4 540
Total	**11 968**	**–**	**–**	**11 968**

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

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

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

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

Analysis of the Fund's credit risk

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

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

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

Credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's and Fitch, are used to categorize and monitor the credit risk of financial instruments. As at 31 December 2016, the Fund's financial investments managed by UNDP were in high-quality fixed-income instruments, as shown in the table below (presented using Standard & Poor's rating convention).

Concentration by credit rating — UNDP-managed investments
(Thousands of United States dollars)

31 December 2016	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*Total*
Bonds — cash and cash equivalents	–	–	–	5 269	–	5 269
Bonds — investments	32 997	4 999	9 985	4 998	10 023	63 002
Total	**32 997**	**4 999**	**9 985**	**10 267**	**10 023**	**68 271**

31 December 2015	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*Total*
Bonds — investments	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**

Concentration by credit rating — externally managed investments
(Thousands of United States dollars)

31 December 2016	*AA+*	*AA-*	*A+*	*A*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds — investments	88	65	78	120	339	119	595	3 136	4 540
Total	**88**	**65**	**78**	**120**	**339**	**119**	**595**	**3 136**	**4 540**

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 investment maturities are selected. UNCDF maintains a portion of its cash and investments in cash and cash equivalents and current investments, which is sufficient to cover its commitments as and when they fall due, as shown in the table below.

(Thousands of United States dollars)

	31 December 2016	*Percentage*	*31 December 2015*	*Percentage*
Cash balances	1 579	2	1 008	1
Cash equivalents	11 174	13	5 240	5
Total cash and cash equivalents	**12 753**	**15**	**6 248**	**6**
Current investments	48 019	54	54 162	50
Non-current investments	26 951	31	48 115	44
Total current and non-current investments	**74 970**	**85**	**102 277**	**94**
Total investments, cash and cash equivalents	**87 723**	**100**	**108 525**	**100**

Although UNCDF had a slightly larger percentage of the portfolio invested in bonds at year-end 2016 than it did at year-end 2015, 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 2016	*31 December 2015*
Money market funds	5 905	5 240
Bonds	5 269	–
Cash equivalents	**11 174**	**5 240**

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

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2016*	*31 December 2015*
Held-to-maturity investments	Amortized cost	63 002	102 277
Available-for-sale investments	Fair value	11 968	–
Total investments		**74 970**	**102 277**

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

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

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2016 Market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
4 540	100 basis point increase	(93)	–
4 540	50 basis point decrease	47	–

Note: Excludes investments classified as cash and cash equivalents.

Analysis of the Fund's market risk

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

Interest rate risk arises from the effects of market interest rates 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 2016, 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 2016*	*31 December 2015*
Cash and cash equivalents	12 711	42	12 753	6 248
Investments	71 434	3 536	74 970	102 277
Receivables, non-exchange transactions	500	1 278	1 778	5 471
Receivables, exchange transactions	16 632	–	16 632	2 515
Advances issued	–	663	663	865
Loans to financial service providers	195	341	536	888
Total financial assets	**101 472**	**5 860**	**107 332**	**118 264**
Accounts payable and accrued liabilities	666	–	666	1 688
Funds held on behalf of donors	16	–	16	–
Total financial liabilities	**682**	**–**	**682**	**1 688**

Equity price risk

In 2016, UNCDF held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNCDF surplus and deficit.

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2016 Market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
7 428	5 per cent increase	371	–
7 428	5 per cent increase	(371)	–

Note 25
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	778	176	954	1 906
Total	**4**	**778**	**176**	**954**	**1 906**

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

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

(c) Advances

Staff advances are referred to as salary advances at UNCDF. Salary advances are available to all UNCDF staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations and Staff Rules. At 31 December 2016, there were no advances issued to key management personnel and their close family members that would not have been available to all UNCDF staff.

Note 26
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Goods	104	63
Services	733	350
Total open commitments	**837**	**413**

At 31 December 2016, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.837 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Obligations for property leases		
Less than 1 year	326	326
1 to 5 years	1 304	1 304
Total obligations for property leases	**1 630**	**1 630**

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

Note 27
Corporate realignment

The Fund's corporate realignment began in 2014 and was fully implemented in 2016. The realignment resulted in reducing the salary burden on regular/core resources, streamlining the organizational structure for improved accountability and delegation of authority, improving the synergies between practices, and strengthening administrative functions and processes.

A provision of $0.138 million made in the year 2015 to account for the estimated separation costs was fully paid in the year 2016.

Note 28
Events after reporting date

The reporting date for these financial statements is 31 December 2016. 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 29.1
Additional disclosure

Expenses by cost classification and practice area

Cost classification

(Thousands of United States dollars)

	31 December 2016
Development	
Programme	60 022
Development effectiveness	3 253
Management	3 457
Elimination	(3 285)[a]
Total expenses	**63 447**

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

Practice area

Thousands of United States dollars)

	31 December 2016
Financial inclusion	37 407
Local development finance	19 330
Development effectiveness	3 253
Management	3 457
Total expenses	**63 447**

Note 29.2
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 2015*	*Revenue/ adjustments*	*(Expenses)*	*Net assets 31 December 2016*
Belgium — Anseba Local Development Fund	482	3	–	485
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	3	(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	1 272	2	(1 197)	77
Belgium Survival Fund — Programme d'appui au développement économique local	358	–	(338)	20
Belgium Survival Fund — Projet d'appui à la décentralisation, à la déconcentration et au développement économique local au Bénin	7	–	–	7
Bill and Melinda Gates Foundation — Least Developed Countries Fund	135	–	(1)	134
Canadian International Development Agency — Appui á la gouvernance locale dans le département du Nord-Est en Haiti	27	–	–	27
Belgian Fund for Food Security — Collectivités territoriales et développement local a Tombouctou et à Mopti — Programme de Mali	74	–	–	74
Belgian Fund for Food Security — Independent impact assessment	–	(5)	5	–
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	4	128	11	143
France — Projet d'appui à la décentralisation et au développement local — Mauritanie	5	(5)	–	–
Japan — District Development Programme 2 — Gender mainstreaming component	122	–	–	122
Livelihoods and Food Security Trust Fund	112	1 289	(1 102)	299
Luxembourg — Mali project	2	–	–	2
Luxembourg — Programme d'appui à la décentralisation en milieu rural	10	–	(2)	8
Luxembourg — Projet d'appui aux communes rurales de Mopti	2	(2)	–	–
Multi-donor Trust Fund — Pass-through Trust Fund	2 324	4 405	(5 492)	1 237
Spain — Millennium Development Goals — Water and sanitation	6	7	–	13
Spain — Spain Millennium Development Goals	3	–	–	3
Sweden — United Nations Advisory Group	23	–	–	23

Name of trust fund	*Net assets 31 December 2015*	*Revenue/ adjustments*	*(Expenses)*	*Net assets 31 December 2016*
United Nations Fund for International Partnerships — International Year of Microcredit, 2005	10	–	–	10
Last Mile Finance Trust Fund	–	2 445	–	2 445
Total	**5 269**	**8 262**	**(8 116)**	**5 415**

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