A/73/5/Add.2

United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2017

and

Report of the Board of Auditors

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

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Report of the Board of Auditors

United Nations • New York, 2018

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 29 March 2018 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 2017, 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*) Achim **Steiner**
Administrator, UNDP/Managing Director, UNCDF

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

(*Signed*) Susan **McDade**
Assistant Administrator and Director
Bureau for Management Services
UNDP

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

Letter dated 24 July 2018 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 2017.

(*Signed*) Rajiv **Mehrishi**
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 2017, 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 2017 and its financial performance and its cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

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

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

The Managing Director of UNCDF is responsible for the other information, which comprises the financial report for the year ended 31 December 2017, 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*) Rajiv **Mehrishi**
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 2017. The audit was carried out at UNCDF headquarters in New York and through visits to the country offices in Nepal, Myanmar and Uganda.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2017 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 operations and financial records of UNCDF. However, the Board noted that management intervention was required to ensure improvement in the areas of programme and project management. The Board considers that UNCDF needs to

enhance its processes in this area 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

Evaluation of programmes and updating of information in the evaluation resources centre

From the review of programme evaluation at the Nepal, Myanmar and Uganda country offices, the Board identified the following anomalies.

At the Nepal country office, the Local Governance and Community Development Programme (LGCDP I) had been fully implemented and its final evaluation by an independent consultant was due before the end of Programme in 2012. That programme continued to phase II (2013–2017); however, the evaluation for phase I had not been performed as at 31 December 2017, contrary to the UNDP evaluation policy. Also, the recommendations from the focused evaluation report commissioned by the LGCDP I programme board and development partners, and the related management responses, were not updated and uploaded to the Evaluation Resource Centre.

At the Myanmar country office, no independent midterm or final evaluations had been conducted for the two ongoing programmes of MicroLead Expansion in Myanmar and Expanding Financial Access, which were already 71 per cent and 73 per cent implemented, respectively, as at September 2017.

At the Uganda country office, the midterm evaluation for the Local Finance Initiatives programme, which was due by September 2017, had not been not conducted, contrary to the Uganda framework agreement document.

Preparation and certification of combined delivery reports

At the Nepal country office, eight combined delivery reports for two implemented programmes (with a total of four projects) had been signed by implementing partners separately for the first and the second quarters, rather than signed as a single combined delivery report to cover transactions for both quarters from January to June, as required by the new Programme and Operations Policies and Procedures on combined delivery reports.

Recommendations

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

Evaluation of programmes and updating of information in the evaluation resources centre

(a) **Perform midterm and final evaluations of its programmes in a timely manner as required by the UNDP evaluation policy;**

(b) **Update and upload management responses to the Evaluation Resource Centre on time, in compliance with Programmes and Operations Policies and Procedures.**

Preparation and certification of combined delivery reports

(c) **Liaise with UNDP to ensure that global communications and instructions are sent to UNCDF country offices in a timely manner when there are changes in policies;**

(d) **Specify which Programme and Operations Policies and Procedures are applicable to it and which ones are not applicable in order to avoid arbitrary decisions on the applicability of those Policies and Procedures.**

Key facts

$10.74 million	Approved budget (core resources)[1]
$11.42 million	Revenue (core resources)
$9.21 million	Actual expenses (core resources). Only core resources are budgeted and approved by the Executive Board. Other resources (non-core) are not budgeted
$26.60 million	Approved budget for grants and transfers
$19.11 million	Actual expenses for grants and transfers
136	Total number of staff
$19.35 million	Staff cost

A. Mandate, scope and methodology

1. By its resolution 2186 (XXI) of 13 December 1966, the General Assembly established the United Nations Capital Development Fund (UNCDF) as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. UNCDF programmes also help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Sustainable Development Goals. UNCDF has its headquarters in New York and, in 2017, implemented programmes in 29 least developed countries relating to financial inclusion and local development finance. 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 2017, 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 2017 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the financial regulations and rules of the United Nations Development Programme (UNDP), 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.

[1] Core resources refer to unearmarked resources that are free from the restrictions of donors.

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

5. The Board 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 11 recommendations made up to 31 December 2016, 8 (73 per cent) were fully implemented, 2 (18 per cent) were still under implementation and 1 (9 per cent) was overtaken by events. The recommendation that was overtaken by events relates to a programme which was abandoned after UNCDF concluded that the programme was not viable owing to little donor interest in it. Details of the status of implementation of these recommendations are shown as annex I to the present report.

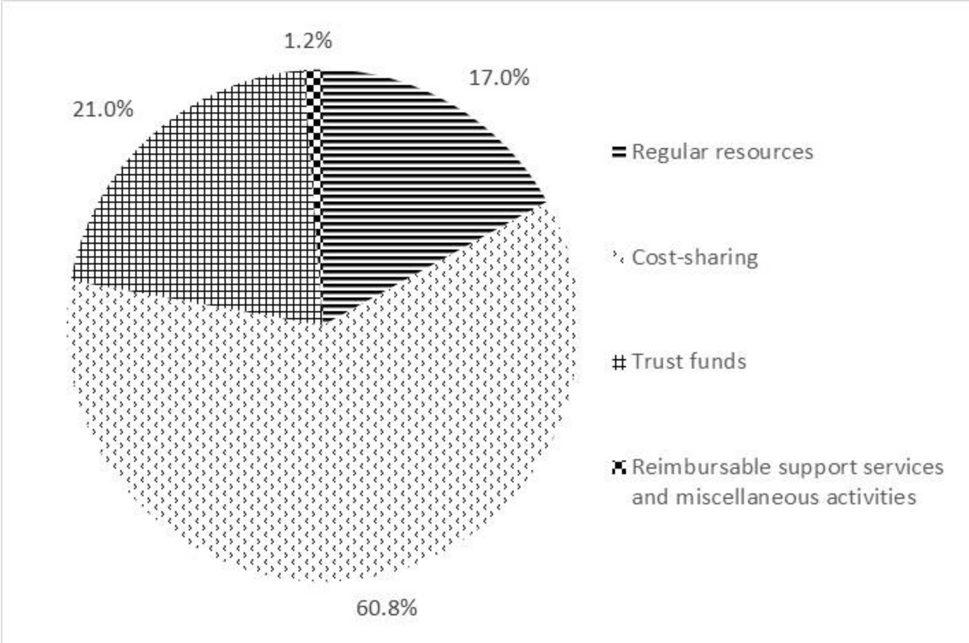
2. Financial overview

Revenue and expenses

8. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2017, total revenue amounted to $59.72 million (2016: $53.13 million) and total expenses amounted to $64.59 million (2016: $63.45 million), resulting in a deficit of $4.87 million (2016: $10.32 million). The total voluntary contributions to the Fund were $57.11 million, equivalent to 96 per cent of total revenue (net of returns to donors for unused contributions).

9. Voluntary contributions increased by $5.14 million (9.9 per cent) compared with 2016 contributions of $51.97 million, reflecting increased donor support for projects. The amount of voluntary contributions comprised regular resources of $9.69 million (17 per cent), cost-sharing of $34.75 million (60.8 per cent), trust funds amounting to $11.99 million (21 per cent) and reimbursable support services and miscellaneous activities amounting to $0.68 million (1.2 per cent). These contribution levels are shown in figure II.I.

Figure II.I
Comparative contributions for regular and other resources



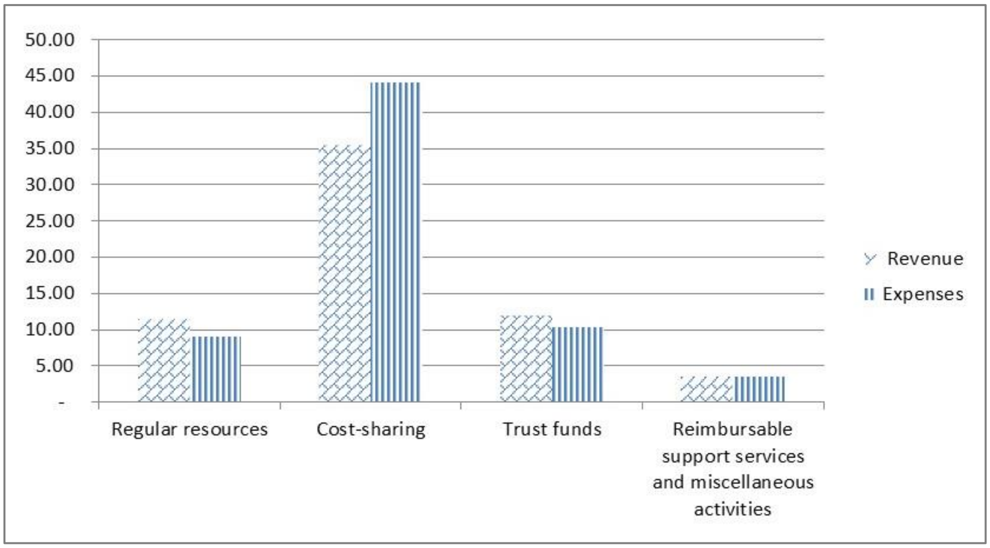
Source: Analysis by the Board of UNCDF 2017 financial statements.

10. Total expenses slightly increased, by 2 per cent, from $63.45 million in 2016 to $64.6 million in 2017. The breakdown by segment was: cost-sharing expenses of $44.11 million (68.3 per cent); regular resources expenses of $9.21 million (14.3 per cent); and trust fund expenses of $10.36 million (16 per cent). The breakdown of expenses by segment also takes into account an amount of $3.59 million under reimbursable support services and miscellaneous expenses, less recovery of $2.68 million.

11. The classification of the expenses by nature indicates that $19.11 million (29.9 per cent) was spent for grants and other transfers; $19.35 million (30 per cent) for staff costs; $9.71 million (15 per cent) for general operating expenses, net of $2.68 million for cost recovery; $14.50 million (22.4 per cent) for contractual services; and $1.91 million (3 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 2017 financial statements.

Ratio analysis

12. The analysis by the Board of the Fund's main financial ratios (see table II.1) shows a decrease in the ratio of assets to liabilities in 2017 compared with 2016. The decline in the ratio of assets to liabilities is a result of a decline in assets owing to decreased resources for investment, and an increase in total liabilities in the current year compared with 2016.

Table II.1
Ratio analysis

Description of ratio	*31 December 2017*	*31 December 2016*
Current ratio[a]		
Current assets: current liabilities	17.72	27.01
Total assets: total liabilities[b]	7.17	9.81
Cash ratio[c]		
Cash plus investments: current liabilities	14.83	20.44
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	17.52	26.63

Source: Analysis by the Board of UNCDF 2017 financial statements.

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

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

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

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

13. The current assets of UNCDF as at 31 December 2017 were $50.97 million, or 17.70 times the current liabilities of $2.88 million, indicating the Fund's strong ability to meet its short-term obligations. Similarly, total assets of $104.29 million exceeded total liabilities of $14.54 million, indicating a healthy financial position. A decrease in the current ratio and the quick ratio is attributed mainly to a decrease in current assets of $29.32 million (36.5 per cent) and a slight decrease in current liabilities of $0.10 million.

14. UNCDF updated its operational reserve to ensure full compliance with the new methodology approved by the Board in September 2017. The formula to calculate the operational reserve for regular resources is 50 per cent of the average of the previous three years of utilization of cash flow-based expenditure for core activities (total amount of actual budget prepared on comparable basis). The formula to calculate the operational reserve for other resources is 2 per cent of the average of the previous three years of expenditure plus a fixed reserve of $0.4 million for contingent liability risks. As at 31 December 2017, UNCDF held a reserve of $6.74 million compared with a reserve of $14.07 million reported on 31 December 2016. The difference of $7.33 million represents an amount transferred to the accumulated surplus during the year.

3. Programme and project management

15. As part of the audit for the financial year ended 31 December 2017, the Board visited the country offices of UNCDF in Nepal, Myanmar and Uganda. During those visits, the Board reviewed programme activities and the related information, which is summarized in table II.2 below. The Board identified a number of deficiencies, as highlighted in the following paragraphs.

Table II.2
Programme information

Country office	*Programme*	*Programme cycle*	*Budget*[a]	*Practice area*	*Modality*	*Programme level*
Nepal	Support to Financial Inclusion in Nepal Through Access to Finance	2014–2018	7 385 525	FIPA	NIM	Country
	Local Governance and Community Development Programme (LGCDP I)	2008–2012	4 616 864	LDFP	NIM	Country
	Local Governance and Community Development Programme — Phase II (LGCDP II)	2013–2017	2 390 211	LDFP	NIM	Country
Myanmar	MicroLead Expansion in Myanmar	2013–2017	7 006 262	FIPA	DIM	Global
	Expanding Financial Access	2015–2020	25 414 052	FIPA	DIM	Country
Uganda	Mobile Money for the Poor	2014–2018	10 971 410	FIPA	DIM	Global
	Access to Clean Energy for the Poor through Microfinance (CleanStart)	2012–2020	7 368 726	FIPA	DIM	Global
	Local Finance Initiatives	2014–2020	2 650 500	LDFP	DIM	Country

Note: DIM: direct implementation modality; FIPA: financial inclusion practice area; LDFP: local development finance practice area; NIM: national implementation modality.

[a] Budget amounts are in United States dollars.

Evaluation of programmes and updating of information in the Evaluation Resource Centre

16. According to section 2.4.4 of the UNCDF Operational Manual (2016), UNCDF complies with the UNDP evaluation policy, which was endorsed by the Executive Board in 2011. The Manual, under the same section, specifies that responses by

management to the findings and recommendations from project evaluations are mandatory for all project evaluations. The Deputy Executive Secretary of UNCDF is responsible for ensuring that relevant follow-up actions are taken by the director of each practice area, and for forwarding updates to the Evaluation Unit for entry into the publicly accessible Evaluation Resource Centre of UNDP.

17. The Programmes and Operations Policies and Procedures also require that the responses should be developed in consultation with key stakeholders and for progress with regard to the implementation of recommendations on evaluation to be tracked by the Evaluation Resource Centre.

18. Nevertheless, the country offices in Nepal, Myanmar and Uganda did not comply with the requirements of the Programme and Operations Policies and Procedures, the UNCDF Operational Manual (2016) or the UNDP evaluation policy with regard to several aspects of the programme evaluation, as detailed below.

Nepal country office

19. The Local Governance and Community Development Programme (LGCDP I) was fully implemented and its final evaluation by an independent consultant was due before the end of the Programme in 2012. The Programme continued to phase II (2013–2017); however, the evaluation for phase I had not been performed as at November 2017. Additionally, the midterm evaluations for the Support to Financial Inclusion in Nepal Through Access to Finance programme and the Local Governance and Community Development Programme — Phase II (LGCDP II) were conducted in June 2017 and May 2016, respectively. Nevertheless, the country office did not make public, through the Evaluation Resource Centre, the recommendations and management responses from those evaluations as required by the Programme and Operations Policies and Procedures. The Nepal country office explained that LGCDP I had not been included in the UNCDF evaluation plans of 2014–2015 and 2016–2017 because the decision on the scope of evaluation had been taken by the LGCDP I programme board and development partners, in the context of the national implementation modality. Management also stated that the midterm evaluation of the Access to Finance programme scheduled in the 2016–2017 UNCDF evaluation plan had been changed at the request of implementing partners; the change was cleared by the national counterparts and the evaluation unit at headquarters. The evaluation has been planned for the second or third quarter of 2018, before project closure.

Myanmar country office

20. The midterm technical programme review was conducted by UNCDF staff in October 2015 for the MicroLead programme (global); however, no independent midterm or final evaluations were conducted for the two ongoing programmes of MicroLead Expansion in Myanmar and Expanding Financial Access. Implementation of the programmes was under the financial inclusion practice area through the direct implementation modality. These programmes had already been 71 per cent and 73 per cent implemented, respectively, as at 30 September 2017, and more than 85 per cent implemented as at 31 December 2017.

21. The Board also noted that the MicroLead programme (global) had not been included in the UNCDF global evaluation plan for 2016–2017, as required under the project document. The management of the Myanmar country office explained that its 2016–2017 evaluation plan, which was due to begin early in 2018, would cover an independent evaluation of the Expanding Financial Access programme, depending on the availability of United Nations staff in Myanmar to support the exercise. The final evaluation of the MicroLead Expansion in Myanmar programme would be done by the Livelihoods and Food Security Trust Fund (LIFT), the donor of the project.

Management further explained that the final evaluation of the MicroLead Expansion in Myanmar programme, in alignment with the agreement with and the operational guidelines of the Livelihoods and Food Security Trust Fund, would be independent and conducted by the Fund itself in the first quarter of 2018. This evaluation was not conducted as expected, however.

Uganda country office

22. The global evaluation plan of 2016–2017 included midterm evaluation of the Mobile Money for the Poor programme implemented through the direct implementation modality. The evaluation of this programme was supposed to be completed at the end of the third quarter of 2017; however, the Board found that it had not been started as at 31 December 2017. The Board further noted that the CleanStart programme had been scheduled to be completed at the end of the third year of the Programme period (i.e. 2014) based on the global programme document, but had been completed in October 2017, with a delay of 33 months.

23. In addition, according to the Uganda framework agreement document, the midterm evaluation for the Local Finance Initiatives programme implemented under the local development finance practice area was supposed to have been completed at the end of the second year of the programme (i.e. 2015). However, the evaluation had not started as at November 2017, and the programme was 10 per cent complete. The programme had initially been expected to end by 31 December 2017, but was later extended to 2020.

24. The Board was informed that, in the case of the Mobile Money for the Poor programme, the launch of evaluations had been delayed because procurement procedures had not yielded suitable proposals from the evaluation firms bidding for them. In the case of CleanStart, the Evaluation Unit had accepted the request by the programme to delay the timing of the evaluation to allow sufficient time for implementation of a new programme approach to take effect. For the Local Finance Initiatives programme, the Board was informed that the programme had been extended until 2020. Management further explained that such factors as difficulties in recruiting people with the right expertise, as well as requests from programme partners to adjust the timing of evaluation exercises, had contributed to the postponement or delay in evaluation. According to Management, UNCDF fully complies with its obligation to prepare and upload management responses to completed UNCDF evaluations as required under the evaluation policy. In cases in which UNDP or another party is responsible for the evaluation and has entered the results into the Evaluation Resource Centre, UNCDF ensures that it provides management responses for the part of the evaluation related to its own work.

25. The Board takes note of the response of management, but still considers that preparations for evaluations should be done well in advance, should take into consideration unforeseen matters and factor in contingent strategies to ensure that evaluations are carried out in a timely manner. If there are changes in the evaluation plans, these changes should be reflected on a timely basis in the Evaluation Resource Centre.

26. **The Board recommends that UNCDF: (a) perform midterm and final evaluations of its programmes in a timely manner as required by the Evaluation Policy, (b) ensure the update and upload of management responses to the Evaluation Resource Centre for the part of the evaluation related to the work of UNCDF on time and in compliance with Programme and Operations Policies and Procedures and (c) ensure that changes in the evaluation plans are reflected on a timely basis in the Evaluation Resource Centre.**

Preparation and certification of combined delivery reports

27. The combined delivery report is a mandatory official report that reflects project expenses and funds utilized on the project. According to the revised Programme and Operations Policies and Procedures (updated in 2017), which came into effect as from January 2017, combined delivery reports should be prepared at the end of the second and third quarters and at the end of the year for nationally implemented projects. The combined delivery reports for the second quarter cover expenses incurred from January to June.

28. Further, section 3 of the Policies and Procedures explains that the Office of Financial Resources Management will send a global communication upon closure of the quarterly general ledger to trigger the generation of the combined delivery report, which should be sent to the implementing partner with a request for certification within 15 calendar days. If no response is received within 15 days, a follow-up request should be sent indicating that the report shall be deemed to have been accepted if a response is not received within 15 days from the date of the second request. The certified report and follow-up request if no response is received from the implementing partner should be uploaded to the combined delivery report library in the UNDP corporate planning system immediately upon receiving the certification from the implementing partner but not later than 45 calendar days after the end of the respective quarter.

29. At the Nepal country office, the Board reviewed eight combined delivery reports: four from the Support to Financial Inclusion Through Access to Finance in Nepal programme and four from the Local Governance and Community Development Programme — Phase II (LGCDP II), which had been signed by implementing partners separately for the first and second quarters. The Board noted that combined delivery reports had not been combined to cover expenses for the period of January to June 2017 as required under the new Programme and Operations Policies and Procedures because the country office was still using an outdated set of Policies and Procedures which did not contain this requirement. The new Policies and Procedures had come into effect in January 2017. Further, the Board found that, while these combined delivery reports had not been uploaded to the combined delivery report library in the UNDP corporate planning system, the combined delivery reports for the third quarter had been signed but not uploaded to the UNDP combined delivery report library in the UNDP corporate planning system.

30. Management stated that the new changes in the Programme and Operations Policies and Procedures had been approved after the first and second quarter combined delivery reports had already been signed. In substance, UNCDF projects had only overperformed in terms of the minimum requirement under the revised Programme and Operations Policies and Procedures of one signature for the first and second quarter. Management further explained that the UNDP corporate planning system was not used by UNCDF for its planning and monitoring purposes and that there was no requirement from UNCDF to upload its combined delivery reports to the UNDP system. While UNCDF followed UNDP Programme and Operations Policies and Procedures, any administrative directives internal to UNDP incorporated in those Policies and Procedures did not become applicable to UNCDF when UNCDF had a separate system in place. UNCDF projects were required to upload only project-related documents in the Atlas enterprise resource planning system.

31. The Board takes note of the fact that UNCDF may have different administrative directives or a separate system in place. Nevertheless, the UNCDF Operational Manual (2016) has no provision indicating which Programme and Operations Policies and Procedures are not applicable to UNCDF.

32. **The Board recommends that UNCDF liaise with UNDP to ensure that global communications and instructions are sent to UNCDF country offices in a timely manner when there are changes in policies.**

33. **The Board also recommends that UNCDF specify which Programme and Operations Policies and Procedures are applicable to it and which ones are not applicable in order to avoid arbitrary decisions on the applicability of the Policies and Procedures.**

Slow pace of project budget implementation

34. The Board reviewed project budget implementation at the three visited country offices as at 31 December 2017, and identified the shortcomings described below.

35. The Nepal country office had two programmes with eight projects as at 31 December 2017. Seven of those projects were ongoing, with a total budget of $4.16 million (2017), which was revised at year end to $2.76 million. Nevertheless, the total projects expenditure amounted to $2.67 million (64.2 per cent of original budget and 96.7 per cent of revised budget) while individual project delivery ranged from 62 to 64.9 per cent.

36. At the Myanmar country office, as at 31 December 2017, the Expanding Financial Access programme for the period 2015–2020, with a budget of $25.41 million, had actual funding of only $6.1 million, or 24 per cent of the total budget, while more than half of the programme implementation period had already passed.

37. At the Uganda country office, as at 31 December 2017 the Mobile Money for the Poor programme had spent a total of $3.76 million, or 90 per cent of the budget, and CleanStart had spent $1.34 million, or 92 per cent of the budget. The Board further noted that the Local Finance Initiatives programme (2014–2017), which had a programme budget of $2.65 million (revised to $2.46 million), was in the final two months of its cycle, but only $0.55 million, or just 22 per cent, had been spent for the whole programme.

38. Management informed the Board that it was already following the practice of ensuring that changes were done through annual workplans which were approved by the project boards to ensure that unfunded budgets were realistic and manageable at the design stage of the future programmes. Further, Management highlighted difficulties in the resource mobilization environment and assured the Board that UNCDF would make its best efforts to meet the resource mobilization targets and that in Myanmar additional resource mobilization had been secured for the Expanding Financial Access programme from the Department for International Development of the United Kingdom of Great Britain and Northern Ireland, the Department of Foreign Affairs and Trade of Australia and the DaNa facility, which had increased the funded budget from $6.3 million to $13.8 million. Meanwhile in Uganda, the Local Finance Initiative programme had mobilized an additional $1 million in 2017 from the eleventh European Development Fund in Uganda through the Development Initiatives for Northern Uganda project and extended the project to 2020.

39. The Board is concerned that, despite the slow pace in the implementation of project budgets, no changes were made in the annual workplans for all projects at the Uganda and Myanmar country offices to accommodate the effect of the changes in the planned activities. Further, while the slow pace means that budgets are not implemented as planned, this change in budget implementation was not approved by the respective project boards.

40. **The Board recommends that UNCDF ensure that changes in the budget and expenditure are done through annual workplans and approved by the project boards.**

Financial closure of projects

41. Paragraph 5 of the Programme and Operations Policies and Procedures, under Programme and project management, project management — closing, explains that projects should be financially closed not more than 12 months after being operationally closed or after the date of cancellation. Between operational and financial closure, the implementing partner is required to identify and settle all financial obligations and prepare a final expenditure report. No adjustments can be made to a financially closed project.

42. Nevertheless, from the review of the closure status of projects at the Uganda country office, the Board noted that all four projects (with IDs 00060900, 00076768, 00077081 and 00082874) completed during the period had been operationally closed for more than 12 months, but had not been financially closed as at 31 December 2017. Management explained that the country office would strive to abide by the policies and ensure that projects were closed within the time frame. The Board considers that delayed project closure poses a risk of misappropriation or misuse of project resources.

43. **The Board recommends that UNCDF establish an efficient mechanism to ensure that all operationally closed projects are financially closed within 12 months and that no adjustments are allowed to a financially closed project unless the amount is significant, as provided in the Programme and Operations Policies and Procedures.**

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

44. Atlas is an enterprise resource planning system of UNDP which is also used by UNCDF. Its central features 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 process requires the manager to track and provide solutions to potential problems or requests for change. It also requires a monitoring schedule plan to be activated in Atlas and updated to track key management actions and events.

45. From the review of the 8 ongoing projects in Nepal and 3 ongoing projects in Myanmar, the Board noted that monitoring and issue logs in the Atlas system for those 11 projects had not been activated and updated to track key management actions or events. Additionally, the risk logs for four of the eight projects in Nepal and for all three projects in Myanmar had also not been updated. Management agreed with the audit finding and committed to improving the performance of activities related to project risk, issues and monitoring.

46. The Board considers it important that activities related to project risk, issues and monitoring are recorded regularly in Atlas, where all primary information pertaining to projects is kept. Delays in reporting identified project risks and issues and infrequent review and updating of risks and issues logs in Atlas may result in delays in taking appropriate measures to mitigate those risks.

47. **The Board recommends that UNCDF ensure that the risk, issues and monitoring logs for all projects in Nepal and Myanmar are activated in Atlas in a timely manner as the primary source of project information.**

4. Asset management

Review of the estimated useful life of assets

48. Paragraph 67 of IPSAS 17 (Property, plant and equipment) requires the residual value and the useful life of an asset to be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, any changes shall be accounted for as a change in accounting estimates in accordance with IPSAS 3 (Accounting policies, changes in accounting estimates and errors).

49. The Board noted that, in 2017, UNCDF had disclosed in its financial statements a total gross carrying amount of fully depreciated assets that were still in use of $95,000, representing an increase of $27,000 (40 per cent) from $68,000 reported in 2016. Some of those assets had been carried over from 2015 ($61,000) as fully depreciated assets while they were still in use. Nevertheless, UNCDF had not reviewed the useful life of assets, and the financial statements made no disclosure regarding the changes in accounting estimates that could be a reason for an increase in the fully depreciated assets that were still in use.

50. Management informed the Board that the review process of the useful life of assets was done at the end of each year; however, the procedures were not documented.

51. The Board considers that UNCDF needs to provide a guideline, a policy or a procedure to document how the review of the useful life of assets was performed in compliance with IPSAS 17.

52. **The Board recommends that UNCDF document its process and specify in its policy guidelines how the annual review of the useful life of assets should be performed.**

C. Disclosures by management

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

53. The administration informed the Board that, in accordance with financial rule 126.17, UNCDF had write-offs in the amount of $591,713 in the year 2017.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

55. 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). The Board’s audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

56. 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 its attention. The Board also enquires whether management has any knowledge of any actual, suspected or alleged fraud; 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.

57. In 2017, 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, which was received and resolved in 2017 and for which no loss was determined (details are provided in annex II to the present report). The Board considers that UNCDF needs to thoroughly review the underlying circumstances that led to the case, identify the possible gaps and develop a comprehensive anti-fraud strategy to minimize fraud risks and associated loss.

D. Acknowledgement

58. 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*) Rajiv **Mehrishi**
Comptroller and Auditor General, 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

Annex I

Status of implementation of recommendations up to the year ended 31 December 2016

						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	50	**Reserve calculations and assumptions** UNCDF agreed with the 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 for approval by the Executive Board	As at September 2017, the last pending action relating to this recommendation had been completed. The revised operational reserve methodology was presented to the Executive Board at its September 2017 session and the new methodology was approved. The relevant decision of the Executive Board was uploaded for information. 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 approval by the Executive Board. The final report of the consultants (uploaded to the Comprehensive Audit and Recommendations Database System) had the following key recommendations for further consideration by the Executive Board.	The Board noted the approval of the Executive Board at its September 2017 session on the revised operational reserve methodology and computations. Thus, this recommendation has been implemented.	√			

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 should update the methodology for calculation of the reserve for regular (core) resource activities because the formula does not address the current UNCDF business model. The proposal is to use 50 per cent (the equivalent of 6 months) of the average of the previous three years of utilization of cash flow-based expenditure for core activities • UNCDF should establish a reserve for other (non-core) resource activities. In relation to structural and liability risks, the consultants propose 0.667 per cent of the $58 million of UNCDF non-core activity, or $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 approval by the Executive Board, 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 therefore UNCDF considers this recommendation implemented.					

						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*
2	2015 A/71/5/Add.2, chap. II	23	UNCDF agreed with the Board's recommendations that it (a) speed up the transfer of project assets and certify final combined delivery reports; and (b) complete refunds to donors in a timely manner so that projects are financially closed within 12 months after being operationally closed.	The recommendation has been fully implemented and the projects closed. The following actions were taken: • Project 00076300 has been closed, with all the closure documents uploaded to Atlas • Project 00056969 is now financially closed upon the conclusion of asset transfers • For project 00080042, all of the transactions are now posted and the final combined delivery report documents are now signed and uploaded to Atlas. The project is operationally and financially closed • For project 00081686, a refund to the donor has been concluded and all supporting documents for project closure have been uploaded in Atlas	Management progress is appreciated for closing the projects. The Board considers the recommendation has been implemented.	√			
3	2015 A/71/5/Add.2, chap. II	49	UNCDF agreed with the Board's recommendation that it (a) conduct due diligence on long-outstanding loans and maintain proper evidence to support action taken on the loans, including the write-off of the loans whose recoverability is uncertain; and (b) ensure that the impairment allowance for the loans is reviewed every year to ascertain its relevance, supported by proper evidence of the approach used.	(a) Due diligence on the long-outstanding loans was completed and a formal request submitted to the UNDP Office of Audit and Investigation to review and make recommendations for final approval by the UNDP Administrator of the write-off as per UNDP/UNCDF financial rules and regulations (b) The impairment allowance for the loans reviewed at the end of 2016 is reflected in the financial statement for 2016. (c) On 12 February 2018, pursuant to the loan write-off memo signed by the UNDP Administrator, UNCDF officially	Implemented. (a) The Board noted that due diligence had been completed on the long-outstanding loans and a formal request had been submitted to the UNDP Office of Audit and Investigation to review and make recommendations for final approval of the write-off by the UNDP Administrator. The Board reviewed the write-off approval document for $591,713 that was	√			

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
				wrote off the loans that had previously been included in the provision account amounting to $591,713. General ledger journal entry 7370897 effecting this write-off was posted on 12 February 2018.	approved by the Administrator on 6 February 2018. General ledger journal entry 7370897 was posted. (b) Implemented; in the final audit of 2016, UNCDF provided $355,442 for two impaired loans ($54,538 from MEC FEPRODES of Senegal and $300,904 from Finance Salone of Sierra Leone) whose recoverability was uncertain. The provision made was part of adjustments made as a result of the final audit of 31 December 2016.				
4	2016 A/72/5/Add.2, chap. II	21	The Board recommends that UNCDF ensure that necessary controls are in place so that in the future joint project documents are signed before implementation starts	Controls have been put in place to ensure enhanced monitoring of project signature status and management, including: (a) a management letter from the Executive Secretary, emphasizing compliance and enhanced project management; (b) the rollout of a single UNCDF country focal point system to better manage field-level project coordination and information sharing with regional offices and headquarters; and (c) revised standard operating procedures for project appraisal committees to respond to enhanced checks during project appraisals and ensure compliance.	The Board verified the evidence provided, e.g. standard operating procedures for the project appraisal committee, and a letter from management on compliance and project management. The Board considers that the recommendation has been implemented.	√			

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
5	2016 A/72/5/Add.2, chap. II	24	UNCDF agreed with 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.	In response to the audit recommendation in relation to this project, an annual workplan was prepared (by the programme associate) and was authorized by the regional technical adviser in May 2017.	The Board noted that the 2017 annual workplan to support the development and implementation of value chains programme in Rwanda was approved in May 2017 by the regional technical adviser.	√			
6	2016 A/72/5/Add.2, chap. II	28	The Board recommends that UNCDF ensure that the Rwanda country office 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.	UNCDF management has concluded that the Rwanda financial inclusion programme is no longer viable, as there is currently little donor interest. The programmatic priorities for the financial inclusion practice area in 2018 will focus on countries where there are ongoing activities on which to build and which also have a higher potential for resource mobilization. Therefore, the recommendation has been overtaken by events.	This recommendation is considered as overtaken by events after UNCDF concluded that the Rwanda financial inclusion programme was no longer viable, as there is currently little donor interest in that programme in Rwanda. Thus, the finalization of the Rwanda financial inclusion programme document is not viable.				√
7	2016 A/72/5/Add.2, chap. II	33	UNCDF agreed with the Board's recommendation to ensure that the risk, issues and monitoring logs for all projects in the Rwanda and Bangladesh country offices are activated in Atlas in a timely manner as the primary source of project information.	The corporate planning system referred to in the audit observation memorandum is a specific planning and monitoring system that is specific to UNDP and that is used by UNDP for programme and budget management. It does not cover UNCDF; hence, the recommendation is not applicable. The only entries seen in the UNDP corporate planning system for UNCDF relate to the	The UNCDF Operational Manual (2016) and other guiding documents within UNCDF have no provisions indicating which Programme and Operations Policies and Procedures are not applicable to UNCDF. Therefore, UNCDF will need to		√		

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
				contribution of UNDP itself to UNCDF against the biennial support budget and programme support. UNCDF is actively monitoring its programme results, risks and issues in full compliance with the UNDP Programme and Operations Policies and Procedures, but has managed the respective logs offline owing to technical complications, e.g. one programme has more than one Atlas Award. The Atlas logs are used within UNDP to aggregate and report via the executive snapshot and other Atlas reports, which UNCDF does not use.	demonstrate how the use of Atlas, including the corporate planning system, is not applicable to them based on the provisions of the guiding documents.				
8	2016 A/72/5/Add.2, chap. II	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.	For the vendor management process, UNCDF has created a dashboard that allows easy search during the vendor approval process to check if the vendor exists or if another vendor uses the same bank account. The dashboard uses a query to list vendors with the same bank account (https://app.powerbi.com/groups/d6db0898-d603-4111-82bb-813938a046d1/dashboards/e24cdce0-8062-4752-b872-76d4eeb6721c). There are always some exceptions. For example, all payments in Somalia are processed through Dahabshiil, as banking services are not fully functional. The procurement team also periodically reviews vendor information. As a result of the review, UNCDF started and completed the vendor archiving	Management efforts are appreciated; the Board considers that the recommendation has been implemented. The Board noted the creation of the new dashboard that allows an easy search to determine whether the vendor exists or check if another vendor uses the same bank account.	√			

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
				process, mainly for those vendors which were never used or with transactions dated before 31 December 2015. UNCDF went from approximately 17,000 vendors to 2,286. With the new dashboard, every time a new vendor is approved, the finance approver can easily check if the vendor exists or if there is any duplication of the bank account.					
9	2016 A/72/5/Add.2, chap. II	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.	Management is discussing the possibility of including guarantee management in the open source loan management system with the system developer.	The recommendation is under implementation. Management has to let the Board know when the recommendation will be implemented.		√		
10	2016 A/72/5/Add.2, chap. II	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 requirements on staff leave.	In line with comments by management, UNCDF management closely followed up on leave balances during the year, and encouraged staff and managers to utilize the earned staff leave during the period. As a result of management action, only 92 days were unutilized in 2018, as against 156 in 2017, which reflects a 41 per cent reduction. Management was planning to roll out a corporate leave planning system in April 2018. The new system would further allow proactive leave management and	Implemented. In the audit of 2017, no weaknesses were noted regarding leave management. UNCDF implemented the recommendation in such a way that staff utilize the earned leave during the relevant period.	√			

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
				coordination between staff members and their supervisors and teams, improving work-life balance in UNCDF.					
11	2016 A/72/5/Add.2, chap. II	53	The Board recommended that UNCDF ensure that all staff members complete mandatory training courses on time	In line with the recommendation, UNCDF has now achieved a completion rate of over 95 per cent for the mandatory learning courses. A detailed list was uploaded in the Comprehensive Audit and Recommendations Database System.	The Board has confirmed that UNCDF has achieved a completion rate of mandatory training of over 95 per cent; therefore, the recommendation has been closed.	√			
	Total					**8**	**2**		**1**
	Percentage					**73**	**18**		**9**

Annex II

Case of fraud and presumptive fraud: disclosure by management

Case received and resolved in 2017

No.	*Region*	*Nature*	*Description of the issue*	*Remedial action against the person involved*	*Loss to UNCDF*	*Amount recovered*
1	Asia and the Pacific	Other failure to comply with obligations	A staff member allegedly held a position on the board of directors of a non-governmental organization while working for UNCDF	Closed after assessment; the staff member resigned from UNCDF and a preliminary open source search found no evidence that the staff member had held a position that would constitute a direct or perceived conflict of interest in respect of the position the staff member held with UNCDF.	Nil	N/A

Chapter III
Financial report for the year ended 31 December 2017

A. Introduction

1. The present financial report should be read in conjunction with the audited financial statements of the United Nations Capital Development Fund (UNCDF) and the accompanying notes for the year ended 31 December 2017. All amounts are expressed in United States dollars, which is the functional currency of UNCDF. The financial statements have been prepared for the calendar year 2017 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the performance of UNCDF.

About the United Nations Capital Development Fund

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

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

What the United Nations Capital Development Fund offers

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

5. In 2017, UNCDF implemented programmes related to financial inclusion and local development finance in 29 least developed countries. The work of UNCDF gives impetus to innovate financing approaches where few others are present that create demonstration effects which, when replicated and taken to scale, help build inclusive financial markets and local development finance systems and leverage additional public and private sector funding from domestic and international actors into local economies to support growth that is inclusive.

Financial objective

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

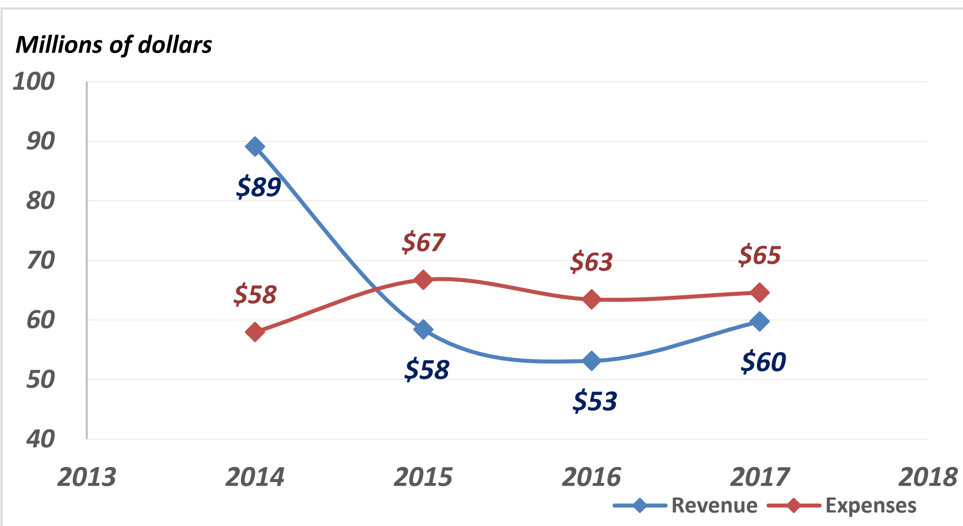
7. The financial reporting objective of UNCDF is to provide users of the financial statements with transparent, comprehensive and understandable financial information.

B. Summary financial results and highlights

8. Total revenue increased by 12 per cent, from $53.1 million in 2016 to $59.7 million in 2017. Total expenses increased by 2 per cent, from $63.4 million in 2016 to $64.6 million in 2017. Total accumulated surpluses and reserves decreased by 7 per cent, from $96.8 million in 2016 to $89.7 million at the end of 2017. That decrease is attributable primarily to a deficit of revenue over expense in 2017 of $4.9 million and a recorded actuarial loss of $3.19 million.

9. At the end of 2017, UNCDF had total assets of $104.3 million, down from $107.8 million in 2016. The Fund received total contributions of $57.1 million in 2017, an increase of $5.1 million from 2016, comprising $9.7 million in regular resources and $47.4 million in other resources.

Figure III.I
Total revenue and expenses



C. Financial performance

Revenue analysis

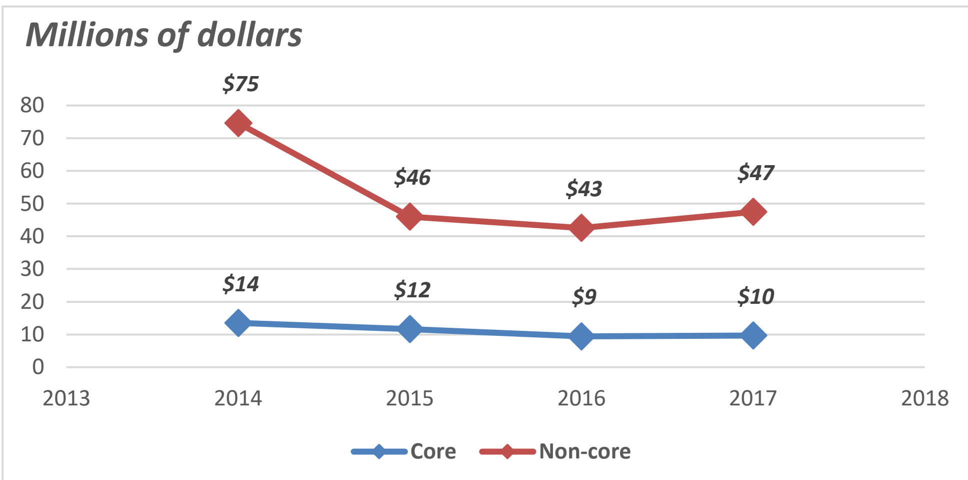
10. The activities of UNCDF are funded by voluntary contributions to regular (core) resources and other (non-core) resources.

11. Total revenue in 2017 was $59.7 million, an increase of $6.6 million (12 per cent) from revenue of $53.1 million in 2016. The main sources of revenue in 2017 were the following:

- $57.1 million (96 per cent) from voluntary contributions, compared with $51.9 million (98 per cent) in 2016
- $2.6 million (4 per cent) from investment and other revenue, compared with $1.2 million (2 per cent) in 2016.

12. In 2015 and 2016, UNCDF reported a decrease in both core and non-core voluntary contributions. In 2017, it reported a modest increase in both core and non-core contributions compared with 2016. In 2017, UNCDF received $9.7 million in regular (core) contributions (17 per cent of total resources) and $47.4 million in other (non-core) contributions (83 per cent of total resources).

Figure III.II
Voluntary contributions from core and non-core resources



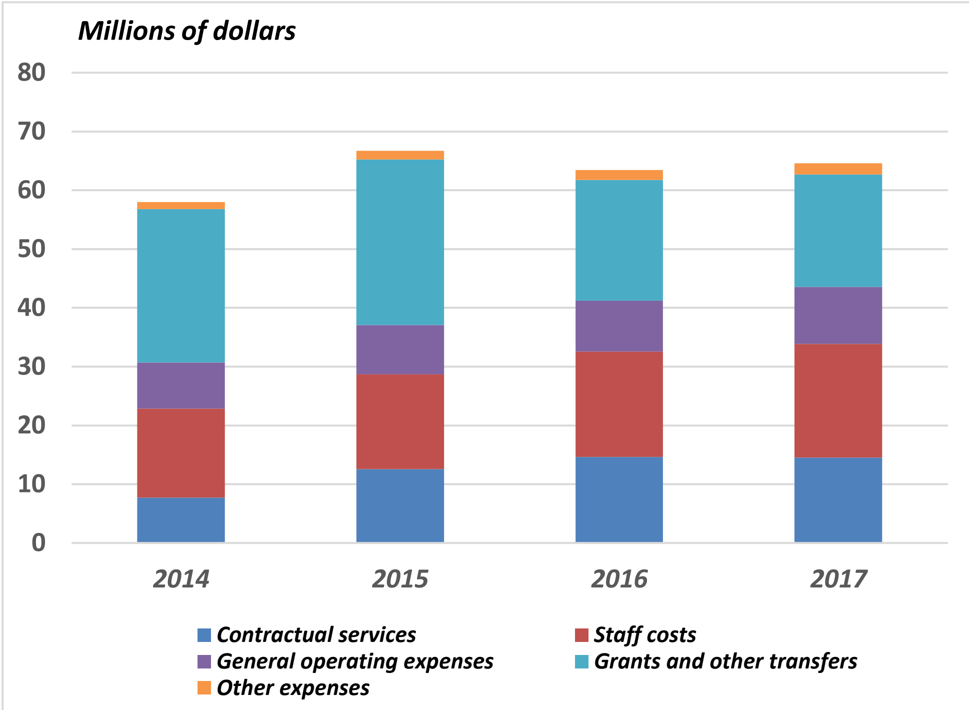
Expense analysis

13. In 2017, UNCDF expenses were $64.6 million ($67.3 million excluding the effect of the elimination of internal UNCDF cost recovery), an increase of $1.2 million (2 per cent) from 2016.

14. Grants and other transfers amounting to $19.1 million in 2017 represent the UNCDF capital investment portion of programme delivery.

15. The other two largest expense categories by nature in 2017 were staff costs ($19.3 million) and contractual services ($14.5 million), which predominantly represent technical assistance provided by UNCDF through its programmes.

Figure III.III
Composition of total expenses by nature



Note: Other expenses include depreciation, amortization, finance charges, supplies and consumables used.

Expenses by cost classification

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

17. In 2017, of total expenses of $67.3 million (excluding the effect of the elimination of internal cost recovery), $60.2 million (89 per cent) was spent on programme activities, $3.7 million (6 per cent) on development effectiveness and $3.4 million (5 per cent) on management activities.

18. This represents an increase in resources spent for development activities (encompassing programme activities and development effectiveness activities) of $0.63 million (1 per cent), from $63.3 million in 2016 to $63.9 million in 2017, and a decrease in resources spent for management activities of $0.09 million (3 per cent), from $3.5 million in 2016 to $3.4 million in 2017.

D. Surplus/deficit

19. In 2017, UNCDF had a deficit of revenue over expense of $4.9 million, compared with a deficit of $10.3 million in 2016. The decrease of $5.4 million consists of:

- Increase in total revenue of $6.6 million (or 12 per cent) from $53.1 million in 2016 to $59.7 million in 2017
- Offset by a slight increase in spending of $1.2 million from $63.4 million in 2016 to $64.6 million in 2017.

E. Budgetary performance

20. The budget of UNCDF is prepared on a modified cash basis and is presented in the financial statements as the statement of comparison of budget and actual amounts (regular resources) (statement V). In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is also included in note 7.

21. While the Fund's approved budgets represent a four-year period, UNCDF allocates those budgets into annual amounts in order to provide the budget-to-actual comparison of the annual financial statements as required by IPSAS.

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

Table III.1
Budget utilization rates

	2017		*2016*	
Budget components	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (per cent)*	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (per cent)*
Development activities	10.0	79	8.0	93
Management activities	0.7	81	0.8	78
Total	**10.7**	**80**	**8.8**	**91**

23. The actual utilization rate was lower than the annualized budgets for 2017 owing to the roll-out of the new financial policies and procedures related to loans and guarantees, which will enable performance in future periods. Overall, UNCDF utilized 80 per cent (2016: 91 per cent) of its approved budgeted amount.

F. Financial position

Assets

24. At the end of 2017, UNCDF held assets of $104.3 million (2016: $107.8 million), which were comprised largely of investments of $91.6 million (88 per cent of total assets), compared with $75 million (70 per cent of total assets) in 2016; cash and cash equivalents of $3.9 million (4 per cent of total assets), compared with $12.8 million (12 per cent of total assets) in 2016; and receivables of $7.7 million (7 per cent of total assets), compared with $18.4 million (17 per cent of total assets) in 2016.

25. At the end of 2016, UNCDF investments were placed in relatively short-term maturities in anticipation of higher interest rates in 2017. As those investments matured throughout 2017, the proceeds were reinvested in bonds with a longer maturity date at higher interest rates. This resulted in a year-over-year decrease in cash equivalents and an increase in non-current investments. Long-term investments increased by $25.8 million (96 per cent) from the prior year. The Fund's investments are in assets with different maturity dates to ensure that there are sufficient funds to meet current obligations as they become due.

Liabilities

26. The Fund's total liabilities increased by $3.5 million (32 per cent) from $11 million in 2016 to $14.5 million in 2017.

27 The most significant changes in liabilities were a result of the increase of $3.9 million (38 per cent) in employee benefit liabilities. This increase is attributable mostly to the increase in the after-service health insurance liability, which had a balance of $9.0 million in 2017, an increase of $2.9 million from $6.1 million in 2016. In 2017, UNCDF conducted a full actuarial valuation, which resulted in a revision in actuarial assumptions, including an increase in life expectancy for United Nations staff members. This altered the trajectory of the after-service health insurance plan of UNCDF by significantly increasing the liability. The after-service health insurance liability continues to be fully funded, although UNCDF will review the impact of the increase in that liability on its funding strategy in 2018.

28. Other notable changes in liabilities include a decrease in accounts payable and accrued liabilities by $0.34 million (51 per cent) from the prior year. This reduction is attributable mainly to liquidation of payables to a third party, which decreased by $0.22 million (49 per cent).

Net assets/equity

29. Net assets/equity of $89.7 million in 2017 reflects amounts received as advance funding from UNCDF partners from prior years for activities funded under the integrated resources plan.

30. Net assets/equity includes accumulated surpluses of $83 million and operational reserves of $6.7 million.

31. Operational reserves comprised a $5.3 million operational reserve for regular resources and a $1.4 million operational reserve for other resources.

32. During 2017, net assets/equity decreased by $7.1 million (7 per cent) as a result of the combined effect of the following factors: (a) a deficit of $4.9 million; (b) actuarial losses of $3.2 million resulting from an increase in the value of the after-service health insurance liability owing to external economic conditions and changes in actuarial assumptions; (c) an increase in the fair value of available-for-sale investments of $0.62 million; and (d) an increase in funds with specific purposes of $0.37 million.

G. Accountability, governance and risk management

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

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

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

(c) Institutional oversight mechanisms of UNCDF:

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

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

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

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

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

Financial risk management

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

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

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

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

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

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

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

Internal controls

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

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

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

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

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

(d) Monitor the effectiveness of internal controls.

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

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

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

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

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

Adoption of new accounting standards

43. In January 2018, the IPSAS Board published its proposed strategy and workplan for 2019–2023 and announced that, while maintaining convergence with the International Financial Reporting Standards, projects specific to the public sector were a major area of the Board's current and future work.

44. Among these projects, those which could have a significant impact on UNCDF include:

(a) A project on revenues to develop one or more accounting standards covering revenue transactions (i.e. both exchange and non-exchange transactions);

(b) A project on non-exchange expenses to address the lack of international guidance on the recognition and measurement of such expenses.

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

46. The only relevant new standard that will have an impact on UNCDF in 2018 is IPSAS 39 on employee benefits, published by the IPSAS Board in January 2016. IPSAS 39 will replace the existing IPSAS 25 to align with the underlying International Accounting Standard 19. The effective date of application of IPSAS 39 is 1 January 2018. The main differences between IPSAS 39 and IPSAS 25 are:

(a) Recognition: IPSAS 39 removed the "corridor approach", which was permitted by IPSAS 25 to defer the recognition of certain actuarial gains and losses arising from defined benefit plans;

(b) Presentation: IPSAS 39 eliminates presentational options on actuarial gains/losses that previously existed in IPSAS 25;

(c) Disclosure: under IPSAS 39, disclosure objectives for defined benefit plans will be according to the characteristics of such plans, the risks associated with them and their relationship with the entity's financial statement.

47. Consequently, based on the initial assessment of the new standard, IPSAS 39 will not have any significant impact on the financial statements of UNCDF, primarily because UNCDF does not use the corridor method.

H. Looking forward to 2018 and beyond

48. In 2018, the focus of UNCDF is on three key areas:

(a) Scaling up programmes that unlock public and private finance and enhance inclusive financial markets and local development finance systems;

(b) Continuing to use its capital mandate to expand the frontiers of finance in least developed countries. Through its least developed country investment platform, UNCDF is playing an increasingly active role in mitigating risks to investments in local economies;

(c) Continuing to deepen its collaboration with United Nations entities, international financial institutions and the private sector to maximize development impact and help mobilize additional financing for developing countries.

Chapter IV

Financial statements for the year ended 31 December 2017

United Nations Capital Development Fund
I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Assets			
Current assets			
Cash and cash equivalents	Note 8	3 867	12 753
Investments	Note 9	38 795	48 019
Receivables (non-exchange transactions)	Note 10	1 071	1 778
Receivables (exchange transactions)	Note 10	6 676	16 632
Advances issued	Note 11	544	663
Loans to financial service providers	Note 12	18	442
Total current assets		**50 971**	**80 287**
Non-current assets			
Investments	Note 9	52 788	26 951
Loans to financial service providers	Note 12	121	94
Property, plant and equipment	Note 13	410	468
Total non-current assets		**53 319**	**27 513**
Total assets		**104 290**	**107 800**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 14	326	666
Funds held on behalf of donors	Note 15	16	16
Employee benefits	Note 16	2 535	2 291
Total current liabilities		**2 877**	**2 973**
Non-current liabilities			
Employee benefits	Note 16	11 667	8 013
Total non-current liabilities		**11 667**	**8 013**
Total liabilities		**14 544**	**10 986**
Net assets/equity			
Reserves	Note 17	6 736	14 067
Accumulated surpluses	Note 18	83 010	82 747
Total net assets/equity		**89 746**	**96 814**
Total liabilities and net assets/equity		**104 290**	**107 800**

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 2017

(Thousands of United States dollars)

	Note	*2017*	*2016*
Revenue			
Voluntary contributions	Note 19	57 109	51 972
Investment revenue	Note 20	2 181	881
Other revenue	Note 21	434	277
Total revenue		**59 724**	**53 130**
Expenses[a]			
Contractual services	Note 22	14 504	14 652
Staff costs	Note 22	19 350	17 912
Supplies and consumables used	Note 22	574	652
General operating expenses	Note 22	9 705	8 682
Grants and other transfers	Note 22	19 113	20 525
Other expenses	Note 22	1 186	910
Depreciation	Note 22	62	71
Finance costs	Note 22	91	43
Total expenses		**64 585**	**63 447**
Surplus/(deficit) for the year[b]		**(4 861)**	**(10 317)**

[a] Expenses by cost classification and practice area are reflected in note 27.1.
[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 2017

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2016	**14 067**	**82 747**	**96 814**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(7 331)	7 331	–
Funds with specific purposes (note 18)	–	368	368
Changes in fair value of available-for-sale investments	–	615	615
Actuarial gains/(losses)	–	(3 190)	(3 190)
Deficit for the year	–	(4 861)	(4 861)
Total changes in net assets/equity	**(7 331)**	**263**	**(7 068)**
Balance at 31 December 2017	**6 736**	**83 010**	**89 746**

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 2017

(Thousands of United States dollars)

	2017	*2016 (reclassified)*
Cash flows from operating activities		
Surplus/(deficit) for the year	(4 861)	(10 317)
Adjustments to reconcile deficit for the year to net cash flows		
Depreciation	62	71
Impairment	333	355
Amortization of bond premium	75	508
(Gains)/losses on disposal of property, plant and equipment	21	–
Adjustment on property, plant and equipment	–	(119)
Interest received on loans to financial service providers	168	180
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	707	3 693
(Increase)/decrease in receivables (exchange transactions)	8 148	(16 060)
(Increase)/decrease in advances issued	119	202
(Increase)/decrease in inventories	–	2
(Increase)/decrease in loans to financial service providers	202	(3)
Changes in liabilities/net assets		
(Decrease)/increase in accounts payable and accrued liabilities	(340)	(1 022)
(Decrease)/increase in funds held on behalf of donors	–	16
(Decrease)/increase in employee benefits	708	9
(Decrease)/increase in provision for corporate realignment	–	(138)
(Decrease)/increase in funds with specific purposes	368	403
Cash flows from/(used in) operating activities	**5 710**	**(22 220)**
Cash flows from investing activities		
Purchases of investments	(77 996)	(25 163)
Maturities of investments	58 000	63 946
(Increase)/decrease in investments managed by external investment managers	3 923	(11 801)
Interest and dividends received	1 502	1 763
Purchases of property, plant and equipment	(25)	(20)
Proceeds from disposal of property, plant and equipment	–	–
Cash flows from/(used in) investing activities	**(14 596)**	**28 725**
Cash flows from financing activities	–	–
(Decrease)/increase in cash and cash equivalents	**(8 886)**	**6 505**
Cash and cash equivalents at beginning of the year	**12 753**	**6 248**
Cash and cash equivalents at end of the year (note 8)	**3 867**	**12 753**

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

United Nations Capital Development Fund
V. (a) Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2017

(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	5 786	5 786	4 321	1 465
Development effectiveness	4 242	4 242	3 649	593
Subtotal	**10 028**	**10 028**	**7 970**	**2 058**
Management activities	710	710	572	138
Total	**10 738**	**10 738**	**8 542**	**2 196**

V. (b) Statement of comparison of budget and actual amounts (regular resources) for the biennium ended 31 December 2017

(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	10 316	10 316	8 451	1 865
Development effectiveness	7 681	7 681	6 892	789
Subtotal	**17 997**	**17 997**	**15 343**	**2 654**
Management activities	1 536	1 536	1 215	321
Total	**19 533**	**19 533**	**16 558**	**2 975**

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

United Nations Capital Development Fund
Notes to the 2017 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.

The Fund has a unique financial mandate within the United Nations system. It provides investment capital and technical support to both the public and private sectors. The ability to provide capital financing, in the form of grants, loans and credit enhancement, and to provide technical expertise in preparing portfolios of sustainable and resilient capacity-building and infrastructure projects, makes its mandate complementary to those of other United Nations entities. It also positions UNCDF as an early-stage investor to derisk 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 29 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 2018.

Note 4
Significant accounting policies

(a) Classification of financial assets

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

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables

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

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

Non-exchange receivables 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 expenses when goods are delivered or services are rendered by the executing entities or implementing partners and confirmed by receipt by UNCDF of the applicable certified expense reports, such as financial reports, funding authorization and certification of expense forms or project delivery reports. Once these certified expense reports are received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the time, either from the entities' statements as submitted for audit or from the entities' unaudited statements.

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

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

Loans to financial service providers

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

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 set out below.

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

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

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

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

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

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

Valuation methodology

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

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

Fair value through surplus or deficit

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

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

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

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

UNCDF has no intangible assets.

Impairment of non-cash-generating assets

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

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

(b) Classification of financial liabilities

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

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

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

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

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

The after-service health insurance programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance terms as those for active staff, 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 costs. The latest actuarial valuations for the UNCDF after-service health insurance programme were carried out using the projected unit credit method.

Defined benefit plans

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

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

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

Other long-term employee benefits

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

Termination benefits

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

Leases

Operating lease

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

Finance lease

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

Right-to-use arrangements

Where UNCDF has signed an agreement for right-to-use assets 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 or 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 voluntary contributions to regular resources; 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 or as revenue.

(d) Expense recognition

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

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

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

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

(e) Commitments, provisions and contingencies

Commitments

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

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

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

(iii) Non-cancellable minimum lease payments;

(iv) Other non-cancellable commitments.

Provisions

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

Contingencies

Contingent assets

A contingent asset is 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 2017, there were no prior-period adjustments or major reclassifications of 2016 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 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 2017

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Assets										
Current assets										
Cash and cash equivalents	1 925	2 718	1 405	7 693	214	788	323	1 554	3 867	12 753
Investments	12 272	8 602	19 196	30 222	2 930	3 095	4 397	6 100	38 795	48 019
Receivables (non-exchange transactions)	243	–	828	1 778	–	–	–	–	1 071	1 778
Receivables (exchange transactions)	6 494	16 560	182	72	–	–	–	–	6 676	16 632
Advances issued	426	390	109	210	5	56	4	7	544	663
Loans to financial service providers	18	442	–	–	–	–	–	–	18	442
Total current assets	**21 378**	**28 712**	**21 720**	**39 975**	**3 149**	**3 939**	**4 724**	**7 661**	**50 971**	**80 287**
Non-current assets										
Investments	16 561	4 734	26 219	17 035	4 002	1 744	6 006	3 438	52 788	26 951
Loans to financial service providers	121	94	–	–	–	–	–	–	121	94
Property, plant and equipment	237	291	160	161	–	–	13	16	410	468
Total non-current assets	**16 919**	**5 119**	**26 379**	**17 196**	**4 002**	**1 744**	**6 019**	**3 454**	**53 319**	**27 513**
Total assets	**38 297**	**33 831**	**48 099**	**57 171**	**7 151**	**5 683**	**10 743**	**11 115**	**104 290**	**107 800**

Segment reporting: statement of financial position as at 31 December 2017 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	73	315	139	224	85	96	29	31	326	666
Funds held on behalf of donors	–	–	16	16	–	–	–	–	16	16
Employee benefits	2 038	1 720	271	325	93	129	133	117	2 535	2 291
Total current liabilities	**2 111**	**2 035**	**426**	**565**	**178**	**225**	**162**	**148**	**2 877**	**2 973**
Non-current liabilities										
Employee benefits	11 345	7 825	60	–	70	43	192	145	11 667	8 013
Total non-current liabilities	**11 345**	**7 825**	**60**	**–**	**70**	**43**	**192**	**145**	**11 667**	**8 013**
Total liabilities	**13 456**	**9 860**	**486**	**565**	**248**	**268**	**354**	**293**	**14 544**	**10 986**
Net assets/equity										
Reserves	5 300	12 067	–	–	–	–	1 436	2 000	6 736	14 067
Accumulated surplus	19 541	11 904	47 613	56 606	6 903	5 415	8 953	8 822	83 010	82 747
Total net assets/equity	**24 841**	**23 971**	**47 613**	**56 606**	**6 903**	**5 415**	**10 389**	**10 822**	**89 746**	**96 814**
Total liabilities and net assets/equity	**38 297**	**33 831**	**48 099**	**57 171**	**7 151**	**5 683**	**10 743**	**11 115**	**104 290**	**107 800**

Segment reporting: statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Revenue												
Voluntary contributions	9 687	9 425	34 751	33 080	11 992	8 132	679	1 335	–	–	57 109	51 972
Investment revenue	1 306	460	724	345	33	–	118	76	–	–	2 181	881
Other revenue	426	138	9	13	(6)	130	2 683	3 281	(2 678)	(3 285)	434	277
Total revenue	**11 419**	**10 023**	**35 484**	**33 438**	**12 019**	**8 262**	**3 480**	**4 692**	**(2 678)**	**(3 285)**	**59 724**	**53 130**
Expenses												
Contractual services	1 368	1 019	11 955	12 261	1 108	1 115	73	257	–	–	14 504	14 652
Staff costs	5 076	4 156	9 685	10 593	1 499	601	3 090	2 562	–	–	19 350	17 912
Supplies and consumables used	155	58	307	484	107	64	5	46	–	–	574	652
General operating expenses	1 935	1 692	8 408	8 368	1 634	1 203	406	704	(2 678)	(3 285)	9 705	8 682
Grants and other transfers	44	377	13 241	15 057	5 828	5 079	–	12	–	–	19 113	20 525
Other expenses	587	489	494	332	94	14	11	75	–	–	1 186	910
Depreciation	40	41	19	27	–	–	3	3	–	–	62	71
Finance costs	3	2	–	1	88	40	–	–	–	–	91	43
Total expenses	**9 208**	**7 834**	**44 109**	**47 123**	**10 358**	**8 116**	**3 588**	**3 659**	**(2 678)**	**(3 285)**	**64 585**	**63 447**
Surplus/(deficit) for the year	**2 211**	**2 189**	**(8 625)**	**(13 685)**	**1 661**	**146**	**(108)**	**1 033**	**–**	**–**	**(4 861)**	**(10 317)**

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

Note 7
Comparison to budget

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

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

For 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.

Budget utilization levels in 2017 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 2017 against budget levels are as follows:

(a) Development activities: actual utilization of $7.970 million, representing 79.5 per cent of the annualized approved budget of $10.028 million;

(b) Management activities: actual utilization of $0.572 million, representing 80.6 per cent of the annualized approved budget of $0.710 million.

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual amount on a comparable basis as presented in statement V	**(8 492)**	**(50)**	**–**	**(8 542)**
Basis differences	–	–	–	–
Entity differences	14 185	(14 529)	–	(344)
Net increase/(decrease) in cash and cash equivalents from statement IV	**5 693**	**(14 579)**	**–**	**(8 886)**

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 2017	*31 December 2016*
Cash in bank accounts	160	1 168
Cash held by external investment managers	282	411
Money market funds	3 425	5 905
Bonds	–	5 269
Total cash and cash equivalents	**3 867**	**12 753**

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

Note 9
Investments

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current investments		
Investments managed by the United Nations Development Programme	38 782	48 019
Investments managed by external investment managers	13	–
Total current investments	**38 795**	**48 019**
Non-current investments		
Investments managed by the United Nations Development Programme	44 158	14 983
Investments managed by external investment managers	8 630	11 968
Total non-current investments	**52 788**	**26 951**
Total investments	**91 583**	**74 970**

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

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

(Thousands of United States dollars)

	1 January 2017	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2017*
Current investments							
Money market instruments	–	10 000	(10 000)	–	–	5 000	5 000
Bonds	48 019	10 002	(48 000)	(21)	–	23 782	33 782
Total current investments	**48 019**	**20 002**	**(58 000)**	**(21)**	**–**	**28 782**	**38 782**
Non-current investments							
Money market instruments	–	5 000	–	–	–	(5 000)	–
Bonds	14 983	52 994	–	(37)	–	(23 782)	44 158
Total non-current investments	**14 983**	**57 994**	**–**	**(37)**	**–**	**(28 782)**	**44 158**
Total investments held to maturity	**63 002**	**77 996**	**(58 000)**	**(58)**	**–**	**–**	**82 940**

As at 31 December 2017, UNCDF did not have any impairment on investments.

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

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

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Investments available for sale		
Current investments		
Bonds	13	–
Total current investments	**13**	**–**
Non-current investments		
Equities	5 437	7 428
Bonds	3 193	4 540
Total non-current investments	**8 630**	**11 968**
Total investments managed by external investment managers: available for sale	**8 643**	**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, $0.282 million in after-service health insurance investments have been classified under cash and cash equivalents.

Total after-service health insurance investments, including cash and cash equivalents, amounted to $8.9 million (2016: $12.4 million).

As at 31 December 2017, UNCDF did not have any impairment on investments.

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

Note 10

10.1 Receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Contributions receivable	1 071	1 778
Total receivables (non-exchange transactions)	**1 071**	**1 778**

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Less than six months	894	1 778
More than six months	177	–
Total receivables (non-exchange transactions)	**1 071**	**1 778**

Contributions receivable represent uncollected revenue committed to UNCDF by donors. As at 31 December 2017, UNCDF did not have any impairment on its receivables. The Fund’s exposure to credit and currency risks related to receivables is disclosed in note 23, Financial instruments and risk management.

10.2 Receivables (exchange transactions)

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Receivables from the United Nations Development Programme	5 911	10 815
Receivables from the United Nations Population Fund	–	14
Investment receivables	544	5 699
Receivables from staff	5	8
Receivables from third parties	216	78
Derivative assets	–	18
Total receivables (exchange transactions)	**6 676**	**16 632**

Ageing of receivables (exchange transactions)

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Less than six months	6 266	16 259
More than six months	410	373
Total receivables exchange transactions	**6 676**	**16 632**

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

Note 11
Advances issued

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Non-exchange transactions		
Operating funds provided to Governments	121	279
Operating funds provided to executing entities/ implementing partners	(5)	–
Advances issued: non-exchange transactions	**116**	**279**
Exchange transactions		
Advances to staff	444	400
Advances issued: exchange transactions	**444**	**400**
Total advances issued, gross	**560**	**679**
Impairment	(16)	(16)
Total advances issued, net	**544**	**663**

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Less than six months	502	557
More than six months	58	122
Advances issued: non-exchange and exchange transactions, gross	**560**	**679**

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Loans to financial service providers	18	797
Impairment	–	(355)[a]
Total current loans to financial service providers	**18**	**442**
Non-current		
Loans to financial service providers	671	686
Impairment	(550)[a]	(592)[a]
Total non-current loans to financial service providers	**121**	**94**
Total loans to financial service providers	**139**	**536**

[a] The decrease in impairment of $0.397 million relates to an additional impairment of $0.195 million that was applied to loan balances and a decrease in impairment of $0.592 million for loans that was recognized in the surplus and deficit of prior years.

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Balance at 1 January	536	888
Revaluation of loans (translation gain/loss at reporting date)	(6)	(37)
Loans impaired	(195)	(355)
Repayment of loans	(365)	(20)
Disbursement of loans	169	–
Reinstatement of impaired loans	–	60
Balance at 31 December	**139**	**536**

The loan balances comprise loans to six institutions and amount to $0.139 million. Two 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 23.25 per cent.

Note 13
Property, plant and equipment

UNCDF has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which constitute 97 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 3 per cent of total assets, are used for operations that are not project-specific at UNCDF country offices and headquarters. As at 31 December 2017, UNCDF had a gross carrying amount of $0.095 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 2017					
Cost	77	154	787	25	1 043
Accumulated depreciation	(17)	(75)	(475)	(8)	(575)
Carrying amount at 1 January 2017	**60**	**79**	**312**	**17**	**468**
Period ended 31 December 2017					
Additions	–	9	16	–	25
Disposals — cost	–	(11)	(74)	(20)	(105)
Depreciation	(5)	(13)	(43)	(1)	(62)
Disposals — accumulated depreciation/depreciation	–	8	68	8	84
Carrying amount at 31 December 2017	**55**	**72**	**279**	**4**	**410**
Balance at 31 December 2017					
Cost	77	152	729	5	963
Accumulated depreciation	(22)	(80)	(450)	(1)	(553)
Carrying amount at 31 December 2017	**55**	**72**	**279**	**4**	**410**

As at 31 December 2017, UNCDF did not have any impairment on property, plant and equipment.

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Payables to third parties	230	449
Accruals	35	177
Payables to staff	32	15
Payables to the United Nations Entity for Gender Equality and the Empowerment of Women	–	25
Derivative liability	22	–
Investment settlement payable	7	–
Total accounts payable and accrued liabilities	**326**	**666**

Note 15
Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Refunds pending to donors	16	16
Total funds held on behalf of donors	**16**	**16**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Annual leave	1 691	1 549
Home leave	562	570
After-service health insurance	65	48
Repatriation entitlements	213	117
Death benefits	3	4
Other employee benefits	1	3
Total current employee benefits liabilities	**2 535**	**2 291**
Non-current		
After-service health insurance	8 984	6 057
Repatriation entitlements	2 524	1 794
Home leave	134	134
Death benefits	25	28
Total non-current employee benefits liabilities	**11 667**	**8 013**
Total employee benefits liabilities	**14 202**	**10 304**

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 2017, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by applying roll-forward principles to valuation conducted on 31 December 2016. The roll-forward principles allow for the use of the same census data and actuarial assumptions as those used for the previous year, with updated financial assumptions such as discount rates and inflation in health-care costs. The increase in liability for 2017 is largely a result of 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 2017	6 105	1 911	32	8 048
Increase in the obligation				
Current service cost	522	198	2	722
Interest cost	249	66	1	316
Actuarial losses on disbursement	189	101	–	290
Actuarial losses from change in demographic assumptions	1 174	–	1	1 175
Actuarial losses from experience adjustment	1 234	744	–	1 978
Decrease in the obligation				
Actual benefits paid	(240)	(222)	–	(462)
Actuarial (gains) on disbursement	–	–	(4)	(4)
Actuarial (gains) from change in financial assumptions	(184)	(56)	(2)	(242)
Actuarial (gains) from change in demographic assumptions	–	(5)	–	(5)
Actuarial (gains) from experience adjustment	–	–	(2)	(2)
Recognized liability at 31 December 2017	**9 049**	**2 737**	**28**	**11 814**

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	522	198	2	722
Interest cost	249	66	1	316
Total employee benefits expenses recognized	**771**	**264**	**3**	**1 038**

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	(2 224)	(683)	3	(2 904)
Actuarial gains/(losses) on disbursements	(189)	(101)	4	(286)
Total	**(2 413)**	**(784)**	**7**	**(3 190)**

In 2017, of the net actuarial loss of $3.19 million, the actuarial loss relating to after-service health insurance from a change in actuarial assumptions was $2.224 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)

	2017	*2016*	*2015*	*2014*	*2013*
After-service health insurance					
Defined benefit obligation	9 049	6 105	5 208	10 948	7 899
Experience adjustment on plan liabilities	1 234	–	(5 126)	(474)	(136)
Repatriation					
Defined benefit obligation	2 736	1 911	1 769	2 088	1 979
Experience adjustment on plan liabilities	744	–	(253)	(119)	163
Death benefits					
Defined benefit obligation	28	32	32	33	26
Experience adjustment on plan liabilities	(2)	–	2	2	(4)

The next actuarial valuation will be conducted as at 31 December 2018.

(b) Actuarial assumptions

The most recent actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2017. The two important assumptions used by the actuary to determine defined benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate.

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

	2017 (Percentage)	*2016 (Percentage)*
Discount rate:		
(a) After-service health insurance	3.85	4.09
(b) Repatriation benefits	3.53	3.59
(c) Death benefits	3.48	3.41
Health-care cost trend rates:		
(a) United States, non-Medicare	5.70, grading down to 3.85 after 15 years	6.00, grading down to 4.50 after 8 years
(b) United States, Medicare	5.50, grading down to 3.85 after 15 years	5.70, grading down to 4.50 after 7 years
(c) United States, dental	4.80, grading down to 3.85 after 15 years	4.90, grading down to 4.50 after 9 years
(d) Non-United States, Switzerland	4.00, grading down to 3.05 after 10 years	4.00 (flat)
(e) Non-United States, eurozone	4.00, grading down to 3.65 after 5 years	4.00 (flat)
Salary scale (varies by age and staff category)	3.97–9.27	4.5–9.8
Rate of inflation	2.2	2.25

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

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

	2017		*2016*	
Mortality rate — active employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00065	0.00906
Female	0.00031	0.00435	0.00034	0.00645

	2017		*2016*	
Mortality rate — retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.00913	0.00072	0.01176
Female	0.00035	0.00561	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:

	2017		*2016*	
Rate of retirement: Professional staff with 30 or more years of service	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.70	0.16	0.70
Female	0.20	0.80	0.20	0.80

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

Rate of marriage at retirement for active beneficiaries	*2017*	*2016*
Male	0.75	0.80
Female	0.75	0.50

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	(1 856)	2 536
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	2 554	(1 900)

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

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

The roll-forward of the participation data as at 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

During 2017, the contribution of UNCDF paid to the Pension Fund amounted to $3.4 million (2016: $3.4 million). The amount includes the organizational share and the contributions made by the participants. Contributions due in 2018, 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 costs related to termination benefits.

Note 17
Reserves

(Thousands of United States dollars)

	1 January 2017	*Movements*	*31 December 2017*
Operational reserve	14 067	(7 331)	6 736
Total reserves	**14 067**	**(7 331)**	**6 736**

The Fund updated its operational reserve to ensure full compliance with the new methodology approved by the Board in September 2017. The formula to calculate the operational reserve for regular resources is 50 per cent of the average of the previous three years of core utilization cash flow-based expenditure (actual budget comparable basis total amount). The formula to calculate the operational reserve for other resources is the average of the previous three years of expenditure multiplied by 2 per cent plus a fixed reserve of $0.4 million for contingent liability risks.

Note 18
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2017	*Movements*	*31 December 2017*
Accumulated surpluses	72 501	2 470	74 971
Funds with specific purposes	1 329	368	1 697
Actuarial (losses)/gains	8 734	(3 190)	5 544
Changes in fair value of available-for-sale investments	183	615	798
Total accumulated surpluses	**82 747**	**263**	**83 010**

Movements in the accumulated surpluses of $2.47 million comprise a deficit for the year of $4.861 million and an operational reserve transfer to accumulated surpluses of $7.331 million.

The movement in funds with specific purposes includes movements in the information communications technology fund ($0.058 million), the reserve for agreed separation ($0.155 million), the learning fund ($0.079 million) and other funds totalling $0.076 million.

Note 19
Voluntary contributions

(Thousands of United States dollars)

	2017	*2016*
Contributions	57 144	54 524
Less: returns to donors of unused contributions	(35)	(2 552)
Total voluntary contributions	**57 109**	**51 972**

For the period 2014–2017, UNDP relied 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 2017, 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 $0.5 million. Furthermore, UNDP provided programme support amounting to $0.7 million.

At 31 December 2017, UNCDF had $28.270 million in non-regular resources multi-year contribution agreements signed with donors for which revenue will be recorded in future accounting periods in accordance with revenue-recognition accounting policy.

Note 20
Investment revenue

(Thousands of United States dollars)

	2017	*2016*
Investment revenue	2 181	881
Total investment revenue	**2 181**	**881**

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 21
Other revenue

(Thousands of United States dollars)

	2017	*2016*
Foreign exchange gains	61	164
Other miscellaneous revenue	373	113
Total other revenue	**434**	**277**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses[a] 2017	*Total expenses 2017*	*Programme expenses 2016*	*Total expenses 2016*
22.1 Contractual services				
Contractual services with individuals	10 494	10 707	9 857	10 140
Contractual services with companies	3 737	3 752	4 236	4 331
United Nations Volunteers expenses for contractual services	45	45	153	181
Total contractual services	**14 276**	**14 504**	**14 246**	**14 652**
22.2 Staff costs				
Salary and wages	9 376	13 489	8 854	12 056
Pension benefits	1 751	2 334	1 649	2 249
Post-employment	794	1 201	612	1 058
Appointment and assignment	433	602	785	958
Leave benefits	384	473	429	477
Other staff benefits	885	1 251	684	1 114
Total staff costs	**13 623**	**19 350**	**13 013**	**17 912**
22.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	224	241	307	315
Stationery and other office supplies	78	85	41	60
Agricultural, petroleum and metal products	29	32	27	34
Information technology supplies and software maintenance	70	107	60	68
Information technology and communications equipment	62	66	42	43
Other consumables used	40	43	93	132
Total supplies and consumables used	**503**	**574**	**570**	**652**
22.4 General operating expenses				
Travel	3 814	4 053	3 361	3 595
Learning and recruitment	1 614	1 709	1 368	1 417
Rent, leases and utilities	1 044	1 107	603	858
Reimbursement	283	289	226	250
Communications	613	865	563	735
Security	420	536	404	524
Professional services	240	264	311	491
General management costs	2 790b	112	3 459	177
Contribution to United Nations jointly financed activities	255	344	250	341
Contribution to information and communications technology	43	56	116	158
Freight	31	31	37	39
Insurance/warranties	12	13	6	8
Miscellaneous operating expenses	231	326	67	89
Total general operating expenses	**11 390**	**9 705**	**10 771**	**8 682**

	Programme expenses[a] 2017	*Total expenses 2017*	*Programme expenses 2016*	*Total expenses 2016*
22.5 Grants and other transfers				
Grants	19 096	19 099	20 503	20 515
Transfers	13	14	9	10
Total grants and other transfers	**19 109**	**19 113**	**20 512**	**20 525**
22.6 Other expenses				
Foreign exchange losses	97	97	81	81
Losses on sale of fixed assets	20	21	–	–
Sundries	677	735	374	474
Impairment	333c	333c	355	355
Total other expenses	**1 127**	**1 186**	**810**	**910**
22.7 Depreciation				
Depreciation	48	62	57	71
Total depreciation	**48**	**62**	**57**	**71**
22.8 Finance costs				
Bank charges	91	91	43	43
Total finance costs	**91**	**91**	**43**	**43**
Total expenses	**60 167**	**64 585**	**60 022**	**63 447**

[a] Of the total expenses, $60.167 million represents programme expenses and the remaining $4.418 million represents expenses for development effectiveness and management.
[b] Of the $2.790 million, $2.678 million is eliminated to remove the effect of internal UNCDF cost recovery.
[c] In 2017, UNCDF recognized $0.333 million as impairment, including $0.195 million relating to loan impairment and $0.138 million relating to interest receivable impairment.

Note 23
Financial instruments and risk management

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

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

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

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

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

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

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

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

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

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

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

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 2017, 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*	
					2017	*2016*
Cash and cash equivalents	–	–	3 867	–	3 867	12 753
Investments	82 940	8 643	–	–	91 583	74 970
Receivables (non-exchange)	–	–	1 071	–	1 071	1 778
Receivables (exchange)	–	–	6 676	–	6 676	16 632
Advances	–	–	544	–	544	663
Loans to financial service providers	–	–	18	–	18	536
Total financial assets	**82 940**	**8 643**	**12 176**	**–**	**103 759**	**107 332**

Held-to-maturity financial assets are carried at amortized cost. At 31 December 2017, the book value of these assets exceeded market value by $0.260 million (2016: $0.047 million). The carrying values for loans and receivables are a reasonable approximation of their fair value. As at 31 December 2017, UNCDF had no outstanding financial assets recorded at fair value through surplus or deficit.

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

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus or deficit*	*Book value*	
			2017	*2016*
Accounts payable and accrued liabilities	304	22	326	666
Funds held on behalf of donors	16	–	16	16
Total financial liabilities	**320**	**22**	**342**	**682**

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

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

Valuation

The table below presents the fair value hierarchy of the Fund's available-for-sale financial instruments carried at fair value at 31 December 2017.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	5 437	–	–	5 437
Bonds	3 206	–	–	3 206
Total	**8 643**	**–**	**–**	**8 643**

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 2017, 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: investments managed by the United Nations Development Programme

(Thousands of United States dollars)

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

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**

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2017	*AA+*	*AA-*	*A+*	*A*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds — investments	38	59	66	57	165	80	386	2 287	3 206
Total	**38**	**59**	**66**	**57**	**165**	**80**	**386**	**2 287**	**3 206**

Note: Externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of $1.980 million, with the remaining balance of $0.307 million comprising government bonds.

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

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

Analysis of the Fund's liquidity risk

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

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

(Thousands of United States dollars)

	31 December 2017	*Percentage*	*31 December 2016*	*Percentage*
Cash balances	442	1	1 579	2
Cash equivalents	3 425	3	11 174	13
Total cash and cash equivalents	**3 867**	**4**	**12 753**	**15**
Current investments	38 795	41	48 019	54
Non-current investments	52 788	55	26 951	31
Total current and non-current investments	**91 583**	**96**	**74 970**	**85**
Total investments, cash and cash equivalents	**95 450**	**100**	**87 723**	**100**

At the end of 2016, UNCDF investments were placed in relatively short-term maturities in anticipation of higher interest rates in 2017. As those investments matured throughout 2017, the proceeds were reinvested in bonds with a longer maturity date at higher interest rates. This resulted in a year-over-year decrease in cash equivalents and an increase in non-current investments. The Fund's investments are laddered into different maturity dates in order to ensure that it has sufficient funds to meet its current obligations as they become due.

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Money market funds	3 425	5 905
Bonds	–	5 269
Cash equivalents	**3 425**	**11 174**

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 2017*	*31 December 2016*
Held-to-maturity investments	Amortized cost	82 940	63 002
Available-for-sale investments	Fair value	8 643	11 968
Total investments		**91 583**	**74 970**

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

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

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2017 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
3 206	100 basis point increase	(53)	–
3 206	50 basis point decrease	27	–

Note: Excludes investments classified as cash and cash equivalents.

Analysis of the Fund's market risk

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

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

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

(b) Future cash flows.

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

Foreign exchange risk

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

UNCDF receives donor contributions primarily in United States dollars and euros. Any contributions received other than in United States dollars are converted immediately to United States dollars using the prevailing exchange rate, since UNCDF holds all funds in United States dollar accounts. At 31 December 2017, all UNCDF investments were denominated in United States dollars.

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

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

Currency risk exposure

(Thousands of United States dollars)

	United States dollars	*Other currencies*	*31 December 2017*	*31 December 2016*
Cash and cash equivalents	3 854	13	3 867	12 753
Investments	88 846	2 737	91 583	74 970
Receivables (non-exchange transactions)	177	894	1 071	1 778
Receivables (exchange transactions)	6 676	–	6 676	16 632
Advances issued	–	544	544	663
Loans to financial service providers	2	137	139	536
Total financial assets	**99 555**	**4 325**	**103 880**	**107 332**
Accounts payable and accrued liabilities	326	–	326	666
Funds held on behalf of donors	16	–	16	16
Total financial liabilities	**342**	**–**	**342**	**682**

Equity price risk

In 2017, UNCDF held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity. For that reason, changes in prices would have no impact on the UNCDF surplus and deficit.

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2017 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
5 437	5 per cent increase	272	–
5 437	5 per cent decrease	(272)	–

Note 24
Related parties

(a) Key management personnel

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

(b) Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	4	751	197	948	2 607
Total	**4**	**751**	**197**	**948**	**2 607**

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 2017, there were no advances issued to key management personnel and their close family members that would not have been available to all UNCDF staff.

Note 25
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Goods	14	104
Services	512	733
Total open commitments	**526**	**837**

At 31 December 2017, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.526 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Obligations for property leases		
Less than one year	282	326
One to five years	1 128	1 304
Total obligations for property leases	**1 410**	**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 26
Events after reporting date

The reporting date for these financial statements is 31 December 2017. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 27.1
Additional disclosure

Expenses by cost classification and practice area

Cost classification

(Thousands of United States dollars)

	31 December 2017
Development	
Programme	60 167
Development effectiveness	3 733
Management	3 363
Elimination	(2 678)[a]
Total expenses	**64 585**

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

Practice area

(Thousands of United States dollars)

	31 December 2017
Financial inclusion	35 421
Local development finance	22 068
Development effectiveness	3 733
Management	3 363
Total expenses	**64 585**

Note 27.2
Additional disclosure

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

(Thousands of United States dollars)

Name of trust fund	*Net assets 31 December 2016*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments to net assets*	*Net assets 31 December 2017*
Belgium — Anseba Local Development Fund	485	(482)	–	–	3
Belgium — Appui au développement communal et aux initiatives	1	(1)	–	–	–
Belgium — Projet d'appui au développement local de la région de Mayahi	1	(1)	–	–	–
Belgium — Projet d'appui au développement local de la région de N'guigmi	–	(1)	–	–	(1)
Belgium (Belgian Fund for Food Security) — MLI/C02/12 — Programme conjoint UNCDF/Belgian Fund for Food Security à Nara-Nioro	77	172	(164)	–	85
Belgium Survival Fund — Programme d'appui au développement économique local	20	–	–	–	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	134	(3)	(5)	(68)	58
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 — Projet d'appui au développement communautaire en province de Byumba — Rwanda	284	1	–	–	285
France — Projet d'appui à la commune urbaine de Diffa — Niger	143	–	(139)	–	4
France — Projet d'appui à la décentralisation et au développement local — Mauritanie	–	–	–	–	–
Japan — District Development Programme 2 — Gender mainstreaming component	122	–	–	–	122
Livelihoods and Food Security Trust Fund	299	300	(593)	–	6
Luxembourg — Mali project	2	–	–	–	2
Luxembourg — Programme d'appui à la décentralisation en milieu rural	8	–	–	–	8
Multi-donor Trust Fund — Pass-through Trust Fund	1 237	9 501	(6 941)	(105)	3 692
Norway — Environmental Guidelines Conference	–	3	–	–	3
Spain — Millennium Development Goals — Water and sanitation	13	4	–	–	17
Spain — Spain Millennium Development Goals	3	(3)	–	–	–
Sweden — United Nations Advisory Group	23	(23)	–	–	–
United Nations Fund for International Partnerships — International Year of Microcredit, 2005	10	–	–	–	10
Last Mile Finance Trust Fund	2 445	2 552	(2 516)	–	2 481
Total	**5 415**	**12 019**	**(10 358)**	**(173)**	**6 903**