



United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2020

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-sixth Session

Supplement No. 5B



United Nations Capital Development Fund

**Financial report and audited
financial statements**

for the year ended 31 December 2020

and

Report of the Board of Auditors



United Nations • New York, 2021

* Reissued for technical reasons on 25 March 2022.

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal and certification

Letter dated 23 April 2021 from the Administrator of the United Nations Development Programme and Managing Director of the United Nations Capital Development Fund, the Executive Secretary of the Fund, the Deputy Executive Secretary of the Fund and the Finance Specialist, Office of Finance and Management Services of the Fund addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Capital Development Fund (UNCDF) for the year ended 31 December 2020, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

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

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

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

(Signed) Achim **Steiner**
Administrator, UNDP/Managing Director, UNCDF

(Signed) Preeti **Sinha**
Executive Secretary, UNCDF

(Signed) Xavier **Michon**
Deputy Executive Secretary, UNCDF

(Signed) Xiang **Yu**
Finance Specialist, Office of Finance and Management Services, UNCDF

**Letter dated 22 July 2021 from the Chair of the Board of Auditors
addressed to the President of the General Assembly**

I have the honour to transmit to you the report of the Board of Auditors, together with the financial report and audited financial statements of the United Nations Capital Development Fund for the year ended 31 December 2020.

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
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 2020, 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 2020 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled “Auditor’s responsibilities for the audit of the financial statements”. We are independent of UNCDF, in accordance with the ethical requirements 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 appropriate and sufficient 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 2020, contained in chapter III, but does not include the financial statements and our auditor’s report thereon.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

- (a) 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 appropriate and sufficient 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;
- (b) 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 the internal control of UNCDF;
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- (d) 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;
- (e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

Report on other legal and regulatory requirements

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

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

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

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

(Signed) Hou Kai
Auditor General of the People's Republic of China

22 July 2021

Chapter II

Long-form report of the Board of Auditors

Summary

By its resolution [2186 \(XXI\)](#) of 13 December 1966, the General Assembly established the United Nations Capital Development Fund (UNCDF) as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. UNCDF programmes also help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Sustainable Development Goals. UNCDF has its headquarters in New York and, in 2020, implemented programmes in 31 least developed countries relating to financial inclusion and local development finance. UNCDF also operates in other countries, mainly through its global thematic initiatives.

The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the year ended 31 December 2020. The audit was carried out remotely at headquarters in New York owing to the global coronavirus disease (COVID-19) pandemic in 2020.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2020 and its financial performance and cash flows for the 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 regulation 7.5 of the Financial Regulations and Rules of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNCDF operations. The report also includes comments on the status of implementation of recommendations made in the previous year.

Audit opinion

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

Overall conclusion

The Board did not identify any significant errors, omissions or misstatements from the review of the operations and financial records of UNCDF. The decrease of voluntary contributions from \$143.6 million to \$72.5 million is mainly due to several large multi-year agreements that were recognized in 2019.

Key findings

Internal control framework

The Board noted that the currently applicable internal control framework of UNCDF was dated 8 June 2015. UNCDF had not performed the annual review stipulated in the framework.

The Board acknowledges that UNCDF does not benefit from the various dashboards and reports that UNDP has developed to monitor compliance with internal controls. Dedicated monitoring systems can enhance internal controls, relieve staff from burdensome manual checks and help to prevent manual errors.

Delegation of authority

UNCDF policies and procedures on delegation of authority require that all delegations of authority must be done formally in writing. Prior to October 2020, UNCDF kept incomplete documentation of delegations of authority issued. In addition to the written delegations of authority, UNCDF used a table to manage delegations of authority, in which references were made to delegations of authority to positions rather than to individuals.

The amounts that staff could authorize differed between the written delegations of authority and the table. The Board noted several cases in which staff had approved transactions without any written delegation of authority or for an amount exceeding the threshold established in their written delegation of authority, but lower than the threshold given in the table.

Fraud risk management

At UNCDF, the assessment of fraud and corruption risks is integrated into its overall risk management process, which is detailed in the enterprise risk management framework, rather than as a stand-alone procedure for each business area and process.

UNCDF recorded risks for programmes and projects on the risk register platform. The Board found that the share of recorded risks relating to fraud risks and fraudulent acts was only 2.7 per cent of all risks recorded in the risk register platform. The Board further noted that over 80 per cent of the programmes did not record any risk related to fraudulent acts

Vendor management

UNCDF did not have in place continuous due diligence procedures, such as screening its vendor master file at regular intervals for the inclusion of ineligible vendors on the basis of the most recent ineligibility lists. Similar due diligence checks, such as reviewing the vendor master file for different vendors sharing contact details or reconciling vendor information with staff information to detect shell companies, were not in place.

The Board welcomed the immediate action taken by UNCDF to be included in the vendor dashboard as a monitoring tool of the Office of Audit and Investigation. However, the Board holds that additional continuous due diligence procedures need to be implemented and performed at regular intervals at headquarters.

Main recommendations

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

Internal control framework

- (a) **Initiate a review of its internal control framework to ensure that it is updated and meets the organization's needs;**
- (b) **Refine its internal control framework to strengthen its implementation and implement an appropriate monitoring system to establish that its internal control system is functioning;**

Delegation of authority

- (c) **Further enhance the management of delegations of authority in accordance with the applicable guiding principles that govern the policies and procedures for the delegation of authority;**

Fraud risk management

- (d) **Enhance current guidance on conducting fraud risk assessments and on identifying potential inherent fraud risks covering processes that are particularly vulnerable to the risk of fraudulent acts;**

Vendor management

- (e) **Implement continuous due diligence procedures to regularly review its vendor master file for the inclusion of ineligible vendors and the detection of fraud risk red flags.**

Follow-up of previous recommendations

UNCDF had implemented all recommendations made for 2019. For details, please see the annex to the present chapter. The Board was pleased to note the progress made in implementing recommendations.

Key facts

\$11.1 million	Approved budget (regular resources) ¹
\$9.1 million	Revenue (regular resources)
\$10.7 million	Actual expenses (regular resources). Only regular resources are budgeted and approved by the Executive Board
\$72.5 million	Revenue from voluntary contributions
\$31.1 million	Actual expenses for grants and transfers
171	Total number of staff
\$22.8 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 2020, implemented programmes in 31 least developed countries relating to financial inclusion and local development finance. UNCDF also operates in other countries, mainly through its global thematic initiatives.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2020, in accordance with General Assembly resolution [74 \(I\)](#) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations ([ST/SGB/2013/4](#) and [ST/SGB/2013/4/Amend.1](#)), as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNCDF as at 31 December 2020 and its financial performance and cash flows for the 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 UNDP as applied by UNCDF. The audit included a general review of financial systems and internal controls and a test of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNCDF operations under regulation 7.5 of the Financial

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

Regulations and Rules of the United Nations. The regulation 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. The General Assembly had also requested the Board to follow up on previous recommendations and to report thereon. Those matters are addressed in the relevant sections of the present report, and the details of the results are included in the annex to the present chapter.

5. The Board continued to work collaboratively with Office of Audit and Investigations of UNDP, which also oversees UNCDF, to provide coordinated coverage. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's report was discussed with UNCDF management, whose views have been appropriately reflected.

6. The audit was carried out remotely at headquarters in New York owing to the global coronavirus disease (COVID-19) pandemic in 2020.

7. The auditors engaged in discussions with UNCDF management to assess the impacts of the COVID-19 pandemic on UNCDF. Where evident on the financial performance of UNCDF for the financial year 2020, the financial impact has been disclosed within the relevant financial statement notes on employee benefits, investment revenue, expenses and financial instruments and risk management.

8. Despite the challenges that it has posed, the pandemic has also presented opportunities to UNCDF, given the organization's objectives in relation to deploying innovative finance approaches.

B. Findings and recommendations

1. Follow-up of recommendations from the previous year

9. UNCDF had implemented all the recommendations made for 2019. For details, please see the annex to the present chapter.

10. The Board was pleased to note the progress made in implementing recommendations. This applies to recommendations made in the previous year in the areas of enterprise and programme risk management, as well as the procurement and management of individual contractors.

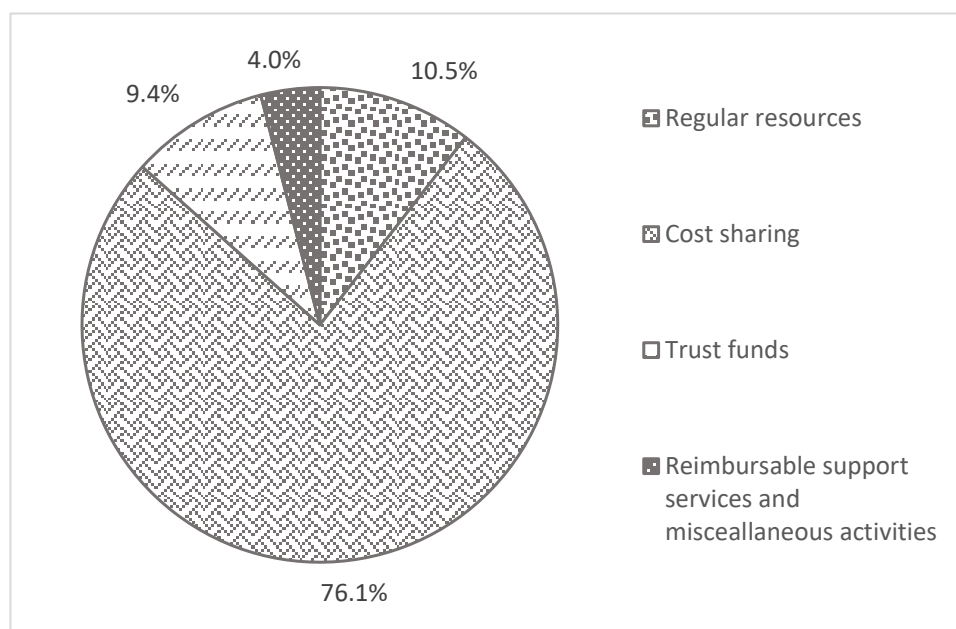
2. Financial overview

Revenue and expenses

11. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2020, total revenue amounted to \$75.7 million (2019: \$147.6 million) and total expenses amounted to \$81.7 million (2019: \$73.6 million), resulting in a deficit of \$6.0 million (2019: surplus of \$74.0 million).

12. The total voluntary contributions to UNCDF were \$72.5 million (2019: \$143.6 million), equivalent to 95.8 per cent (2019: 97.3 per cent) of total revenue. Voluntary contributions decreased by \$71.1 million (49.5 per cent) compared with 2019 contributions. The decrease in revenue was related mainly to the decrease in voluntary contributions, which was due to the fact that UNCDF funding is received on a cyclical basis, and revenue is recorded mainly at the time that the agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of \$7.6 million (10.5 per cent), cost sharing of \$55.2 million (76.1 per cent), trust funds of \$6.8 million (9.4 per cent) and reimbursable support services and miscellaneous activities of \$2.9 million (4.0 per cent). These contribution levels are shown in figure II.I.

Figure II.I
Contributions to regular and other resources



Source: Analysis by the Board of the UNCDF financial statements for the year ended 31 December 2020.

13. Total expenses in 2020 (\$81.7 million) increased slightly compared with 2019 (\$73.6 million). For the breakdown of expenses into segments, UNCDF excludes an elimination of \$5.6 million to remove the effect of internal UNCDF cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source. Before elimination, expenses amounted to \$87.3 million and the breakdown by segment was: regular resources expenses of \$10.7 million (12.3 per cent), cost-sharing expenses of \$56.6 million (64.9 per cent), trust fund expenses of \$15.2 million (17.4 per cent) and expenses on reimbursable support services and miscellaneous activities of \$4.7 million (5.4 per cent).

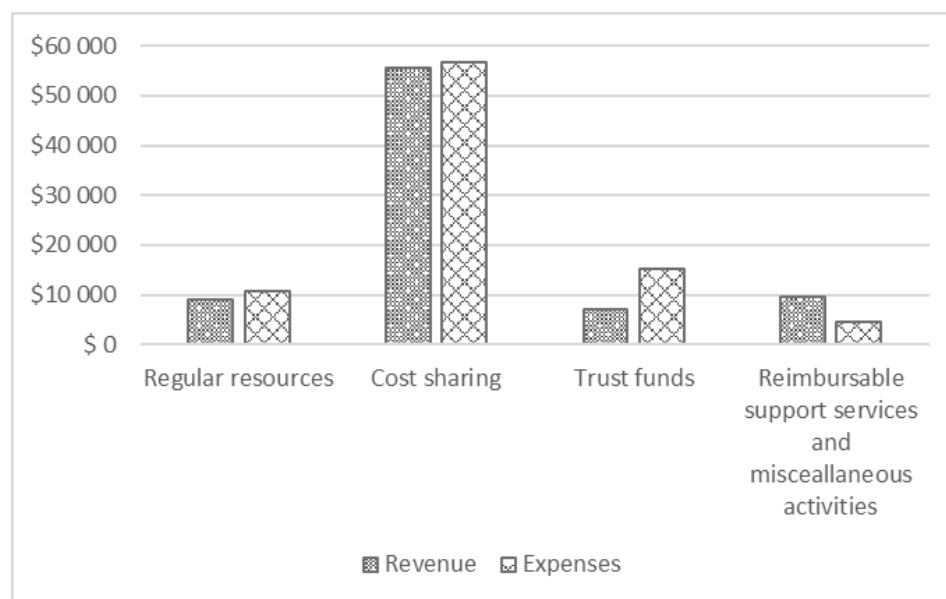
14. The classification of the expenses by nature indicates that the largest expense category continued to be grants and other transfers, with expenses of \$31.1 million (38.1 per cent of overall expenses). An amount of \$22.8 million (27.9 per cent) was spent on staff costs, \$18.0 million (22.0 per cent) on contractual services, \$8.0 million (9.8 per cent) on general operating expenses, net of \$5.6 million for internal cost recovery, \$0.8 million (1.0 per cent) on supplies and consumables and \$1.0 million (1.2 per cent) on other expenses and on depreciation and amortization.

15. Total expenses by cost classification indicated that \$77.7 million (89.0 per cent) was spent on programme activities, \$5.1 million (5.9 per cent) on development effectiveness and \$4.4 million (5.1 per cent) on management. The breakdown of expenses by cost classification excluded an elimination of \$5.6 million to remove the effect of internal cost recovery.

16. Comparative revenue and expenses by segment are shown in figure II.II.

Figure II.II
Overview of comparative revenue and expenses

(Thousands of United States dollars)



Source: Analysis by the Board of the UNCDF financial statements for the year ended 31 December 2020.

Ratio analysis

17. The analysis by the Board of the main financial ratios of UNCDF (see table II.1) showed a slight decrease in the current ratio, the quick ratio and in total assets to total liabilities in 2020 as compared with 2019 and a slight increase in the cash ratio in 2020 compared with 2019. The decrease in the current ratio resulted from an increase in current assets that was lower relatively than the increase in current liabilities. The decrease in the quick ratio and in total assets to total liabilities resulted from an increase in both current and non-current liabilities compared with a slight decline in assets. The increase in cash ratio resulted mainly from an increased cash level.

Table II.1
Ratio analysis

Ratio	31 December 2020	31 December 2019
Current ratio^a		
Current assets: current liabilities	30.44	31.37
Total assets: total liabilities^b	12.49	14.20
Cash ratio^c		
Cash plus investments: current liabilities	16.26	15.65
Quick ratio^d		
Cash plus investments plus accounts receivable: current liabilities	30.19	31.14

(Footnotes on following page)

(Footnotes to Table II.1)

Source: Analysis by the Board of the UNCDF financial statements for the year ended 31 December 2020.

^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.

18. The current assets of UNCDF as at 31 December 2020 were \$176.3 million, or 30.44 times the current liabilities of \$5.8 million, which indicates the programme's ability to meet its short-term obligations. Similarly, total assets of \$292.3 million exceeded total liabilities of \$23.4 million, which indicates a healthy financial position. Assets include contributions committed by donors for future periods.

19. Net assets consist of the operational reserve and accumulated surpluses. UNCDF calculated its operational reserve in compliance with the methodology approved by the Executive Board. As at 31 December 2020, UNCDF held net assets of \$268.9 million compared with a reserve of \$274.4 million reported on 31 December 2019. The decrease of \$5.5 million represents an accumulation of surpluses (-\$5.7 million) and changes in the operational reserve (\$0.2 million).

3. Impact of the COVID-19 pandemic and response of the United Nations Capital Development Fund

20. The COVID-19 pandemic affected UNCDF in different areas. While some programme delivery was hardly affected by the pandemic, other programme implementation activities had to be postponed or adapted. UNCDF stated that its contributions to the Sustainable Development Goals were delivered as planned. Despite the challenges that the pandemic posed for UNCDF, programme expenses increased by 8.1 per cent compared with 2019.

21. UNCDF did not observe any noteworthy reductions or cancellations. UNCDF noted increases in existing agreements or concluded new COVID-19-related agreements with donors.

22. UNCDF considered the pandemic early in its enterprise risk management process. UNCDF made the risk deriving from the pandemic part of its risk assessment on a project, practice and organizational level in March 2020. This put UNCDF in a well-prepared position to respond flexibly to the fast-changing environment.

23. UNCDF took the opportunity of the changed environment to accelerate digital transformation. UNCDF digitized internal processes, for example, workflow, and document management, including through the use of electronic signatures. For programme implementation, UNCDF developed and implemented its e-investment platform to allow for the digital transformation of its entire grant-making process.

24. UNCDF adapted programme activities to better cater to the needs of the beneficiaries in the COVID-19 environment, as illustrated by the examples below. Some countries in which UNCDF operates rely heavily on the tourism sector, which has been severely affected by the pandemic, resulting in plummeting tourist arrivals to those countries. The population was thus in greater need of money transfers from other parts of the country and abroad.

25. Within the Pacific Financial Inclusion Programme, UNCDF, together with a partner, developed a platform that enabled users to send and receive money from overseas into their mobile money account. UNCDF repurposed a portion of the grant funding towards a COVID-19 response to waive all fees on both domestic and international remittances using the platform for two months. During the time of the waiver, the transactions and transferred amounts tripled compared with pre-COVID-19 levels.

26. In western and central Africa, UNCDF is collaborating with the private sector to leverage the power of digital technologies for micro-, small and medium-sized enterprises. In view of the pandemic context and uncertainty about the duration and extent of lockdown measures, UNCDF is seeking to assist micro-, small and medium-sized enterprises in streamlining their current distribution channels. UNCDF is also helping them to enhance their stock management, build online and home delivery distribution channels, integrate digital payments and leverage other digital solutions and applications for increased efficiency and revenue generation.

4. Internal controls

Internal control framework

27. UNCDF has developed its internal control framework on the basis of the internal control framework of UNDP and therefore uses the same definition of roles and associated authorities, responsibilities and areas of accountability as UNDP. Furthermore, it is stated in the framework that UNCDF applies the same rules for the segregation of duties. However, the size and structure of UNCDF are significantly different from UNDP and UNCDF therefore requires a different approach for internal controls and segregation of duties.

28. The Board noted that UNCDF had published its internal control framework on the UNCDF intranet under the “Policies and strategies” section. The Board found that the document was numbered version 6.0 and dated 8 June 2015. In the document control section on the intranet, a mandatory review was listed for July 2016, and in section 7 of the framework, entitled “Updating the internal control framework”, it was stated that “a formal revision of the internal control framework will take place once per year in January”.

29. Since the UNDP rules have not been excluded or superseded, the Board expected them to be applicable to UNCDF, while UNCDF stated that the rules did not apply to UNCDF. The Board holds that UNCDF can enhance its internal control framework by clarifying different provisions.

30. The Board recommends that UNCDF initiate a review of its internal control framework to ensure that it is updated and meets the organization’s needs.

31. UNCDF agreed with the recommendation.

Rights and authorities of staff members

32. According to the UNCDF internal control framework, “staff members should have only one Atlas profile, which is consistent with their role”. For more details, the document referred to the UNDP operational guide on the internal control framework, which included a similar provision. In addition, the operational guide describes the need for segregation between first and second level authority.

33. The Board noted several cases in which Atlas users had been assigned more than one Atlas profile. In those cases, the profiles had different rights to exercise first and second level authority. The Board also found that, for numerous users, the profiles did not segregate between first and second level authority. However, the enterprise

resource planning software prevents users from exercising both first and second level authority in the same transaction.

34. In accordance with the UNDP operational guide on the internal control framework, vendor approvers should not be able to create vouchers. The Board noted that one staff member had been granted the vendor approver function and had been assigned a profile that allowed the creation of vouchers at the same time. The Board noted that the user had created some vouchers while being a vendor approver. UNCDF stated that the issue had been caused by the small number of staff members with this profile in combination with absences.

35. The Board recommends that UNCDF analyse the current rights and authorities within its internal control framework in order to enhance the safeguards of internal controls.

36. UNCDF agreed with the recommendation.

Monitoring of the internal control system

37. The Board reviewed the monitoring system for the UNCDF internal control system. UNCDF stated that a related dashboard to monitor the internal controls was no longer in use. Attempts to design a new dashboard had been undertaken but had been stopped owing to the related costs and the changes currently being made by UNDP to the enterprise resource management system. UNCDF also stated that, in the meantime, it relied primarily on staff at its headquarters manually reviewing financial and procurement transactions using various Atlas queries and reports. UNCDF did not have access to the various monitoring dashboards developed by UNDP.

38. UNCDF provided documentation that showed follow-up with staff members, for example, on pending accounts payable vouchers or unreconciled travel requests. At the same time, documentation to evidence which monitoring activities had been performed and related findings on the functioning of the various internal controls was limited.

39. The Board acknowledges that UNCDF does not benefit from the various dashboards and reports that UNDP has developed to monitor compliance with internal controls. The Board noted the laudable efforts of staff to implement a manual monitoring system of the internal control system of UNCDF in the absence of better monitoring systems. The Board holds that dedicated monitoring systems can enhance internal controls, relieve staff from burdensome manual checks and help to prevent manual errors.

40. The Board recommends that UNCDF further refine its internal control framework to strengthen its implementation and implement an appropriate monitoring system to establish that its internal control system is functioning.

41. UNCDF agreed with the recommendation.

5. Delegation of authority

42. Pursuant to the UNCDF internal control framework, the Executive Secretary as head of office has overall responsibility for establishing and maintaining adequate internal controls in UNCDF at headquarters and in the regional offices and for ensuring that the UNCDF internal control procedures are documented. The Deputy Executive Secretary bears the responsibility for designating the authorities for procurement of goods and services and for assigning Atlas user profiles to staff members.

43. UNCDF policies and procedures are set out in the UNDP policy on delegation of authority. According to the principles that govern the policy, all delegations of

authority must be done formally in writing. The delegation should include the relevant sources of the authority, the description of the authority being delegated, the effective date of the delegation and any specific limitations imposed, including restrictions on further delegation (where applicable).

44. UNCDF manages delegations of authority using a combination of assigned user profiles in Atlas, its enterprise resource planning system, through the Atlas role generation and user provisioning system (ARGUS), written delegation letters and a delegation of authority table. ARGUS profiles for UNCDF staff are granted in line with their respective delegation of authority and approved by the head of financial management support.

45. The Board noted that, prior to October 2020, the delegation letters were not complete. In addition to the delegation letters, UNCDF used a table entitled “UNCDF delegated approvals/segregation of duties table” to manage delegations of authority. In the table, reference is made to delegations of authority to positions rather than to individuals.

46. The Board further noted that the amounts that staff could authorize differed between the written delegations of authority and the table. The approval threshold in the table was also built into ARGUS. The Board noted several cases in which staff had approved transactions without any written delegation of authority or for an amount exceeding the threshold established in their written delegation of authority, but lower than the threshold given in the table.

47. The Board was informed that UNCDF had performed a major review of the completeness of its delegations of authority in October 2020. All delegations to staff members were reissued in writing and met the authorization levels set internally and the staff functions.

48. The Board holds that provisioning and maintaining user profiles in ARGUS and managing related delegations of authority are a key element of internal controls. The person to whom the authority has been delegated needs to clearly understand the related scope and responsibilities. The Board welcomes the effort by UNCDF to re-establish formal written delegations of authority for its staff in October 2020 in order to enhance compliance with policies and acknowledges the progress made. The Board holds that sustained compliance requires continuous monitoring of delegations of authority.

49. The Board recommends that UNCDF further enhance the management of delegations of authority in accordance with the applicable guiding principles that govern the policies and procedures for the delegation of authority.

50. UNCDF agreed with the recommendation.

51. The Board recommends that UNCDF monitor delegations of authority on a regular basis to enhance compliance with the applicable policies and procedures.

52. UNCDF agreed with the recommendation.

6. Fraud risk management

53. In its concise summary of the principal findings and conclusions contained in its reports for the financial periods 2016 ([A/72/176](#)) and 2017 ([A/73/209](#)), the Board noted that the United Nations and its funds and programmes dealt with contributions raised from the member States and donations from governmental and non-governmental entities. In the same reports, the Board stated that dealing with money received in good faith made the United Nations and its funds and programmes more responsible and accountable for demonstrating a culture of good and transparent governance and zero tolerance of fraud and corruption.

54. UNCDF operates in environments that make its operations and programmes vulnerable to internal and external fraud and corruption (fraudulent acts). Owing to its mandate and the nature of its activities, UNCDF cannot avoid these risks. Fraud cases disclosed in prior years by UNCDF management demonstrate that the risk of fraudulent acts occurring is real.

Assessment of fraud risks

55. At UNCDF, the assessment of fraud and corruption risks is integrated into its overall risk management process, which is detailed in the enterprise risk management framework. The related policy lists “corruption and fraud” as a separate risk category, but does not define or distinguish between inherent risks (risk before risk treatment) and residual risks (risk remaining after risk treatment).

56. The Board found that, according to the UNCDF fraud risk mitigation document, the organization follows and is compliant with the 2018 UNDP policy against fraud and other corrupt practices (anti-fraud policy). The UNDP anti-fraud policy includes numerous provisions with regard to the assessment of fraud risks:

(a) For the development of a new programme or project, the anti-fraud policy highlights the importance of ensuring that fraud risks are fully considered in the programme or project design and processes, especially for high-risk programmes or projects, such as those that are complex or that operate in high-risk environments;

(b) The anti-fraud policy makes programme and project managers responsible for ensuring that the risk of fraud and corruption is identified during the programme or project design phase;

(c) Managers must identify and assess the risks in their programme or project areas, including the risk of fraud and corruption, and apply mitigating measures, taking due account of the level of risk involved;

(d) Where managers are concerned about the level of fraud risk within a programme, project or management service agreement activity, they may consult the Office of Audit and Investigation for its consideration as to whether a proactive investigation by the Office is justified;

(e) The fraud risk assessment process may be repeated periodically, taking into account lessons learned, especially for longer duration programmes or projects or where material changes are made to the design of the programme or project during its implementation;

(f) Managers are required to go beyond compliance with relevant corporate policies and procedures and to take proactive steps to prevent and identify potential fraud and corruption.

57. In accordance with leading practices, fraud risk assessments should be conducted at multiple organizational levels, from headquarters to regional and field offices, and should cascade down to the programme, project and transaction levels, including to third parties (contractors, vendors and implementing partners). The Joint Inspection Unit recommended that the executive heads of the United Nations system organizations conduct a comprehensive corporate fraud risk assessment, addressing fraud risks at all levels of their respective organization, including headquarters and field offices, as well as internal and external fraud risks. The Joint Inspection Unit also recommended that such assessments should be conducted at least biennially at the corporate level, and more frequently, based on need, at the operational level (see [JIU/REP/2016/4](#), recommendation 5).

58. The Board noted that detailed fraud risks needed to be assessed for each business area and process, including, for example, cash payments, cash receipts, sales,

purchasing, implementing partner expenditures, expenses, inventory, payroll, fixed assets and loans ([A/70/322](#), [A/70/322/Corr.1](#) and [A/70/322/Corr.2](#), para. 48). The assessment needs to be aligned with and benchmarked against the current system of internal control and the business environment of the entity.

59. The Board noted that UNCDF had not conducted a stand-alone comprehensive fraud risk assessment at the corporate level. The Board also noted that no detailed fraud risks had been assessed for each business area and process. The Board further noted that UNCDF had discussed matters of fraud prevention and mitigation in the risk management group meeting. The risk management group stated that, owing to the centralized nature of work processing and closely managed delegations, as well as the results of recent audits and evaluations, the risk of fraud remained low.

60. UNCDF recorded risks for programmes and projects in the risk register platform. The Board found that the share of risks relating to fraud risks and fraudulent acts was only 2.7 per cent of all risks recorded. The Board further noted that over 80 per cent of the programmes did not record any risk related to fraudulent acts.

61. During interviews with UNCDF staff, the Board noted that knowledge of the above-mentioned provisions of the anti-fraud policy concerning the assessment of fraud risks and the related expectations for managers varied.

62. According to two different perception-based indicators, among the countries in which UNCDF is operating, the Board identified 15 countries that presented operating environments with the highest perceived levels of corruption. The Board noted that UNCDF reflected the risk of corruption for only 4 of those 15 operating environments in the UNCDF risk register.

63. The Board welcomes the identification of risks of fraud and corruption for some projects and the fact that UNCDF had integrated the risks into the overall enterprise risk management process. However, the limited number of fraud risks reported, despite explicit policy requirements to do so, is not plausible given the high-risk environments in which UNCDF is operating and the substantive inherent risks in its operations and the nature of its activities.

64. The Board holds that comprehensive assessments of fraud risks are an essential component of and prerequisite for an effective anti-fraud programme. The assessments assist in systematically identifying and evaluating where and how fraudulent acts may occur in programmatic and operational activities. Consequently, fraud risk assessments form the basis for developing proportionate anti-fraud strategies to effectively deal with fraud. Fraud risk assessments further help to prioritize the areas on which an organization should focus its limited resources for prevention and mitigation.

65. The Board recommends that UNCDF enhance current guidance on conducting fraud risk assessments and on identifying potential inherent fraud risks covering processes that are particularly vulnerable to the risk of fraudulent acts.

66. UNCDF agreed with the recommendation.

67. The Board recommends that UNCDF enhance compliance with the provisions related to fraud risk assessment set out in the UNDP anti-fraud policy and remind managers of their respective responsibilities.

68. UNCDF agreed with the recommendation.

Anti-fraud controls

69. According to the UNDP anti-fraud policy, a strong internal control system, in which policies and procedures are enforced and internal controls are appropriately implemented, can curtail fraud and corruption. Where managers have identified and assessed the risk of fraud and corruption, these risks can be managed by, among other things, establishing practices and controls for risk mitigation.

70. A fraud control activity is a specific procedure or process intended either to prevent fraud from occurring or to detect fraud quickly if it occurs. Fraud control activities are generally classified as either preventive (designed to avoid the occurrence of a fraudulent event or transaction) or detective (designed to discover a fraudulent event or transaction after it has occurred).

71. The Board found that UNCDF relied primarily on the automated controls implemented in Atlas. UNCDF had directly benefited from recent enhancements related to the enforcement of the segregation of duties in the role generation and user provisioning system ARGUS. The Board found that UNCDF, at the time of the audit, did not benefit from recently established detective fraud controls built into the dashboard of the Office of Audit and Investigation (“OAI dashboard”) using the UNDP business intelligence software.

72. The Board noted that UNCDF took immediate action to be included in the dashboard to provide it with a simple but potentially very powerful enhancement of its detective fraud controls.

73. Various fraud schemes require that fraudsters maintain a continual presence in their job position to conceal their scheme. Requiring that staff members take annual leave – during which others perform their duties – increases the chance that potential fraud schemes will be detected and has a strong deterrent effect. Periodically rotating tasks, assignments or job functions of key employees is another effective fraud prevention measure. External studies suggest that specific anti-fraud controls, such as rotation and mandatory annual leave, are associated with a 50 per cent reduction in the duration of fraud schemes.

74. The Board noted that, according to the annual leave policy, subject to the exigencies of service, staff members were expected to exercise their leave within the period that it was earned. UNCDF stated that it is coordinating with UNDP on the adoption of a newly launched policy on staff mobility, which would ensure a smooth and regular rotation of staff positions.

75. The Board views the rotation of tasks, assignments or job functions as another very cost-efficient and highly effective fraud control, especially addressing the risk of corruption. UNCDF might at least monitor and evaluate the length of incumbency and respective annual leave balances. If, in exceptional cases, the rotation of tasks, assignments of job functions and the reduction of leave balances are not possible, this should be compensated for, for example, through additional oversight, teamwork or dual control principles.

76. The Board recommends that UNCDF implement specific anti-fraud controls, such as rotation, and practical measures, such as mandatory annual leave, to reduce the risk of fraudulent acts.

77. UNCDF agreed with the recommendation.

7. Vendor management

78. Pursuant to the UNDP anti-fraud policy, UNCDF may not award a contract to any vendor that has been debarred by UNDP or another United Nations entity, as

indicated on the United Nations ineligibility list. In accordance with the UNDP policy on sourcing and market research, a vendor is presumed to be eligible unless it is on the ineligibility list administered by the United Nations Global Marketplace, by virtue of sanctions imposed by UNDP or another participating United Nations entity, and the sanctions have not been revised or revoked.

79. The Board noted that the UNCDF standard operating procedures for vendor profile management did not explicitly mention the ineligible vendor list of the United Nations Global Marketplace. This list subsumes, among other lists, the list of terrorists and terrorist financiers of the Security Council Committee pursuant to resolutions 1267 (1999), 1989 (2011) and 2253 (2015) and the UNDP list of suspended or removed vendors. The Board also noted that the standard operating procedures referred to an outdated UNDP internal list of suspended and removed vendors for due diligence screening during vendor creation.

80. The Board was informed that UNCDF did not have in place continuous due diligence procedures, such as screening its vendor master file at regular intervals for ineligible vendors on the basis of the most recent ineligibility lists. Similar due diligence checks, such as reviewing the vendor master file for different vendors with shared contact details or reconciling vendor information with staff information to detect shell companies, were not in place.

81. The above-mentioned shortcomings of the UNCDF standard operating procedures for vendor profile management exposed UNCDF to an insufficient due diligence procedure during its vendor creation process and the risk of adding ineligible vendors to its vendor master file. The lack of continuous due diligence procedures exposed UNCDF to the risk of having ineligible vendors included in its vendor master file. Furthermore, it exposed UNCDF to the risk of not detecting red flags, such as employees and vendors sharing a bank account, that could indicate potential fraudulent acts.

82. The Board acknowledges and welcomes the immediate action that UNCDF took after the Board had shared initial findings on the risk of insufficient due diligence screenings during the vendor creation process. The Board commends UNCDF on immediately updating and revising its vendor management-related standard operating procedures to clarify the sources to be used to screen vendors for inclusion on ineligibility lists. The Board also appreciates that the same document now encourages vendor creators to regularly check the ineligibility lists to ensure that active vendors are not sanctioned after a vendor is created.

83. The Board is of the view, however, that continuous due diligence procedures require technical data analysis skills that are unlikely to be found consistently across all vendor creators. Therefore, the Board holds that additional continuous due diligence procedures need to be implemented and performed at regular intervals at headquarters. The revised current standard operating procedure still lacked a robust requirement for continuous due diligence and eligibility screening.

84. The Board recommends that UNCDF implement continuous due diligence procedures to regularly review its vendor master file for the inclusion of ineligible vendors and the detection of fraud risk red flags.

85. UNCDF agreed with the recommendation.

C. Disclosures by management

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

86. The administration informed the Board that, in accordance with financial rule 126.17, UNCDF had write-offs in the amount of \$39,408.79 in 2020.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

88. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements in such a way that it can reasonably expect to identify material misstatements and irregularities (including those resulting from fraud). The Board's work, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud remains with management.

89. During the audit, the Board made enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risk of fraud, including any specific risks identified by management or brought to its attention. The Board also enquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Office of Audit and Investigations.

90. UNCDF reported no cases of fraud or presumptive fraud during 2020.

D. Acknowledgement

91. 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) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

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

(Signed) Hou Kai
Auditor General of the People's Republic of China

22 July 2021

Annex

Status of implementation of recommendations up to the year ended 31 December 2020

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1.	2019	A/75/5/Add.2 , chap. II, para. 29	The Board recommends that UNCDF review and define its risk management platform to formalize the arrangement and risk recording system across its organization in order to comply with its enterprise risk management policy and to record risks identified.	The new enterprise risk management policy (version 2.0) released in November 2020 has defined three risk levels in accordance with the levels of corporate programmes and projects: (1) corporate level risks; (2) project, programme and portfolio level risks; and (3) country activity level risks associated with regional or global programmes (optional). In accordance with the revised enterprise risk management policy, the UNCDF risk register platform has been designated as the consolidated risk platform for all UNCDF risks and was updated to enable a register of corporate, programme/project/portfolio and (optional) country activity level risks, accordingly.	The Board noted that UNCDF had updated its enterprise risk management policy to formalize the arrangement and recording of risks throughout the organization. The Board considers the recommendation to be implemented.	X			
2.	2019	A/75/5/Add.2 , chap. II, para. 36	The Board recommends that UNCDF enhance the risk management platform in a way that allows for the consolidation and aggregation of risks identified for the programmes at the country level.	The UNCDF risk register platform has been enhanced to allow for the consolidation and aggregation of risks across various scopes and levels from practices, programmes, owners, risk levels and countries. Risk owners and users can filter risks by different categories and assign personal alerts on risk updates and changes. There is also a business intelligence dashboard linked with the risk logs to facilitate consolidation and analysis of the risks at a higher level.	The Board noted that UNCDF had updated its risk management platform. UNCDF can now use the platform to analyse risks in different ways. This enables UNCDF to consolidate and aggregate risks. The Board considers the recommendation to be implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
3.	2019	A/75/5/Add.2 , chap. II, para. 37	The Board also recommends that UNCDF assess, for possible inclusion in the enterprise risk management policy, whether risk management would be enhanced if risks could be escalated by superiors.	UNCDF has revised its enterprise risk management policy to enable the consolidation of low-level risks, as well as other portfolio- or practice-level risk escalation by superiors in the risk management chain. The risk register platform has also been upgraded accordingly to facilitate the management of such a top-down approach along with the bottom-up reporting of risks.	The Board noted that UNCDF had revised its enterprise risk management policy and included the possibility of risk escalation by superiors. The Board noted that the functionalities of the risk management platform and the business intelligence dashboard facilitated a holistic view of the risk landscape. The Board considers the recommendation to be implemented.	X			
4.	2019	A/75/5/Add.2 , chap. II, para. 47	The Board recommends that UNCDF consult with UNDP on the revision by UNDP of contract modalities in order to assess whether changes and new approaches envisaged by UNDP may be transferred to UNCDF.	UNCDF has been in close contact with UNDP on the new contract modality of the international personnel services agreement since September 2020. UNCDF also provided comments to UNDP on the draft policy in November 2020. When UNDP launched the new policy in March 2021 on the Programme and Operations Policies and Procedures website, UNCDF was included in the implementation.	The Board noted that UNCDF had liaised with UNDP during the revision and implementation of the new contract modality. UNCDF had also been using the new modality since September 2020. The Board considers the recommendation to be implemented.	X			
5.	2019	A/75/5/Add.2 , chap. II, para. 52	The Board recommends that UNCDF assess whether monitoring of travel expenses and deliverables against contracts could be facilitated through additional guidance on how contracts should be translated into purchase orders.	UNCDF had assessed the need to monitor travel and deliverables via additional guidance on purchase orders and had taken the following actions: <ul style="list-style-type: none">• UNCDF introduced a revised template of the certificate of payment that consultants use to invoice UNCDF for their work over a given period.	The Board noted the actions that UNCDF had taken to provide additional guidance and thus facilitate the monitoring of travel expenses and deliverables against contracts. The Board noted the enhanced consistency of	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
6.	2019	A/75/5/Add.2 , chap. II, para. 59	The Board recommends that UNCDF enhance compliance with the policy on individual contracts by initiating new competitive processes in case of substantial contract revisions or provide appropriate justifications for direct contracting and strengthen the instrument of procurement planning.	<ul style="list-style-type: none"> UNCDF has further trained all buyers and programme associates and sent out instructions on travel transactions. The UNCDF operations team has been monitoring regularly to verify compliance with the given instructions and has seen significant improvements in purchase order creation. <p>UNCDF had introduced a template for requesting contract amendments that will have to be strictly used by requisitioners. The template requires the requesting unit to establish the full background and context of any requested amendment, in order to determine if such an amendment is substantiated, justified and can be put into effect, or if a new selection process needs to be undertaken. The template, once completed, shall be subject to review and clearance by the Operations Specialist.</p>	<p>travel expenses and deliverables and the respective contracts. The Board considers the recommendation to be implemented.</p> <p>The Board noted the actions that UNCDF had taken to enhance compliance with the policy on individual contracts. The audit did not reveal any case in which a new competitive process would have been necessary. The Board considers the recommendation to be implemented.</p>	X			
7.	2019	A/75/5/Add.2 , chap. II, para. 63	The Board recommends that UNCDF should adapt the control functions included in the policy on individual contracts to its organizational structure.	UNCDF has since updated its operations manual to include in the policy on individual contracts control functions adapted to its organizational structure.	<p>The Board noted that UNCDF adapted control functions in the individual contractor policy to its organizational structure. The Board considers the recommendation to be implemented.</p>	X			
8.	2019	A/75/5/Add.2 , chap. II, para. 67	The Board recommends that UNCDF take measures to ensure that contracts and amendments for individual	The procurement team has since streamlined the existing practice to address the recommendation on contract signature date:	The Board noted that all documents for individual contractors were signed using Docusign. Docusign	X			

No.	Audit report year	Report reference	Board's recommendation	Management/Administration's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
9.	2019	A/75/5/Add.2 , chap. II, para. 72	The Board recommends that UNCDF enhance supervision on managing individual contracts for the country teams where limited compliance with the policy was observed in order to foster behavioural change.	<ul style="list-style-type: none"> UNCDF started using Docusign at the beginning of 2020, which provides an authentic basis for determining the date of signing. UNCDF adjusted the workflow so that documents arrive at the procurement team first. <p>UNCDF has taken the following actions:</p> <ul style="list-style-type: none"> Reinforced the segregation of duty at the country level, where country staff perform only the finance function, while the procurement and buyer functions have been moved to regional staff under the Office of Finance and Management Services. Programme staff and newly recruited financial management service staff in regional centres started to provide procurement advice and oversight. 	<p>applies a time stamp at the moment of the digital signature.</p> <p>The Board considers the recommendation to be implemented.</p> <p>The Board noted that UNCDF had analysed areas with limited compliance. UNCDF took actions at different organizational levels to enhance supervision on managing individual contracts, for example, by giving additional guidance when procuring individual contractors.</p> <p>The Board considers the recommendation to be implemented.</p>	X			
Total number of recommendations						9	–	–	–
Percentage of the total number of recommendations						100	–	–	–

Chapter III

Financial report for the year ended 31 December 2020

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 2020. 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 2020 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the performance of UNCDF.

About the United Nations Capital Development Fund

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

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

What the United Nations Capital Development Fund offers

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

5. The work of UNCDF gives impetus to innovate financing approaches where few others are present that create demonstration effects which, when replicated and taken to scale, help to build inclusive financial markets and local development finance systems and to leverage additional public and private sector funding from domestic and international actors into local economies to support the Sustainable Development Goals.

Financial objective

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

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

B. Summary financial results and highlights

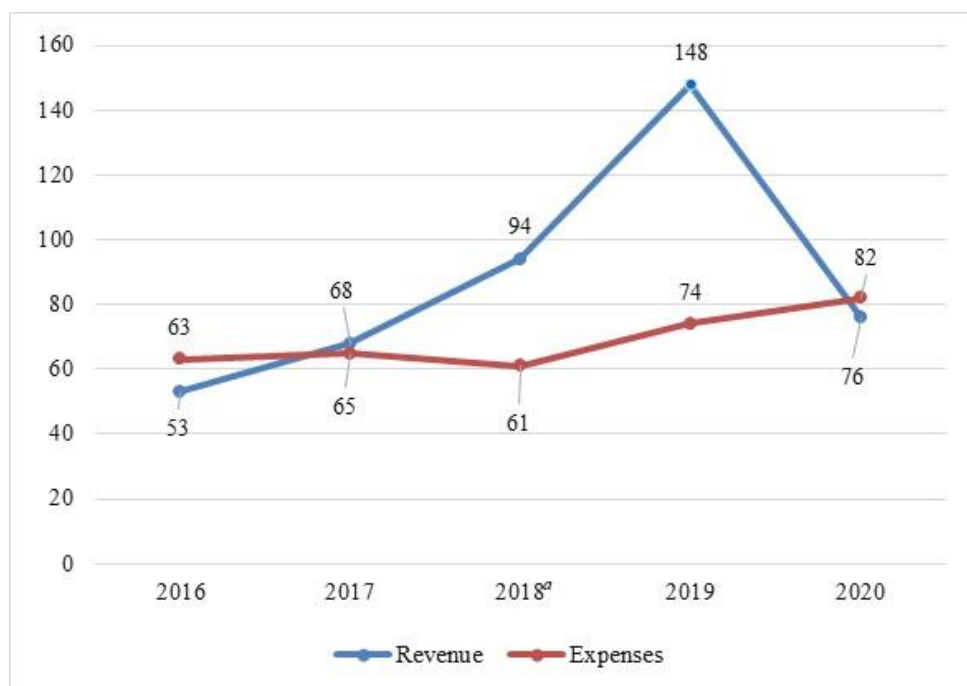
8. Total revenue decreased by 48.7 per cent, from \$147.6 million in 2019 to \$75.7 million in 2020. Total expenses increased by 11.0 per cent, from \$73.6 million in 2019 to \$81.7 million in 2020. Total accumulated surpluses and reserves decreased by 2.0 per cent, from \$274.4 million in 2019 to \$268.9 million at the end of 2020. That decrease is attributable primarily to a deficit for the year of \$6.0 million.

9. At the end of 2020, UNCDF had total assets of \$292.3 million, down from \$295.2 million in 2019. The change is attributable primarily to a decrease in receivables from non-exchange transactions of \$12.2 million, a decrease in receivables (others) of \$5.0 million and an increase in cash and cash equivalents and investments of \$13.6 million.

Figure III.I

Total revenue and expenses

(Millions of United States dollars)



^a In 2019, UNCDF changed its accounting policy for revenue recognition. Figures from 2018 onward are therefore not comparable with prior years.

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 2020 was \$75.7 million, a decrease of \$71.9 million (48.7 per cent) from revenue of \$147.6 million in 2019. The main sources of revenue in 2020 were the following:

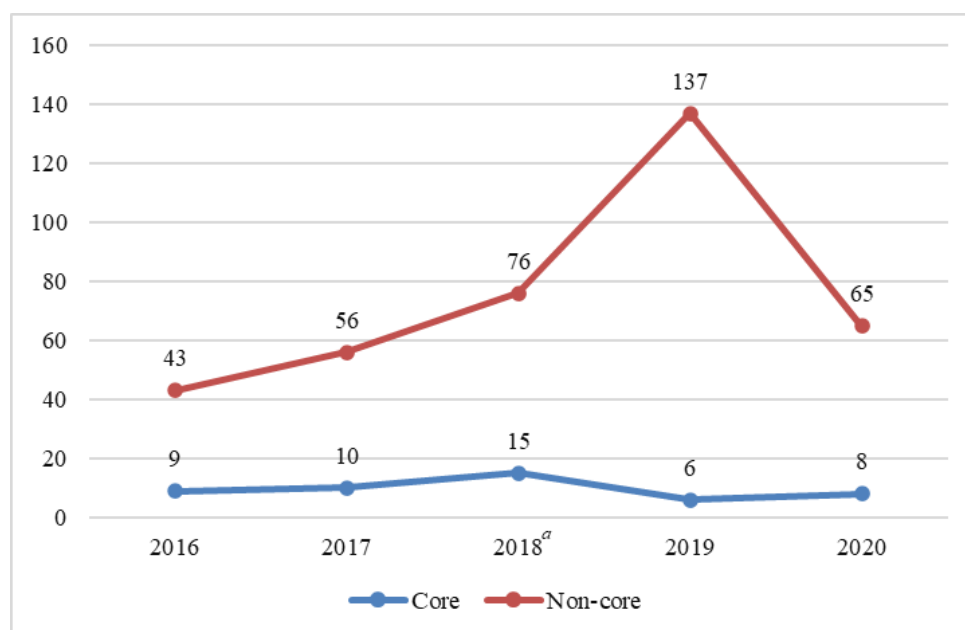
- \$72.5 million (95.7 per cent) from voluntary contributions, compared with \$143.6 million (97.3 per cent) in 2019
- \$3.2 million (4.3 per cent) from investment and other revenue, compared with \$4.0 million (2.7 per cent) in 2019

12. In 2020, UNCDF recognized \$7.6 million in regular (core) contributions (11 per cent of total resources) and \$64.9 million in other (non-core) contributions (89 per cent of total resources). The decrease in non-core contributions of \$72.5 million is due to several large multi-year revenue agreements recognized in 2019.

Figure III.II

Voluntary contributions from core and non-core resources

(Millions of United States dollars)



^a In 2019, UNCDF changed its accounting policy for revenue recognition. Figures from 2018 onward are therefore not comparable with prior years.

Expense analysis

13. In 2020, UNCDF expenses were \$81.7 million (\$87.3 million excluding the effect of the elimination of internal UNCDF cost recovery), an increase of \$8.1 million (11 per cent) from 2019. The increase is due mainly to the strengthening of programme delivery in local development financing systems, especially the expansion of the local climate adaptation and municipal financing approaches.

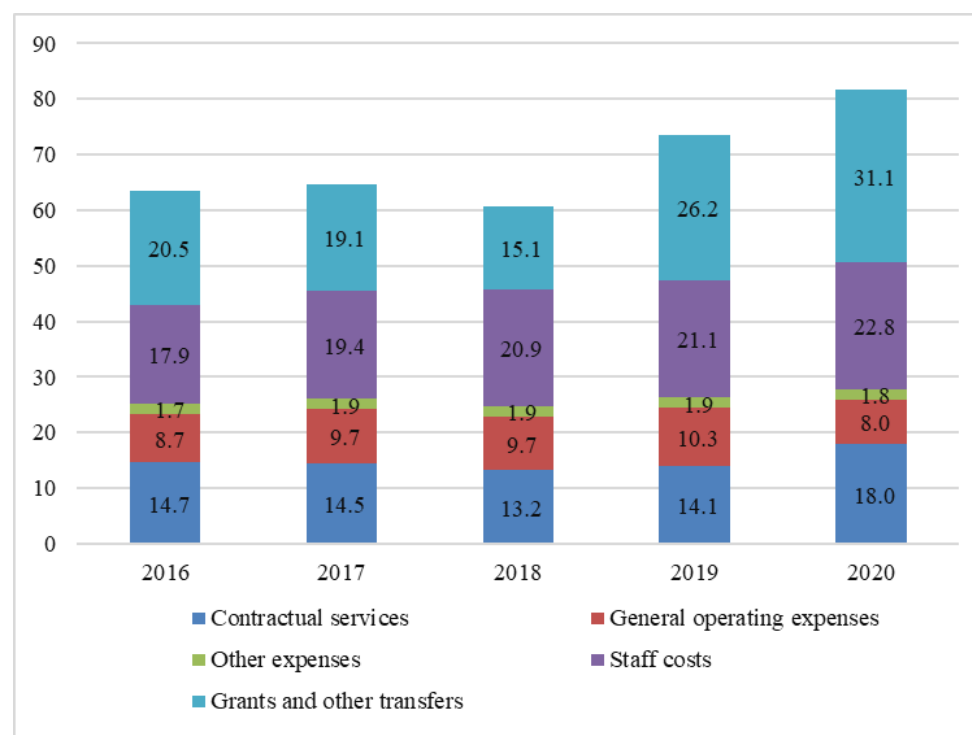
14. Grants and other transfers amounting to \$31.1 million in 2020 represent the UNCDF capital investment portion of programme delivery.

15. The other two largest expense categories by nature in 2020 were staff costs (\$22.8 million) and contractual services (\$18.0 million), which predominantly represent technical assistance provided by UNCDF through its programmes.

Figure III.III

Composition of total expenses by nature

(Millions of United States dollars)



Note: Other expenses include depreciation, amortization, 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 2020, of total expenses of \$87.3 million (excluding the effect of the elimination of internal cost recovery), \$77.7 million (89 per cent) was spent on programme activities, \$5.1 million (6 per cent) on development effectiveness and \$4.5 million (5 per cent) on management activities.

D. Surplus/deficit

18. In 2020, UNCDF had a deficit of revenue over expense of \$6.0 million, compared with a surplus of \$74.1 million in 2019. The decrease of \$80.1 million consists of:

- Decrease in total revenue of \$71.9 million, from \$147.6 million in 2019 to \$75.7 million in 2020

- Increase in spending of \$8.1 million, from \$73.6 million in 2019 to \$81.7 million in 2020

E. Budgetary performance

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

20. In line with the Fund's strategic framework for the period 2018–2021, UNCDF allocates those budgets into annual amounts in order to provide the budget-to-actual comparison of the annual financial statements as required by IPSAS.

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

Table III.1

Budget utilization rates

<i>Budget components</i>	<i>2020</i>		<i>2019</i>	
	<i>Annualized approved final budget (millions of United States dollars)</i>	<i>Actual utilization rate (percentage)</i>	<i>Annualized approved final budget (millions of United States dollars)</i>	<i>Actual utilization rate (percentage)</i>
Development activities	9.8	93	8.9	92
Management activities	1.3	96	1.3	92
Total	11.1	93	10.2	92

22. Overall, UNCDF utilized 93 per cent of its approved budgeted amount, a consistent performance compared with the utilization level for 2019 (92 per cent).

F. Financial position

Assets

23. At the end of 2020, UNCDF held assets of \$292.3 million (2019: \$295.2 million). The decrease comprises largely a decrease in non-exchange receivables of \$12.2 million (9 per cent), a decrease in receivables (others) of \$5.0 million (81 per cent) and an increase in cash and cash equivalents and investments of \$13.6 million (10 per cent).

24. At the end of 2020, the increase in the Fund's investment balance was placed largely into cash equivalents and current investments. The remaining funds were spread throughout non-current investments. These allocation decisions allowed the portfolio to benefit from any interest hikes. They also maintained the portfolio's objective of ensuring that sufficient funds are available to meet the entity's current obligations.

Liabilities

25. The Fund's total liabilities increased by \$2.6 million (13 per cent), from \$20.8 million in 2019 to \$23.4 million in 2020.

26. The most significant change in liabilities was an increase in employee benefits of \$3.1 million from the previous year.

27. At the end of 2020, UNCDF held after-service health insurance liabilities of \$14.6 million (2019: \$12.6 million). The Fund's after-service health insurance liabilities continue to be fully funded.

Net assets/equity

28. Net assets/equity of \$268.9 million in 2020 reflects amounts received as advance funding from UNCDF partners for activities funded under the integrated resources plan.

29. Net assets/equity includes accumulated surpluses of \$262.5 million and operational reserves of \$6.4 million. Accumulated surpluses at 31 December 2020 include receivables for future periods of \$130.7 million. Under the financial regulations and rules of UNCDF, the organization is permitted to spend only when the cash is received.

30. Operational reserves comprised a \$4.9 million operational reserve for regular resources and a \$1.5 million operational reserve for other resources.

31. During 2020, net assets/equity decreased by \$5.5 million (2 per cent) as a result of the combined effect of the following factors: (a) a deficit of \$6.0 million; (b) actuarial losses of \$1.1 million; (c) an increase in funds with specific purposes of \$0.3 million; and (d) an increase in the fair value of available-for-sale investments of \$1.3 million.

G. Accountability, governance and risk management

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

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

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

(c) Institutional oversight mechanisms of UNCDF:

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

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

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

33. Assurance that all the resources, including financial resources, entrusted to UNCDF have been managed efficiently and effectively to achieve the expected

development results is embedded in the way in which UNCDF exercises stewardship over those resources.

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

Enterprise risk management

35. UNCDF is exposed to a variety of risks, including those that are environmental, financial, operational, organizational, political, regulatory and strategic in nature. Risk and uncertainty are inherent in many of the Fund's activities, calling for a risk management process that is proactive and easy to follow and adds value to everyday work processes. The enterprise risk management policy provides the foundation and organizational arrangement for managing risks across UNCDF. The policy outlines how the organization ensures that it manages risks effectively and efficiently. Enterprise risk management enables UNCDF to identify, report and analyse a variety of risks and creates an understanding of the Fund's current risk exposure. UNCDF applies risk management across the entire organization. The implementation of the policy contributes to strengthening management practices, decision-making and resource allocation, while at the same time protecting the organization's mandate and maintaining trust and confidence.

36. The Risk Management Group is the senior-level body tasked with analysing and providing oversight of the Fund's risk identification, management and mitigation measures. The Group reviews policies and procedures related to enterprise risk management, including the strategic aspects of business continuity management. The Group also evaluates the overall knowledge management aspect of risks, including capturing and reviewing lessons learned and best practices to apply and disseminate across the organization.

Financial risk management

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

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

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

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

- (a) Safety: the preservation of capital, provided through investing in high quality fixed-revenue securities, emphasizing the creditworthiness of the issuers;
- (b) Liquidity: the flexibility to meet cash requirements through investments in highly marketable fixed-revenue securities and through the structuring of maturities to align with liquidity requirements;
- (c) Revenue: the maximization of investment revenue within safety and liquidity parameters, using funds to implement development activities in accordance with the financial regulations and rules of UNCDF and its policies and procedures, which encompass strong risk mitigation and monitoring and assurance mechanisms.

Internal controls

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

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

- (a) Establish a strong control environment and culture that promotes effective internal controls;
- (b) Identify and assess risks that may affect the achievement of objectives and implement appropriate risk mitigation strategies;
- (c) Establish appropriate policies and procedures, systems, monitoring and other control activities that promote and maintain a strong internal control environment;
- (d) Monitor the effectiveness of internal controls.

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

- (a) "Front-line" controls: functions carried out by all organizational personnel at field, regional and headquarters offices by applying existing policies and procedures in their daily work to ensure that objectives are met and resources entrusted to UNCDF are properly managed;
- (b) Oversight: monitoring of the operational effectiveness of "front-line" controls and mitigation of related risks. Oversight is exercised by regional offices and headquarters and includes functions such as financial performance monitoring, planning and budgeting processes, quality management and assurance, and results and performance management;
- (c) Independent internal oversight: performed internally and designed to provide independent and objective assurance of the efficiency and effectiveness of processes and controls put in place by management. Such oversight is undertaken by the UNDP Office of Audit and Investigations, the UNCDF Evaluation Unit and the UNDP Ethics Office;
- (d) External oversight: supplementary to oversight performed internally within UNCDF. External oversight is conducted by external bodies, including the Executive Board, the Audit and Evaluation Advisory Committee, and external auditors and regulatory authorities.

Changes in accounting standards and policies

Changes in accounting policies in 2020

44. On 1 January 2020, UNCDF changed its asset capitalization threshold, increasing it from \$2,500 to \$5,000. For further details of this change, please refer to notes 5 and 13 to the financial statements. For leasehold improvements, the capitalization threshold remained unchanged at \$50,000.

Adoption of new accounting standards

45. The IPSAS Board has delayed the effective date of IPSAS 41: Financial instruments from 1 January 2022 to 1 January 2023 owing to the global coronavirus disease (COVID-19) pandemic and the challenges that it has created. UNCDF will be adopting the new standard, as required, effective 1 January 2023.

46. The IPSAS Board approved and published three exposure drafts (exposure draft 70: Revenue with performance obligations, exposure draft 71: Revenue without performance obligation and exposure draft 72: Transfer expenses) on 21 February 2020 and agreed on an exposure period of six months from the date of publication. UNCDF, through UNDP, provided its comments on the three exposure drafts and the IPSAS Board performed a preliminary analysis. The estimated date of issuance of IPSAS is December 2021. An initial assessment of the impact of the new exposure drafts has been carried out and, in the light of the principles that they contain, they are likely to affect the UNCDF financial statements if they are translated into IPSAS. The key impact would be that for all earmarked contributions, revenue recognition would be deferred until UNCDF meets its obligations. UNCDF expects that there will be sufficient implementation time once the standards are approved and that the implementation will require additional resources.

47. The IPSAS Board approved and issued exposure draft 75: Leases on 15 January 2021 and agreed on an exposure period of four months from the date of publication. In the exposure draft, new requirements are proposed for lease accounting aligned with International Financial Reporting Standard 16: Leases. Phase one will deal with lease accounting model(s) for both lessees and lessors on the basis of International Financial Reporting Standard 16; and (b) phase two will deal with public sector specific issues, such as concessionary leases, access rights, and other similar “lease-like” arrangements in the public sector, informed by responses to a request for information, concessionary leases and other arrangements similar to leases issued together with exposure draft 75. The estimated date of issuance of IPSAS is March 2022 (phase one) and September 2023 (phase two). UNCDF is assessing the impact of the new exposure draft on its financial statements.

48. UNCDF will continue to monitor the progression of these exposure drafts and related accounting standards, noting that their application may have an impact on the UNCDF financial statements. UNCDF conducts an assessment of impact on the UNCDF financial statements in advance of the issuance of any new standards and during their subsequent implementation.

H. Looking forward to 2021 and beyond

Implementation of the next-generation enterprise resource planning system project

49. UNCDF has joined UNDP in the implementation of the next-generation enterprise resource planning system project. Its objective is to replace the current enterprise resource Planning System, Atlas, which was introduced in 2004, with a modern cloud-based enterprise resource planning solution that will support the Fund’s

next-generation way of working in accordance with the strategic plan. The digital nature of cloud platforms, as compared with Atlas, is far superior in that it will provide higher levels of integration with more data sources, improved access to machine learning and next-generation visualization and analytics tools that can deliver value well beyond what is available with older technologies. The change will also provide UNCDF with an opportunity to revise some of its current processes through new digital capabilities embedded within the new platform.

Looking forward

50. With the COVID-19 pandemic reversing progress on poverty eradication and socioeconomic development, in the coming year and beyond UNCDF will seek to intensify the deployment of its last mile finance solutions at the household, small enterprise and local infrastructure levels for the benefit of vulnerable groups, including women, youth and migrants and their families. To do so, UNCDF will deepen and expand its support for inclusive digital economies to additional countries, leveraging digital finance solutions for real economy sectors that can accelerate sustainable development.

51. Second, UNCDF will continue to support improved access to local development and climate finance and municipal investment capital, strengthening the role of local authorities to drive sustainable development and rebuild from COVID-19. UNCDF will seek to further scale up its capacity to provide direct catalytic investment finance to higher-risk small and medium-sized enterprises and small infrastructure projects by capitalizing its investment fund with \$50 million. It will also continue its support for the full launch of the two third-party managed funds it has initiated, the Build Fund and the International Municipal Investment Fund.

52. In parallel, UNCDF, in its capacity as an international support measure for the least developed countries, will proactively support the preparatory process for the Fifth United Nations Conference on the Least Developed Countries, advocating for an inclusive framework for last mile financing to achieve the Sustainable Development Goals and in support of the next programme of action for the least developed countries.

53. Lastly, UNCDF will strengthen its engagement with impact investors, financial institutions and capital markets in order to attract more sustainable private sector financing to the least developed country markets, while also increasing efforts to expand and diversify its donor base. As part of its commitment to United Nations reform and delivering as one, UNCDF will continue to pursue strengthened collaboration with United Nations entities by building on its unique capital mandate and financing expertise.

Chapter IV

Financial statements for the year ended 31 December 2020

United Nations Capital Development Fund

I. Statement of financial position as at 31 December 2020

(Thousands of United States dollars)

	References	31 December 2020	31 December 2019
Assets			
Current assets			
Cash and cash equivalents	Note 8	48 107	32 164
Investments	Note 9	46 056	53 682
Receivables (non-exchange transactions)	Note 10	79 442	78 826
Receivables (other)	Note 10	1 201	6 176
Advances issued	Note 11	535	622
Loans to financial service providers	Note 12	963	638
Total current assets		176 304	172 108
Non-current assets			
Investments	Note 9	62 279	57 040
Receivables (non-exchange transactions)	Note 10	51 495	64 353
Loans to financial service providers	Note 12	1 607	1 075
Property, plant and equipment	Note 13	589	620
Total non-current assets		115 970	123 088
Total assets		292 274	295 196
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 14	1 757	1 602
Advances payable	Note 15	401	358
Employee benefits	Note 16	3 311	2 534
Other current liabilities	Note 15	322	993
Total current liabilities		5 791	5 487
Non-current liabilities			
Accounts payable and accrued liabilities	Note 14	27	29
Employee benefits	Note 16	17 586	15 269
Total non-current liabilities		17 613	15 298
Total liabilities		23 404	20 785
Net assets/equity			
Reserves	Note 17	6 400	6 200
Accumulated surpluses	Note 18	262 470	268 211
Total net assets/equity		268 870	274 411
Total liabilities and net assets/equity		292 274	295 196

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 2020

(Thousands of United States dollars)

	<i>References</i>	<i>2020</i>	<i>2019</i>
Revenue			
Voluntary contributions	Note 19	72 472	143 610
Investment revenue	Note 20	3 010	3 585
Other revenue	Note 21	233	446
Total revenue		75 715	147 641
Expenses^a			
Contractual services	Note 22	18 005	14 132
Staff costs	Note 22	22 785	21 061
Supplies and consumables used	Note 22	807	977
General operating expenses	Note 22	8 003	10 259
Grants and other transfers	Note 22	31 074	26 200
Other expenses	Note 22	918	870
Depreciation	Note 22	77	74
Total expenses		81 669	73 573
Surplus/(deficit) for the year		(5 954)	74 068

^a Expenses by cost classification and practice area are reflected in note 27.1.

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

United Nations Capital Development Fund

III. Statement of changes in net assets/equity for the year ended 31 December 2020

(Thousands of United States dollars)

	<i>Reserves</i>	<i>Accumulated surplus</i>	<i>Total net assets/equity</i>
Balance at 31 December 2019	6 200	268 211	274 411
Changes in net assets/equity			
Operational reserve transferred from accumulated surpluses	200	(200)	—
Funds with specific purposes (note 18)	—	278	278
Changes in fair value of available-for-sale investments	—	1 283	1 283
Actuarial losses	—	(1 148)	(1 148)
Surplus for the year	—	(5 954)	(5 954)
Total changes in net assets/equity	200	(5 741)	(5 541)
Balance at 31 December 2020	6 400	262 470	268 870

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 2020

(Thousands of United States dollars)

	2020	2019
Cash flows from operating activities		
(Deficit)/surplus for the year	(5 954)	74 068
<i>Adjustments to reconcile deficit for the year to net cash flows</i>		
Depreciation	77	74
Impairment	23	141
Amortization of bond premium	(45)	(346)
(Gains)/losses on fair value through surplus or deficit	836	—
(Gains)/losses on disposal of property, plant and equipment	(4)	4
Interest received on loans to financial service providers	334	378
<i>Changes in assets</i>		
(Increase)/decrease in receivables (non-exchange transactions)	12 242	(44 610)
(Increase)/decrease in receivables (other)	2 003	(257)
(Increase)/decrease in advances issued	64	(38)
(Increase)/decrease in loans to financial service providers	(857)	(389)
<i>Changes in liabilities/net assets</i>		
(Decrease)/increase in accounts payable and accrued liabilities	153	(4 159)
(Decrease)/increase in advances payable	43	(7)
(Decrease)/increase in employee benefits	1 946	969
(Decrease)/increase in other liabilities	(671)	684
(Decrease)/increase in funds with specific purposes	278	6
Cash flows from/(used in) operating activities	10 468	26 518
Cash flows from investing activities		
Purchases of investments	(112 762)	(94 396)
Maturities of investments	118 652	92 753
(Increase)/decrease in investments managed by external investment managers	(3 011)	(285)
Interest and dividends received	2 638	2 564
Purchases of property, plant and equipment	(115)	(263)
Disposal of property, plant and equipment	73	(1)
Cash flows from/(used in) investing activities	5 475	372
Cash flows from financing activities	—	—
(Decrease)/increase in cash and cash equivalents	15 943	26 890
Cash and cash equivalents at beginning of the year	32 164	5 274
Cash and cash equivalents at end of the year (note 8)	48 107	32 164

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

United Nations Capital Development Fund

V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2020

(Thousands of United States dollars)

	<i>Approved budget</i>		<i>Actual expenditure on comparable basis (note 7)</i>	<i>Difference between final approved budget and actual expenditure</i>
	<i>Original</i>	<i>Final</i>		
Development activities				
Programme	4 183	4 183	4 071	112
Development effectiveness	6 744	5 656	5 068	588
Subtotal	10 927	9 839	9 139	700
Management activities	1 408	1 338	1 281	57
Total	12 335	11 177	10 420	757

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

United Nations Capital Development Fund

Notes to the 2020 financial statements

Note 1

Reporting entity

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

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

UNCDF is headquartered in New York and, in addition to its global and regional operations, is on the ground in 31 least developed countries.

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

Note 2

Statement of compliance with the International Public Sector Accounting Standards

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

Note 3

Basis of preparation and authorization to submit financial statements for audit

(a) Basis of measurement

These financial statements have been prepared on an accrual basis of accounting in accordance with IPSAS and the Financial Regulations and Rules of the United Nations Development Programme (UNDP) and annex 1 thereto, which is applicable to UNCDF (hereinafter “UNCDF financial regulations and rules”).

UNCDF applies the historical cost principle except where stated in note 4, Significant accounting policies. Accounting policies, including any changes specified in note 5, have been applied consistently throughout the year and for prior years. The financial year is from January to December.

(b) Foreign currency

The functional and presentation currency of UNCDF is the United States dollar. These financial statements are expressed in thousands of United States dollars unless otherwise stated.

Foreign currency transactions are translated at the date of the transaction into United States dollars at the United Nations operational rate of exchange, which approximates market/spot rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date, and the effects are recognized in the statement of financial performance.

Non-monetary items in foreign currencies measured at historical cost are translated at the exchange rate in effect at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognized in the statement of financial performance.

(c) Critical accounting estimates

The preparation of financial statements in accordance with IPSAS requires UNCDF to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; classification of financial instruments; valuation of investment assets; revenue recognition; and contingent assets and liabilities.

(d) Future accounting changes

The IPSAS Board published IPSAS 41: Financial instruments, which establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29: Financial instruments: recognition and measurement. The IPSAS Board has delayed the effective date of the standard from 1 January 2022 to 1 January 2023 owing to the global COVID-19 pandemic and the challenges that it has created. UNCDF will be adopting the new standard, as required, effective 1 January 2023. UNCDF is assessing the impact of the new standard on its financial statements.

The IPSAS Board approved and published three exposure drafts (exposure drafts 70–72) on 21 February 2020 and agreed on an exposure period of six months from the date of publication. The purpose was to develop one or more IPSAS to address the accounting requirements for all revenue transactions (exchange and non-exchange) and transfer expenses. Exposure draft 70: Revenue with performance obligations is based on the International Financial Reporting Standard 15: Revenue from contracts with customers, and has been expanded to apply to binding arrangements that are not necessarily contractual. Exposure draft 71: Revenue without performance obligations updates IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). It addresses revenue that arises from binding arrangements with present obligations that are not performance obligations, and revenue not related to binding arrangements. Exposure draft 72: Transfer expenses relates to transactions in which an entity transfers resources to another party without directly receiving anything in return. UNCDF, through UNDP, provided its comments on the three exposure drafts and the IPSAS Board performed a preliminary analysis. The estimated date of issuance of IPSAS is December 2021. An initial assessment of the impact of the new exposure drafts has been carried out and, in the light of the principles that they contain, they are likely to affect the UNCDF financial statements if they are translated into IPSAS. UNCDF expects that there will be sufficient implementation time once the standards are approved.

The IPSAS Board approved and issued exposure draft 75: Leases on 15 January 2021 and agreed on an exposure period of four months from the date of publication. In the exposure draft, new requirements are proposed for lease accounting aligned with International Financial Reporting Standard 16 Leases. Phase one will deal with lease accounting model(s) for both lessees and lessors on the basis of International Financial Reporting Standard 16; and (b) phase two will deal with public sector specific issues, such as concessionary leases, access rights and other similar “lease-like” arrangements in the public sector, informed by responses to a request for information, concessionary leases and other arrangements similar to leases issued together with exposure draft 75. The estimated date of issuance of IPSAS is March 2022 (phase one) and September 2023 (phase two). UNCDF is assessing the impact of the new exposure draft on its financial statements.

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

(e) Authorization to submit financial statements for audit

These financial statements are approved and certified by the Managing Director of UNCDF, the Executive Secretary of UNCDF, the Deputy Executive Secretary of UNCDF and the Finance Specialist of UNCDF. In accordance with the UNCDF financial regulations and rules, these financial statements are authorized to be submitted for audit on 30 April 2021.

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.

<i>IPSAS classification</i>	<i>Type of UNCDF financial asset</i>
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 and beneficiary units

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Loans and receivables

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

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

Receivables (non-exchange transactions) comprise contributions receivable that represent amounts due on the basis of dates indicated in signed contribution agreements, including multi-year contributions, recognized in full at the time the agreement is signed, with the exception of agreements that have performance conditions beyond the control of UNCDF. These non-exchange receivables are stated at carrying value less impairment for estimated irrecoverable amounts. Impairments of contributions receivable are considered on a case-by-case basis.

Receivables (other) represent amounts owed to UNCDF for services provided by it to other entities. In exchange, UNCDF directly receives approximately equal value in the form of cash.

Advances issued represent cash transferred to executing entities/implementing partners as an advance. Advances issued are initially recognized as assets and subsequently converted to expenses when goods are delivered or services are rendered by the executing entities or implementing partners and confirmed by receipt by UNCDF of the applicable certified expense reports, such as financial reports, funding authorization and certification of expense forms or project delivery reports. Once these certified expense reports are received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited

statements or, when such statements are not available at the time, either from the entities' statements as submitted for audit or from the entities' unaudited statements.

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

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

Loans to financial service providers

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

Accounting for concessionary loans

A concessionary loan is a loan provided on more favourable terms than the borrower could obtain in the marketplace.

On initial recognition of a concessionary loan, the market-based loan component and discount component are separated and accounted as set out below.

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

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

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

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

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

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

Valuation methodology

The Fund's policy is to initially value loans and receivables at fair market value and account for them on the basis of the effective interest method at amortized cost. To this end, UNCDF first determines the market value of the loan at the point of origination. A loan's market value is the price an investor would likely pay in a

competitive arm's-length sales process. This price is most often calculated by discounting the loan's contractual cash flows at an applicable market discount rate (a discounted cash flow analysis). Given the prospective nature with which a loan's cash flow can be formulated (owing to its contractual elements), a market participant's yield requirement is typically the key input in a discounted cash flow analysis. The discount rate, or yield, required by a market participant is commensurate with the level of risk being assumed to acquire the instrument. Other factors that also influence the absolute yield requirement include prevailing macro- and microeconomic forces such as local risk-free borrowing rates and interbank borrowing rates, which often form the base index of the absolute yield, as well as commercial lending rates and the inflationary environment.

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

Fair value through surplus or deficit

Financial assets classified at fair value through surplus or deficit are so designated on initial recognition or are held for trading. They are initially recorded at fair value, and any transaction costs are expensed. The assets are measured at fair value at each reporting date, and any resultant fair value gains or losses are recognized through surplus or deficit. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with the investment guidelines of UNDP. Beneficiary units are a group of financial assets whose performance is evaluated on a fair value basis in accordance with the UNCDF risk management strategy. UNCDF classifies derivatives and beneficiary units as financial assets at fair value through surplus or deficit in the statement of financial performance. The fair value of derivatives and beneficiary units 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 or beneficiary units.

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 are 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. On 1 January 2020, UNCDF changed its accounting policy in relation to its asset capitalization threshold, increasing it from \$2,500 to \$5,000. Refer to notes 5 and 13 for further details of this change. For leasehold improvements, the capitalization threshold remained unchanged at \$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:

<i>Class</i>	<i>Estimated useful life (in years)</i>
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

<i>IPSAS classification</i>	<i>Type of UNCDF financial liabilities</i>
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.

Fair value through surplus or deficit

Financial liabilities 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 liabilities are measured at fair value at each reporting date, and any resultant fair value gains or losses are recognized through surplus or deficit. UNCDF classifies derivatives as financial liabilities at fair value through surplus or deficit in the statement of financial performance. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with the UNDP investment guidelines. These include derivatives embedded in time deposits that permit the instrument to be repaid by counterparties in an alternative currency in exchange for a higher yield. 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. Liabilities in this category are classified as current liabilities if they are expected to be settled within 12 months of the reporting date. UNCDF does not apply hedge accounting treatment for derivatives.

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 Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNCDF and the Pension Fund, in line with the other organizations participating in the Pension Fund, are not in a position to identify the Capital Development Fund's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNCDF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee benefits. 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.

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 year.

Right-to-use arrangements

Where UNCDF has signed an agreement for right-to-use assets with legal title/ownership of the assets, for example, through donated use granted to UNCDF at no cost, the transaction is a non-exchange transaction. In this case, an asset and revenue are recognized at the point at which the agreement is entered into. Recognition of an asset is contingent upon satisfying the criteria for such recognition. Valuation of the asset will be the fair value of the resource for which the right to use was acquired at the date of acquisition. The asset is depreciated over the shorter of the asset's useful life or the right-to-use term. Without legal title/ownership, an expense is recognized. Revenue is also recognized in the same amount as the asset/expense, except to the extent that a liability is also recognized.

(c) Revenue recognition*Contributions (non-exchange revenue)*

Voluntary contributions are non-exchange transactions that are recognized as revenue when contribution agreements become enforceable, or in some instances when cash is received in accordance with the financial regulations and rules of UNCDF. UNCDF recognizes assets when control over the resources is established as a result of past events. Receivables resulting from non-exchange transactions are recognized as assets when it is probable that the future economic benefits or service potential associated with the assets will flow to UNCDF and when the fair value can be measured reliably. Receivables from non-exchange transactions are recognized in full with the corresponding revenue, including for multi-year contributions, at the time the agreement is signed. For agreements that have conditions, including those that are beyond the control of UNCDF, a liability is recorded on the statement of financial position until the condition is satisfied, after which the amount of the reduction in the liability is recognized as revenue.

Enforceability of agreements occurs upon signature.

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

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

(d) Expense recognition

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

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

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

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

(e) Commitments, provisions and contingencies

Commitments

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

- (i) Capital commitments: the aggregate amount of capital expenses contracted for but not recognized as paid or provided for at the end of the year;
- (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 a provision owing to the passage of time is recognized as a finance cost. When an outflow is dependent upon a future event that is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Contingencies

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable. If it has become virtually certain that an asset is no longer contingent and the asset's value can be measured reliably, the asset and the related revenue are recognized in the period in which the change occurs.

Contingent liabilities

A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recognized in the period in which the change of probability occurs.

Note 5

Change in accounting policy

Change in asset capitalization threshold

On 1 January 2020, UNCDF changed its asset capitalization threshold for property, plant and equipment, increasing the threshold from \$2,500 to \$5,000 per unit, in order to achieve efficiencies in the administration of these assets. This accounting change was applied prospectively in current year results and its impact is disclosed separately in note 13, Property, plant and equipment.

Note 6

Segment reporting

UNCDF classifies all its activities into four segments (regular resources; cost-sharing; trust funds; and reimbursable support services and miscellaneous activities) for purposes of evaluating its past performance in achieving its objectives and making decisions about the future allocation of resources.

(a) Regular resources

Regular resources are all resources of UNCDF that are commingled, untied and unearmarked. These include voluntary contributions; contributions from other governmental, intergovernmental or non-governmental sources; and related interest earnings and miscellaneous revenue.

(b) Cost-sharing

Cost-sharing is a co-financing funding modality under which contributions can be received for specific UNCDF programme activities in line with UNCDF policies, aims and activities. This modality is used for the direct funding of a specific project or group of projects or part of a country programme. Use of donor contributions is normally limited to the duration of a particular project.

(c) Trust funds

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

(d) Reimbursable support services and miscellaneous activities

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

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

Segment reporting: statement of financial position as at 31 December 2020

(Thousands of United States dollars)

	<i>Regular resources</i>		<i>Cost-sharing</i>		<i>Trust funds</i>		<i>Reimbursable support services and miscellaneous activities</i>		<i>Total</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Assets										
Current assets										
Cash and cash equivalents	14 876	8 674	20 579	14 652	7 704	6 027	4 948	2 811	48 107	32 164
Investments	14 970	13 109	19 251	25 308	7 208	10 411	4 627	4 854	46 056	53 682
Receivables (non-exchange transactions)	1	4 178	66 401	62 860	13 040	11 788	–	–	79 442	78 826
Receivables (other)	963	5 841	179	280	24	20	35	35	1 201	6 176
Advances issued	431	491	70	25	30	105	4	1	535	622
Loans to financial service providers	–	–	963	638	–	–	–	–	963	638
Total current assets	31 241	32 293	107 443	103 763	28 006	28 351	9 614	7 701	176 304	172 108
Non-current assets										
Investments	18 144	14 332	26 553	26 639	9 942	10 959	7 640	5 110	62 279	57 040
Receivables (non-exchange transactions)	–	–	47 865	52 942	3 630	11 411	–	–	51 495	64 353
Loans to financial service providers	–	–	633	685	894	310	80	80	1 607	1 075
Property, plant and equipment	179	252	354	360	51	–	5	8	589	620
Total non-current assets	18 323	14 584	75 405	80 626	14 517	22 680	7 725	5 198	115 970	123 088
Total assets	49 564	46 877	182 848	184 389	42 523	51 031	17 339	12 899	292 274	295 196

Segment reporting: statement of financial position as at 31 December 2020 (continued)

(Thousands of United States dollars)

	<i>Regular resources</i>		<i>Cost-sharing</i>		<i>Trust funds</i>		<i>Reimbursable support services and miscellaneous activities</i>		<i>Total</i>	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	242	145	855	741	502	635	158	81	1 757	1 602
Advances payable	–	–	401	358	–	–	–	–	401	358
Employee benefits	2 804	1 997	285	284	85	120	137	133	3 311	2 534
Other current liabilities	28	25	134	795	35	44	125	129	322	993
Total current liabilities	3 074	2 167	1 675	2 178	622	799	420	343	5 791	5 487
Non-current liabilities										
Accounts payable and accrued liabilities	–	–	–	–	27	29	–	–	27	29
Employee benefits	17 220	14 903	123	81	27	70	216	215	17 586	15 269
Total non-current liabilities	17 220	14 903	123	81	54	99	216	215	17 613	15 298
Total liabilities	20 294	17 070	1 798	2 259	676	898	636	558	23 404	20 785
Net assets/equity										
Reserves	4 900	4 700	–	–	–	–	1 500	1 500	6 400	6 200
Accumulated surpluses	24 370	25 107	181 050	182 130	41 847	50 133	15 203	10 841	262 470	268 211
Total net assets/equity	29 270	29 807	181 050	182 130	41 847	50 133	16 703	12 341	268 870	274 411
Total liabilities and net assets/equity	49 564	46 877	182 848	184 389	42 523	51 031	17 339	12 899	292 274	295 196

Segment reporting: statement of financial performance for the year ended 31 December 2020

(Thousands of United States dollars)

	<i>Regular resources</i>		<i>Cost-sharing</i>		<i>Trust funds</i>		<i>Reimbursable support services and miscellaneous activities</i>		<i>Elimination^a</i>		<i>Total</i>	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue												
Voluntary contributions	7 621	6 271	55 154	89 001	6 794	47 002	2 903	1 336	–	–	72 472	143 610
Investment revenue	1 391	1 503	230	235	310	275	1 079	1 572	–	–	3 010	3 585
Other revenue	68	116	123	144	1	–	5 622	4 626	(5 581)	(4 440)	233	446
Total revenue	9 080	7 890	55 507	89 380	7 105	47 277	9 604	7 534	(5 581)	(4 440)	75 715	147 641
Expenses												
Contractual services	1 812	1 482	13 346	11 009	2 667	1 539	180	102	–	–	18 005	14 132
Staff costs	5 849	4 735	10 116	10 717	3 514	2 005	3 306	3 604	–	–	22 785	21 061
Supplies and consumables used	142	150	565	692	87	107	13	28	–	–	807	977
General operating expenses	1 331	2 271	8 771	9 658	2 346	2 237	1 136	533	(5 581)	(4 440)	8 003	10 259
Grants and other transfers	1 216	602	23 333	20 253	6 525	5 258	–	87	–	–	31 074	26 200
Other expenses	355	300	423	277	78	51	62	242	–	–	918	870
Depreciation	35	41	33	31	8	–	1	2	–	–	77	74
Total expenses	10 740	9 581	56 587	52 637	15 225	11 197	4 698	4 598	(5 581)	(4 440)	81 669	73 573
Surplus/(deficit) for the year	(1 660)	(1 691)	(1 080)	36 743	(8 120)	36 080	4 906	2 936	–	–	(5 954)	74 068

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

Note 7
Comparison to budget

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

Statement V presents regular resources only. Regular resources are all resources of UNCDF that are commingled, untied and unearmarked. These include voluntary contributions; contributions from other governmental, intergovernmental or non-governmental sources; and related interest earnings and miscellaneous revenue.

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

For IPSAS reporting purposes, UNCDF approved budgets are those that permit expenses to be incurred in relation to development and management activities to be funded from regular resources. The Fund's other resources are a forward estimate and projection based on assumptions about future events, and thus are not presented in statement V.

Statement V compares the final approved budget with actual amounts calculated on the same basis as the corresponding budget. The reduction of \$1.158 million between the original approved budget and the final approved budget is the result of a revised workplan following the midterm review on implementation.

Budget utilization levels in 2020 were driven by a combination of the following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) requirements and implementation of the UNCDF strategic framework for 2018–2021.

Accordingly, actual utilization amounts in 2020 against budget levels are as follows:

(a) Development activities: actual utilization of \$9.139 million, representing 93 per cent of the annualized approved budget of \$9.839 million;

(b) Management activities: actual utilization of \$1.281 million, representing 96 per cent of the annualized approved budget of \$1.338 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)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
Total actual amount on a comparable basis as presented in statement V	(10 420)	–	–	(10 420)
Basis differences	43	–	–	43
Entity differences	20 845	5 475	–	26 320
Net increase/(decrease) in cash and cash equivalents from statement IV	10 468	5 475	–	15 943

Basis differences include differences between the budget basis (modified cash) and accounting basis (accrual), which result primarily from purchase orders issued but not delivered. These are included in the budget basis (modified cash) but not in the accounting basis (accrual), as the delivery of goods and the rendering of services have not yet occurred for these undelivered purchase orders.

Entity differences between statement V and statement IV include the Fund's other resources, that is, amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities that are incorporated into statement IV but not into statement V.

Timing differences do not exist, as the budget period annualized is the same as the financial statement reporting period.

Note 8

Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Cash in bank accounts	2 175	904
Cash held by external investment managers	436	428
Money market funds	45 496	30 832
Total cash and cash equivalents	48 107	32 164

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 2020	31 December 2019
Current investments		
Investments managed by the United Nations Development Programme	45 948	53 532
Investments managed by external investment managers	108	150
Total current investments	46 056	53 682
Non-current investments		
Investments managed by the United Nations Development Programme	47 033	47 388
Investments managed by external investment managers	13 988	9 652
Beneficiary units	1 258	—
Total non-current investments	62 279	57 040
Total investments	108 335	110 722

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)

	<i>1 January 2020</i>	<i>Purchases</i>	<i>Maturities</i>	<i>Amortization</i>	<i>Realized gains/ (losses)</i>	<i>Reclassification of non-current as current</i>	<i>31 December 2020</i>
Current investments							
Money market instruments	7 471	54 729	(57 500)	300	—	—	5 000
Bonds	46 061	—	(46 150)	89	—	40 948	40 948
Total current investments	53 532	54 729	(103 650)	389	—	40 948	45 948
Non-current investments							
Bonds	47 388	55 939	(15 002)	(344)	—	(40 948)	47 033
Total non-current investments	47 388	55 939	(15 002)	(344)	—	(40 948)	47 033
Total investments held to maturity	100 920	110 668	(118 652)	45	—	—	92 981

As at 31 December 2020, UNCDF did not have any impairment on held-to-maturity 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)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Investments available for sale		
Current investments		
Bonds	108	150
Total current investments	108	150
Non-current investments		
Equities	9 122	6 234
Bonds	4 866	3 418
Total non-current investments	13 988	9 652
Total investments managed by external investment managers: available for sale	14 096	9 802

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, \$0.436 million (2019: \$0.428 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 \$14.5 million (2019: \$10.2 million).

As at 31 December 2020, UNCDF did not have any impairment on available for sale investments.

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

9.3 Beneficiary units: fair value through surplus or deficit financial assets

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Non-current investments		
Beneficiary units	1 258	–
Total non-current investments	1 258	–
Total investment - beneficiary units	1 258	–

The fair value through a surplus or deficit portfolio represents beneficiary units of the BUILD fund, a blended investment vehicle to bring financing to Sustainable Development Goals-oriented businesses, especially in the least developed countries. Beneficiary units are an innovative capital mechanism to the first-loss investment layer of the BUILD fund, which will be vital to unlocking capital in the upper investment layers.

Note 10**10.1 Receivables (non-exchange transactions)**

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Current		
Receivables (non-exchange transactions)	79 442	78 826
Total current receivables (non-exchange transactions)	79 442	78 826
Non-current		
Receivables (non-exchange transactions)	51 495	64 353
Total non-current receivables (non-exchange transactions)	51 495	64 353
Total receivables (non-exchange transactions)	130 937	143 179

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Past due	190	9 240
Due in future periods	130 747	133 939
Total receivables (non-exchange transactions)	130 937	143 179

Contributions receivable include \$130.747 million (2019: \$133.939 million) pledged to UNCDF by donors in signed agreements for future periods. This amount includes \$0.001 million (2019: \$3.242 million) in receivables for regular resources.

The \$0.190 million (2019: \$9.240 million) in past-due contributions receivable represents the amount that is already due to UNCDF on the basis of signed donor agreements. Of this amount, none (2019: none) is aged more than six months.

The Fund's exposure to credit and currency risk related to receivables is disclosed in note 23.

As at 31 December 2020, UNCDF did not have any impairment on its non-exchange receivables.

10.2 Receivables (other)

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Receivables from the United Nations Development Programme	270	5 093
Receivables from UN-Women	—	9
Investment receivables	677	748
Receivables from third parties	254	326
Total receivables (other)	1 201	6 176

Ageing of receivables (other)

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Less than or equal to six months	1 010	5 733
More than six months	191	443
Total receivables (other)	1 201	6 176

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 2020	31 December 2019
Operating funds provided to Governments	45	106
Prepayments	53	23
Advances to staff	437	509
Total advances issued, gross	535	638
Impairment	—	(16)
Total advances issued, net	535	622

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Less than or equal to six months	533	592
More than six months	2	46
Advances issued, gross	535	638

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Current		
Loans to financial service providers	963	638
Total current loans to financial service providers	963	638
Non-current		
Loans to financial service providers	1 727	1 195
Impairment	(120)	(120)
Total non-current loans to financial service providers	1 607	1 075
Total loans to financial service providers	2 570	1 713

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Balance at 1 January	1 713	1 444
Revaluation of loans (translation gain/loss at reporting date)	60	28
Loans impaired	–	(120)
Repayment of loans	(341)	(297)
Disbursement of loans	1 214	738
Amortization of loans	(76)	(80)
Balance at 31 December	2 570	1 713

The loan balances comprise performing loans to 17 institutions. The range of discount rates depends on the country in which the loan is issued and varies between 9.52 and 26.5 per cent.

UNCDF extends loans to financial service providers on the basis of sound business plans demonstrating how the loans will contribute to their reaching financial sustainability. The loans follow two general principles. First, they should not “crowd out” private sources of capital. In other words, UNCDF will not lend to financial service providers that could otherwise use private sources, such as commercial banks. Second, they should avoid exposing the financial service provider to exchange risks (that is, the loan should preferably be in the local currency). Any risks arising from exchange rate fluctuations are fully covered by dedicated programme resources.

Note 13
Property, plant and equipment

UNCDF has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which constitute 84 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 16 per cent of total assets, are used for operations that are not project-specific at UNCDF country offices and headquarters. As disclosed in note 5, on 1 January 2020, UNCDF changed its asset capitalization threshold which

affected 36 assets with a total cost of \$0.115 million. The details of the impact of such change are reflected in the table below.

Property, plant and equipment

(Thousands of United States dollars)

	<i>Furniture and fixtures</i>	<i>Communications and information technology equipment</i>	<i>Vehicles</i>	<i>Heavy machinery and other equipment</i>	<i>Total</i>
Balance at 1 January 2020					
Cost	81	166	895	28	1 170
Accumulated depreciation	(33)	(72)	(442)	(3)	(550)
Carrying amount at 1 January 2020	48	94	453	25	620
Change in asset capitalization threshold 1 January 2020					
Cost	(3)	(109)	(3)	–	(115)
Accumulated depreciation	–	47	2	–	49
Balance at 1 January 2020 – revised	45	32	452	25	554
Cost	78	57	892	28	1 055
Accumulated depreciation	(33)	(25)	(440)	(3)	(501)
Carrying amount as at 1 January 2020 – revised	45	32	452	25	554
Year ended 31 December 2020					
Additions	–	12	103	–	115
Disposals – cost	–	–	(41)	–	(41)
Depreciation	(5)	(6)	(64)	(2)	(77)
Disposals – accumulated depreciation/depreciation	(1)	–	39	–	38
Carrying amount at 31 December 2020	39	38	489	23	589
Balance at 31 December 2020					
Cost	78	69	954	28	1 129
Accumulated depreciation	(39)	(31)	(465)	(5)	(540)
Carrying amount at 31 December 2020	39	38	489	23	589

UNCDF changed its asset capitalization threshold effective 1 January 2020. The change in the asset capitalization threshold resulted in a decrease in the net book value of property, plant and equipment from \$0.62 million to \$0.55 million. As at 31 December 2020, 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 2020	31 December 2019
Current		
Payables to third parties	906	881
Accruals	714	637
Payables to staff	22	23
Finance guarantee liabilities	21	19
Payables to United Nations	86	39
Derivative liability	8	3
Total current accounts payable and accrued liabilities	1 757	1 602
Non-current		
Finance guarantee liabilities	27	29
Total non-current accounts payable and accrued liabilities	27	29
Total accounts payable and accrued liabilities	1 784	1 631

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

Note 15**15.1 Advances payable**

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Advances payable	401	358
Total advances payable	401	358

15.2 Other current liabilities

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Unapplied deposits	125	125
Other payables	197	868
Total other current liabilities	322	993

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2020	31 December 2019
Current		
Annual leave	2 595	1 940
Home leave	295	198
After-service health insurance	197	182
Repatriation entitlements	220	210
Death benefits	4	4
Total current employee benefits liabilities	3 311	2 534
Non-current		
After-service health insurance	14 380	12 462
Repatriation entitlements	3 061	2 694
Home leave	90	59
Death benefits	55	54
Total non-current employee benefits liabilities	17 586	15 269
Total employee benefits liabilities	20 897	17 803

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

As at 31 December 2020, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation on the basis of roll-forward of the defined benefit obligation as at 31 December 2020. The roll-forward results are based on population and demographic assumptions used for the 31 December 2019 valuation. Financial assumptions have been reviewed and the discount rate and health care trends were updated as at 31 December 2020.

The increase in after-service health insurance liability is the result of lower interest rates offset by lower medical cost trends. Annual leave liability increased by \$0.66 million or 34 per cent, owing to staff not taking their planned leave entitlements in 2020 as a result of the COVID-19 pandemic and travel limitations imposed to contain the pandemic.

(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)

	<i>After-service health insurance</i>	<i>Repatriation</i>	<i>Death benefits</i>	<i>Total</i>
Defined benefit obligation at 1 January 2020	12 644	2 904	58	15 606
Increase in the obligation				
Current service cost	800	254	2	1 056
Interest cost	430	86	1	517
Actuarial losses on disbursement	37	—	—	37
Actuarial losses from change in financial assumptions	891	254	2	1 147
Decrease in the obligation				
Actual benefits paid	(225)	(183)	—	(408)
Actuarial (gains) on disbursement	—	(34)	(4)	(38)
Recognized liability at 31 December 2020	14 577	3 281	59	17 917

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)

	<i>After-service health insurance</i>	<i>Repatriation</i>	<i>Death benefits</i>	<i>Total</i>
Current service cost	800	254	2	1 056
Interest cost	430	86	1	517
Total employee benefits expenses recognized	1 230	340	3	1 573

The actuarial gains/(losses) recognized in net assets/equity directly are as follows:

(Thousands of United States dollars)

	<i>After-service health insurance</i>	<i>Repatriation</i>	<i>Death benefits</i>	<i>Total</i>
Actuarial gains/(losses) from change in financial assumptions	(891)	(254)	(2)	(1 147)
Actuarial gains/(losses) on disbursements	(37)	34	4	1
Total	(928)	(220)	2	(1 146)

In 2020, of the net actuarial loss of \$1.146 million, the actuarial loss relating to after-service health insurance from changes in financial assumptions was \$0.928 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)

	2020	2019	2018	2017	2016
After-service health insurance					
Defined benefit obligation	14 577	12 644	13 146	9 049	6 105
Experience adjustment on plan liabilities	–	(512)	4 558	1 234	–
Repatriation					
Defined benefit obligation	3 281	2 904	2 489	2 736	1 911
Experience adjustment on plan liabilities	–	(33)	(206)	744	–
Death benefits					
Defined benefit obligation	59	58	24	28	32
Experience adjustment on plan liabilities	–	25	(3)	(2)	–

The next actuarial valuation will be conducted as at 31 December 2021.

(b) Actuarial assumptions

The last actuarial valuation for after-service health insurance, repatriation, and death benefits was completed as at 31 December 2019. The 2020 liabilities were determined by an actuarial valuation on the basis of a roll-forward of the defined benefit obligation as at 31 December 2020. Financial assumptions have been reviewed and the discount rate and health care trends were updated as at 31 December 2020. The two important assumptions used by the actuary to determine defined benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate. The principal actuarial assumptions used to determine the defined benefit obligation are as follows:

	2020	2019
Discount rate:		
(a) After-service health insurance	2.95 per cent	3.42 per cent
(b) Repatriation benefits	2.21 per cent	3.07 per cent
(c) Death benefits	2.00 per cent	2.39 per cent
Health-care cost-trend rates:		
(a) United States, non-Medicare	5.31, grading down to 3.65 after 14 years	5.44, grading down to 3.85 after 13 years
(b) United States, Medicare	5.15, grading down to 3.65 after 14 years	5.26, grading down to 3.85 after 13 years
(c) United States, dental	4.59, grading down to 3.65 after 14 years	4.66, grading down to 3.85 after 13 years
(d) Non-United States, Switzerland	3.64, grading down to 2.75 after 8 years	3.76, grading down to 2.85 after 8 years
(e) Non-United States, eurozone	3.73, grading down to 3.25 after 6 years	3.83, grading down to 3.65 after 3 years

	2020	2019
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.97–9.27 per cent
Rate of inflation	2.20 per cent	2.20 per cent
Per capita medical claim cost (varies by age)	\$975–\$14 571	\$932–\$13 819
Actuarial method	Projected unit credit method	Projected unit credit method

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

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

	2020		2019	
	At age 20	At age 69	At age 20	At age 69
<i>Mortality rate – active employees</i>				
Male	0.00056	0.00718	0.00056	0.00718
Female	0.00037	0.00522	0.00037	0.00522

	2020		2019	
	At age 20	At age 70	At age 20	At age 70
<i>Mortality rate – retired employees</i>				
Male	0.00062	0.00913	0.00062	0.00913
Female	0.00035	0.00561	0.00035	0.00561

The rates of retirement for Professional staff with 30 or more years of Professional service hired on or after 1 January 1990 and before 1 January 2014 are as follows:

	2020		2019	
	At age 55	At age 62	At age 55	At age 62
<i>Rate of retirement: Professional staff with 30 or more years of service</i>				
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:

	2020	2019
<i>Rate of marriage at retirement for active beneficiaries</i>		
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

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

(Thousands of United States dollars)

	<i>+0.5 per cent</i>	<i>-0.5 per cent</i>
Effect of discount rate change on end-of-year liability	(1 482)	1 726
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	1 666	(1 448)

(c) United Nations Joint Staff Pension Fund

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

The Pension Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. UNCDF and the Pension Fund, in line with the other organizations participating in the Pension Fund, are not in a position to identify the proportionate share of UNCDF of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNCDF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee benefits. The contributions of UNCDF to the Pension Fund during the financial period are recognized as expenses in the statement of financial performance.

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

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

The latest actuarial valuation for the Fund was completed as at 31 December 2019, and a roll forward of the participation data as at 31 December 2019 to 31 December 2020 will be used by the Fund for its 2020 financial statements.

The actuarial valuation as at 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2 per cent (139.2 per cent in the 2017 valuation). The funded ratio was 107.1 per cent (102.7 per cent in the 2017 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 2019, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the pension plan of the Pension Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2017, 2018 and 2019) amounted to \$7,546.92 million, of which 0.15 per cent was contributed by UNCDF.

During 2020, the contribution of UNCDF paid to the Pension Fund amounted to \$4.4 million (2019: \$4.0 million). The amount includes the organizational share and the contributions made by the participants. Contributions due in 2021, dependent on staffing and changes in pensionable remuneration, are expected to be the same as the current year, \$4.4 million.

Membership of the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities is included in the amount.

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

(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)

	<i>1 January 2020</i>	<i>Movements</i>	<i>31 December 2020</i>
Operational reserve	6 200	200	6 400
Total reserves	6 200	200	6 400

The Fund updated its operational reserve to ensure full compliance with the methodology approved by the Board in September 2018. The formula to calculate the operational reserve for regular resources is 50 per cent of the average of the previous three years of core utilization cash flow-based expenditure (actual budget comparable basis total amount). The formula to calculate the operational reserve for other resources is the average of the previous three years of expenditure multiplied by 2 per cent plus a fixed reserve of \$0.4 million for contingent liability risks.

Note 18

Accumulated surpluses

(Thousands of United States dollars)

	<i>1 January 2020</i>	<i>Movements</i>	<i>31 December 2020</i>
Accumulated surpluses	261 123	(6 154)	254 969
Funds with specific purposes	2 203	278	2 481
Actuarial gains/(losses)	3 890	(1 148)	2 742
Changes in fair value of available-for-sale investments	995	1 283	2 278
Total accumulated surpluses	268 211	(5 741)	262 470

Movements in the accumulated surpluses of \$6.154 million comprise a deficit for the year of \$5.954 million, and an operational reserve transfer from accumulated surpluses of \$0.200 million. Funds with specific purposes include the information communications technology fund, the learning fund, the reserve for agreed separation and other funds.

Accumulated surpluses at 31 December 2020 now include receivables for future periods of \$130.747 million (2019: \$133.939 million). Under the financial regulations and rules of UNCDF, the organization is only permitted to spend when the cash is received.

Note 19

Voluntary contributions

(Thousands of United States dollars)

	<i>2020</i>	<i>2019</i>
Contributions	73 718	144 285
Less: returns to donors of unused contributions	(1 246)	(675)
Total voluntary contributions	72 472	143 610

For the period 2018–2021, UNDP relies on the UNCDF financial mandate in areas of shared focus in the least developed countries. In that context, UNDP provides institutional support to UNCDF. In addition, during 2020, as an in-kind contribution, UNDP directly partially covered the salary costs of 15 UNCDF staff members, amounting to \$1.8 million, and general operating expenses, which comprise rent, travel and other costs, amounting to \$0.9 million. Furthermore, UNDP provided programme support amounting to \$1.3 million.

Note 20

Investment revenue

(Thousands of United States dollars)

	2020	2019
Investment revenue	3 010	3 585
Total investment revenue	3 010	3 585

Investment revenue comprises interest earned on bank account balances and loans to financial service providers plus amortized discount, net of amortized premium of \$2.528 million (2019: \$3.180 million), dividends earned on the UNCDF investment portfolio of \$0.098 million (2019: \$0.102 million) and realized gains on sale of investments of \$0.384 million (2019: 0.303 million).

The 16 per cent decline in the investment income of UNCDF was caused by the lower interest rates in 2020 owing, in part, to the economic situation brought about by the COVID-19 pandemic.

Note 21

Other revenue

(Thousands of United States dollars)

	2020	2019
Foreign exchange gains	195	172
Other miscellaneous revenue	10	99
General management services fees	28	175
Total other revenue	233	446

Note 22

Expenses

(Thousands of United States dollars)

	Programme expenses 2020	Total expenses ^a 2020	Programme expenses 2019	Total expenses 2019
22.1 Contractual services				
Contractual services with individuals	13 260	13 975	10 071	10 509
Contractual services with companies	3 091	3 283	2 983	3 070
United Nations Volunteers expenses for contractual services	747	747	526	553
Total contractual services	17 098	18 005	13 580	14 132

	<i>Programme expenses 2020</i>	<i>Total expenses^a 2020</i>	<i>Programme expenses 2019</i>	<i>Total expenses 2019</i>
22.2 Staff costs				
Salary and wages	10 526	14 952	9 736	13 853
Pension benefits	2 110	2 911	1 885	2 663
Post-employment	1 051	1 835	805	1 748
Appointment and assignment	608	772	762	907
Leave benefits ^b	636	875	357	466
Other staff benefits	902	1 440	920	1 424
Total staff costs	15 833	22 785	14 465	21 061
22.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	141	160	436	443
Stationery and other office supplies	50	55	92	100
Agricultural, petroleum and metal products	35	38	48	53
Information technology supplies and software maintenance	98	128	65	128
Information technology and communications equipment	282	338	150	161
Other consumables used	72	88	54	92
Total supplies and consumables used	678	807	845	977
22.4 General operating expenses				
Travel ^c	1 068	1 225	4 071	4 442
Learning and recruitment	747	776	1 447	1 578
Rent, leases and utilities	1 349	1 600	1 150	1 247
Reimbursement	111	120	140	160
Communications	1 005	1 252	791	996
Security	473	625	433	589
Professional services	1 064	1 115	82	109
General management costs ^d	5 701	120	4 518	79
Contribution to United Nations jointly financed activities	271	381	250	362
Contribution to information and communications technology	138	192	89	129
Freight	17	20	12	12
Insurance/warranties	16	17	23	28
Miscellaneous operating expenses	445	560	432	528
Total general operating expenses	12 405	8 003	13 438	10 259
22.5 Grants and other transfers				
Grants	31 044	31 044	26 127	26 140
Transfers	20	30	57	60
Total grants and other transfers	31 064	31 074	26 184	26 200
22.6 Other expenses				
Foreign exchange losses/(gains)	268	268	(10)	(10)
Losses/(gains) on sale of fixed assets	(4)	(4)	4	4

	Programme expenses 2020	Total expenses ^a 2020	Programme expenses 2019	Total expenses 2019
Sundries	345	631	384	735
Impairment ^e	—	23	141	141
Total other expenses	609	918	519	870
22.7 Depreciation				
Depreciation	56	77	57	74
Total depreciation	56	77	57	74
Total expenses^a	77 743	81 669	69 088	73 573

^a Of the total expenses, \$77.743 million represents programme expenses and the remaining \$3.926 million represents expenses for development effectiveness and management. See note 27.1, Expenses by cost classification, for details. In 2020, of the total expenses, UNCDF recognized \$0.836 million as net loss on financial assets at fair value through surplus or deficit.

^b The increase in annual and home leave benefits of \$0.409 million, is primarily owing to staff not taking their planned leave entitlements in 2020 as a result of the COVID-19 pandemic and travel limitations imposed to contain the pandemic.

^c Travel expenses decreased by \$3.217 million or 72 per cent, primarily is a result of travel bans, lockdowns and restrictions, the cancellation or postponement of duty travel, as well as change in assignment and repatriation related travel patterns. A similar trend was noted in relation to learning and recruitment where there was a decrease of \$0.802 million or 51 per cent from prior year.

^d In 2020, of the \$5.701 million, \$5.581 million is eliminated to remove the effect of internal UNCDF cost recovery.

^e In 2020, UNCDF recognized impairment of \$0.023 million relating to advances issued.

Note 23

Financial instruments and risk management

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

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

- (a) Credit risk: the risk of financial loss to UNCDF that may arise if an entity or counterparty fails to meet its financial/contractual obligations to UNCDF;
- (b) Liquidity risk: the risk that UNCDF might not have adequate funds to meet its obligations as they fall due;
- (c) Market risk: risk that UNCDF might incur financial losses on its financial assets owing to unfavourable movements in foreign currency exchange rates, interest rates and/or prices of investment securities.

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

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

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

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

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

UNCDF has outsourced the investment management of its after-service health insurance funds to two external investment managers. This was done in order to ensure an adequate level of investment return, given the longer-term nature of the liabilities. As at 31 December 2020, the after-service health insurance portfolio was classified as available for sale. Holdings include equities and fixed-income securities.

The external investment managers are governed by the after-service health insurance investment guidelines. The guidelines ensure that all of the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. The guidelines are reviewed and approved on a periodic basis by the after-service health insurance investment committee. The table below shows the value of financial assets outstanding at year-end, based on the IPSAS classifications adopted by UNCDF.

Beneficiary units of the BUILD fund are financial assets designated as fair value through surplus or deficit. The BUILD fund itself is a limited liability company, all beneficiary units investments would suffer from net losses due to: (1) any deterioration in credit quality in the underlying least developed countries investment portfolio, and (2) any realized/unrealized foreign exchange losses with respect to the same underlying investments from the fund. These losses are shared *pari passu* with other beneficiary units investors, as well as with class C shareholders, who also play a first-loss role in the structure of the BUILD fund. UNCDF losses, if any, would therefore be shared but overall limited to the size of its beneficiary units investment. This investment was 100 per cent funded by donor contribution, UNCDF will not be responsible for losses beyond its beneficiary unit.

(Thousands of United States dollars)

	<i>Held to maturity</i>	<i>Available for sale</i>	<i>Loans and receivables</i>	<i>Fair value through surplus or deficit</i>	<i>Book value</i>	
					2020	2019
Cash and cash equivalents	–	–	48 107	–	48 107	32 164
Investments	92 981	14 096	–	1 258	108 335	110 722
Receivables (non-exchange)	–	–	130 937	–	130 937	143 179
Receivables (other)	–	–	1 201	–	1 201	6 176
Advances	–	–	535	–	535	622
Loans to financial service providers	–	–	2 570	–	2 570	1 713
Total financial assets	92 981	14 096	183 350	1 258	291 685	294 576

Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2020, the market value of these assets exceeded book value by \$0.799 million (2019: \$(0.399) million). The carrying values for loans and receivables are a reasonable approximation of their fair value. The carrying value for fair value through surplus or deficit financial assets was \$2.094 million.

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)

	<i>Other financial liabilities</i>	<i>Fair value through surplus or deficit</i>	<i>Book value</i>	
			2020	2019
Accounts payable and accrued liabilities	1 776	8	1 784	1 631
Advances payable	401	—	401	358
Other current liabilities	322	—	322	993
Total financial liabilities	2 499	8	2 507	2 982

The carrying value of other liabilities is a reasonable approximation of their fair value. As at 31 December 2020, UNCDF had \$0.008 million (2019: 0.003 million) in financial liabilities recorded at fair value through surplus or deficit arising from various forward foreign exchange contracts managed by an external investment manager.

For the year ended 31 December 2020, net losses of \$0.836 million related to beneficiary units and net losses of \$0.073 million (2019: \$(0.022) million) related to other financial assets and liabilities recorded at fair value through surplus or deficit were recognized in the statement of financial performance.

The carrying value of financial guarantee liabilities of \$0.048 million (2019: \$0.048 million) is a reasonable approximation of their fair value. As at 31 December 2020, UNCDF had deployed two partial credit guarantees. The first underlying guaranteed asset was a \$0.454 million senior loan disbursed to a greenfield operation. The UNCDF guarantee provided a 50 per cent coverage of the guaranteed party's net losses of principal provided by the guaranteed party to the qualifying borrower. The guaranteed ceiling was \$0.227 million, which represented the maximum liability of UNCDF under the loan guarantee agreement as at 31 December 2019. The duration of the first loan guarantee agreement is until the end of 2024. The second underlying guaranteed asset was a \$0.135 million loan disbursed to an agribusiness operation. The UNCDF guarantee provided a 70 per cent coverage of the guaranteed party's net losses of principal provided by the guaranteed party to the qualifying borrower. The guaranteed ceiling was \$0.094 million, which represented the maximum liability of UNCDF under the loan guarantee agreement as at 31 December 2020. The duration of the second loan guarantee agreement is until the end of 2025.

Valuation

The table below presents the fair value hierarchy of the Fund's available-for-sale and fair value through surplus or deficit financial instruments carried at fair value at 31 December 2020.

(Thousands of United States dollars)

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Available-for-sale financial assets				
Equities	9 122	–	–	9 122
Bonds	4 974	–	–	4 974
Total	14 096	–	–	14 096
Fair value through surplus or deficit financial assets				
Beneficiary units	–	–	1 258	1 258
Total	–	–	1 258	1 258

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

- (a) Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- (c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Analysis of the Fund's credit risk

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

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

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

Credit ratings from the three leading credit rating agencies, Moody's, S&P Global Ratings and Fitch, are used to categorize and monitor the credit risk of financial instruments. As at 31 December 2020, the Fund's financial investments managed by UNDP were in high-quality fixed-income instruments, as shown in the table below (presented using the rating convention of S&P Global Ratings).

Concentration by credit rating: investments managed by the United Nations Development Programme

(Thousands of United States dollars)

<i>31 December 2020</i>	<i>AAA</i>	<i>AA+</i>	<i>AA</i>	<i>AA-</i>	<i>A+</i>	<i>A</i>	<i>Total</i>
Money market instruments	—	—	—	5 000	—	—	5 000
Bonds – investments	42 045	18 827	4 996	15 004	7 109	—	87 981
Total	42 045	18 827	4 996	20 004	7 109	—	92 981

<i>31 December 2019</i>	<i>AAA</i>	<i>AA+</i>	<i>AA</i>	<i>AA-</i>	<i>A+</i>	<i>A</i>	<i>Total</i>
Money market instruments	2 490	4 981	—	—	—	—	7 471
Bonds – investments	46 102	5 095	4 979	4 994	22 279	10 000	93 449
Total	48 592	10 076	4 979	4 994	22 279	10 000	100 920

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

<i>31 December 2020</i>	<i>AAA</i>	<i>AA+</i>	<i>AA</i>	<i>AA-</i>	<i>A+</i>	<i>A</i>	<i>A-</i>	<i>BBB+</i>	<i>BBB</i>	<i>United States Treasury</i>	<i>Not rated</i>	<i>Total</i>
Bonds – investments	888	25	218	116	75	19	19	114	76	3 381	43	4 974
Total	888	25	218	116	75	19	19	114	76	3 381	43	4 974

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

Note: Externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include \$0.043 million (2019: \$0.538 million) comprising government and corporate bond funds. Remaining balance in 2019 included \$2.127 million in exchange traded funds of fixed-income investments.

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)

	<i>31 December 2020</i>	<i>Percentage</i>	<i>31 December 2019</i>	<i>Percentage</i>
Cash balances	2 611	2	1 332	1
Cash equivalents	45 496	29	30 832	21
Total cash and cash equivalents	48 107	31	32 164	22
Current investments	46 056	29	53 682	38
Non-current investments	62 279	40	57 040	40
Total current and non-current investments	108 335	69	110 722	78
Total investments, cash and cash equivalents	156 442	100	142 886	100

The Fund's investments are laddered into different maturity dates in order to ensure that it has sufficient funds to meet its current obligations as they become due.

Composition of cash equivalents

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Money market funds	45 496	30 832
Cash equivalents	45 496	30 832

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)

	<i>Book value basis</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Held-to-maturity investments	Amortized cost	92 981	100 920
Available-for-sale investments	Fair value	14 096	9 802
Fair value through surplus or deficit	Fair value	1 258	—
Total investments		108 335	110 722

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)

31 December 2020 market value	Sensitivity variation	Impact on the financial statements	
		Net assets	Surplus and deficit
4 974	100 basis point increase	(108)	—
4 974	50 basis point decrease	54	—

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 2020, UNCDF investments were primarily denominated in United States dollars.

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

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

Currency risk exposure

(Thousands of United States dollars)

	<i>United States dollars</i>	<i>Euro</i>	<i>Swedish krona</i>	<i>Other currencies</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Cash and cash equivalents	48 062	6	1	38	48 107	32 164
Investments	104 663	1 739	75	1 858	108 335	110 722
Receivables (non-exchange transactions)	68 704	31 754	27 326	3 153	130 937	143 179
Receivables (other)	959	–	–	242	1 201	6 176
Advances issued	265	32	–	238	535	622
Loans to financial service providers	663	–	–	1 907	2 570	1 713
Total financial assets	223 316	33 531	27 402	7 436	291 685	294 576
Accounts payable and accrued liabilities	929	55	–	800	1 784	1 631
Advances payable	401	–	–	–	401	358
Other current liabilities	322	–	–	–	322	993
Total financial liabilities	1 652	55	–	800	2 507	2 982

As at 31 December 2020, UNCDF held a small portion of investments and other financial assets in several non-United States dollar currencies owing primarily to contributions received in other hard currencies. UNCDF maintains a minimum level of assets in non-United States dollar currencies and, whenever possible, converts any excess balances into United States dollars.

Equity price risk

In 2020, 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)

<i>31 December 2020 market value</i>	<i>Sensitivity variation</i>	<i>Impact on the financial statements</i>	
		<i>Net assets</i>	<i>Surplus and deficit</i>
9 122	5 per cent increase	456	–
9 122	5 per cent decrease	(456)	–

Despite the volatility in financial markets witnessed in 2020 partly owing to the COVID-19 pandemic, the principal of the working capital portfolio of UNCDF remains safe, as it holds high-quality assets aimed at preserving principal, in line with its investment policy. Investment income earned on the working capital portfolio invested funds in 2020 decreased from \$3.6 million in 2019 to \$3.0 million in 2020 owing to lower investment yields in the market as a result of the COVID-19 pandemic.

Credit rating agencies put a number of banks on negative outlook watch and downgraded some as a result of the more difficult operating conditions, partly brought about by the COVID-19 pandemic. UNCDF, through UNDP, actively monitors ratings of its investment holdings and investment counterparties in accordance with its investment guidelines.

Any changes in the value of the after-service health insurance portfolio of UNCDF, which is classified as available for sale, due to market volatility has no impact on reported surplus and deficit. Refer to note 16, Employee benefits, for additional disclosure on the changes to the after-service health insurance liability in 2020.

Note 24

Related parties

(a) Key management personnel

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

(b) Remuneration

(Thousands of United States dollars)

<i>Tier</i>	<i>Number of positions</i>	<i>Salary and post adjustment</i>	<i>Other entitlements</i>	<i>Total remuneration</i>	<i>After-service health insurance, repatriation, death benefit and annual leave liability</i>
Key management personnel	5	1 007	409	1 416	3 352
Total	5	1 007	409	1 416	3 352

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.

Other entitlements include contributions by UNCDF for key management personnel to the United Nations Joint Staff Pension Fund, a defined contribution plan, of \$0.214 million.

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 and Rules of the United Nations. At 31 December 2020, 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)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Goods	13	48
Services	281	271
Total open commitments	294	319

At 31 December 2020, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to \$0.294 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Obligations for property leases		
Less than one year	281	305
One to five years	1 404	1 529
Total obligations for property leases	1 685	1 834

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.

(c) Contingent asset

As at 31 December 2020, UNCDF had \$10.888 million in non-regular resources contribution agreements signed with donors for which an asset has not been recognized in the financial statements. While the inflow of future economic benefit is probable, this amount is not wholly within the control of UNCDF and thus does not meet asset recognition criteria. The asset will be recognized in the financial statements upon the occurrence of future events defined in the contractual arrangement.

Note 26
Events after reporting date

The reporting date for UNCDF is 31 December of each year. The date of certification and transmittal of the financial statements is 30 April of the year after the financial year end (date of signing these financial statements).

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

Note 27**Additional disclosures****27.1 Expenses by cost classification and practice area****Cost classification**

(Thousands of United States dollars)

	<i>31 December 2020</i>
Development	
Programme	77 743
Development effectiveness	5 099
Management	4 409
Elimination	(5 582) ^a
Total expenses	81 669

^a This adjustment is required to remove the effect of internal UNCDF cost recovery.**Practice area**

(Thousands of United States dollars)

	<i>31 December 2020</i>
Financial inclusion	37 012
Local development finance	35 149
Development effectiveness	5 099
Management	4 409
Total expenses	81 669

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

(Thousands of United States dollars)

<i>Name of trust fund</i>	<i>Net assets 31 December 2019</i>	<i>Revenue/ adjustments</i>	<i>(Expenses)</i>	<i>Adjustments to net assets</i>	<i>Net assets 31 December 2020</i>
Bill and Melinda Gates Foundation – Least Developed Countries Fund	67	99	–	(166)	–
Canada (Canadian International Development Agency) –Appui à la gouvernance locale dans le département du Nord-Est en Haïti	28	(28)	–	–	–
Luxembourg – Programme d'appui à la décentralisation en milieu rural	–	(3)	3	–	–
Multi-donor trust fund – Pass-through trust fund	6 298	5 011	(7 638)	–	3 671
Last mile finance trust fund	43 740	2 025	(7 588)	–	38 177
Total	50 133	7 104	(15 223)	(166)	41 848

27.3 Financial impact of the COVID-19 pandemic

Where evident on the financial performance of UNCDF for the 2020 financial year, the financial impact of the COVID-19 pandemic has been disclosed within the relevant financial statement notes affected. For further details refer to note 16, Employee benefits, note 20, Investment revenue, note 22, Expenses and note 23, Financial instruments and risk management.

