A/77/5/Add.2

United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2021

and

Report of the Board of Auditors

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

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Report of the Board of Auditors

United Nations • New York, 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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Contents

Letters of transmittal and certification

Letter dated 25 April 2022 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 Head of 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 2021, 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 are 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*) John **Rutere**
Head of Office of Finance and Management Services, UNCDF

Letter dated 21 July 2022 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 2021.

(*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 2021, 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 2021 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNCDF, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is 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 2021, contained in chapter III below, 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 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

Furthermore, 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

21 July 2022

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 is headquartered in New York and, in 2021, implemented programmes in 37 least developed countries relating to financial inclusion and local development finance. In addition, UNCDF also operates in other countries, mainly through its global thematic initiatives.

The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the year ended 31 December 2021. The audit was carried out at headquarters in New York in October 2021 and May 2022.

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 2021 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNCDF operations under 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 increase of voluntary contributions from $72.5 million (in 2020) to $133.5 million (in 2021) is due mainly to cyclical and multi-year contributions to UNCDF.

Key findings

Enterprise risk management

Enterprise risk management is used in public and private organizations for improving effectiveness, accountability and efficiency. The UNCDF risk register platform was designated in November 2020 as the consolidated platform for managing all UNCDF risks. Pursuant to the related policy, accountability for enterprise risk management follows the line hierarchy. During its review, the Board noted that 89 per cent of the risks recorded for the financial inclusion practice area had not been modified since the consolidated risk platform had been put into operation. The missing modifications indicate that some parts of the first line of defence do not meet their responsibility and consequently do not manage effectively the risks for projects and programmes under their supervision.

The largest expense category and main mode of implementation of UNCDF are grants. In 2021, related expenses amounted to $37.9 million, representing 39 per cent of the total expenses of UNCDF. However, neither grant-specific risks nor mitigation measures were captured in the UNCDF risk register platform.

Grants management and the grants module

The Board holds that the documents shown in the Atlas grants management module represent mostly project-related documents which were not relevant solely to grants management. The Board noted that document storage in the grants module on the one hand included documents not relevant to grants management and on the other did not include relevant documents. The Board holds that documents should not be duplicated solely for documentation purposes. Within the current layout, the Board does not see any added value from the attachment tab of the grants module.

The Board noted several inconsistencies in the monitoring and evaluation tab of the grants module. The Board holds that such inconsistencies might undermine the monitoring function of the grants module and that the missing entries in milestone completion indicate that the grants module is not the primary tool for grants management.

The Board identified one sample in which a higher grant instalment than agreed was paid owing to different currency translations. The related data in the grants module were not complete. The Board holds that UNCDF should ensure that payment details and other relevant information are entered in the grants module on a timely basis so that the grants module can become an effective monitoring tool which should also be used to explain any deviations.

Main recommendations

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

Enterprise risk management

(a) **Streamline risk reporting into the existing platform and establish an assurance mechanism to ensure that all risks are recorded and regularly updated in the dedicated risk management platform;**

(b) **Enhance the assessment of grant-related risks within the established enterprise risk management process;**

Grants management and the grants module

(c) **Revise its document management in the future grants module and related requirements in the operations manual;**

(d) **Analyse shortcomings in the monitoring and evaluation tab of the grants module and take corrective measures;**

(e) **Analyse the quality and completeness of the data entered into the grants module and enhance the use of the grants module in day-to-day grants management.**

Follow-up on previous recommendations

As at 31 May 2022, out of the nine recommendations made for 2020, all nine (100 per cent) had been implemented (see annex).

Key facts	
$12.6 million	Approved budget (regular resources)[1]
$17.8 million	Revenue (regular resources)
$11.8 million	Actual expenses (regular resources). Only regular resources are budgeted and approved by the Executive Board
$133.5 million	Revenue from voluntary contributions
$37.9 million	Actual expenses for grants and transfers
176	Total number of staff
$25.3 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 help to empower women and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact with regard to achieving the Sustainable Development Goals. UNCDF has its headquarters in New York and, in 2021, implemented programmes in 37 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 2021 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 2021 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 to UNCDF. The audit included a general review of financial systems and internal controls and testing of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statement.

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 funding partners.

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 the 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 at headquarters in New York.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

7. As at 31 May 2022, all of the nine outstanding recommendations up to the financial year ended 31 December 2020 had been fully implemented. Details of the status of implementation of the recommendations are provided in the annex to the present chapter. The Board acknowledges the efforts of UNCDF towards implementing its recommendations.

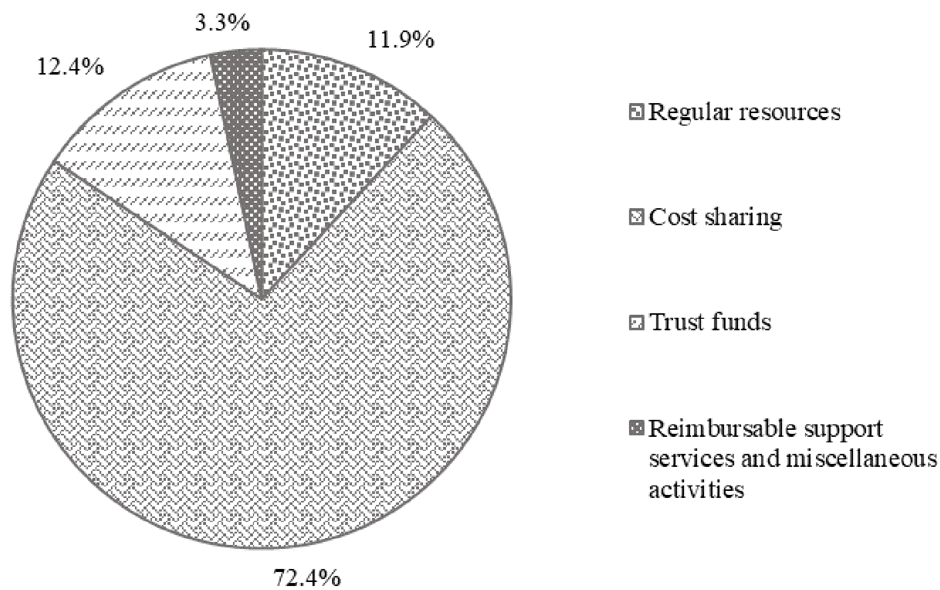
2. Financial overview

Revenue and expenses

8. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During 2021, total revenue amounted to $136.6 million (2020: $75.7 million) and total expenses amounted to $97.1 million (2020: $81.7 million), resulting in a surplus of $39.5 million (2020: deficit of $6.0 million).

9. The total voluntary contributions to UNCDF were $133.5 million (2020: $72.5 million), equivalent to 97.7 per cent (2020: 95.8 per cent) of total revenue. Voluntary contributions increased by $61.0 million (84.1 per cent) compared with 2020 contributions. The increase in revenue was related mainly to an increase 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 the agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of $15.9 million (11.9 per cent), cost sharing of $96.6 million (72.4 per cent), trust funds of $16.5 million (12.4 per cent) and reimbursable support services and miscellaneous activities of $4.4 million (3.3 per cent). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions to regular and other resources



Source: Analysis made by the Board of the UNCDF financial statements for the year ended 31 December 2021.

10. Total expenses in 2021 ($97.1 million) increased compared with 2020 ($81.7 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 $102.7 million and the breakdown by segment was regular resources expenses of $11.8 million (11.5 per cent), cost-sharing expenses of $67.7 million (65.9 per cent), trust fund expenses of $18.8 million (18.3 per cent) and expenses on reimbursable support services and miscellaneous activities of $4.4 million (4.3 per cent).

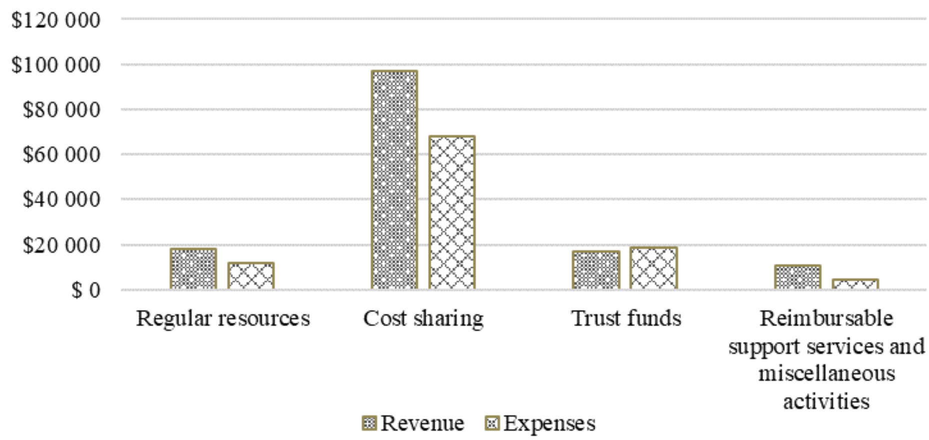
11. The classification of the expenses by nature indicates that the largest expense category continued to be grants and other transfers, with expenses of $37.9 million (39.0 per cent of overall expenses). An amount of $25.3 million (26.1 per cent) was spent on staff costs, $22.1 million (22.8 per cent) on contractual services, $9.3 million (9.6 per cent) on general operating expenses net of $5.6 million for internal cost recovery, $1.0 million (1.0 per cent) on supplies and consumables and $1.5 million (1.5 per cent) on other expenses and on depreciation and amortization.

12. Total expenses by cost classification indicate that an amount of $92.8 million (90.4 per cent) was spent on programme activities, $5.4 million (5.2 per cent) on development effectiveness and $4.5 million (4.4 per cent) on management. The breakdown of expenses by cost classification excludes an elimination of $5.6 million to remove the effect of internal cost recovery.

13. 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 made by the Board of the UNCDF financial statements for the year ended 31 December 2021.

Ratio analysis

14. The analysis made by the Board of the main financial ratios of UNCDF (see table II.1 below) showed a slight decrease in the current ratio, the quick ratio and the cash ratio in 2021 as compared with 2020 and a slight increase in total assets to total liabilities in 2021 compared with 2020. The slight decrease in the current ratio and the quick ratio resulted from stable current assets and current liabilities. The decrease in the cash ratio resulted mainly from a lower cash level at year end. The increase in total assets to total liabilities resulted from total assets that had increased relatively more than total liabilities.

Table II.1
Ratio analysis

Ratio	*31 December 2021*	*31 December 2020*
Current ratio[a]		
Current assets:current liabilities	30.19	30.44
Total assets:total liabilities[b]	14.11	12.49
Cash ratio[c]		
Cash plus investments:current liabilities	12.40	16.26
Quick ratio[d]		
Cash plus investments plus accounts receivable:current liabilities	29.89	30.19

Source: Analysis made by the Board of the UNCDF financial statements for the year ended 31 December 2021.

[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.

15. The current assets of UNCDF as at 31 December 2021 were $177.0 million, or 30.19 times the current liabilities of $5.9 million, which indicates the programme's ability to meet its short-term obligations. Similarly, total assets of $333.0 million exceeded total liabilities of $23.6 million, which indicates a healthy financial position. Assets include contributions committed by donors for future periods.

16. 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 2021, UNCDF held net assets of $309.4 million compared with $268.9 million reported on 31 December 2020. The increase of $40.5 million represents an accumulation of surpluses ($40.1 million) and changes in the operational reserve ($0.4 million).

3. Enterprise risk management

17. Enterprise risk management is a widely used good practice in public and private organizations for improving effectiveness, accountability and efficiency. It is an approach that entails proactively and systematically identifying, monitoring and responding to risks at all levels of the organization to better achieve objectives and protect stakeholders' interests. UNCDF applies enterprise risk management and the related policy provides the foundation and organizational arrangement for managing risks across UNCDF.

18. The Board noted that UNCDF had clarified and segregated its internal roles and responsibilities in relation to its enterprise risk management based on the three lines of defence model. This model, which had been promulgated by the Institute of Internal Auditors, was endorsed as a reference model on risk management, oversight and accountability for United Nations system organizations (CEB/2014/5).

19. Based on the three lines of defence model, UNCDF clarifies and segregates roles and responsibilities along the following three lines: (a) functions that own and manage risks; (b) functions that oversee risks and/or specialize in risk management and compliance; and (c) functions that provide independent assurance.

20. The Board noted that pursuant to the related policy, accountability for enterprise risk management follows the line hierarchy. The line manager of each unit, for example, is accountable for risk management within the manager's area of responsibility. With respect to the first line, pursuant to the current UNCDF enterprise risk management policy, at the programme/unit level, the practice directors as line managers ensure that the risk registers for relevant global/regional programmes are regularly updated and that identified risks are managed and escalated as needed. Practice directors are also responsible for ensuring that projects and programmes under their supervision keep their risk registers up to date, respond to risks appropriately and report upward as necessary.

Incompleteness of the UNCDF risk register

21. The Board noted that with the revision of the UNCDF enterprise risk management policy in November 2020, the UNCDF risk register platform had been designated as the consolidated platform for managing all UNCDF risks. The Board was informed that the UNCDF risk register platform had been updated to enable a register of corporate, programme/project/portfolio and (optional) country activity level risks.

22. For a sample of 25 grants, the Board reviewed whether related risks had been included in the UNCDF risk register platform. The Board noted that for two grants, risks described in the project documents or grant agreement had not been included in

the UNCDF risk register platform. UNCDF had no assurance mechanism in place to ensure that all risks are recorded in the risk register platform.

Outdated risks in the UNCDF risk register

23. The Board noted that in April 2021, the Deputy Executive Secretary had requested all UNCDF directors, including practice directors, to review and update the risks recorded in the programme risk log. The Board, in reviewing the risk register hosted on an intranet SharePoint site, found that 193 risks out of a total of 374 risks recorded (52 per cent) were last modified in October/November 2020, when the UNCDF risk register platform had been put into operation.

24. On a more detailed level, the Board noted that out of 204 risks recorded for the financial inclusion practice area, 181 risks (89 per cent) had not been modified since the consolidated risk platform had been put into operation. At the same time, the Board found that all risks for the local development finance practice had been modified in January or February 2022. UNCDF had no assurance mechanism in place to ensure that risks were identified, assessed, regularly updated and actually mitigated.

25. The Board welcomes the adoption and implementation by UNCDF of an enterprise-wide risk management process. The Board takes positive note of the efforts of UNCDF to improve consolidated reporting and monitoring of risks through a dedicated risk register platform.

26. The Board holds that risk registers need to be reviewed and updated on a regular basis. Updating the risk register should be an ongoing process and updates can occur at any time. A scheduled process should be in place, however, to ensure that the register is actively reviewed and updated so as to ensure effective monitoring of risks across the organization.

27. The Board notes with concern that more than half of the risks recorded in the UNCDF risk register platform had not been modified since the platform had been updated to record all risks from all levels in November 2020. The Board holds that incomplete modifications indicate that some parts of the first line of defence do not meet their responsibility pursuant to the UNCDF enterprise risk management policy and consequently do not effectively manage the risks for projects and programmes under their supervision. This might lead to weak monitoring of risks.

28. **The Board recommends that UNCDF streamline risk reporting into the existing platform and establish an assurance mechanism to ensure that all risks are recorded and regularly updated in the dedicated risk management platform.**

29. **The Board recommends that UNCDF remind all managers of their role and responsibilities within the context of the three lines of defence model and their accountability for risk management within their area of responsibility.**

30. UNCDF agreed with the recommendations.

Recording of grant-related risks

31. The largest expense category of UNCDF and its main mode of implementation are grants. In 2021, related expenses amounted to $37.9 million, representing 39 per cent of the total expenses of UNCDF. The Board noted that the UNCDF operations manual stipulated that all grants had to be processed through the grants module in Atlas which enabled the capture of all grant-related details including impact return, risk and performance. Moreover, in the UNCDF operations manual it is indicated that UNCDF uses dashboards from an automated business intelligence tool to manage and monitor, inter alia, the risk associated with the grants listed in the grants module.

32. The Board noted that grant-specific risks were not captured in the UNCDF risk register platform. Instead, a dedicated grant risk analysis was recorded in Atlas using

a predefined five-question survey for each grant to assess factors such as capacity, complexity, size, maturity and issues related to the sector. Grant-specific fiduciary risks such as poor financial efficiency, fraud, corruption, diversion of financial or non-financial assets and duplicate funding were not captured by the survey questionnaire.

33. The Board found that the grant risk assessment in the Atlas grants module did not assess the likelihood and impact of the risk's occurrence. Instead, the questionnaire captured the risk level (low/medium/high) and assigned related point values (1/2/3) which were added up to produce a final risk score. The Board was informed that the final risk score was not correlated with any risk mitigation measures such as the number of milestones and instalments to be paid for the respective grant. UNCDF staff managing grants stated that they had been providing the information in the grant risks module but had not been actively using the risk analysis to manage the grants.

34. The Board noted that the grant risk analysis did not capture any mitigation measures addressing cases where, for example, the grantee's capacity in the relevant activity area was considered limited.

35. The Board was informed that the risks recorded in the grant risk analysis were supposed to be aggregated, monitored and analysed through use of an automated business intelligence tool. UNCDF stated, however, that the project had been held up owing to the implementation of Quantum, the new enterprise resource planning system, and the onboarding of a new business intelligence analyst. The Board was also informed that a separate dashboard from an automated business intelligence tool for monitoring and reporting grant-related data including aggregated risks per portfolio had not been updated for more than two years.

36. The Board holds that risk management is pivotal to the grant making process and should be considered and continuously monitored throughout the life cycle of the grant award. An effective risk, controls and assurance framework should aim towards reducing grant schemes' risk of failure to achieve their objectives.

37. While the Board welcomes the efforts of UNCDF to systematically capture grant-related risks, the Board holds that the current grant-related risk assessment is not suitable for fully capturing all of the risks of grant schemes' failing to achieve their objectives. For example, programmatic and performance risks such as not achieving grant output, outcome and impact targets and poor sustainability are not captured, nor are financial and fiduciary risks such as poor financial efficiency and fraud-related risks.

38. While the Board acknowledges that the assessment of grant-related risks should be proportionate to the size and complexity of the grant, it also holds that all grant schemes should take into account common fraud risks, such as the misuse of grant funding or duplicate funding.

39. As the current grant risk analysis does not include any mitigation measures and the overall risk score derived from the grant risk analysis is not related to the way in which UNCDF implements a particular grant, the current grant risk analysis is not suitable for effectively mitigating the risk of grant schemes' failure to achieve their objectives. The Board notes with concern that a grant-related dashboard which, inter alia, consolidated data from the grant risk analysis had not been updated for an extended period of time. As a result, the organization did not have a comprehensive overview of important factors related to its grants.

40. **The Board recommends that UNCDF enhance the assessment of grant-related risks within the established enterprise risk management process.**

41. UNCDF agreed with the recommendation and stated that it intended to take action to enhance the monitoring of risks.

4. Grants management and the grants module

42. In its audit report on the financial report and financial statements for the year ended 31 December 2018, the Board noted that UNCDF had documented the meeting of requirements for the payment of grant instalments in different ways and that it might be beneficial to document the fulfilment of conditions for grant disbursements in a more standardized manner. UNCDF had developed and introduced a grants module in Atlas to capture, inter alia, grant-related details such as risks, performance and impact return. Pursuant to the UNCDF operations manual, all grants need to be processed through the grants module. UNCDF would use business intelligence dashboards to manage and monitor the performance, risks and impact return of the grants listed in the grants module.

43. UNCDF intends to change the enterprise resource planning system from Atlas to Quantum in the near future. With the change, UNCDF needs to reorganize grant management within the enterprise resource planning system or as a stand-alone solution.

Document storage in the UNCDF grants module

44. The UNCDF grants module in Atlas has an attachments tab, which displays the documents for the project associated with the grant.

45. The Board noted that in the majority of the samples, multiple grants had been issued under the same project. While in such cases, documents for all grants under that project were visible, the documents were not assigned unambiguously to the actual grant.

46. While the Board observed a large variety of documents within the sample that were shown in the grants module for each grant, it found only a very limited number of documents for the majority of the sample items. Milestone verification documents were not included, for example. In fewer cases, a large number of project-related documents encompassing, inter alia, the donor agreement, the project document, memorandums of understanding, performance-based agreements including amendments, combined delivery reports, annual workplans and back-to-office reports, were shown under the grants module's attachment tab.

47. The operations manual stipulates that for performance-based grants, programme staff were to update the Atlas grants module with certification for milestone completion by the responsible programme managers. The programme manager then requests that the senior manager approve the instalment payment request. The Board noted that in the vast majority of the samples, the documents certifying milestone completion were not available in the grants module.

48. The Board noted that programme staff kept the certification for milestone completion mainly in the practices' own document management system (SharePoint). The Board noted that the practices' SharePoint system appeared to be well established and well structured. For the vast majority of the milestones reviewed in the Board's sample, UNCDF provided sufficient certification for milestone completion.

49. The Board holds that the documents shown in the Atlas grants module were mostly project-related and not relevant solely to grant management. The Board noted that document storage in the grants module on the one hand included documents not relevant to grant management and on the other did not include relevant documents. The Board holds that documents should not be duplicated solely for documentation purposes. Within the current layout, the Board does not see any added value from the attachment tab of the grants module.

50. The Board holds that UNCDF should analyse how project staff and management use documents in the grants module. The Board is of the view that other ways of linking the grants module to the existing documents in the practices' SharePoint system might prevent duplication and enhance the utility of relevant documents for management purposes.

51. **The Board recommends that UNCDF revise its document management in the future grants module and related requirements in the operations manual.**

52. UNCDF accepted the recommendation. UNCDF stated that UNCDF had submitted revised requirements to the Quantum implementation team that addressed this recommendation.

Grant data in the UNCDF grants module

53. The grant data tab in the grants module contains a schedule of payments displaying the different milestones, the related amounts, due dates, a description of the grant and the expected percentage of performance. The percentages are further used in the monitoring and evaluation tab of the grants module to track the different milestones.

54. The Board noted that the expected percentage of performance was recorded through two different approaches: either the expected percentage of performance of all milestones summed up to 100 per cent or a percentage of 100 per cent was expected for each milestone. UNCDF stated that grants in the local development finance practice were expected to achieve a performance of 100 per cent, while grants in the financial inclusion practice area were expected to enter the portion of the total grant amount per milestone.

55. In the Board's sample of 25 grants, 8 recorded a 100 per cent performance per milestone (7 in the local development finance practice and 1 in the financial inclusion practice area). In three samples, the first instalment was recorded with 100 per cent performance and a consecutive 7 to 13 instalments were recorded with 80 per cent performance (all in the financial inclusion practice area). For 12 samples, milestones were recorded and percentages summed up to 100 per cent (all in the financial inclusion practice area). For one sample (local development finance practice), no entries were made. For another sample (financial inclusion practice area), the first three instalments lacked entries. The final two milestones summed up to 30 per cent.

56. The Board holds that data relevant to grant management, especially data used for monitoring, should be complete and entered into the module in a standardized manner. The differences in data within the practices are an indication of differences in the understanding of how to enter grant data in the grants module.

57. **The Board recommends that UNCDF find a standardized means of entering grant data completely in the future grants module and formalize this approach.**

58. UNCDF accepted the recommendation.

Monitoring and evaluation tab of the grants module

59. The monitoring and evaluation tab in the grant financial overview compares the grant total amount with the vouchered amount to derive an available balance. The grant payment details area shows the vouchers for the grant, while the grant evaluation area shows a schedule of payment for all milestones.

60. The Board noted inconsistencies in 18 sample items. In some cases, the grant total amount in the grant's currency and the vouchered total amount did not match. In three other cases, the grant payment details included one or more deleted vouchers. The amount of the deleted vouchers was included in the total vouchered amount,

thereby reducing the available balance, even in the case where the voucher had not been disbursed. The Board found samples where milestone payments had been disbursed without the milestone's being marked as completed in the grant evaluation table.

61. The Board holds that the inconsistencies found might undermine the monitoring function of the grants module and that the missing entries in milestone completion indicate that the grants module is not the primary tool for grant management.

62. UNCDF stated that the shortcomings had already been identified but enhancements were frozen owing to the upcoming change of the enterprise resource planning system.

63. **The Board recommends that UNCDF analyse shortcomings in the monitoring and evaluation tab of the grants module and take corrective measures.**

64. UNCDF accepted the recommendation.

Observation in one sample

65. In one sample, the Board noted that the agreement showed the first milestone/ first prefinancing instalment in the amount of €842,700. Pursuant to the request for payment of contribution, the grantee requested the payment of the first prefinancing instalment of €842,700.

66. According to the UNCDF grants module, the amount recorded for the first payment, however, was €870,524.81. An amount of €870,524.81 was therefore paid as first instalment. The first payment was included in the grant data tab of the grants module but not in the respective table in the monitoring and evaluation tab.

67. UNCDF stated that the transaction team had agreed with the responsible party on activities to be conducted in United States dollars based on the United States dollar rate applied when UNCDF received the contribution. Payments to the grantee were to be made in euros. The United States dollar rate at the time when UNCDF received the funds was 0.848, translating the first instalment of €842,700 to $993,750, upon which the activities were budgeted. At the time of disbursement, the United States dollar rate was 0.876. The activities budgeted in an amount of $993,750 became equivalent to €870,525. The transaction team in the country office therefore disbursed €870,525.

68. While the Board welcomes the fact that UNCDF agreed with the Board's assessment and took action to reclaim the difference, the Board notes with concern that UNCDF noticed the difference only after the Board had questioned the inconsistencies between contract and payment. The Board holds that UNCDF should ensure that payment details and other relevant information are entered in the grants module on a timely basis to ensure that the grants module becomes an effective monitoring tool which should also be used to explain any deviations.

69. **The Board recommends that UNCDF analyse the completeness and quality of the data entered into the grants module and enhance the use of the grants module in day-to-day grants management.**

70. UNCDF agreed with the recommendation. UNCDF has submitted revised requirements to the Quantum implementation team to integrate the grants module with other modules in enterprise resource planning. In the view of UNCDF, this approach will ensure the completeness and accuracy of the data in the new grants module.

C. Disclosures by management

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

71. Management informed the Board that in accordance with financial rule 126.17, UNCDF had no write-offs in 2021.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

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

74. During the audit, the Board made enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the 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.

75. UNCDF reported one case of fraud or presumptive fraud during 2021. The amount involved is yet unknown.

D. Acknowledgement

76. 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

21 July 2022

Annex

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

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1.	2020	A/76/5/Add.2, chap. II, para. 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.	UNCDF had initiated a review of and updated its internal control framework to meet the needs of UNCDF.	The Board welcomes the review of the internal control framework. The Board considers this recommendation implemented.	X			
2.	2020	A/76/5/Add.2, chap. II, para. 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.	UNCDF has analysed the current rights within in its internal control framework and established an internal control framework governance committee to enhance the safeguards of internal control and delegation of authority.	The Board welcomes the analysis of the current rights within the UNCDF internal control framework and the safeguards established. The Board considers this recommendation implemented.	X			
3.	2020	A/76/5/Add.2, chap. II, para. 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.	UNCDF has analysed the current rights within in its internal control framework and established an internal control framework governance committee to enhance the safeguards of internal control and delegation of authority.	The Board welcomes the establishment by UNCDF of an internal control framework governance committee as a mechanism for establishing that its internal control system is functioning. The Board considers this recommendation implemented.	X			
4.	2020	A/76/5/Add.2, chap. II, para. 49	The Board recommends that UNCDF further enhance managing delegations of authority in accordance with applicable guiding principles that govern the policies and procedures for the delegation of authority.	UNCDF had initiated a review of and updated its delegation of authority letter in accordance with the applicable guiding principles.	The Board notes the review and update of the delegation of authority letter. The Board considers this recommendation 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
5.	2020	A/76/5/Add.2, chap. II, para. 51	The Board recommends that UNCDF monitor delegations of authority on a regular basis to enhance compliance with the applicable policies and procedures.	UNCDF has analysed the current rights within in its internal control framework and established an internal control framework governance committee to enhance the safeguards of internal control and delegation of authority.	The Board welcomes the establishment of the internal control framework governance committee and the related terms of reference. The Board considers this recommendation implemented.	X			
6.	2020	A/76/5/Add.2, chap. II, para. 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.	UNCDF conducted a fraud risk assessment at corporate level using the services of an external consultant. Following the issuance of the draft fraud risk assessment report, the UNCDF risk management committee held a meeting and took the following actions: (a) approved the conducting of a general fraud risk assessment once every four years or at some other frequency as determined by the risk management committee; (b) agreed to include discussion of emerging risks in deliberations of risk management groups and determine locations and/or business processes that require a detailed fraud risk assessment; and (c) endorsed the draft fraud risk assessment report and approved the conducting of a detailed risk assessment for one country office based on findings/ ranking by the consultant.	The Board welcomes the fact that UNDP conducted a fraud risk assessment. The Board takes positive note of the intention to conduct a general fraud risk assessment regularly once every four years. The Board considers this recommendation 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
7.	2020	A/76/5/Add.2, chap. II, para. 67	The Board recommends that UNCDF enhance compliance with the provisions related to fraud risk assessment as set out in the UNDP anti-fraud policy and remind managers of their respective responsibilities.	UNCDF invited the UNDP Ethics Office to conduct webinars both in English and in French to help raise awareness of fraud and ethics-related guidance among UNCDF staff. UNCDF enhanced compliance with the UNDP anti-fraud policy by updating the programme risk register to include "fraud and corruption" as a separate risk category for evaluation by project managers. UNCDF also reminded managers of their respective responsibilities by introducing a dashboard for monitoring.	The Board welcomes the various efforts to enhance compliance with the provisions related to fraud risk assessment as set out in the UNDP anti-fraud policy. The Board considers this recommendation implemented.	X			
8.	2020	A/76/5/Add.2, chap. II, para. 76	The Board recommends that UNCDF implement specific anti-fraud controls, such as rotation, and practical measures, such as mandatory annual leave to reduce risk of fraudulent acts.	In 2021, UNCDF implemented the mandatory rotation policy which enforces geographical or functional mobility for staff who have held the same post after a prescribed number of years. Notifications had already been sent to all of the staff who are required to rotate. In addition, reminders were sent out to both staff and managers encouraging the taking of annual leave by staff for staff well-being as well as anti-fraud control.	The Board welcomes the implementation of specific anti-fraud controls. The Board considers this recommendation implemented.	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Board's recommendation*	*Management/Administration's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
9.	2020	A/76/5/Add.2, chap. II, para. 84	The Board recommends that UNCDF implement continuous due diligence procedures to regularly review its vendor master file for the inclusion of ineligible vendors or detection of fraud risk red flags.	To address the audit recommendation and help mitigate increasing risk of vendor fraud, UNCDF has implemented various continuous due diligence procedures as outlined in a new standard operating procedure.	The Board welcomes the development of a separate standard operating procedure on continuous due diligence procedures for vendors. The Board considers this recommendation implemented.	X			
	Total number of recommendations					**9**			
	Percentage of the total number of recommendations					**100**			

Chapter III
Financial report for the year ended 31 December 2021

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 2021. 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 2021 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. The key criteria and benchmarks aligned with this objective include meeting the minimum operational reserve requirement approved by the Executive Board and producing annual financial statements that are compliant with IPSAS.

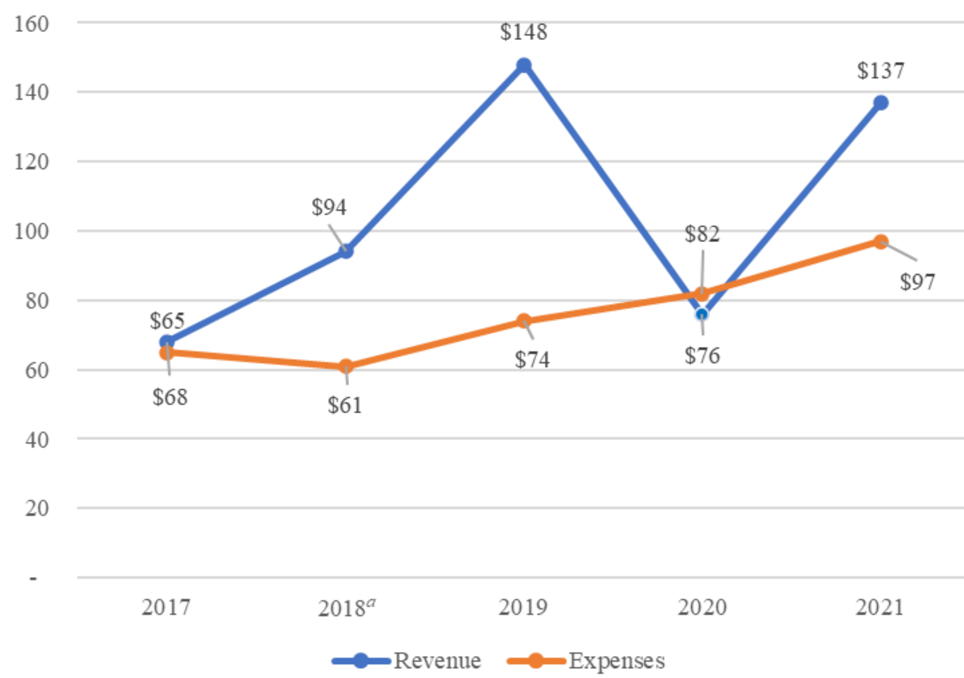
7. The financial reporting objective of UNCDF is to provide users of the financial statements with transparent, comprehensive and understandable financial information.

B. Summary financial results and highlights

8. Total revenue increased by 80.4 per cent, from $75.7 million in 2020 to $136.6 million in 2021. Total expenses increased by 18.9 per cent, from $81.7 million in 2020 to $97.1 million in 2021. Total accumulated surpluses and reserves increased by 15.1 per cent, from $268.9 million in 2020 to $309.4 million at the end of 2021. That increase is attributable primarily to a surplus for the year of $39.5 million.

9. At the end of 2021, UNCDF had total assets of $333.0 million, an increase from $292.3 million in 2020. The change is attributable primarily to an increase in cash and investment of $23.1 million and an increase in receivables (other) of $15.8 million.

Figure III.I
Total revenue and expenses
(Millions of United States dollars)



[a] In 2019, UNCDF changed its accounting policy for non-exchange revenue. Figures from 2018 onward are therefore not comparable with those for prior years.

C. Financial performance

Revenue analysis

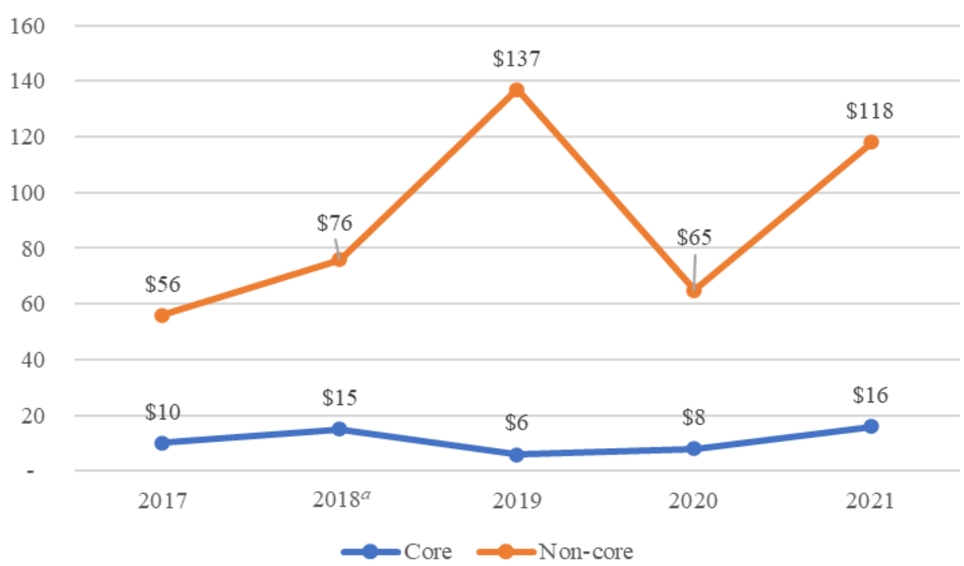
10. The activities of UNCDF are funded by voluntary contributions to regular (core) resources and other (non-core) resources.

11. Total revenue in 2021 was $136.6 million, an increase of $60.9 million (80.4 per cent) from revenue of $75.7 million in 2020. The main sources of revenue in 2021 were:

- Voluntary contributions in the amount of $133.5 million (97.7 per cent), compared with $72.5 million (95.7 per cent) in 2020
- Investment and other revenue in the amount of $3.1 million (2.3 per cent), compared with $3.2 million (4.3 per cent) in 2020

12. In 2021, UNCDF reported $15.9 million in regular (core) contributions (11.9 per cent of total voluntary contribution) and $117.6 million in other (non-core) contributions (88.1 per cent of total voluntary contribution). The $60.9 million increase in voluntary contributions was due to several large multi-year revenue agreements signed in 2021.

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 non-exchange revenue. Figures from 2018 onward are therefore not comparable with those for prior years.

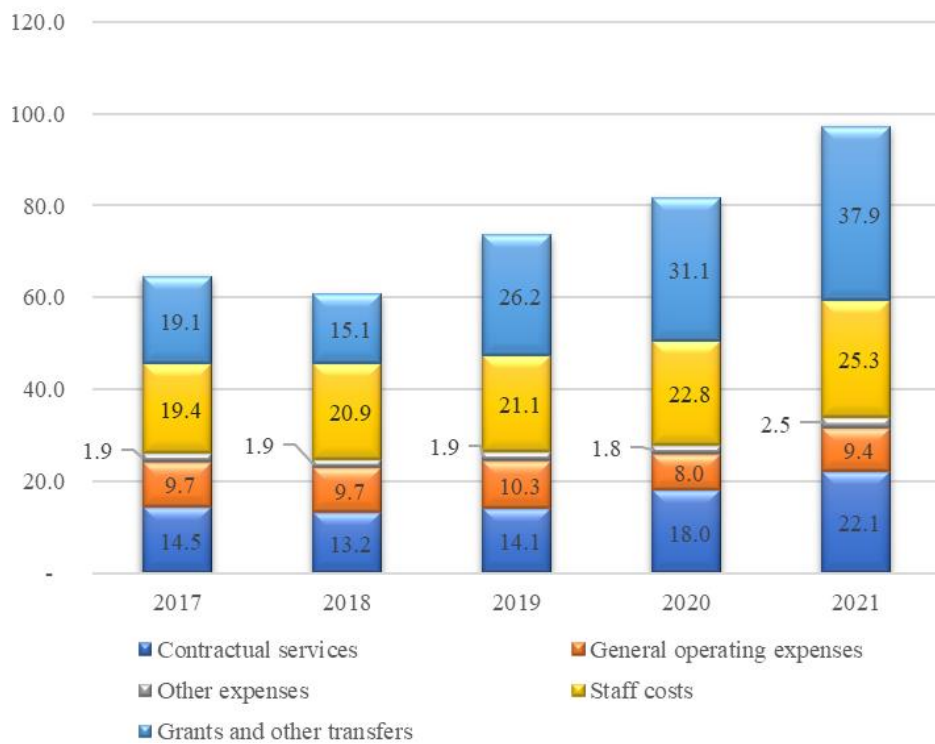
Expense analysis

13. In 2021, UNCDF expenses were $97.1 million ($102.7 million excluding the effect of the elimination of internal UNCDF cost recovery), an increase of $15.4 million (18.9 per cent) from 2020. The increase was due mainly to improved programme delivery in both the inclusive digital economies and local development finance areas of work.

14. Grants and other transfers amounting to $37.9 million in 2021 represent a portion of UNCDF capital investment included in programme delivery.

15. The other two largest expense categories by nature in 2021 were staff costs ($25.3 million) and contractual services ($22.1 million), which represent predominantly 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.

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 2021, of total expenses of $102.7 million (excluding the effect of the elimination of internal cost recovery), $92.8 million (90.4 per cent) was spent on programme activities, $5.4 million (5.2 per cent) on development effectiveness and $4.5 million (4.4 per cent) on management activities.

D. Surplus/deficit

18. In 2021, UNCDF had a surplus of revenue over expense of $39.5 million, compared with a deficit of $6.0 million in 2020. The increase of $45.5 million was:

- Driven by an increase in total revenue of $60.9 million, from $75.7 million in 2020 to $136.6 million in 2021
- Offset by an increase in spending of $15.4 million, from $81.7 million in 2020 to $97.1 million in 2021

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

	2021		*2020*	
Budget components	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (percentage)*	*Annualized approved final budget (millions of United States dollars)*	*Actual utilization rate (percentage)*
Development activities	11.1	93	9.8	93
Management activities	1.5	96	1.3	96
Total	**12.6**	**94**	**11.1**	**93**

22. Overall, UNCDF utilized 94 per cent of its approved budgeted amount, a consistent performance compared with the utilization level for 2020 (93 per cent).

F. Financial position

Assets

23. At the end of 2021, UNCDF held assets of $333.0 million (2020: $292.3 million). The increase of $40.7 million (13.9 per cent) was driven largely by an increase in cash and investment of $23.1 million (14.8 per cent) and an increase in receivables (other) of $15.8 million (over 100 per cent).

24. At the end of 2021, the increase in the Fund's investment balance was apportioned strategically into long-term and current investments. These allocation decisions allowed the portfolio to benefit from the anticipated increase in interest rates and permitted the portfolio to maintain its objective of ensuring that sufficient funds are available to meet the entity's current obligations.

Liabilities

25. The Fund's total liabilities increased by $0.2 million (0.9 per cent), from $23.4 million in 2020 to $23.6 million in 2021.

26. At the end of 2021, UNCDF held after-service health insurance liabilities of $14.5 million (2020: $14.6 million). The Fund's after-service health insurance liabilities continue to be fully funded.

Net assets/equity

27. Net assets/equity reached $309.4 million in 2021, including accumulated surpluses of $302.6 million and operational reserves of $6.8 million. Accumulated surpluses at 31 December 2021 included non-exchange receivables of $132.2 million. Under the financial regulations and rules of UNCDF, the organization is permitted to spend only when the cash is received.

28. Operational reserves comprised a $5.2 million operational reserve for regular resources and a $1.6 million operational reserve for other resources.

29. During 2021, net assets/equity increased by $40.6 million (15.1 per cent) as a result of the combined effect of the following factors: (a) a surplus of $39.5 million; (b) actuarial gain of $1.1 million; (c) an increase in funds with specific purposes of $0.3 million; and (d) a decrease in the fair value of available-for-sale investments of $0.3 million.

G. Accountability, governance and risk management

30. 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.

31. 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.

32. 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

33. 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 continues to ensure full application of risk management throughout 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.

34. 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

35. 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.

36. 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.

37. The financial risk management relating to cash and investments is carried out by the UNDP central Treasury Division. The Division invests funds received from funding partners based on investment guidelines approved by the UNDP Investment Committee. The Committee, comprising senior management of UNDP, meets quarterly to review investment performance and confirm compliance with the investment guidelines.

38. The principal objectives of the UNDP investment guidelines are:

(a) Safety: preservation of capital, provided through investing in high-quality fixed-income 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 return within safety and liquidity parameters;

(d) Socially responsible investments selected using a designated provider's negative screens.

39. The investments of UNCDF relating to after-service health insurance are outsourced and managed by two external fund managers under established after-

service health insurance investment guidelines, which are reviewed and approved on a periodic basis by the after-service health insurance investment committee. The guidelines identify eligible instruments for global equities and fixed-income investments and specify asset class limits. Reporting and oversight of the investment managers occur formally through quarterly after-service health insurance investment committee meetings and monthly financial reporting by the investment managers.

Internal controls

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

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

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

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

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

(d) Monitor the effectiveness of internal controls.

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

(a) "Front-line" controls: functions carried out by all organizational personnel at field, regional and headquarters offices by applying existing policies and procedures in their daily work to ensure that objectives are met and resources entrusted to UNCDF are safeguarded and 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: internal oversight is supplemented by external bodies, including the Executive Board, the Audit and Evaluation Advisory Committee, and external auditors and regulatory authorities.

H. Accounting matters

Critical accounting estimates

43. Preparing 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 those 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:

- Revenue recognition
- Actuarial measurement of employee benefits
- Selection of useful lives and the depreciation/amortization method for property, plant and equipment
- Valuation of investment assets
- Impairment losses on assets
- Classification of financial instruments
- Contingent assets and liabilities

44. UNCDF management periodically discusses the development, selection and disclosure of critical accounting policies and estimates. While the estimates and assumptions are based on knowledge of current events and actions that may be undertaken in the future, actual results may ultimately differ from those estimates and assumptions. The significant accounting policies are disclosed in note 4 to the financial statements.

Adoption of new accounting standards

45. IPSAS 41: Financial instruments was issued in 2018, with an effective date of 1 January 2022, which was subsequently deferred by one year to 1 January 2023 through the final pronouncement, entitled “COVID-19: deferral of effective dates”, issued in 2020. UNCDF will adopt the new standard effective 1 January 2023 and its impact on the financial statements of UNCDF upon adoption is currently being assessed.

46. Exposure draft 68: Improvements to IPSAS, 2019, which was initially due to become effective in 2021, was subsequently deferred to 1 January 2023 through the final pronouncement, entitled “COVID-19: deferral of effective dates”, issued in 2020. UNCDF will adopt the new standard effective 1 January 2023 and its adoption is not expected to have a significant impact on the financial statements of UNCDF. However, the full impact of the adoption of the new standard is currently being assessed.

47. IPSAS 43: Leases was issued in January 2022 with an effective date of 1 January 2025. IPSAS 43 supersedes IPSAS 13: Leases and introduces the right-of-use model for lessees. Based on the right-of-use model, upon adoption of the new standard and after the expiration of the validity of any transitional provisions, most leases will be required to be capitalized, resulting in an increase in the amount of capitalized assets and the recording of related lease liabilities. The impact on UNCDF annual financial performance is expected to be broadly neutral, since depreciation of leased assets and interest costs on the related lease liabilities will replace the currently recorded lease expenses. Its impact on the financial statements on UNCDF upon adoption, including the impact of consequential amendments to other standards, is currently being assessed.

48. In February 2020, the IPSAS Board issued three revenue- and expense-related exposure drafts for comments (exposure draft 70: Revenue with performance obligations; exposure draft 71: Revenue without performance obligations; and exposure draft 72: Transfer expenses). Exposure draft 70 is expected to replace IPSAS 9: Revenue from exchange transactions. Exposure draft 71 is expected to

replace IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). Exposure draft 72 is the draft of a new standard. UNCDF, through UNDP, provided its comments on the exposure drafts to the IPSAS Board. Assuming these exposure drafts result in the issuance of new IPSAS standards that are substantially equivalent in scope and content to the relevant exposure drafts, these standards are likely to affect the UNCDF financial statements significantly. The key impact is that for all earmarked contributions, revenue recognition will be deferred until UNCDF meets its performance obligation. Under the current IPSAS 23, UNCDF recognizes substantially all voluntary contributions as revenue upon signature of the relevant contribution agreement.

49. UNCDF is currently assessing the impact of exposure drafts 70, 71 and 72. The suite of the three exposure drafts is expected to be converted to published IPSAS standards by the end of 2022. New standards resulting from these exposure drafts are not expected to be mandatory before 2025. UNCDF expects that there will be sufficient implementation time once the standards are approved and additional resources may be required to support the implementation of these standards.

50. 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. An assessment of the impact on the UNCDF financial statements in advance of the issuance of any new standards and subsequent implementation is ongoing.

I. Implementation of the Next Generation Enterprise Resource Planning project

51. UNCDF has joined UNDP in the implementation of the Next Generation Enterprise Resource Planning (Quantum) 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 new strategic plan. The adoption of Quantum is aligned with UNCDF aspirations to keep abreast of the latest information technology and digital strategies.

52. The move to a cloud-based architecture also provides an opportunity to reduce enterprise resource planning-related information technology operating costs once Atlas is fully decommissioned. Various other productivity gains and benefits are expected through improvement in digital engagement and ways of working.

J. Looking forward to 2022 and beyond

53. After three consecutive years of growth and historical record breaking in terms of programme expenditure, UNCDF stands at a crossroads marked by exciting prospects. Its value proposition has never been more relevant to the least developed countries, the implementation of the 2030 Agenda for Sustainable Development, and the emerging trends of financing for development as the organization lays the foundation for a novel investment proposition and partnership model during its strategic framework cycle for the period 2018–2021. The organization has increased its capacity to manage and deploy concessional debt and other blended finance instruments, enabling it to build an investment portfolio and track record. This is a unique capability that UNCDF intends to continue developing and refining through the implementation of the strategic framework for the period 2022–2025, thereby further assisting least developed countries in achieving sustainable and inclusive economic growth and recovering from the effects of the coronavirus disease (COVID-19) pandemic.

54. UNCDF will continue to evolve into a hybrid development organization and development finance institution by systematically combining the provision of capital and financial advisory services with capacity development, technical assistance and policy advice in its long-standing areas of work: inclusive digital economies and local transformative finance. In the coming year, it will boost its capital markets and investment expertise at the global and country levels.

55. Building on progress in 2021, UNCDF will deepen partnerships with the United Nations development system to develop scalable financing solutions in key areas such as women's economic empowerment, climate change, energy, biodiversity and food systems. UNCDF will offer its unique financing capabilities as a service for the wider United Nations development system.

56. To enhance its relevance and responsiveness to the priorities of least developed countries, UNCDF will deepen engagement with Governments and other representatives of the least developed countries as well as with United Nations country teams, utilizing its newly established country relationship manager network. In so doing, it will work with countries to accelerate development of investment-ready sustainable development projects.

57. UNCDF recognizes the value of strong evaluation and results management functions to capture learning and incorporate it into scaled-up programmes and investments. In the new strategic framework for the period 2022-2025, UNCDF aims towards strengthening its capacities and systems for results and impact management and increasing investment in corporate and thematic evaluations.

58. As the United Nations development system evolves and responds to emerging global challenges, UNCDF will follow the guidance of Member States in supporting the Secretary-General's call to action in the context of Our Common Agenda. In so doing, it will seek to leverage its decades-long expertise in making finance work for last-mile support to new approaches to boosting Sustainable Development Goals-related investments.

Chapter IV

Financial statements for the year ended 31 December 2021

United Nations Capital Development Fund

I. Statement of financial position as at 31 December 2021

(Thousands of United States dollars)

	References	*31 December 2021*	*31 December 2020*
Assets			
Current assets			
Cash and cash equivalents	Note 8	15 618	48 107
Investments	Note 9	57 116	46 056
Receivables (non-exchange transactions)	Note 10	85 572	79 442
Receivables (other)	Note 10	16 985	1 201
Advances issued	Note 11	682	535
Loans	Note 12	1 071	963
Total current assets		**177 044**	**176 304**
Non-current assets			
Investments	Note 9	106 814	62 279
Receivables (non-exchange transactions)	Note 10	46 591	51 495
Loans	Note 12	1 995	1 607
Property, plant and equipment	Note 13	594	589
Total non-current assets		**155 994**	**115 970**
Total assets		**333 038**	**292 274**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 14	2 221	1 757
Advances payable	Note 15	33	401
Employee benefits	Note 16	3 313	3 311
Other current liabilities	Note 15	297	322
Total current liabilities		**5 864**	**5 791**
Non-current liabilities			
Accounts payable and accrued liabilities	Note 14	22	27
Employee benefits	Note 16	17 720	17 586
Total non-current liabilities		**17 742**	**17 613**
Total liabilities		**23 606**	**23 404**
Net assets/equity			
Reserves	Note 17	6 800	6 400
Accumulated surpluses	Note 18	302 632	262 470
Total net assets/equity		**309 432**	**268 870**
Total liabilities and net assets/equity		**333 038**	**292 274**

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 2021

(Thousands of United States dollars)

	References	*2021*	*2020*
Revenue			
Voluntary contributions	Note 19	133 471	72 472
Investment revenue	Note 20	2 682	3 010
Other revenue	Note 21	468	233
Total revenue		**136 621**	**75 715**
Expenses[a]			
Contractual services	Note 22	22 061	18 005
Staff costs	Note 22	25 304	22 785
Supplies and consumables	Note 22	975	807
General operating expenses	Note 22	9 358	8 003
Grants and other transfers	Note 22	37 895	31 074
Other expenses	Note 22	1 430	918
Depreciation	Note 22	82	77
Total expenses		**97 105**	**81 669**
Surplus/(deficit) for the year		**39 516**	**(5 954)**

[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 2021

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2020	**6 400**	**262 470**	**268 870**
Changes in net assets/equity			
Operational reserve transferred from accumulated surpluses	400	(400)	–
Funds with specific purposes (note 18)	–	268	268
Changes in fair value of available-for-sale investments	–	(328)	(328)
Actuarial gains/(losses)	–	1 106	1 106
Surplus for the year	–	39 516	39 516
Total changes in net assets/equity	**400**	**40 162**	**40 562**
Balance at 31 December 2021	**6 800**	**302 632**	**309 432**

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 2021

(Thousands of United States dollars)

	2021	*2020*
Cash flows from operating activities		
Surplus/(deficit) for the year	39 516	(5 954)
Adjustments to reconcile surplus/(deficit) for the year to net cash flows		
Depreciation	82	77
Impairment	322	23
Amortization of bond premium	130	(45)
(Gains)/losses on fair value through surplus or deficit	966	836
(Gains)/losses on disposal of property, plant and equipment	13	(4)
Interest received on loans	327	334
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	(1 226)	12 242
(Increase)/decrease in receivables (other)	(17 806)	2 003
(Increase)/decrease in advances issued	(147)	64
(Increase)/decrease in loans	(818)	(857)
Changes in liabilities/net assets		
(Decrease)/increase in accounts payable and accrued liabilities	459	153
(Decrease)/increase in advances payable	(368)	43
(Decrease)/increase in employee benefits	1 242	1 946
(Decrease)/increase in other liabilities	(25)	(671)
(Decrease)/increase in funds with specific purposes	268	278
Cash flows from/(used in) operating activities	**22 935**	**10 468**
Cash flows from investing activities		
Purchases of investments	(136 538)	(112 762)
Maturities of investments	80 829	118 652
(Increase)/decrease in investments managed by external investment managers	(1 310)	(3 011)
Interest and dividends received	1 695	2 638
Purchases of property, plant and equipment	(104)	(115)
Disposal of property, plant and equipment	4	73
Cash flows from/(used in) investing activities	**(55 424)**	**5 475**
Cash flows from financing activities	–	–
(Decrease)/increase in cash and cash equivalents	**(32 489)**	**15 943**
Cash and cash equivalents at beginning of the year	**48 107**	**32 164**
Cash and cash equivalents at end of the year (note 8)	**15 618**	**48 107**

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 2021

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference between final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	5 372	4 972	4 922	50
Development effectiveness	6 909	6 131	5 422	709
Subtotal	**12 281**	**11 103**	**10 344**	**759**
Management activities	1 516	1 516	1 461	55
Total	**13 797**	**12 619**	**11 805**	**814**

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

United Nations Capital Development Fund
Notes to the 2021 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 delivers investment and technical assistance support to 37 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 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

IPSAS 41: Financial instruments, was issued in 2018, with an effective date of 1 January 2022, which was subsequently deferred by one year to 1 January 2023 through the final pronouncement, entitled “COVID-19: deferral of effective dates”, issued in 2020. UNCDF will adopt the new standard effective 1 January 2023 and its impact on the financial statements of UNCDF upon adoption is currently being assessed.

Exposure draft 68: Improvements to IPSAS, 2019, which was initially due to become effective in 2021, was subsequently deferred to 1 January 2023 through the final pronouncement, entitled “COVID-19: deferral of effective dates”, issued in 2020. UNCDF will adopt the new standard effective 1 January 2023 and its adoption is not expected to have a significant impact on the financial statements of UNCDF. However, the full impact of the adoption of the new standard is currently being assessed.

IPSAS 43: Leases was issued in January 2022 with an effective date of 1 January 2025. IPSAS 43 supersedes IPSAS 13: Leases and introduces the right-of-use model for lessees. Based on the right-of-use model, upon adoption of the new standard and after the expiration of the validity of any transitional provisions, most leases will be required to be capitalized, resulting in an increase in the amount of capitalized assets and the recording of related lease liabilities. The impact on UNCDF annual financial performance is expected to be broadly neutral, since depreciation of leased assets and interest costs on the related lease liabilities will replace the currently recorded lease expenses. Its impact on the financial statements of UNCDF upon adoption, including the impact of consequential amendments to other standards, is currently being assessed.

In February 2020, the IPSAS Board issued three revenue- and expense-related exposure drafts for comments (exposure draft 70: Revenue with performance obligations; exposure draft 71: Revenue without performance obligations; and exposure draft 72: Transfer expenses). Exposure draft 70 is expected to replace

IPSAS 9: Revenue from exchange transactions. Exposure draft 71 is expected to replace IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). Exposure draft 72 is the draft of a new standard. UNCDF, through UNDP, provided its comments on the exposure drafts to the IPSAS Board. Assuming these exposure drafts result in the issuance of new IPSAS standards that are substantially equivalent in scope and content to the relevant exposure drafts, these standards are likely to affect the UNCDF financial statements significantly. The key impact is that for all earmarked contributions, revenue recognition will be deferred until UNCDF meets its performance obligation. Under the current IPSAS 23, UNCDF recognizes substantially all voluntary contributions as revenue upon signature of the relevant contribution agreement.

UNCDF is currently assessing the impact of exposure drafts 70, 71 and 72. The suite of the three exposure drafts is expected to be converted to published IPSAS standards by the end of 2022. New standards resulting from these exposure drafts are not expected to be mandatory before 2025. UNCDF expects that there will be sufficient implementation time once the standards are approved and additional resources may be required to support the implementation of these standards.

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. An assessment of the impact on the UNCDF financial statements in advance of the issuance of any new standards and subsequent implementation is ongoing.

(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 Head of Office of Finance and Management Services of UNCDF. In accordance with the UNCDF financial regulations and rules, these financial statements are authorized to be submitted for audit on 30 April 2022.

Note 4
Significant accounting policies

(a) Classification of financial assets

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

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

IPSAS classification	*Type of UNCDF financial asset*
Held-to-maturity	Investments, excluding after-service health insurance investments and beneficiary units
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
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 other than receivables (non-exchange transactions).

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

As part of its mandate, UNCDF issues loans at concessionary terms to third parties in financially underserved areas to unlock public and private resources. These loans are offered at lower interest rates and longer maturities than those found on the commercial market to support small and medium-sized enterprises and early-stage businesses in building up a credit track record and ultimately graduating to formal capital markets.

Accounting for concessionary loans

A concessionary loan is a loan provided on terms that are more favourable than those 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 industry-accepted 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 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 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 limited accessibility of market information for these types of loans, yields can vary in nature and be fairly wide.

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 is stated at historical cost, less accumulated depreciation and accumulated impairment losses. It is noted that, on the adoption of IPSAS and its transitional provisions, for opening balances, initial capitalization of property, plant and equipment was at fair value. This includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired without charge or for a nominal consideration, the fair value at the date of acquisition is deemed to be its cost. The threshold for recognition of property, plant and equipment as an asset is $5,000 or more per unit. For leasehold improvements, the capitalization threshold is $50,000.

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

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

Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (see sect. 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, as major components of property, plant and equipment. Assets under construction are not depreciated, as those assets are not yet available for use.

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

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

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

UNCDF has no intangible assets.

Impairment of non-cash-generating assets

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

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

(b) Classification of financial liabilities

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

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

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

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 United Nations Joint Staff 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 unless otherwise stated in the contribution agreement.

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
Prior-period adjustments and reclassification of comparatives

In 2021, there were no prior-period adjustments or major reclassifications of 2020 comparatives.

Note 6
Segment reporting

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

(a) Regular resources

Regular resources are all resources of UNCDF that are commingled, untied and unearmarked. These include unearmarked voluntary contributions from 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 2021

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2021	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Assets										
Current assets										
Cash and cash equivalents	2 886	14 876	8 207	20 579	2 651	7 704	1 874	4 948	15 618	48 107
Investments	11 846	14 970	29 179	19 251	9 426	7 208	6 665	4 627	57 116	46 056
Receivables (non-exchange transactions)	1 135	1	76 255	66 401	8 182	13 040	–	–	85 572	79 442
Receivables (other)	16 670	963	217	179	64	24	34	35	16 985	1 201
Advances issued	612	431	25	70	35	30	10	4	682	535
Loans	–	–	518	963	553	–	–	–	1 071	963
Total current assets	**33 149**	**31 241**	**114 401**	**107 443**	**20 911**	**28 006**	**8 583**	**9 614**	**177 044**	**176 304**
Non-current assets										
Investments	19 901	18 144	53 800	26 553	17 379	9 942	15 734	7 640	106 814	62 279
Receivables (non-exchange transactions)	3 859	–	41 732	47 865	1 000	3 630	–	–	46 591	51 495
Loans	–	–	808	633	1 187	894	–	80	1 995	1 607
Property, plant and equipment	148	179	399	354	44	51	3	5	594	589
Total non-current assets	**23 908**	**18 323**	**96 739**	**75 405**	**19 610**	**14 517**	**15 737**	**7 725**	**155 994**	**115 970**
Total assets	**57 057**	**49 564**	**211 140**	**182 848**	**40 521**	**42 523**	**24 320**	**17 339**	**333 038**	**292 274**

Segment reporting: statement of financial position as at 31 December 2021 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2021	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	702	242	737	855	604	502	178	158	2 221	1 757
Advances payable	–	–	33	401	–	–	–	–	33	401
Employee benefits	3 243	2 804	27	285	4	85	39	137	3 313	3 311
Other current liabilities	12	28	113	134	29	35	143	125	297	322
Total current liabilities	**3 957**	**3 074**	**910**	**1 675**	**637**	**622**	**360**	**420**	**5 864**	**5 791**
Non-current liabilities										
Accounts payable and accrued liabilities	–	–	–	–	22	27	–	–	22	27
Employee benefits	17 679	17 220	2	123	1	27	38	216	17 720	17 586
Total non-current liabilities	**17 679**	**17 220**	**2**	**123**	**23**	**54**	**38**	**216**	**17 742**	**17 613**
Total liabilities	**21 636**	**20 294**	**912**	**1 798**	**660**	**676**	**398**	**636**	**23 606**	**23 404**
Net assets/equity										
Reserves	5 200	4 900	–	–	–	–	1 600	1 500	6 800	6 400
Accumulated surpluses	30 221	24 370	210 228	181 050	39 861	41 847	22 322	15 203	302 632	262 470
Total net assets/equity	**35 421**	**29 270**	**210 228**	**181 050**	**39 861**	**41 847**	**23 922**	**16 703**	**309 432**	**268 870**
Total liabilities and net assets/equity	**57 057**	**49 564**	**211 140**	**182 848**	**40 521**	**42 523**	**24 320**	**17 339**	**333 038**	**292 274**

Segment reporting: statement of financial performance for the year ended 31 December 2021

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2021	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Revenue												
Voluntary contributions	15 895	7 621	96 592	55 154	16 538	6 794	4 446	2 903	–	–	133 471	72 472
Investment revenue	1 660	1 391	163	230	244	310	615	1 079	–	–	2 682	3 010
Other revenue	286	68	167	123	4	1	5 579	5 622	(5 568)	(5 581)	468	233
Total revenue	**17 841**	**9 080**	**96 922**	**55 507**	**16 786**	**7 105**	**10 640**	**9 604**	**(5 568)**	**(5 581)**	**136 621**	**75 715**
Expenses												
Contractual services	2 282	1 812	15 860	13 346	3 633	2 667	286	180	–	–	22 061	18 005
Staff costs	6 035	5 849	11 762	10 116	4 712	3 514	2 795	3 306	–	–	25 304	22 785
Supplies and consumables	303	142	537	565	113	87	22	13	–	–	975	807
General operating expenses	1 808	1 331	9 444	8 771	2 470	2 346	1 204	1 136	(5 568)	(5 581)	9 358	8 003
Grants and other transfers	906	1 216	29 316	23 333	7 673	6 525	–	–	–	–	37 895	31 074
Other expenses	381	355	785	423	166	78	98	62	–	–	1 430	918
Depreciation	34	35	40	33	7	8	1	1	–	–	82	77
Total expenses	**11 749**	**10 740**	**67 744**	**56 587**	**18 774**	**15 225**	**4 406**	**4 698**	**(5 568)**	**(5 581)**	**97 105**	**81 669**
Surplus/(deficit) for the year	**6 092**	**(1 660)**	**29 178**	**(1 080)**	**(1 988)**	**(8 120)**	**6 234**	**4 906**	–	–	**39 516**	**(5 954)**

[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 unearmarked voluntary contributions from 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 $1.178 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 2021 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 2021 against budget levels are as follows:

(a) Development activities: actual utilization of $10.344 million, representing 93 per cent of the annualized final approved budget of $11.103 million;

(b) Management activities: actual utilization of $1.461 million, representing 96 per cent of the annualized final approved budget of $1.516 million.

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual amount on a comparable basis as presented in statement V	**(11 805)**	**–**	**–**	**(11 805)**
Basis differences	138	56	–	194
Entity differences	34 602	(55 480)	–	(20 878)
Net increase/(decrease) in cash and cash equivalents from statement IV	**22 935**	**(55 424)**	**–**	**(32 489)**

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 2021	*31 December 2020*
Cash in bank accounts	2 695	2 175
Cash held by external investment managers	492	436
Money market funds	12 431	45 496
Total cash and cash equivalents	**15 618**	**48 107**

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 2021	*31 December 2020*
Current investments		
Investments managed by the United Nations Development Programme	56 990	45 948
Investments managed by external investment managers	126	108
Total current investments	**57 116**	**46 056**
Non-current investments		
Investments managed by the United Nations Development Programme	88 416	47 033
Investments managed by external investment managers	14 952	13 988
Beneficiary units	3 446	1 258
Total non-current investments	**106 814**	**62 279**
Total investments	**163 930**	**108 335**

UNCDF investments include held-to-maturity financial assets that are managed by UNDP, available-for-sale financial assets that are managed by external investment managers and financial assets classified as fair value through surplus or deficit.

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

(Thousands of United States dollars)

	1 January 2021	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2021*
Current investments							
Money market instruments	5 000	44 962	(25 000)	24	–	15 000	39 986
Bonds	40 948	–	(40 829)	(119)	–	17 004	17 004
Total current investments	**45 948**	**44 962**	**(65 829)**	**(95)**	**–**	**32 004**	**56 990**
Non-current investments							
Money market instruments	–	15 000	–	–	–	(15 000)	–
Bonds	47 033	73 422	(15 000)	(35)	–	(17 004)	88 416
Total non-current investments	**47 033**	**88 422**	**(15 000)**	**(35)**	**–**	**(32 004)**	**88 416**
Total investments held to maturity	**92 981**	**133 384**	**(80 829)**	**(130)**	**–**	**–**	**145 406**

As at 31 December 2021, 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)

	31 December 2021	*31 December 2020*
Investments available for sale		
Current investments		
Bonds	126	108
Total current investments	**126**	**108**
Non-current investments		
Equities	9 513	9 122
Bonds	5 439	4 866
Total non-current investments	**14 952**	**13 988**
Total investments managed by external investment managers: available for sale	**15 078**	**14 096**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $0.492 million (2020: $0.436 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 $15.6 million (2020: $14.5 million).

As at 31 December 2021, 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)

	1 January 2021	*Purchase*	*Maturities*	*Net gain/(loss)*	*31 December 2021*
Non-current investments					
Beneficiary units – BUILD I	1 258	–	–	(727)	531
Beneficiary units – BUILD II	–	3 154	–	(239)	2 915
Total investment – beneficiary units	**1 258**	**3 154**	**–**	**(966)**	**3 446**

The fair value through 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 least developed countries. Beneficiary units are an innovative capital mechanism representing the first-loss investment layer of the BUILD fund, which will be vital to unlocking capital in the upper investment layers. The Fund's exposure to credit, market and currency risks and risk management activities related to investments is disclosed in note 23.

Note 10

10.1 Receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current		
Receivables (non-exchange transactions)	85 572	79 442
Total current receivables (non-exchange transactions)	**85 572**	**79 442**
Non-current		
Receivables (non-exchange transactions)	46 591	51 495
Total non-current receivables (non-exchange transactions)	**46 591**	**51 495**
Total receivables (non-exchange transactions)	**132 163**	**130 937**

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Past due	416	190
Due in future periods	131 747	130 747
Total receivables (non-exchange transactions)	**132 163**	**130 937**

Contribution receivable includes $131.747 million (2020: $130.747 million) pledged to UNCDF by donors in signed agreements for future periods. This amount includes $4.994 million (2020: $0.001 million) in receivables for regular resources.

The $0.416 million (2020: $0.190 million) past due contribution receivable represents the amount that is already due to UNCDF based on signed donor agreements. Of this amount, $0 (2020: $0) 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 2021, UNCDF did not have any impairment on its non-exchange receivables.

10.2 Receivables (other)

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Receivables from the United Nations Development Programme	16 333	270
Investment receivables	334	677
Receivables from staff	6	–
Derivative assets	34	–
Receivables from third parties	278	254
Total receivables (other)	**16 985**	**1 201**

Ageing of receivables (other)

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Less than or equal to six months	16 751	1 010
More than six months	234	191
Total receivables (other)	**16 985**	**1 201**

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 2021	*31 December 2020*
Operating funds provided to Governments	54	45
Prepayments	15	53
Advances to staff	613	437
Total advances issued, gross	**682**	**535**
Impairment	–	–
Total advances issued, net	**682**	**535**

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Less than or equal to six months	654	533
More than six months	28	2
Advances issued, gross	**682**	**535**

Note 12
Loans

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Current		
Loans	1 071	963
Total current loans	**1 071**	**963**
Non-current		
Loans	2 437	1 727
Impairment	(442)	(120)
Total non-current loans	**1 995**	**1 607**
Total loans	**3 066**	**2 570**

Movement in loans

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Balance at 1 January	**2 570**	**1 713**
Revaluation of loans (translation gain/loss at reporting date)	(250)	60
Loans impaired	(322)	–
Repayment of loans	(423)	(341)
Disbursement of loans	1 718	1 214
Amortization of loans	(227)	(76)
Balance at 31 December	**3 066**	**2 570**

The loan balances comprise loans to 23 institutions. The range of discount rates depends on the country in which the loan is issued and varies between 9.52 per cent and 26.5 per cent.

UNCDF extends loans 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 institutions that could otherwise use private sources, such as commercial banks. Second, they should avoid exposing the institutions 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 87 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 13 per cent of total assets, are used for operations that are not project-specific at UNCDF country offices and headquarters.

(Thousands of United States dollars)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Balance at 1 January 2021					
Cost	78	69	954	28	1 129
Accumulated depreciation	(39)	(31)	(465)	(5)	(540)
Carrying amount at 1 January 2021	**39**	**38**	**489**	**23**	**589**
Year ended 31 December 2021					
Additions	–	–	104	–	104
Disposals – cost	–	–	(74)	–	(74)
Depreciation	(5)	(7)	(69)	(1)	(82)
Disposals – accumulated depreciation	–	–	57	–	57
Carrying amount at 31 December 2021	**34**	**31**	**507**	**22**	**594**
Balance at 31 December 2021					
Cost	78	69	984	28	1 159
Accumulated depreciation	(44)	(38)	(477)	(6)	(565)
Carrying amount at 31 December 2021	**34**	**31**	**507**	**22**	**594**

As at 31 December 2021, 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 2021	*31 December 2020*
Current		
Payables to third parties	928	906
Accruals	1 146	714
Payables to staff	23	22
Finance guarantee liabilities	19	21
Payables to United Nations	93	86

	31 December 2021	31 December 2020
Derivative liability	2	8
Investment settlement payable	10	–
Total current accounts payable and accrued liabilities	**2 221**	**1 757**
Non-current		
Finance guarantee liabilities	22	27
Total non-current accounts payable and accrued liabilities	**22**	**27**
Total accounts payable and accrued liabilities	**2 243**	**1 784**

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 2021	31 December 2020
Advances payable	33	401
Total advances payable	**33**	**401**

15.2 Other current liabilities

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Unapplied deposits	125	125
Other payables	172	197
Total other current liabilities	**297**	**322**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Current		
Annual leave	2 575	2 595
Home leave	251	295
After-service health insurance	192	197
Repatriation entitlements	290	220
Death benefits	5	4
Total current employee benefits liabilities	**3 313**	**3 311**

	31 December 2021	*31 December 2020*
Non-current		
After-service health insurance	14 342	14 380
Repatriation entitlements	3 169	3 061
Home leave	145	90
Death benefits	64	55
Total non-current employee benefits liabilities	**17 720**	**17 586**
Total employee benefits liabilities	**21 033**	**20 897**

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 2021, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted on 31 December 2021.

(a) Defined benefit plans

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Defined benefit obligation at 1 January 2021	**14 577**	**3 281**	**59**	**17 917**
Increase in the obligation				
Current service cost	922	287	2	1 211
Interest cost	426	70	1	497
Actuarial losses on disbursement	32	–	–	32
Actuarial losses from change in financial assumptions	122	–	–	122
Actuarial losses from change in demographic assumptions	31	–	3	34
Actuarial losses experience adjustment	–	122	11	133
Decrease in the obligation				
Actual benefits paid	(236)	(221)	–	(457)
Actuarial (gains) on disbursement	–	(5)	(4)	(9)
Actuarial (gains) from change in financial assumptions	–	(74)	(3)	(77)
Actuarial (gains) from change in demographic assumptions	–	(1)	–	(1)
Actuarial (gains) due to experience adjustment	(1 340)	–	–	(1 340)
Recognized liability at 31 December 2021	**14 534**	**3 459**	**69**	**18 062**

The value of the defined benefit obligation equals the defined benefit liability that is recognized in the statement of financial position.

The current service cost and interest cost recognized in the statement of financial performance and the statement of financial position are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Current service cost	922	287	2	1 211
Interest cost	426	70	1	497
Total employee benefits expenses recognized	**1 348**	**357**	**3**	**1 708**

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Actuarial gains/(losses) from change in assumptions and experience adjustments	1 187	(47)	(11)	1 129
Actuarial gains/(losses) on disbursements	(32)	5	4	(23)
Total actuarial gains/(losses)	**1 155**	**(42)**	**(7)**	**1 106**

In 2021, of the net actuarial gains of $1.106 million, the actuarial gains relating to after-service health insurance from changes in financial assumptions was $1.187 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)

	2021	*2020*	*2019*	*2018*	*2017*
After-service health insurance					
Defined benefit obligation	14 534	14 577	12 644	13 146	9 049
Experience adjustment on plan liabilities	(1 340)	–	(512)	4 558	1 234
Repatriation					
Defined benefit obligation	3 459	3 281	2 904	2 489	2 736
Experience adjustment on plan liabilities	123	–	(33)	(206)	744
Death benefits					
Defined benefit obligation	69	59	58	24	28
Experience adjustment on plan liabilities	11	–	25	(3)	(2)

The next actuarial valuation will be conducted as at 31 December 2022.

(b) Actuarial assumptions

The most recent actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2021. 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:

	2021	*2020*
Discount rate:		
(a) After-service health insurance	3.16 per cent	2.95 per cent
(b) Repatriation benefits	2.70 per cent	2.21 per cent
(c) Death benefits	2.56 per cent	2.00 per cent
Health-care cost-trend rates (percentage):		
(a) United States, non-Medicare	5.17, grading down to 3.95 after 10 years	5.31, grading down to 3.65 after 14 years
(b) United States, Medicare	5.03, grading down to 3.95 after 10 years	5.15, grading down to 3.65 after 14 years
(c) United States, dental	4.53, grading down to 3.95 after 10 years	4.59, grading down to 3.65 after 14 years
(d) Non-United States, Switzerland	3.44, grading down to 2.25 after 7 years	3.64, grading down to 2.75 after 8 years
(e) Non-United States, eurozone	Constant at 3.75	3.73, grading down to 3.25 after 6 years
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.97–9.27 per cent
Rate of inflation	2.00 per cent	2.20 per cent
Per capita medical claim cost (varies by age)	$1,020–$15,344	$975–$14,571
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:

	2021		*2020*	
Mortality rate – active employees	*At age 20*	*At age 65*	*At age 20*	*At age 69*
Male	0.00062	0.00495	0.00056	0.00718
Female	0.00034	0.00263	0.00037	0.00522

	2021		2020	
Mortality rate – retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.01113	0.00062	0.00913
Female	0.00035	0.00570	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:

	2021		2020	
Rate of retirement: Professional staff with 30 or more years of service	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.70	0.16	0.70
Female	0.20	0.80	0.20	0.80

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

Rate of marriage at retirement for active beneficiaries	*2021*	*2020*
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)

Liability increase/(decrease)	*+0.5 per cent*	*-0.5 per cent*
Effect of discount rate change on end-of-year liability	(1 569)	1 841
Effect of change in health-care cost trend rates on year end accumulated post-employment benefit obligation	1 776	(1 532)

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

The Pension Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. UNCDF and the Fund, in line with the other participating organizations in the

Fund, are not in a position to identify the UNCDF 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. The contributions of UNCDF to the 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 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 Fund. Such deficiency payments are payable only if and when the 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 of 31 December 2019 and the valuation as of 31 December 2021 is currently being performed. A roll forward of the participation data as at 31 December 2019 to 31 December 2020 was used by the Fund for its 2020 financial statements.

The actuarial valuation as of 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.4 per cent. The funded ratio was 107.1 per cent when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 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 report, 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 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 (2018, 2019 and 2020) amounted to $7,993.15 million, of which 0.15 per cent was contributed by UNCDF.

During 2021, the contribution of UNCDF paid to the Pension Fund amounted to $4.9 million (2020: $4.4 million). Expected contributions due in 2022 are approximately $5.2 million.

Membership of the Pension 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 based on 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 are included in the amount.

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

	1 January 2021	*Movements*	*31 December 2021*
Operational reserve	6 400	400	6 800
Total reserves	**6 400**	**400**	**6 800**

The Fund updated its operational reserve to ensure full compliance with the methodology approved by the Board in September 2018. The formula used 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 used 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 $0.400 million for contingent liability risks.

Note 18
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2021	*Movements*	*31 December 2021*
Accumulated surpluses	254 969	39 116	294 085
Funds with specific purposes	2 481	268	2 749
Actuarial gains/(losses)	2 742	1 106	3 848
Changes in fair value of available-for-sale investments	2 278	(328)	1 950
Total accumulated surpluses	**262 470**	**40 162**	**302 632**

Movements in the accumulated surpluses of $39.116 million comprise a surplus for the year of $39.516 million and an operational reserve transfer from accumulated surpluses of $0.400 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 2021 include receivables for future periods of $132.162 million (2020: $130.937 million). Under the financial regulations and rules of UNCDF, the organization is permitted to spend only when the cash is received.

Note 19
Voluntary contributions

(Thousands of United States dollars)

	2021	2020
Contributions	134 381	73 718
Less: returns to donors of unused contributions	(910)	(1 246)
Total voluntary contributions	**133 471**	**72 472**

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 2021, as an in-kind contribution, UNDP directly partially covered the salary costs of 15 UNCDF staff members, amounting to $1.783 million, and general operating expenses, which comprise rent, travel and other costs, amounting to $0.859 million. Furthermore, UNDP provided programme support amounting to $1.283 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2021	2020
Interest plus amortized discount, net of amortized premium earned on fixed income instruments, bank account balances and loans	1 418	2 528
Dividends earned on investment portfolio	110	98
Realized gain on sale of investments	1 154	384
Total investment revenue	**2 682**	**3 010**

Note 21
Other revenue

(Thousands of United States dollars)

	2021	2020
Foreign exchange gains	235	195
Other miscellaneous revenue	228	10
General management services fees	5	28
Total other revenue	**468**	**233**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses 2021	*Total expenses[a] 2021*	*Programme expenses 2020*	*Total expenses 2020*
22.1 Contractual services				
Contractual services with individuals	17 511	18 436	13 260	13 975
Contractual services with companies	2 271	2 332	3 091	3 283
United Nations Volunteers expenses for contractual services	1 293	1 293	747	747
Total contractual services	**21 075**	**22 061**	**17 098**	**18 005**
22.2 Staff costs				
Salary and wages	12 512	16 852	10 526	14 952
Pension benefits	2 481	3 288	2 110	2 911
Post-employment	1 168	1 985	1 051	1 835
Appointment and assignment	876	1 025	608	772
Leave benefits	475	597	636	875
Other staff benefits	1 114	1 557	902	1 440
Total staff costs	**18 626**	**25 304**	**15 833**	**22 785**
22.3 Supplies and consumables				
Maintenance costs for property, plant and equipment and project-related supplies	114	131	141	160
Stationery and other office supplies	62	69	50	55
Agricultural, petroleum and metal products	57	57	35	38
Information technology supplies and software maintenance	209	438	98	128
Information technology and communications equipment	132	154	282	338
Other consumables	85	126	72	88
Total supplies and consumables	**659**	**975**	**678**	**807**
22.4 General operating expenses				
Travel	1 347	1 538	1 068	1 225
Learning and recruitment	851	981	747	776
Rent, leases and utilities	1 357	1 636	1 349	1 600
Reimbursement	81	93	111	120
Communications	1 239	1 567	1 005	1 252
Security	564	724	473	625
Professional services[b]	1 277	1 388	1 064	1 115
General management costs[c]	5 664	96	5 701	120
Contribution to United Nations jointly financed activities	298	403	271	381
Contribution to information and communications technology	160	219	138	192
Freight	15	16	17	20
Insurance/warranties	12	14	16	17

	Programme expenses 2021	*Total expenses[a] 2021*	*Programme expenses 2020*	*Total expenses 2020*
Miscellaneous operating expenses	564	683	445	560
Total general operating expenses	**13 429**	**9 358**	**12 405**	**8 003**
22.5 Grants and other transfers				
Grants	37 859	37 859	31 044	31 044
Transfers	20	36	20	30
Total grants and other transfers	**37 879**	**37 895**	**31 064**	**31 074**
22.6 Other expenses				
Foreign exchange losses/(gains)	433	434	268	268
Losses/(gains) on sale of fixed assets	5	13	(4)	(4)
Sundries	293	661	345	631
Impairment[d]	322	322	–	23
Total other expenses	**1 053**	**1 430**	**609**	**918**
22.7 Depreciation				
Depreciation	56	82	56	77
Total depreciation	**56**	**82**	**56**	**77**
Total expenses	**92 777**	**97 105**	**77 743**	**81 669**

[a] Of the total expenses, $92.777 million represents programme expenses and the remaining $4.328 million represents expenses for development effectiveness, management and elimination. See note 27.1, Expenses by cost classification, for details.
[b] In 2021, UNCDF recognized $0.966 million as net loss on beneficiary units classified as financial assets at fair value through surplus or deficit.
[c] In 2021, of the $5.664 million, $5.568 million was eliminated to remove the effect of internal UNCDF cost recovery.
[d] In 2021, UNCDF recognized impairment of $0.322 million relating to Loans.

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, who are managed by UNDP. 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 2021, the after-service health insurance portfolio, comprising equities and fixed-income securities, was classified as available for sale.

The external investment managers are governed by the UNDP 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 UNDP after-service health insurance investment committee.

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 (a) any deterioration in credit quality in the underlying least developed countries investment portfolio and (b) 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.

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

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus or deficit*	*Book value*	
					2021	*2020*
Cash and cash equivalents	–	–	15 618	–	15 618	48 107
Investments	145 406	15 078	–	3 446	163 930	108 335
Receivables (non-exchange)	–	–	132 163	–	132 163	130 937
Receivables (other)	–	–	16 951	34	16 985	1 201
Advances	–	–	682	–	682	535
Loans	–	–	3 066	–	3 066	2 570
Total financial assets	**145 406**	**15 078**	**168 480**	**3 480**	**332 444**	**291 685**

Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2021, book value of those assets exceeded the market value by $0.611 million (2020: market value of these assets exceeded book value by $0.799 million). The carrying values for loans and receivables are a reasonable approximation of their fair value. The initial value for fair value through surplus or deficit investment was $5.201 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)

	Other financial liabilities	*Fair value through surplus or deficit*	*Book value*	
			2021	*2020*
Accounts payable and accrued liabilities	2 241	2	2 243	1 784
Advances payable	33	–	33	401
Other current liabilities	297	–	297	322
Total financial liabilities	**2 571**	**2**	**2 573**	**2 507**

The carrying value of other liabilities is a reasonable approximation of their fair value. As at 31 December 2021, UNCDF had $0.002 million (2020: 0.008 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 2021, net losses of $0.966 million (2020: $0.836) related to beneficiary units and net losses of $0.049 million (2020: $0.073 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 $0.041 million (2020: $0.048 million) is a reasonable approximation of their fair value. As at 31 December 2021, 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 2021. 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 2021.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	9 513	–	–	9 513
Bonds	5 565	–	–	5 565
Total available-for-sale financial assets	**15 078**	**–**	**–**	**15 078**
Fair value through surplus or deficit financial assets				
Derivatives	–	34	–	34
Beneficiary units	–	–	3 446	3 446
Total fair value through surplus or deficit financial assets	**–**	**34**	**3 446**	**3 480**
Total fair value of financial instruments	**15 078**	**34**	**3 446**	**18 558**

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

(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 (non-exchange and other), advances and loans.

UNCDF uses UNDP local bank accounts for its day-to-day financial commitments. Contributions are made directly to UNCDF or UNDP contribution bank accounts at UNDP headquarters and locally in country offices.

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 2021, 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)

31 December 2021	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*Total*
Money market instruments	–	–	9 998	29 988	–	39 986
Bonds – investments	55 455	29 980	9 989	5 000	4 996	105 420
Total	**55 455**	**29 980**	**19 987**	**34 988**	**4 996**	**145 406**

31 December 2020	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*Total*
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**

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2021	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	190	27	44	143	86	97	44	111	37	580	4 206	5 565
Total	**190**	**27**	**44**	**143**	**86**	**97**	**44**	**111**	**37**	**580**	**4 206**	**5 565**

31 December 2020 (reclassified)	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	185	25	–	116	75	19	19	114	76	600	3 745	4 974
Total	**185**	**25**	–	**116**	**75**	**19**	**19**	**114**	**76**	**600**	**3 745**	**4 974**

Note: The externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include corporate bond funds and exchange trade funds of fixed-income investments in the amount of $3.505 million, with the remaining balance of $0.701 million comprising government bonds.

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

The credit risk exposure of UNCDF on outstanding non-exchange receivables is mitigated by its financial regulations and rules, which require that, for all 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 top three donors, accounting for 65 per cent of the outstanding non-exchange receivable balances, are shown in the table below. Based on historical payment patterns, UNCDF believes that all non-exchange receivable balances are collectable. As at 31 December 2021, no impairment was recorded against the outstanding non-exchange receivables.

Receivables (non-exchange): top three outstanding balances

(Thousands of United States dollars)

Number	*Donor entity type*	*Balance*	*Percentage*
1	Multilateral agency	54 303	41
2	United Nations pooled fund	18 245	14
3	Government entity	13 438	10
Subtotal		**85 986**	**65**
Others		46 177	35
Total		**132 163**	**100**

Analysis of the Fund’s liquidity risk

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

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

(Thousands of United States dollars)

	31 December 2021	*Percentage*	*31 December 2020*	*Percentage*
Cash balances	3 187	2	2 611	2
Cash equivalents	12 431	7	45 496	29
Total cash and cash equivalents	**15 618**	**9**	**48 107**	**31**
Current investments	57 116	32	46 056	29
Non-current investments	106 814	59	62 279	40
Total current and non-current investments	**163 930**	**91**	**108 335**	**69**
Total investments, cash and cash equivalents	**179 548**	**100**	**156 442**	**100**

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

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Money market funds	12 431	45 496
Cash equivalents	**12 431**	**45 496**

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

Analysis of the Fund's market risk

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

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

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

(b) Future cash flows.

A significant portion (89 per cent) of the UNCDF 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.

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2021*	*31 December 2020*
Held-to-maturity investments	Amortized cost	145 406	92 981
Available-for-sale investments	Fair value	15 078	14 096
Fair value through surplus or deficit	Fair value	3 446	1 258
Total investments		**163 930**	**108 335**

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

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

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2021 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
5 565	100 basis point increase	(118)	–
5 565	50 basis point decrease	59	–

Note: Excludes investments classified as cash and cash equivalents.

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 2021, UNCDF investments were primarily denominated in United States dollars.

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

Currency risk exposure

(Thousands of United States dollars)

	United States dollars	*Euro*	*Swedish krona*	*Other currencies*	*31 December 2021*	*31 December 2020*
Cash and cash equivalents	15 524	10	1	83	15 618	48 107
Investments	160 172	2 064	81	1 613	163 930	108 335
Receivables (non-exchange transactions)	75 594	47 086	6 419	3 064	132 163	130 937
Receivables (other)	16 686	–	–	299	16 985	1 201
Advances issued	422	26	–	234	682	535
Loans	367	–	–	2 699	3 066	2 570
Total financial assets	**268 765**	**49 186**	**6 501**	**7 992**	**332 444**	**291 685**
Accounts payable and accrued liabilities	1 583	149	–	511	2 243	1 784
Advances payable	33	–	–	–	33	401
Other current liabilities	297	–	–	–	297	322
Total financial liabilities	**1 913**	**149**	**–**	**511**	**2 573**	**2 507**

As at 31 December 2021, 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 2021, UNCDF held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity. For that reason, changes in prices would have no impact on the UNCDF surplus and deficit.

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2021 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
9 513	5 per cent increase	476	–
9 513	5 per cent decrease	(476)	–

Despite the volatility in financial markets witnessed in 2021 owing partly to the continuing 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 2021 decreased from $2.115 million in 2020 to $0.943 million in 2021 owing to lower investment yields in the market as a result of 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. See note 16, Employee benefits, for additional disclosure on the changes to the after-service health insurance liability in 2021.

Note 24
Related parties

(a) Key management personnel

The Fund's leadership structure consists of an Executive Group with five members: 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 for executing the Fund's mandate.

(b) Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	5	974	384	1 358	3 152
Total	**5**	**974**	**384**	**1 358**	**3 152**

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 $0.207 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) Staff advances

Staff 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 2021, there were no advances issued to key management personnel and their close family members that would not have been available to all UNCDF staff.

Note 25
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Goods	46	13
Services	485	281
Total open commitments	**531**	**294**

At 31 December 2021, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.531 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2021	*31 December 2020*
Obligations for property leases		
Less than one year	281	281
One to five years	1 404	1 404
Total obligations for property leases	**1 685**	**1 685**

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 2021, UNCDF had $10.072 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 of those 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

(Thousands of United States dollars)

	31 December 2021
Development	
Programme	92 777
Development effectiveness	5 430
Management	4 466
Elimination	(5 568)[a]
Total expenses	**97 105**

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

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

(Thousands of United States dollars)

Name of trust fund	*Net assets 31 December 2020*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments to net assets*	*Net assets 31 December 2021*
Multi-donor trust fund – Pass-through trust fund	3 671	6 831	(7 620)	–	2 882
Last mile finance trust fund	38 177	9 956	(11 154)	–	36 979
Total	**41 848**	**16 787**	**(18 774)**	–	**39 861**

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