A/78/5/Add.2

United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2022

and

Report of the Board of Auditors

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

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Report of the Board of Auditors

United Nations • New York, 2023

Note

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

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Contents

Letters of transmittal and certification

Letter dated 18 April 2023 from the Administrator of the United Nations Development Programme and Managing Director of the United Nations Capital Development Fund, the Officer-in-Charge 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 2022, 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*) Mourad **Wahba**
Officer-in-Charge
UNCDF

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

(*Signed*) John **Rutere**
Head of Office of Finance and Management Services
UNCDF

Letter dated 26 July 2023 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 2022.

(*Signed*) **Hou** Kai
Auditor General of the People's Republic of China
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 2022, 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), 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 2022 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 and the International Standards of Supreme Audit Institutions. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNCDF, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Managing Director of UNCDF is responsible for the other information, which comprises the financial report for the year ended 31 December 2022, 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 conclusion 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 either intends to liquidate UNCDF or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

(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 sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control;

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

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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

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

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

Report on other legal and regulatory requirements

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

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

(*Signed*) **Hou** Kai
Auditor General of the People's Republic of China
Chair of the Board of Auditors

(*Signed*) Pierre **Moscovici**
First President of the French Cour des comptes
(Lead Auditor)

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

26 July 2023

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 2022, 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 2022. The audit was carried out at headquarters in New York in November 2022 and May 2023.

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 2022 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 of Auditors has audited the financial statements and reviewed the operations of UNCDF for the year ended 31 December 2022. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at 31 December 2022 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Overall conclusion and financial overview

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 $133.5 million (in 2021) to $198.7 million (in 2022) is

due mainly to cyclical contributions to and multi-year agreements of UNCDF. Total revenue increased by 47.9 per cent and amounted to $202.0 million in 2022 (2021: $136.6 million).

Total expenses in 2022 ($116.2 million) also represented a significant increase compared with 2021 ($97.1 million). This increase is mainly linked to the programme expenses ($19.1 million), especially in the inclusive digital economies and local transformative finance areas of work.

The surplus amounted to $85.8 million in 2022, compared with $39.5 million in 2021. UNCDF maintains a high level of current assets ($259.6 million) to meet its current liabilities ($5.3 million). Total assets increased by $84.3 million (25.3 per cent) in 2022 as a result of increases in cash and investments ($59.5 million) and in receivables – voluntary contributions ($39.0 million).

Key findings

Finance and budget

Grants recognition and accounting

UNCDF does not recognize performance-based grants liabilities and expenses upon signature, but upon fulfilment of predefined milestones agreed with the recipients which entail cash payments (“disbursements”).

As at 31 December 2022, UNCDF performance-based grant expenses amounted to $44.7 million, i.e. 38.5 per cent of total expenses, while grant commitments disclosed in the notes but not recognized as liabilities on the face of the statement of financial position or as expenses on the face of the statement of financial performance amounted to $16.5 million (2021: $12.2 million).

The performance-based grants recognition approach of UNCDF complies with a policy paper issued by the United Nations Development Programme (UNDP) “IPSAS policy team” on 17 January 2011 (the policy paper was prepared in accordance with IPSAS 1: Presentation of financial statements, in the absence of an IPSAS on transfer expenses) and with the current UNCDF operations manual. When auditing the UNCDF 2022 financial statements, the Board questioned whether the UNCDF performance-based grants recognition approach was IPSAS-compliant. To address the Board’s concerns, UNCDF revised the notes to the financial statements by including a disclosure on the temporary decision to depart from IPSAS on grant recognition until the new standard on transfer expenses is applied (at the latest, in 2026). Given that paragraphs 31–32 of IPSAS 1 have been complied with, the departure from IPSAS for UNCDF grants recognition does not entail a modification of the Board’s opinion.

Presentation of the statement of comparison of budget and actual amounts (statement V)

Budget information as currently provided by UNCDF in the statement of comparison of budget and actual amounts (statement V) fully complies with IPSAS 24: Presentation of budget information in financial statements. In note 7, however, the reconciliation between actual amounts and net cash flows required under paragraph 47 of IPSAS 24 should be amended.

Risk management

The UNCDF risk universe is diverse and is impacted notably by the core mandate of UNCDF targeting the least developed countries and by the expansion of the priority areas of UNCDF, as indicated in the new strategic framework for the period 2022–2025, which could move the organization away from its initial mandate. The relationship of UNCDF with UNDP also tends to create specific risks.

The architecture and content of the UNCDF enterprise risk management policy rely heavily on the methodology and processes laid out in the UNDP policy, which provides consistency but means that the specific features of the UNCDF business model and means of intervention could be better reflected. In addition, the policy is fairly recent and improvements are needed towards a more mature system in terms of the strengthening of the methodological accuracy of the risk registers, as well as the formulation of a tailored risk appetite statement and the appointment of a Chief Risk Officer, as UNDP has done. Finally, UNCDF needs to take full advantage of the transition to Quantum+ for risk management.

Recommendations

The Board has made eight new recommendations on the basis of its audit. Details on how they can be implemented are provided throughout the report, notably in the paragraphs immediately following each recommendation. The recommendations are that UNCDF:

Finance and budget

(a) **Make a clear distinction between genuine performance-based grants and other transactions presented as "grants" but consisting of procurement operations, for which the IPSAS recognition criteria are different;**

(b) **Measure more precisely the impact of the departure from IPSAS and be prepared as soon as possible for the implementation of the new standard, IPSAS 48;**

(c) **Reconcile the budget and cash flow positions of its financial statements;**

Risk management

(d) **Redefine, in collaboration with UNDP, its institutional and operational relationships with UNDP, after having considered various possible options ranging from greater integration to increased segregation;**

(e) **Review its risk management policy to better adapt it to its needs;**

(f) **Develop its own risk appetite statement;**

(g) **Assign the responsibility of Chief Risk Officer to an existing senior executive;**

(h) **Complete the transition of its risk registers to Quantum+ by the end of 2023.**

Follow-up on previous recommendations

As at 31 May 2023, all seven outstanding recommendations had been implemented (see annex).

Key facts	
$13.5 million	Approved budget (regular resources)[1]
$16.0 million	Revenue (regular resources)
$13.4 million	Actual expenses (regular resources). Only regular resources are budgeted and approved by the Executive Board
$198.7 million	Revenue from voluntary contributions
$44.7 million	Actual expenses for grants
176	Total number of staff
$27.0 million	Staff costs

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 2022, 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 2022 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 2022 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 the United Nations Development Programme (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 statements.

[1] Regular resources refer to commingled, untied and unearmarked resources that are free from the restrictions of funding partners.

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 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, 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 in November 2022 and May 2023.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

7. As at 31 May 2023, all of the seven outstanding recommendations up to the financial year ended 31 December 2021 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.

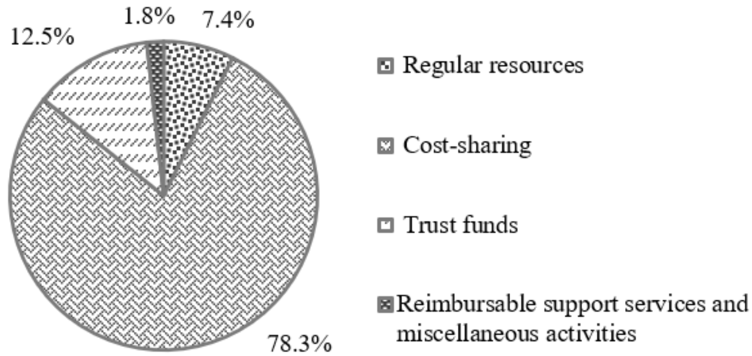
2. Financial overview

Revenue and expenses

8. In 2022, UNCDF total revenue amounted to $202.0 million (2021: $136.6 million) and total expenses to $116.2 million (2021: $97.1 million), resulting in a surplus of $85.8 million (2021: $39.5 million).

9. Revenue includes voluntary contributions, investment revenue and other revenue. In 2022, voluntary contributions to UNCDF reached $198.7 million (2021: $133.5 million), representing 98 per cent of total revenue (same level as in 2021). The significant increase in voluntary contributions ($65.2 million, or 49 per cent) compared with 2021 is linked 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. Voluntary contributions comprise regular resources of $14.7 million (7 per cent), cost-sharing of $155.6 million (78 per cent), trust funds of $24.8 million (13 per cent) and reimbursable support services and miscellaneous activities of $3.5 million (2 per cent), as 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 2022.

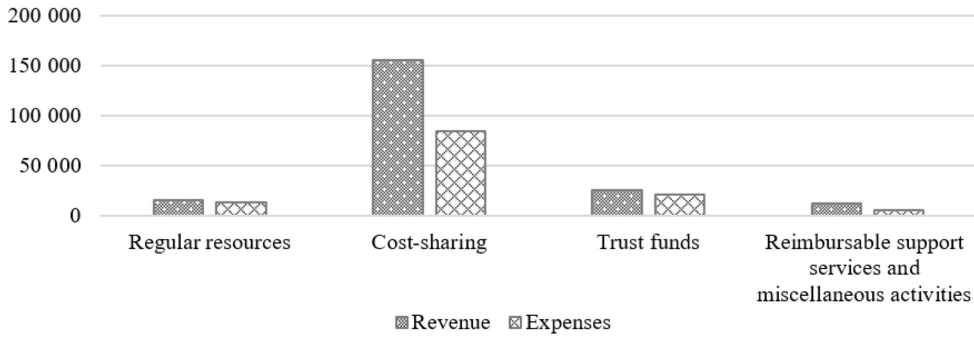
10. Total expenses in 2022 ($116.2 million) also increased significantly compared with 2021 ($97.1 million). For the breakdown of expenses into segments, UNCDF excludes an elimination of $7.1 million to remove the effect of internal UNCDF cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source. Before elimination, expenses amounted to $123.3 million and the breakdown by segment was regular resources expenses of $13.4 million (11 per cent), cost-sharing expenses of $84.3 million (68 per cent), trust fund expenses of $20.6 million (17 per cent) and expenses on reimbursable support services and miscellaneous activities of $5.0 million (4 per cent).

11. The classification of the expenses by nature indicates that the largest category continued to be grants, with expenses of $44.7 million (39 per cent of overall expenses), followed by staff costs of $27.0 million (23 per cent), contractual services of $25.9 million (22 per cent), general operating expenses of $15.7 million (14 per cent) net of $7.1 million for internal cost recovery, supplies and consumables of $1.1 million (1 per cent) and other expenses and depreciation and amortization of $1.8 million (2 per cent).

12. Expenses by cost classification indicate that $113.0 million (91.7 per cent) was spent on programme activities, $5.6 million (4.5 per cent) on development effectiveness and $4.6 million (3.8 per cent) on management (this breakdown of expenses by cost classification also excludes an elimination of $7.1 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 2022.

Ratio analysis

14. The analysis made by the Board of the main financial ratios of UNCDF (see table II.1 below) shows a large increase in the current ratio, the quick ratio and the cash ratio in 2022 compared with 2021, as well as an increase in total assets to total liabilities in 2022 compared with 2021. The increase in the current ratio, the cash ratio and the quick ratio resulted from rising current assets, particularly cash and cash equivalents, and slightly decreasing current liabilities. The increase in the ratio of 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 2022*	*31 December 2021*
Current ratio[a]		
Current assets: current liabilities	48.90	30.19
Total assets: total liabilities[b]	21.46	14.11
Cash ratio[c]		
Cash plus investments:current liabilities	27.56	12.40
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	48.46	29.89

Source: Analysis made by the Board of the UNCDF financial statements for the year ended 31 December 2022.

[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 2022 were $259.6 million (2021: $177.0 million), or 48.90 times the current liabilities of $5.3 million (2021: $5.9 million), which indicates the Fund's ability to meet its short-term obligations.

Similarly, total assets of $417.3 million (2021: $333.0 million) exceeded total liabilities of $19.4 million, indicating 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 its Executive Board. As at 31 December 2022, UNCDF held net assets of $397.9 million compared with $309.4 million reported on 31 December 2021. The increase of $88.5 million represents an accumulation of surpluses ($88.1 million) and changes in the operational reserve ($0.4 million).

3. Finance and budget

17. The Board’s main audit findings relating to finance and budget were on grants recognition and accounting and on the presentation of the statement of comparison of budget and actual amounts (statement V).

Grants recognition and accounting

18. UNCDF does not recognize performance-based grants liabilities and expenses upon signature, but upon fulfilment of predefined milestones imposed on the recipients which entail cash payments (“disbursements”). As at 31 December 2022, the UNCDF performance-based grant recognized expenses amounted to $44.7 million, i.e. 38.5 per cent of total expenses, while grant commitments disclosed in the notes but not recognized as liabilities on the face of the statement of financial position or as expenses on the face of the statement of financial performance amounted to $16.5 million (2021: $12.2 million).

19. The performance-based grants recognition approach is presented by UNCDF as compliant with a policy paper issued by the UNDP “IPSAS policy team” on 17 January 2011 and with the current UNCDF operations manual.

20. When auditing the UNCDF 2022 financial statements, the Board questioned whether the performance-based grants recognition approach was IPSAS-compliant. UNCDF claims that for performance-based grants:

(a) There is no specific IPSAS on expenses. In the absence of a current substantive IPSAS policy, UNCDF claims that it follows the accrual accounting principle and relies on the provisions of IPSAS 1: Presentation of financial statements and the IPSAS conceptual framework;

(b) UNCDF adopted the UNDP accounting policy on expense recognition, which is IPSAS-compliant. In addition, United Nations development agencies have established an accounting task force to drive harmonization with IPSAS accounting policies where the business activities are similar.

21. In March 2023, in response to the lack of a substantive standard, the IPSAS Board issued a new standard, IPSAS 48: Transfer expenses, which should be implemented in 2026. UNCDF is reviewing the impact this new standard will have on its accounting policy for grants and will make the necessary policy changes upon implementation of the standard.

22. UNCDF grants are provided through the “performance-based grant system”,[2] under whose agreements the cash payment to the recipients is conditional on the

[2] In *Performance-based Grant Systems: Concept and International Experience*, published in 2009, UNCDF defines performance-based grant systems as follows: “Unlike grants where funds are distributed to local governments simply to give them the means to execute specific functional mandates, performance-based grants incentivize improvements in performance by linking local governments’ performance in predetermined areas with both access to and the amount of funding”.

fulfilment of predetermined milestones. A first disbursement is usually paid upon signature of the agreement, and subsequent disbursements are usually conditional on the achievement of the milestones by the recipient.

23. UNCDF bases its current accounting policy on the following:

(a) A policy paper issued by the UNDP "IPSAS policy team" on 17 January 2011, paragraph 5.2.3. of which is dedicated to "direct implementation" expenses and which states that "UNDP shall recognize expense and corresponding liabilities when … works milestones are certified";

(b) The UNCDF operations manual, which transposes the same approach to its present performance-based grants, and states that the UNDP programme and operations policies and procedures guidance for grants does not apply to UNCDF and that grants are considered as regular payments (i.e. not direct cash advances) and are accounted for as UNCDF expenditure upon disbursement.

24. Both documents are internal to UNCDF.

25. The Board notes that in a document entitled "Year-end 2022 IPSAS closure & quantum cut-over instruction", it is provided that for grant agreements, if the grantee delivers an agreed milestone before 31 December 2022, but payment can only be made in 2023, a purchase order should exceptionally be raised and the receipt entered on the basis of the milestone in the purchase order module. This means that for performance-based grants, UNCDF recognizes accruals (payables) at year-end only when a milestone has been certified but no disbursement has yet been provided to the recipient. In doing so, UNCDF applies a "modified cash-based" accounting approach to its performance-based grants.

26. In 2022, UNCDF completed the information disclosed in note 25 (a) to its financial statements, ("open commitments"), by mentioning that grants for which milestones have not yet been achieved but which are not recognized as liabilities in the statement of financial position (nor as expenses in the statement of financial performance) amounted to $16.5 million. This figure remains indicative. Detailed tests carried out by the Board on the grants expenses recorded in 2022 and discussions with the internal auditor show that the recorded expenses include some agreements with private recipients (such as consulting companies) which are presented as "grants", in compliance with paragraph 2.4.7 of the UNCDF operations manual, but which might, in fact, after further analysis, appear to be procurement transactions, for which liability and expense recognition criteria are based on the effective delivery of goods or services to UNCDF, and whose recognition in the financial statements is IPSAS-compliant, but which, if this is confirmed, are not the object of the present observation.[3]

27. The Board is of the opinion that the Fund's initial recognition criteria for performance-based grants did not meet the following IPSAS basic standards and principles:

(a) It is stated in paragraph 7 of IPSAS 1 that "accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid)", while, as mentioned above, UNCDF performance-based grants are recognized on a modified cash basis

[3] During the Board's final mission, the internal auditor was carrying out some detailed checks on that specific issue: the internal auditor considered that the amount of procurement transactions carried out through formal performance-based grants might be not negligible. If this analysis is confirmed, these transactions, although IPSAS-compliant, may raise a question of compliance with UNDP/UNCDF internal regulations and rules on procurement (grants are not submitted to open competition, while procurement transactions should be).

during the year, with accruals based on unpaid certified milestones made at the end of the year;

(b) In order to know whether expenditure recognition upon certification of agreed milestones for performance-based grants complies with IPSAS:

(i) A first point is to decide whether performance-based grants are “exchange” or “non-exchange” transactions. It is stated in paragraph 5 of the preface to the IPSAS conceptual framework that “in a non-exchange transaction, an entity receives value from another party without directly giving approximately equal value in exchange”. For UNCDF performance-based grants, the recipient (often local governments, but also private entities, non-governmental organizations, etc.) is never “directly giving approximately equal value in exchange” to UNCDF, therefore most performance-based grants meet the IPSAS definition of non-exchange transactions. At present, there is no specific IPSAS guidance on non-exchange expenses,[4] and the applicable guidance for such expenses or liabilities is to be found in the IPSAS conceptual framework and in IPSAS 1: Presentation of financial statements;

(ii) A second point is to assess to what extent, by reference to the IPSAS conceptual framework and IPSAS 1, the grant agreements signed by UNCDF are a “present obligation” for the grantor for their full amount from the moment they are signed.[5] Paragraph 5.15 of the IPSAS conceptual framework recognizes a present obligation when it is “binding and there is little or no realistic alternative to avoid an outflow of resources”. UNCDF has neither the objective nor the means to prevent local governments or other grantees from fulfilling the contractual milestones, so once the agreement is signed, the grantor has “no realistic alternative to avoid an outflow of resources”. In substance, in nearly all cases, the initially agreed amounts are effectively disbursed. UNCDF informed the Board of a very limited number of exceptional cases where, for lack of resources or failure to meet an agreed milestone, UNCDF changed the obligation “before it crystallized”, but such exceptions are due to external factors and cannot therefore be presented as a “realistic alternative to avoid an outflow of resources”.

28. On the basis of the above-mentioned IPSAS standards and principles, UNCDF should recognize upon signature: (a) an initial liability for the full committed amount on the face of statement I (financial position), and the liability should be progressively derecognized as disbursements take place, if and when the recipients fulfil the agreed milestones; and (b) a first-day equivalent expense on the face of statement II (financial performance), with no further expenses being recognized upon effective disbursements.

29. Three acceptable solutions were envisaged:

- Apply to the 2022 financial statements an approach compliant with the current IPSAS: in that case, paragraphs 7 and 47 of IPSAS 3: Accounting policies, changes in accounting estimates and errors would apply, i.e. an error would have to be corrected, and for prior periods, the 2021 financial statements should be restated. This would result in significant cut-off adjustments, i.e. according to note 25, an increase of accruals by a maximum of $16.5 million at 2022 year-end (depending on the proportion of transactions corresponding to “genuine”

[4] As mentioned above, in March 2023, the IPSAS Board approved a new standard for “transfer expenses” (IPSAS 48), which will enter into effect on 1 January 2026.

[5] For some multi-year grant agreements, a specific clause provides that the next annual amount will have to be decided each year with the recipient. For instance, grant agreement GO366 between UNCDF and “Somaliland” includes the following clause (art. 4.1): “the total annual Local Development Fund shall be decided and announced each year at the Steering Committee Meeting”. For such agreements, a binding obligation should be recognized only once the next annual amount is decided.

grants and not to procurement transactions), with a material impact on all UNCDF financial statements.

- Decide on an early adoption of IPSAS 48: Transfer expenses: this new standard, pronounced in March 2023, is not mandatory until the 2026 financial year, but early application is allowed, provided that it is clearly disclosed in the notes and that the future IPSAS 47 on revenue is applied in parallel.[6] Pursuant to paragraph 17 (a) of IPSAS 3, this would imply several changes in UNCDF accounting policy, not only for transfer expenses (such as performance-based grants), but also for transfer revenue. UNCDF would in this case have needed prior harmonization with other United Nations funds and programmes and was clearly not ready to apply such a change in its 2022 financial statements.

- Depart from IPSAS: according to paragraph 31 of IPSAS 1, "in the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, the entity shall depart from that requirement … if the relevant regulatory framework requires … such a departure". In that case, pursuant to paragraph 32 of IPSAS 1, specific disclosure must be provided by the entity in the notes to the financial statements.[7]

30. To address the Board's concern, UNCDF opted for the latter solution, so that in its final 2022 financial statements:

- Note 2 provides all the information required by paragraph 32 of IPSAS 1.

- Notes 2 and 3 state that the UNCDF decision to depart from IPSAS on grant recognition is temporary, until the new standard on transfer expenses is applied (i.e. at latest, in 2026).

- References to note 2 are provided in the financial report, in the financial statements and in the other notes every time a mention is made to accrued liabilities and/or expenses related to grants, or to grants accounting policy, so that the reader remains fully informed of the impact of the decided departure from IPSAS.

31. Given that paragraphs 31–32 of IPSAS 1 have been complied with, the departure from IPSAS for UNCDF grants recognition does not entail a modification of the Board's opinion.

32. **The Board recommends that UNCDF make a clear distinction between genuine performance-based grants and other transactions recognized as "grants" but consisting of procurement operations, for which the IPSAS recognition criteria are different.**

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[6] See IPSAS 48, para. 62: "An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2026, it shall disclose that fact, and shall apply IPSAS 47, Revenue, at the same time."

[7] See IPSAS 1, para. 32: "When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:

(a) That management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) That it has complied with applicable IPSASs, except that it has departed from a particular requirement to achieve a fair presentation;

(c) The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this IPSAS, and the treatment adopted; and

(d) For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement."

33. **The Board recommends that UNCDF measure more precisely the impact of the departure from IPSAS and be prepared as soon as possible for the implementation of IPSAS 48.**

34. UNCDF accepted both recommendations and made the following comment on the Board's conclusion: "In the absence of a specific IPSAS standard on transfer expenses, UNCDF considers that provisions in its performance-based grants agreements provide a certain level of control over the outflow of resources, as demonstrated in the samples shared with the Board during the audit. This formed the basis of its accrual accounting policy. In view of the Board's opinion of the UNCDF accounting policy, UNCDF agreed to make the required disclosure to address the Board's concerns with regard to UNCDF compliance with IPSAS. UNCDF agrees to review its operations manual to provide more guidance on grants issued to private institutions."

Presentation of the statement of comparison of budget and actual amounts (statement V)

35. Budget information as currently provided by UNCDF in statement V fully complies with IPSAS 24: Presentation of budget information in financial statements. In note 7, however, the reconciliation between actual amounts and net cash flows required by paragraph 47 of IPSAS 24 should be amended.

36. It is stated in paragraph 1 of IPSAS 24 that "this Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements". It is stated in paragraph 8 of IPSAS 24 that "an approved budget is not a forward estimate, or a projection based on assumptions about future events and possible management actions that are not necessarily expected to take place". Paragraph 47 of IPSAS 24 requires that a reconciliation be disclosed "on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements", between "actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences", and "net cash flows from operating activities, investing activities, and financing activities", i.e. as shown in statement IV (cash flow statement).

37. With regard to the implementation of IPSAS 24, the main data presented in the draft UNCDF 2022 financial statements are the following:

(a) Statement V shows, on a cash basis: (i) a final approved budget amounting to $13,514,000; (ii) actual expenditure financed by the approved budget amounting to $13,168,000; and (iii) budget implementation resulting in a surplus of $346,000;

(b) Statement IV (cash flow statement) shows an increase in cash and cash equivalents in 2022 amounting to $48,050,000.

38. In terms of compliance of statement V with IPSAS 24, the above figures show that revenue and expenditure covered by the UNCDF "approved budget" represents approximately only 11 per cent of the expenditure and 7 per cent of the revenue recognized on the face of the UNCDF financial statements. This is explained in note 7 by the "amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities that are incorporated into statement IV but not into statement V" (the same can be said concerning the difference between statement II and statement V). UNCDF considers that 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.[8]

[8] The UNCDF institutional budget, according to article 13 of the UNDP Financial Regulations and Rules, which are applicable to UNCDF, covers "development effectiveness, United Nations development coordination, management and special purpose activities".

UNCDF considers that 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, and are not formally approved by the Executive Board. Such an exclusion of other resources is compliant with paragraph 8 of IPSAS 24, which provides a definition of an "approved budget" that excludes estimates and projections. Thus, although representing only a small proportion of the resources or expenses recognized in the financial statements, statement V is compliant with IPSAS 24.

39. With regard to the reconciliation between actual amounts and net cash flows in note 7, according to paragraph 47 of IPSAS 24, a reconciliation must be provided between "actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences", on the one hand, and "net cash flows from operating activities, investing activities, and financing activities", as shown in statement IV (cash flow statement), on the other hand.

40. Although this point is not formally described in paragraph 47 of IPSAS 24, the requirement is to reconcile the cash basis budget surplus/deficit (in the present case, a surplus of $346,000), with the increase/decrease in cash and cash equivalents as shown in statement IV (in 2022, an increase of $48,050,000). The logic is that, to apply paragraph 47 of IPSAS 24 in a consistent way, the "net cash flows" (which is a difference between inflows and outflows of cash) must be reconciled with the budget surplus/deficit at year-end (which is the difference between budgeted resources and actual expenses), and not with the budgeted cash expenditure alone.

41. Nevertheless, note 7 to the 2022 financial statements provides a reconciliation between the actual cash expenditure ($13,168,000) and the increase in cash ($48,050,000). In order to be more informative, such a reconciliation should be replaced by the above-mentioned usual reconciliation, set out in paragraph 47 of IPSAS 24, between the budget surplus/deficit and the cash increase/decrease. Although not crucial, since the "approved budget" covers only a very small part of the resources and expenditure presented in the financial statements, this formal point should be adjusted.

42. Considering that UNCDF shares with UNDP, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and the United Nations Population Fund the same approach, set out in paragraph 47 of IPSAS 24, in their note relating to statement V, and that it has no impact on the other financial statements, the Board does not require an immediate adjustment, in order to leave sufficient time for these organizations to coordinate in order to comply with paragraph 47 of IPSAS 24.

43. **The Board recommends that UNCDF reconcile the budget and cash flow positions of its financial statements.**

44. As required by paragraph 47 of IPSAS 24, this reconciliation should be made in note 7 to the financial statements between the approved budget cash-based surplus/deficit (and not only the budget cash-based expenditure) shown in the statement of comparison of budget and actual amounts (statement V) and the net cash flow increase/decrease shown in the statement of cash flow (statement IV).

45. UNCDF accepted the recommendation and noted that the existing disclosure for paragraph 47 of IPSAS 24 is consistent with other development agencies, and committed to liaise with them with the objective of aligning the disclosure made in note 7 and reconciling not only the expenditure, but also the surplus/deficit, in statement V to the net cash flows in statement IV.

4. Risk management

46. As a development agency and finance institution, UNCDF identifies, assesses and mitigates risks as part of its daily business routine. At the strategic level, the UNCDF risk universe is the product of the specific mandate of UNCDF of working first and foremost with the least developed countries; the expansion of its focus areas, as indicated in the new strategic framework for the period 2022–2025, which has not been matched with an increase in in-house capacity; and the lack of clarity of its current relationship with UNDP, which does not allow UNCDF to benefit fully from the apparatus of policies and capacities of UNDP (see paras. 48–57 below). This is particularly visible when looking at the UNCDF enterprise risk management policy. In addition, improvements are needed towards a more mature system in terms of strengthening the methodological accuracy of the risk registers, formulating a tailored risk appetite statement, appointing a Chief Risk Officer and transitioning to Quantum+ (see paras. 58–81 below).

(a) The United Nations Capital Development Fund risk universe

47. The UNCDF risk universe is diverse and is impacted notably by the core mandate of UNCDF targeting the least developed countries and by the expansion of the focus areas of UNCDF, as indicated in the new strategic framework for the period 2022–2025 (see paras. 48–50 below). The relationship of UNCDF with UNDP also tends to create specific risks (see paras. 51–57 below).

Recent evolutions implying new and higher risks

48. UNCDF works in environments that are risky by nature. Its mandate targets operations "first and foremost" in the least developed countries, which constitute a challenging context in terms of overall capacity. Furthermore, a significant portion of UNCDF interventions are geared towards subnational governments and municipalities or digital systems, where in many jurisdictions regulatory frameworks are not fully developed. Risk management is therefore an integral part of the Fund's daily business routine.

49. The recent evolution of the entity poses a number of challenges because of the continued rapid growth not being compensated by a similar increase in capacity. The growth across all practices in the last five years is quite impressive, with grant expenses increasing from $15.1 million in 2018 to $44.7 million in 2022, and the loan platform, which started in 2018, reaching a loan balance of $2.3 million, comprising 24 loans, at the end of 2022. UNCDF has not increased its capacity in central oversight functions to match the growth, but as at the end of 2022 there were 18 vacant positions for international staff for a total of 176 active staff members(10 per cent). The number of staff was 144 in 2018. This issue of capacity versus portfolio growth is not discussed in the current strategic framework for the period 2022–2025, which nevertheless is aimed at "greater scale and impact".

Table II.2
Portfolio evolution, 2018-2022
(Millions of United States dollars)

	2018	*2022*	*Variation (percentage)*
Grant expenses	15.1	44.7	196
Loans as at 31 December 2022	0.2	2.3	1 050

Source: UNCDF.

50. Besides this question of volume, there has also been an increase in the risks given the nature of the projects targeted. The "new UNCDF offer" outlined in the strategic framework[9] allows the entity to enter territories that still seem fairly uncharted. UNCDF is considered as uniquely positioned in the United Nations system to deliver on this offer and cannot rely on existing experience and systems, but instead has to build this offer on its own. This is the case for the delivery of loans and guarantees, which is an emerging practice in the entity that has recently gained momentum. The question of whether the mandate as defined by General Assembly resolution 2186 (XXI) warrants this new strategic direction or constitutes an obstacle has not been posed clearly in the strategic plan or in discussions at the Executive Board level.

Relationship with the United Nations Development Programme

51. The relationship with UNDP needs to be considered when describing the UNCDF risk universe.

52. At the operational level, UNCDF is intricately joined with UNDP, even if its mandate has been defined in specific General Assembly resolutions. The general principle is that UNCDF applies all UNDP rules and regulations up to the point where the specificities of UNCDF warrant exceptions. The UNDP Financial Regulations and Rules apply, except for instances defined in annex 3 thereto. This is also the case for the enterprise risk management policy, legal processes and information technology processes and through the fact that key UNDP officers' terms of reference involve responsibilities with UNCDF, such as those for the Legal Counsel. This is also the case for policies for which UNCDF needs to develop a specific approach, such as the policy on due diligence and partnerships with the private sector, complemented by its risk assessment tool and the risk assessment tool guidelines (2013), which aims to strengthen the risk management capacity of UNDP and UNCDF to work with the private sector. The unique position of UNCDF at the interface between the United Nations system and the private sector would warrant an approach that is more specific and the development of an in-house capacity to apply the policy.

53. UNCDF does not take sufficient advantage of the fact that it is backstopped by a lot of UNDP policies and capacity. On the basis of several sample operations (grants approved in 2022), the Board noticed that even for operations that could be seen as particularly risky, grants were signed without any formal legal advice. In fact, the in-house legal capacity in UNCDF being less than one full-time staff member, UNCDF operates on the basis of agreed standard templates and only draws on the legal capacity of UNDP when it appears that for some reason these templates are not sufficient. This mechanism is seldom used, however. In the same manner, the UNCDF enterprise risk management policy establishes that risk mitigation measures are implemented within UNCDF when possible and escalated to UNDP when they cannot be managed by UNCDF alone. Such escalation has never happened, which may not necessarily mean that the policy is insufficient but should at least raise questions. The fact that UNDP capacities are not fully used may be due to various causes, including the fact that UNCDF operations are quite specific and require skills that are not necessarily easily found or mobilized in UNDP.

[9] DP/2022/12, executive summary: "UNCDF will realize its full potential as a hybrid development organization and development finance institution by fulfilling its overall financing mandate with capital deployment, financial advisory services and capital catalysation. This will be matched with development expertise across five priority areas: the well-established flagship areas of (a) inclusive digital economies; and (b) local transformative finance; and in the emerging areas of (c) women's economic empowerment; (d) climate, energy and biodiversity finance; and (e) sustainable food systems finance."

54. The operational relationship between UNDP and UNCDF is based on a service-level agreement, which clarifies the modalities but leaves grey areas that make it difficult to manage risks for UNCDF. The Board looked at one particular case study in which the structure of the relationship between UNDP and UNCDF was key in dealing with a major risk, i.e. the transition to the new enterprise resource planning system, Quantum. This transition was decided without sufficient consultation with UNCDF. UNCDF is one of the eight partners of the Quantum project, financing around 1 per cent of it.[10] The entity does not have in-house capacity for information technology that would allow it to implement this major transformative project. While management at UNCDF expressed several times during 2022 that the transition to Quantum was one of their major risks, this risk has not been escalated to the UNDP corporate risk register. The risk was nevertheless inscribed in the Quantum project risk register and monitored at this level with representatives of all partners, including UNCDF.

55. This ambiguous relationship also involves funding. UNCDF, like most other United Nations entities, is struggling to collect sufficient core funding. Year in, year out, UNDP finances between a quarter and a third of UNCDF core funding and is one of the major contributors, the second largest in 2021 and 2022, as well as 2023 provisionally. This could be seen as presenting an issue of conflict of interest since the same Executive Board is the decision maker at both ends of this funding agreement.

56. **The Board recommends that UNCDF redefine, in collaboration with UNDP, its institutional and operational relationships with UNDP, after having considered various possible options ranging from greater integration to increased segregation.**

57. UNCDF accepted the recommendation, noting that it was a separate agency with a unique mandate and signature products, which were different from UNDP, but the two agencies worked on joint programmes. With regard to governance, the Administrator of UNDP is also the Managing Director of UNCDF and has delegated authority to the Executive Secretary of UNCDF on the day-to-day running of the organization, working alongside other members of the Fund's senior management team. Both entities share the same Board. With regard to operations, UNCDF relies on UNDP policies and procedures and the UNDP Financial Regulations and Rules, except where specified in annex 3 to the Financial Regulations and Rules or in the UNCDF operations manual, and has entered into various service-level agreements with UNDP to provide services on a full cost-recovery basis. The relationship between the two entities continues to evolve on the basis of the changing needs of each, with the management of the two entities continuously looking for areas to deepen collaboration while sticking to their unique mandates. UNCDF will seek further clarification from the UNDP Executive Office on the Fund's governance arrangements.

(b) The risk management policy

58. The architecture and content of the UNCDF enterprise risk management policy rely heavily on the methodology and processes laid out in the UNDP policy, which provides consistency but means that the specific features of the UNCDF business model and means of intervention could be better reflected (see paras. 59–63 below). In addition, the policy is fairly recent and improvements are needed towards a more mature system in terms of the strengthening of the methodological accuracy of the risk registers (see paras. 64–68 below), as well as the formulation of a tailored risk appetite statement (see paras. 69–72 below) and the appointment of a Chief Risk Officer (see

[10] As one of the key UNCDF staff members impacted by the transition pleasantly put it: "We have put 1 per cent of the funding so we got 1 per cent of the attention".

paras. 73–76 below), as UNDP has done. Finally, UNCDF needs to take full advantage of the transition to Quantum + for risk management (see paras. 77–81 below).

Architecture of the policy

59. The architecture of the UNCDF risk management policy reflects the dynamics between its anchoring with UNDP and the willingness to reflect the specific features of the Fund's operations.[11] On the one hand, the policy is mimicking the UNDP policy in terms of definition of the concepts and the methodology for identifying and prioritizing risks, which ensures the solidity of the methodology and its conformity with international good practice (e.g. International Organization for Standardization (ISO) standard 31000).

60. On the other hand, the routine daily risk management decisions, thresholds and processes are left to specific and separate policies referenced briefly in the policy. An effort has been made by UNCDF management in and after 2020 to link these specific policies with the mainstream risk management processes through addenda to the policies. This is notably the case for the loans and guarantees policy, which has been adjusted through an addendum issued in March 2020.[12] Nevertheless, the overall adjustment of the enterprise risk management policy with the existing and routine risk management practices of UNCDF (in "real life", so to speak) has yet to be carried out.

61. **The Board recommends that UNCDF review its risk management policy to better adapt it to its needs.**

62. This review should be the occasion to provide better alignment with the new strategic direction of the Fund and strengthen the integration of specific aspects of the business areas, notably in terms of loans and guarantees, grants and the least developed countries context.

63. UNCDF accepted the recommendation.

Risk registers

64. The establishment of risk registers is conducted in line with the policy of UNCDF, with escalation mechanisms in place. The UNCDF risk register is maintained in the dedicated risk management platform on the UNCDF intranet. Country activity-level risks, which are optional in the sense that their assessment is not compulsory at this level, can also be registered within the associated programme risk registers, if needed. Integration with UNDP implies that major risks should be escalated to UNDP risk management. To date, no risks have been escalated. This means that major UNCDF risks are not adequately reflected on the radar of UNDP. First, at the country office level, because the rarely used option of assessing UNCDF risks at the country level means that UNCDF country-level risks are not reflected in UNDP country-level risk registers and UNCDF has not developed its own risk registers at the country office level. Second, at the corporate level, since in practice no escalation from UNCDF to UNDP has happened so far.

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[11] 2020 UNCDF enterprise risk management policy: "This policy provides an overarching framework for risk management in UNCDF. For specific operational areas that require more detailed, tailored risk management, UNCDF relies on specific guidelines and policies, listed below. Units should refer to these documents as relevant for guidance when assessing operational risks".

[12] According to the addendum, if any of the mentioned categories exceed 30 per cent of the portfolios, loans and guarantees, respectively, reporting will be triggered and the Risk Management Group of UNCDF will be informed. The least developed country investment platform team will be responsible for the reporting. Such reporting will begin after a minimum of 10 transactions have been executed and capital disbursed, in which case such transactions shall be regarded as a portfolio.

65. An analysis of UNCDF risk registers shows that, in general, the formulation and assessment of risks appear to be very heterogeneous and differentiated according to the practice or projects. For some sectors, the UNCDF risk register aggregates in a holistic way a set of risks analysed more finely at the programme level. This is the case, for instance, with the Better Than Cash Alliance programme, for which only five risks are tracked in the UNCDF risk register on SharePoint, since programme managers have a specific tool to identify, assess and mitigate risks.

66. The wording of the risks is often formulated in a generic way ("fraud and corruption" and "gender", for example). In some cases, it is formulated as an objective ("Ensuring in-house expertise on payments") or incorporates mitigation elements ("Loan and guarantee portfolio concentration exceeds 30 per cent threshold for one country, one currency and two sectors").

67. The average risk score appears to be significant, at 9.2 out of 10. A substantial number of risks are rated as high: as of March 2023, out of 442 active risks, 55 were rated over 4 out of 5 in both probability and impact, 20 of which were rated 5 for both. A total of 49 risks with financial impact were identified (of which 20 had been registered since 2022), but no financial impact was assessed. Impact assessments, including on financial impact, are not conducted systematically and accurately enough for a high number of substantial risks.

68. A review in the coming months, through a process including all stakeholders, of the quality of the existing risk registers and mitigation plans would be very useful. Such a review should ensure that:

(a) Risk identification guarantees that no major issue is unintentionally left aside;

(b) A proper assessment is made of the criticality of the risks;

(c) Clear priorities are set, given the accepted level of risk tolerance;

(d) Appropriate mitigation measures are designed;

(e) Implementation of these measures and their impact on the level of residual risk are closely monitored.

Risk appetite statement

69. UNCDF has not developed its own risk appetite statement. While the UNDP Administrator, following a recommendation from the Office of Audit and Investigations of UNDP and in line with the 2018 UNDP enterprise risk management policy, approved the UNDP risk appetite statement in October 2021, such a statement has not been prepared or issued by UNCDF. It is stated in the 2020 UNCDF enterprise risk management policy that "Through this policy, UNCDF formally establishes and communicates its risk appetite, guiding staff in their actions and ability to accept and manage risks". Nevertheless, it is not clear how this is actually done and the establishment of a risk appetite statement is not a provision foreseen in the policy.

70. The benefits for UNCDF of issuing its own risk appetite statement are quite obvious, since a lot of the Fund's business revolves around appreciating the acceptable level of risk vis-à-vis the expected development benefit.

71. **The Board recommends that UNCDF develop its own risk appetite statement.**

72. UNCDF accepted the recommendation and stated that it would consider developing an appropriate risk appetite statement that takes into account the business model and nature of operations of the organization.

Chief Risk Officer

73. The lack of a Chief Risk Officer which would be specific to UNCDF creates additional challenges in managing risk at UNCDF.

74. The terms of reference of the Chief Risk Officer of UNDP have still not been established, and it is not clear whether the mandate of the UNDP Chief Risk Officer includes UNCDF.

75. **The Board recommends that UNCDF assign the responsibility of Chief Risk Officer to an existing senior executive.**

76. UNCDF accepted the recommendation, but stated that currently, the functions of Chief Risk Officer are assigned to different members of the senior management team, because funding constraints and the size of the organization has not warranted a dedicated Chief Risk Officer position. Depending on the future funding situation, UNCDF management will evaluate the need to have a dedicated Chief Risk Officer position, and in the interim, management will continue to allocate the key functions to staff members in the senior management team.

Transition to the Quantum+ enterprise resource planning system

77. UNDP corporate risk registers (global, headquarters units, regional bureaux and offices) all migrated from SharePoint to Quantum+ in mid-2022. Quantum+ is tailored to provide significant support and automation for risk categorization, assessment, impact and likelihood, among other things. However, in spite of this capability also being accessible to UNCDF, as of March 2023 the entity still manages its risk registers on SharePoint.

Expected benefits of Quantum+ for risk management

The transition of enterprise resource planning from Atlas to Quantum is, among other benefits, meant to improve risk management. At the project level, Quantum aims to simplify processes for risk monitoring. Quantum integrates a module for the internal control framework, as was the case for Atlas, and will also include the risk registers and link both. Risk managers should therefore be supported in their decisions by data generated semi-automatically.

The new enterprise resource planning system will allow for the centralization of user clearances and multifactor authentication, but the outsourcing of business operations to the cloud provider will entail some risks. Compared with Atlas, the segregation of duties and user clearance are supposed to have been rationalized, and the Quantum project team managed to centralize all these clearances in the same module, a task that turned out to be technically complicated. This centralization could allow the internal control framework to be enforced in a more automatic way, given that user clearances and task segregation are coherently defined. Also, in comparison with Atlas, multifactor authentication should be enabled automatically through Quantum, which is likely to reinforce security and lower cyber risks. Finally, the risk in outsourcing all the business operations to a cloud provider has been accurately identified and treated by the UNDP Office of Information Management and Technology and its Chief Cybersecurity Officer.

Source: Board of Auditors.

78. In its report for the year ended 31 December 2021 (A/77/5/Add.2, chap. II), the Board made three recommendations on UNCDF enterprise risk management, two of which were rated as high priority:

(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 (high priority);

(b) 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 (medium priority);

(c) Enhance the assessment of grant-related risks within the established enterprise risk management process (high priority).

79. These recommendations were implemented in 2022 on the basis of the current platform, but implementation will have to be migrated to Quantum+, which will be more efficient.

80. **The Board recommends that UNCDF complete the transition of its risk registers to Quantum+ by the end of 2023.**

81. UNCDF accepted the recommendation and stated that it has listed the integration of the results management of projects, including the maintenance of risk registers, in the UNCDF Quantum project and portfolio management module as a key information technology priority for 2023. This matter is subject to ongoing discussions with the UNDP Office of Information Management and Technology to determine whether it can be performed in 2023.

C. Transmissions of information by management

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

82. Management informed the Board that in accordance with financial rule 126.17, UNCDF had no write-offs in 2022.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

84. 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 assurance of identifying material misstatements, including those resulting from fraud. Its financial audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

85. 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.

86. UNCDF reported no cases of fraud and one case of presumptive fraud during 2022. The amount involved is unknown to date.

D. Acknowledgement

87. 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*) **Hou** Kai
Auditor General of the People's Republic of China
Chair of the Board of Auditors

(*Signed*) Pierre **Moscovici**
First President of the French Cour des comptes
(Lead Auditor)

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

26 July 2023

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2021

						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.	2021	A/77/5/Add.2, chap. II, para. 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.	UNCDF has since created a business intelligence dashboard to monitor the risk register, including for ageing and various other elements. The dashboard can be accessed directly from the risk register and is easy to understand. In addition, if any of the risks on the register are over six months old, an automated message will be sent to the risk owner with a reminder to update it accordingly. The dashboard and email reminder serve as an assurance to UNCDF management that all risks are recorded and updated on a regular basis.	The Board considers this recommendation implemented.	X			
2.	2021	A/77/5/Add.2, chap. II, para. 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.	The Deputy Executive Secretary of UNCDF has sent global emails on risk register updates and reminders to all managers of their role and responsibilities in accordance with the enterprise risk management policy. In addition, UNCDF has posted a notification and hyperlink to the enterprise risk management policy on the risk register dashboard page on its intranet, which serves as a constant reminder to all managers of their responsibilities.	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
3.	2021	A/77/5/Add.2, chap. II, para. 40	The Board recommends that UNCDF enhance the assessment of grant-related risks within the established enterprise risk management process.	UNCDF has since incorporated high-risk grants into its existing risk register within the established enterprise risk management process. The Deputy Executive Secretary has sent global emails on risk register updates.	The Board considers this recommendation implemented.	X			
4.	2021	A/77/5/Add.2, chap. II, para. 51	The Board recommends that UNCDF revise its document management in the future grants module and related requirements in the operations manual.	UNCDF has updated the grants module and migrated it to Quantum and has revised the document management features in the module. Document attachments in the Quantum grants module can be specific to a given grant, in line with the operations manual.	The Board considers this recommendation implemented.	X			
5.	2021	A/77/5/Add.2, chap. II, para. 57	The Board recommends that UNCDF find a standardized means of entering grant data completely in the future grants module and formalize this approach.	UNCDF has standardized the data entry into the new grants module in Quantum and validates milestone payments to ensure that the total does not exceed 100 per cent.	The Board considers this recommendation implemented.	X			
6.	2021	A/77/5/Add.2, chap. II, para. 63	The Board recommends that UNCDF analyse shortcomings in the monitoring and evaluation tab of the grants module and take corrective measures.	UNCDF has analysed and revised the requirements in Quantum; now both local currency and United States dollar equivalent amounts are shown on the tab, which will help to facilitate the monitoring of grants activities.	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.	2021	A/77/5/Add.2, chap. II, para. 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.	UNCDF has revised the monitoring and evaluation features in the Quantum grants module to include the status of payments at various stages (approved, paid, rejected, etc.) to help project managers in tracking and monitoring grants. In addition, UNCDF has created a business intelligence dashboard to identify those grant payments made without a grant identifier, which helps to ensure the completeness and quality of data entered into the grants module.	The Board considers this recommendation implemented.	X			
Total number of recommendations						**7**			
Percentage of the total number of recommendations						**100**			

Chapter III
Financial report for the year ended 31 December 2022

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 2022. 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 2022 in accordance with the 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. Drawing upon the newly established strategic framework for the period 2022–2025, in addition to the two flagship areas, inclusive digital economies and local transformative finance, UNCDF aims to expand its focus to include three emerging areas, which are aimed at assisting the least developed countries to achieve the Sustainable Development Goals, adopted by the States Members of the United Nations in the 2030 Agenda for Sustainable Development: women’s economic empowerment; climate resilience, clean energy and biodiversity finance; and sustainable food systems finance.

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. Within this objective lie key criteria and benchmarks, including:

(a) Accurate and timely reporting of results to the Executive Board, UNCDF partners and other governing bodies;

(b) Establishing and maintaining a sound set of internal control mechanisms;

(c) Meeting the minimum operational reserve requirement approved by the Executive Board;

(d) Producing annual IPSAS-compliant financial statements.

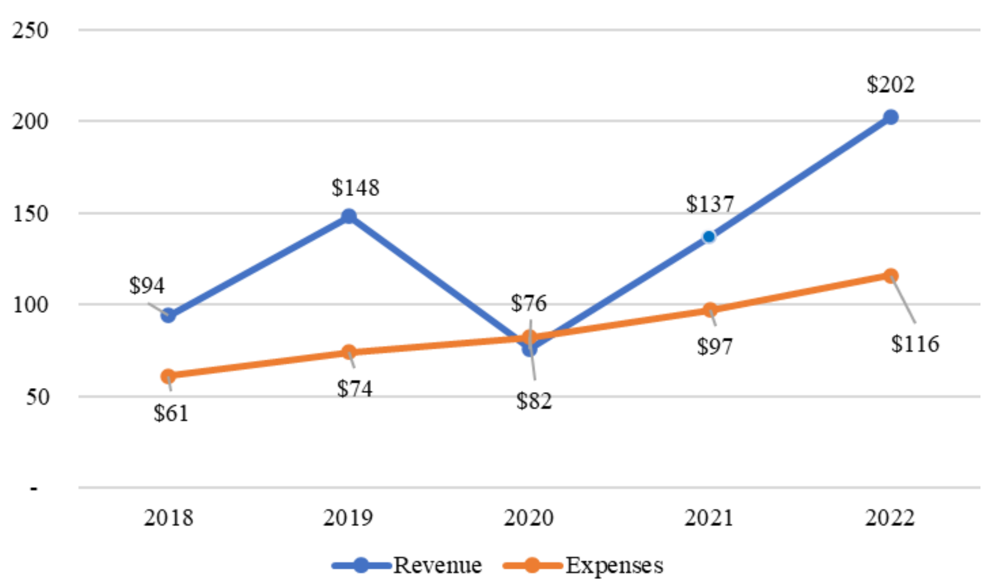
7. The financial reporting objective of UNCDF is to provide users of the financial statements with timely, transparent, comprehensive and understandable financial information for decision-making purposes.

B. Summary financial results and highlights

8. Total revenue increased by 47.9 per cent, from $136.6 million in 2021 to $202.0 million in 2022. Total expenses increased by 19.7 per cent, from $97.1 million in 2021 to $116.2 million in 2022. Total accumulated surpluses and reserves increased by 28.6 per cent, from $309.4 million in 2021 to $397.9 million at the end of 2022. That increase is attributable primarily to a surplus for the year of $85.8 million.

9. At the end of 2022, UNCDF had total assets of $417.3 million, an increase from $333.0 million in 2021. The change is attributable primarily to an increase in cash and investments of $59.5 million and an increase in receivables (non-exchange transactions) of $39.0 million.

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



C. Financial performance

Revenue analysis

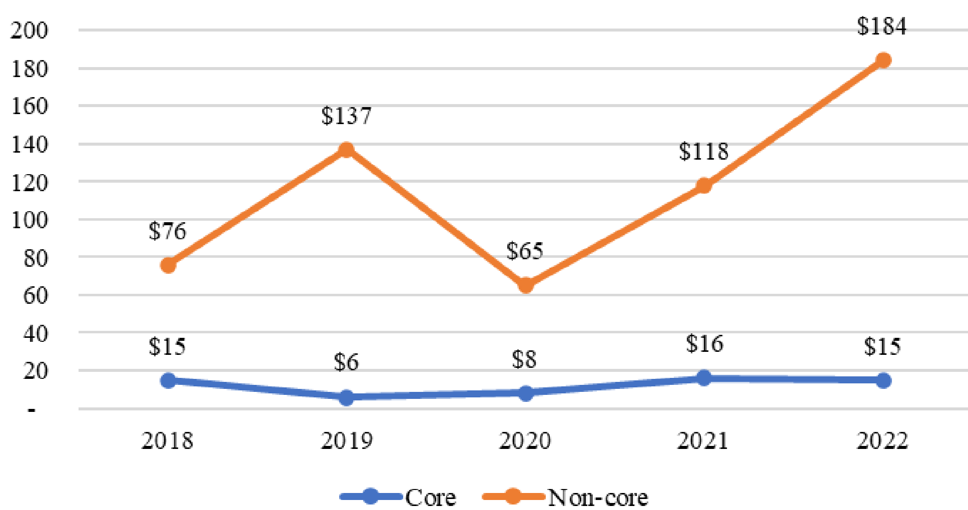
10. The activities of UNCDF are funded by voluntary contributions through regular (core) resources and other (non-core) resources.

11. Total revenue in 2022 was $202.0 million, an increase of $65.4 million (47.9 per cent) from the total revenue of $136.6 million in 2021. The main sources of revenue in 2022 were as follows:

- Voluntary contributions in the amount of $198.7 million (98.4 per cent), compared with $133.5 million (97.7 per cent) in 2021
- Investment and other revenue in the amount of $3.3 million (1.6 per cent), compared with $3.1 million (2.3 per cent) in 2021

12. In 2022, UNCDF reported $14.7 million in regular (core) contributions (7.4 per cent of total voluntary contributions) and $184.0 million in other (non-core) contributions (92.6 per cent of total voluntary contributions). The $65.2 million increase in voluntary contributions was due to several large multi-year revenue agreements signed in 2022.

Figure III.II
Voluntary contributions from core and non-core resources
(Millions of United States dollars)



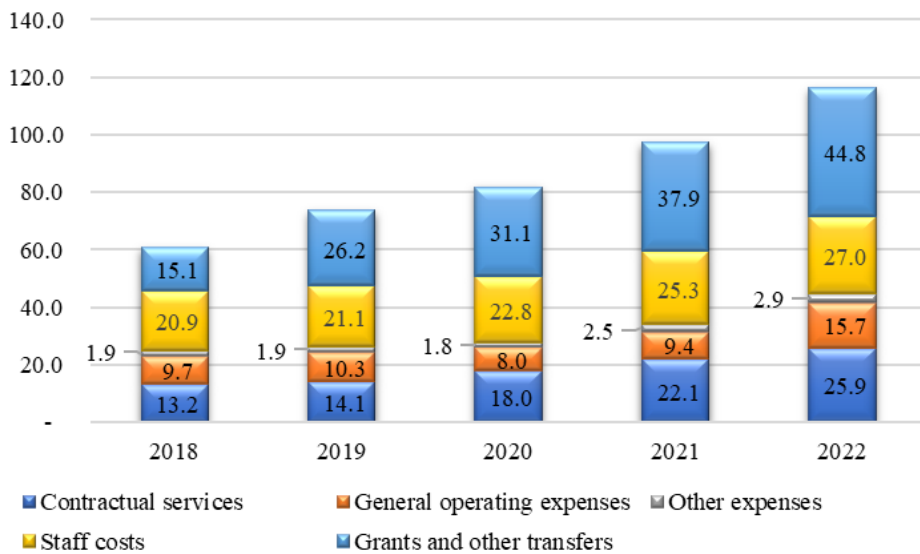
Expense analysis

13. In 2022, UNCDF expenses were $116.2 million ($123.2 million excluding the effect of the elimination of internal UNCDF cost recovery), an increase of $19.1 million (19.7 per cent) from 2021. The increase was due mainly to improved programme delivery in both the inclusive digital economies and local transformative finance areas of work.

14. Grants and other transfers amounting to $44.8 million in 2022 represent a portion of UNCDF capital investment included in programme delivery. In 2021, grants and other transfers amounted to $37.9 million.

15. The other two largest expense categories by nature in 2022 were staff costs ($27.0 million) and contractual services ($25.9 million), which predominantly represent technical assistance provided by UNCDF through its programmes. In 2021, staff costs and contractual services amounted to $25.3 million and $22.1 million, respectively.

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 2022, of total expenses of $123.2 million (excluding the effect of the elimination of internal cost recovery), $113.0 million (91.7 per cent) was spent on programme activities, $5.6 million (4.5 per cent) on development effectiveness and $4.6 million (3.8 per cent) on management activities.

D. Surplus/deficit

18. In 2022, UNCDF had a surplus of revenue over expense of $85.8 million, compared with a surplus of $39.5 million in 2021. The increase of $46.3 million was:

- Driven by an increase in total revenue of $65.4 million, from $136.6 million in 2021 to $202.0 million in 2022
- Offset by an increase in spending of $19.1 million, from $97.1 million in 2021 to $116.2 million in 2022

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 2022–2025, 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

	2022		*2021*	
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	12.5	97	11.1	93
Management activities	1.0	99	1.5	96
Total	**13.5**	**97**	**12.6**	**94**

22. Overall, UNCDF utilized 97 per cent of its approved budgeted amount, a consistent performance compared with the utilization level for 2021 (94 per cent).

F. Financial position

Assets

23. At the end of 2022, UNCDF held assets of $417.3 million (2021: $333.0 million). The increase of $84.3 million (25.3 per cent) is driven largely by an increase in cash and investments of $59.5 million (33.1 per cent) and an increase in receivables (non-exchange transactions) of $39.0 million (29.5 per cent).

24. At the end of 2022, the Fund's investment balance was invested into long-term and short-term 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 decreased by $4.2 million (17.8 per cent), from $23.6 million in 2021 to $19.4 million in 2022.

26. At the end of 2022, UNCDF held after-service health insurance liabilities of $11.4 million (2021: $14.5 million). The Fund's after-service health insurance liabilities continue to be fully funded.

Net assets/equity

27. Net assets/equity reached $397.9 million in 2022, including accumulated surpluses of $390.7 million and operational reserves of $7.2 million. Accumulated surpluses at 31 December 2022 included non-exchange receivables of $171.1 million.

Under the financial regulations and rules of UNCDF, the organization is permitted to spend only when cash is received.

28. Operational reserves comprised a $5.3 million operational reserve for regular resources and a $1.9 million operational reserve for other resources.

29. During 2022, net assets/equity increased by $88.5 million (28.6 per cent) as a result of the combined net effect of the following factors: (a) a surplus of $85.8 million; (b) actuarial gain of $5.1 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 $2.7 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 capital 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 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 is managed by the UNDP Treasury Division and occurs 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 these estimates and assumptions. The significant accounting policies are disclosed in notes 2 and 4 to the financial statements.

Adoption of new accounting standards

45. There are new IPSAS that will become effective in 2023 and future years. The impact of the adoption of these IPSAS on the financial statements of UNCDF is currently being assessed to ensure implementation on the effective dates.

46. Further information on new accounting developments is disclosed in note 3 (d) to the financial statements.

I. Implementation of the next-generation enterprise resource planning project

47. UNCDF has joined UNDP in the implementation of the next-generation enterprise resource planning project (Quantum). Its objective is to replace the current enterprise resource planning system, Atlas, which was rolled out in 2004, with a modern cloud-based enterprise resource planning solution that will help upgrade the Fund’s processes to incorporate the next-generation technology in order to support the implementation of the new strategic plan. The adoption of Quantum is aligned with UNCDF aspirations to keep abreast of the latest information technology and digital strategies.

48. As at 31 December 2022, the Quantum recruitment, procurement, financial and payroll modules were ready to be deployed globally for UNCDF. Deployment was completed on 9 January 2023, enabling UNCDF to open the new fiscal year in the Quantum digital platform. The move to a cloud-based architecture also provides an opportunity to reduce the enterprise resource planning-related information technology operating costs once Atlas is fully decommissioned. Various other productivity gains and benefits are expected through further adoption of automation and digital ways of working.

J. Looking forward to 2023 and beyond

49. In 2022, UNCDF continued to build on its momentum from previous years, marking the fourth consecutive year of historical record-breaking programme expenditures and the highest contribution revenue reported. This success has allowed

the organization to expand its reach and deepen its impact in the least developed countries as they strive to achieve sustainable and inclusive economic growth.

50. Looking ahead, UNCDF aims to further enhance its offerings as a hybrid development organization and development finance institution. By combining the provision of capital and financial advisory services with capacity development, technical assistance and policy advice, the organization plans to strengthen its investment portfolio and track record. UNCDF is set to deepen its partnerships with the impact investment space, development finance institutions and multilateral development banks. By forging stronger alliances with these organizations, UNCDF can combine its unique financing capabilities with the resources and expertise of its partners to create scalable and sustainable financing solutions in key new areas in the strategic framework for the period 2022–2025, such as women's economic empowerment, climate change, energy, biodiversity and food systems. This will allow UNCDF to have a greater impact in the least developed countries it serves, helping them achieve sustainable and inclusive economic growth.

51. In addition to its ongoing efforts, UNCDF is committed to enhancing its use of technology to streamline its investment process and add value to its offerings. UNCDF plans to leverage a technology platform to facilitate connections between enterprises in emerging and frontier economies with investors and experts. This will enable the organization to create efficiencies in its investment process while offering increased value to its clients. By implementing this technology, UNCDF will be better positioned to meet the needs of its clients and further its mission of promoting sustainable and inclusive economic growth in the least developed countries.

52. UNCDF will also focus its footprint closer to the countries in which it operates, in order to enhance its relevance and responsiveness to the priorities of the least developed countries. In addition, the organization will deepen its 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.

53. UNCDF recognizes the value of strong evaluation and results management functions to capture learning and incorporate it into scaled-up programmes and investments. The organization aims to strengthen its capacities and systems for results and impact management in the new strategic framework for the period 2022–2025 and increase investment in corporate and thematic evaluations.

54. Innovation is key to UNCDF, which seeks to leverage its decades-long expertise in making finance work for last-mile support to new approaches to boosting Sustainable Development Goals-related investments. As the United Nations development system evolves and responds to emerging global challenges, UNCDF will continue to contribute to the implementation of the 2030 Agenda for Sustainable Development.

Chapter IV

Financial statements for the year ended 31 December 2022

United Nations Capital Development Fund

I. Statement of financial position as at 31 December 2022

(Thousands of United States dollars)

	References	*31 December 2022*	*31 December 2021*
Assets			
Current assets			
Cash and cash equivalents	Note 8	63 668	15 618
Investments	Note 9	82 669	57 116
Receivables (non-exchange transactions)	Note 10	108 008	85 572
Receivables (other)	Note 10	2 921	16 985
Advances issued	Note 11	1 334	682
Loans	Note 12	987	1 071
Total current assets		**259 587**	**177 044**
Non-current assets			
Investments	Note 9	92 684	106 814
Receivables (non-exchange transactions)	Note 10	63 121	46 591
Loans	Note 12	1 353	1 995
Property, plant and equipment	Note 13	597	594
Total non-current assets		**157 755**	**155 994**
Total assets		**417 342**	**333 038**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Notes 2 and 14	1 136	2 221
Advances payable	Note 15	–	33
Funds held on behalf of donors	Note 15	392	–
Employee benefits	Note 16	3 538	3 313
Other current liabilities	Note 15	243	297
Total current liabilities		**5 309**	**5 864**
Non-current liabilities			
Accounts payable and accrued liabilities	Note 14	9	22
Employee benefits	Note 16	14 130	17 720
Total non-current liabilities		**14 139**	**17 742**
Total liabilities		**19 448**	**23 606**
Net assets/equity			
Reserves	Note 17	7 200	6 800
Accumulated surpluses	Note 18	390 694	302 632
Total net assets/equity		**397 894**	**309 432**
Total liabilities and net assets/equity		**417 342**	**333 038**

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 2022

(Thousands of United States dollars)

	References	*2022*	*2021*
Revenue			
Voluntary contributions	Note 19	198 690	133 471
Investment revenue	Note 20	2 856	2 682
Other revenue	Note 21	455	468
Total revenue		**202 001**	**136 621**
Expenses[a]			
Contractual services	Note 22	25 866	22 061
Staff costs	Note 22	26 988	25 304
Supplies and consumables	Note 22	1 080	975
General operating expenses	Notes 2 and 22	15 667	9 358
Grants and other transfers	Note 22	44 766	37 895
Other expenses	Note 22	1 766	1 430
Depreciation	Note 22	78	82
Total expenses		**116 211**	**97 105**
Surplus/(deficit) for the year		**85 790**	**39 516**

[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 2022

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2021	**6 800**	**302 632**	**309 432**
Changes in net assets/equity			
Operational reserve transferred from accumulated surpluses	400	(400)	–
Funds with specific purposes (note 18)	–	307	307
Changes in fair value of available-for-sale investments	–	(2 728)	(2 728)
Actuarial gains/(losses)	–	5 093	5 093
Surplus for the year	–	85 790	85 790
Total changes in net assets/equity	**400**	**88 062**	**88 462**
Balance at 31 December 2022	**7 200**	**390 694**	**397 894**

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 2022

(Thousands of United States dollars)

	References	*2022*	*2021*
Cash flows from operating activities			
Surplus/(deficit) for the year	Statement II	85 790	39 516
Adjustments to reconcile surplus/(deficit) for the year to net cash flows			
Depreciation		78	82
Impairment	Note 22.6	457	322
Amortization of bond premium	Note 9	12	130
(Gains)/losses on fair value through surplus or deficit	Note 9	1 182	966
(Gains)/losses on disposal of property, plant and equipment	Note 22.6	(12)	13
Changes in assets			
(Increase)/decrease in receivables (non-exchange transactions)		(38 966)	(1 226)
(Increase)/decrease in receivables (other)		11 563	(17 806)
(Increase)/decrease in advances issued		(652)	(147)
(Increase)/decrease in loans		348	(818)
Interest received on loans		577	327
Changes in liabilities/net assets			
(Decrease)/increase in accounts payable and accrued liabilities		(1 177)	459
(Decrease)/increase in funds held on behalf of donors		392	–
(Decrease)/increase in advances payable	Note 15	(33)	(368)
(Decrease)/increase in employee benefits		1 728	1 242
(Decrease)/increase in other liabilities		(54)	(25)
(Decrease)/increase in funds with specific purposes	Note 18	307	268
Cash flows from/(used in) operating activities		**61 540**	**22 935**
Cash flows from investing activities			
Purchases of investments	Note 9	(84 072)	(136 538)
Maturities of investments	Note 9	69 250	80 829
(Increase)/decrease in investments managed by external investment managers	Note 9	(523)	(1 310)
Interest and dividends received		1 924	1 695
Purchases of property, plant and equipment	Note 13	(85)	(104)
Disposal of property, plant and equipment	Note 13	16	4
Cash flows from/(used in) investing activities		**(13 490)**	**(55 424)**
Cash flows from financing activities		–	–
(Decrease)/increase in cash and cash equivalents		**48 050**	**(32 489)**
Cash and cash equivalents at beginning of the year		**15 618**	**48 107**
Cash and cash equivalents at end of the year	Note 8	**63 668**	**15 618**

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 2022

(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	6 400	6 400	6 365	35
Development effectiveness	7 147	6 140	5 838	302
Subtotal	**13 547**	**12 540**	**12 203**	**337**
Management activities	974	974	965	9
Total	**14 521**	**13 514**	**13 168**	**346**

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

United Nations Capital Development Fund
Notes to the 2022 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). In the absence of a specific IPSAS on transfer expenses, UNCDF recognizes grant expenses when agreed milestones are certified and discloses as open commitments milestones that have not been certified. This treatment is a departure from IPSAS 1: Presentation of financial statements, which implies recognition of full liability and expense upon signature of grant agreements. Pursuant to paragraph 31 of IPSAS 1, UNCDF considers that such treatment implied by IPSAS 1 does not adequately reflect the performance-based nature of grant agreements and would be misleading and in conflict with the objective of the financial statements to provide useful information about the financial performance of UNCDF. Such a departure is temporary and will no longer be necessary when UNCDF implements IPSAS 48: Transfer expenses,[13] which provides for a new category of assets ("transfer right assets"). While confirming the obligation to recognize the full liability related to grant agreements, this new standard will allow for an adequate presentation of the financial performance of UNCDF. The tables below detail the financial impact of the above-mentioned departure.

[13] IPSAS 48 was pronounced in March 2023 and will be effective for annual financial statements covering periods beginning on or after 1 January 2026.

	31 December 2022	*31 December 2022 (pro forma)*	*31 December 2021*	*31 December 2021 (pro forma)*
Statement of financial position extract				
Current liabilities				
Accounts payable and accrued liabilities	1 136	17 651	2 221	14 441
Total current liabilities	**5 309**	**21 824**	**5 864**	**18 084**
Total liabilities	**19 448**	**35 963**	**23 606**	**35 826**
Net assets/equity				
Accumulated surpluses	390 694	374 179	302 632	290 412
Total net assets/equity	**397 894**	**381 379**	**309 432**	**297 212**
Total liabilities and net assets/equity	**417 342**	**417 342**	**333 038**	**333 038**

	31 December 2022	*31 December 2022 (pro forma)*	*31 December 2021*	*31 December 2021 (pro forma)*
Statement of financial performance extract				
Expenses				
Grants and other transfers	44 766	49 061	37 895	39 373[a]
Total expenses	**116 211**	**120 506**	**97 105**	**98 583**
Surplus/(deficit) for the year	**85 790**	**81 495**	**39 516**	**38 038**

[a] Grants and other transfers expenses for 2021 have been adjusted on the basis of the best estimates for outstanding grants in 2020.

	Total net assets/equity	*Total net assets/equity (pro forma)*
Statement of changes in net assets/equity extract		
Balance at 31 December 2021	309 432	297 212
Surplus for the year	85 790	81 495
Total changes in net assets/equity	**88 462**	**84 167**
Balance at 31 December 2022	**397 894**	**381 379**

	31 December 2022	*31 December 2022 (pro forma)*	*31 December 2021*	*31 December 2021 (pro forma)*
Cash flow statement extract				
Cash flow from operating activities				
Surplus/(deficit) for the year	85 790	81 495	39 516	38 038
(Decrease)/increase in accounts payable and accrued liabilities	(1 177)	3 118	459	1 937
Cash flows from/(used in) operating activities	**61 540**	**61 540**	**22 935**	**22 935**

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 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. Its impact on the financial statements of UNCDF upon adoption is currently being assessed, as it will be implemented on 1 January 2023. UNCDF expects that the new standard will require a change in the classification and measurement of certain financial assets currently classified and measured at fair value with changes recorded in net assets/equity to fair value through surplus and deficit.

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. It is not expected to have a significant impact on the financial statements of UNCDF upon its adoption.

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 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 annual financial performance is that 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.

In March 2023, the IPSAS Board issued IPSAS 47: Revenue and IPSAS 48: Transfer expenses, each with an effective date of 1 January 2026. IPSAS 47 will replace IPSAS 9: Revenue from exchange transactions, IPSAS 11: Construction contracts and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers) to create a single consolidated revenue standard. IPSAS 48 is a new standard and is applicable to the accounting for expense arising from a transaction, other than taxes, in which an entity provides a good, service or other asset to another entity (which may be an individual) without directly receiving any good, service or other asset in return.

The impact of both IPSAS 47 and IPSAS 48 is currently being assessed. On the basis of preliminary assessments, the impact of IPSAS 47 on UNCDF accounting for earmarked voluntary contributions is likely to be significant. Under the current IPSAS 23, UNCDF recognizes substantially all voluntary contributions as non-exchange revenue upon signature of the relevant contribution agreement. Under IPSAS 47, UNCDF will be required to record revenue from voluntary contributions when (or as) any identified compliance obligations under binding arrangements and any enforceable obligations arising from other earmarked contributions are duly satisfied. Compliance obligations and enforceable obligations as defined in IPSAS 47 are concepts that align with the expectations and entitlements of donors under individually significant earmarked voluntary contribution agreements. The change in revenue recognition approach upon implementation of IPSAS 47 is expected to result in a significant shift in the timing of recognition for a substantial share of UNCDF revenue from earmarked voluntary contributions from the year of signature of the contribution agreement to the subsequent year or years for which the funds are intended and to when UNCDF satisfies the relevant obligations. UNCDF considers this as sufficient implementation time and that implementation will require additional resources.

The impact of IPSAS 48 on UNCDF expense accounting is currently being assessed. Upon implementation, it should put an end to the present departure from IPSAS on grant liability recognition pursuant to paragraph 31 of IPSAS 1 (see note 2 above).

(e) Authorization to submit financial statements for audit

These financial statements are approved and certified by the Managing Director of UNCDF, the Officer-in-Charge of UNCDF, the Deputy Executive Secretary of UNCDF and the Head, 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 2023.

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 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 upon 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.

Property, plant and equipment

All property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses. It is noted that, upon 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 include right-to-use arrangements for property that meets the criteria for recognition (see the section entitled “Leases” below).

Depreciation on property, plant and equipment is calculated using the straight-line basis over the estimated useful lives, except for land, which is not subject to depreciation. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, that is, 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)*
Vehicles	12
Communications and information technology equipment	8–20
Furniture and fixtures	15
Heavy machinery and other equipment	20
Leasehold improvements	Shorter of lease term or life of applicable asset

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

UNCDF has no intangible assets.

Impairment of non-cash-generating assets

Property, plant and equipment are reviewed for impairment at each reporting date. For property, plant and equipment, UNCDF reviews for impairment during the 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 finance 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. UNCDF did not have any finance lease arrangements at year-end in 2022 or 2021.

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.

For grants, expenses are recognized when agreed milestones are achieved and certified (see note 2 above).

(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 2022, there were no prior-period adjustments or major reclassifications of 2021 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 investment income 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 2022

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2022	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*
Assets										
Current assets										
Cash and cash equivalents	11 647	2 886	37 482	8 207	6 423	2 651	8 116	1 874	63 668	15 618
Investments	17 164	11 846	47 197	29 179	8 088	9 426	10 220	6 665	82 669	57 116
Receivables (non-exchange transactions)	4 315	1 135	84 749	76 255	18 944	8 182	–	–	108 008	85 572
Receivables (other)	2 492	16 670	335	217	60	64	34	34	2 921	16 985
Advances issued	527	612	785	25	1	35	21	10	1 334	682
Loans	–	–	449	518	538	553	–	–	987	1 071
Total current assets	**36 145**	**33 149**	**170 997**	**114 401**	**34 054**	**20 911**	**18 391**	**8 583**	**259 587**	**177 044**
Non-current assets										
Investments	12 408	19 901	54 138	53 800	9 277	17 379	16 861	15 734	92 684	106 814
Receivables (non-exchange transactions)	5 806	3 859	56 815	41 732	500	1 000	–	–	63 121	46 591
Loans	–	–	550	808	803	1 187	–	–	1 353	1 995
Property, plant and equipment	160	148	399	399	36	44	2	3	597	594
Total non-current assets	**18 374**	**23 908**	**111 902**	**96 739**	**10 616**	**19 610**	**16 863**	**15 737**	**157 755**	**155 994**
Total assets	**54 519**	**57 057**	**282 899**	**211 140**	**44 670**	**40 521**	**35 254**	**24 320**	**417 342**	**333 038**

Segment reporting: statement of financial position as at 31 December 2022 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2022	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	164	702	590	737	164	604	218	178	1 136	2 221
Advances payable	–	–	–	33	–	–	–	–	–	33
Funds held on behalf of donors	–	–	392	–	–	–	–	–	392	–
Employee benefits	3 467	3 243	27	27	4	4	40	39	3 538	3 313
Other current liabilities	10	12	74	113	18	29	141	143	243	297
Total current liabilities	**3 641**	**3 957**	**1 083**	**910**	**186**	**637**	**399**	**360**	**5 309**	**5 864**
Non-current liabilities										
Accounts payable and accrued liabilities	–	–	–	–	9	22	–	–	9	22
Employee benefits	14 091	17 679	2	2	1	1	36	38	14 130	17 720
Total non-current liabilities	**14 091**	**17 679**	**2**	**2**	**10**	**23**	**36**	**38**	**14 139**	**17 742**
Total liabilities	**17 732**	**21 636**	**1 085**	**912**	**196**	**660**	**435**	**398**	**19 448**	**23 606**
Net assets/equity										
Reserves	5 300	5 200	–	–	–	–	1 900	1 600	7 200	6 800
Accumulated surpluses	31 487	30 221	281 814	210 228	44 474	39 861	32 919	22 322	390 694	302 632
Total net assets/equity	**36 787**	**35 421**	**281 814**	**210 228**	**44 474**	**39 861**	**34 819**	**23 922**	**397 894**	**309 432**
Total liabilities and net assets/equity	**54 519**	**57 057**	**282 899**	**211 140**	**44 670**	**40 521**	**35 254**	**24 320**	**417 342**	**333 038**

Segment reporting: statement of financial performance for the year ended 31 December 2022

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2022	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*	*2022*	*2021*
Revenue												
Voluntary contributions	14 730	15 895	155 610	96 592	24 832	16 538	3 518	4 446	–	–	198 690	133 471
Investment revenue	931	1 660	181	163	353	244	1 391	615	–	–	2 856	2 682
Other revenue	298	286	147	167	5	4	7 093	5 579	(7 088)	(5 568)	455	468
Total revenue	**15 959**	**17 841**	**155 938**	**96 922**	**25 190**	**16 786**	**12 002**	**10 640**	**(7 088)**	**(5 568)**	**202 001**	**136 621**
Expenses												
Contractual services	2 342	2 282	19 614	15 860	3 615	3 633	295	286	–	–	25 866	22 061
Staff costs	7 096	6 035	12 603	11 762	4 250	4 712	3 039	2 795	–	–	26 988	25 304
Supplies and consumables	259	303	696	537	79	113	46	22	–	–	1 080	975
General operating expenses	2 710	1 808	14 250	9 444	4 190	2 470	1 605	1 204	(7 088)	(5 568)	15 667	9 358
Grants and other transfers	402	906	36 523	29 316	7 841	7 673	–	–	–	–	44 766	37 895
Other expenses	522	381	618	785	596	166	30	98	–	–	1 766	1 430
Depreciation	25	34	45	40	7	7	1	1	–	–	78	82
Total expenses	**13 356**	**11 749**	**84 349**	**67 744**	**20 578**	**18 774**	**5 016**	**4 406**	**(7 088)**	**(5 568)**	**116 211**	**97 105**
Surplus/(deficit) for the year	**2 603**	**6 092**	**71 589**	**29 178**	**4 612**	**(1 988)**	**6 986**	**6 234**	**–**	**–**	**85 790**	**39 516**

[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 $1.007 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 2022 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 the period 2022–2025.

Accordingly, actual utilization amounts in 2022 against budget levels are as follows:

(a) Development activities: actual utilization of $12.203 million, representing 97 per cent of the annualized final approved budget of $12.540 million;

(b) Management activities: actual utilization of $0.965 million, representing 99 per cent of the annualized final approved budget of $0.974 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	**(13 168)**	**–**	**–**	**(13 168)**
Basis differences	307	37	–	344
Entity differences	74 401	(13 527)	–	60 874
Net increase/(decrease) in cash and cash equivalents from statement IV	**61 540**	**(13 490)**	**–**	**48 050**

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 2022	*31 December 2021*
Cash in bank accounts	551	2 695
Cash held by external investment managers	569	492
Money market funds	52 552	12 431
Money market instruments	9 994	–
Petty cash and project cash	2	–
Total cash and cash equivalents	**63 668**	**15 618**

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 2022	*31 December 2021*
Current investments		
Investments managed by the United Nations Development Programme	82 611	56 990
Investments managed by external investment managers	58	126
Total current investments	**82 669**	**57 116**
Non-current investments		
Investments managed by the United Nations Development Programme	74 731	88 416
Investments managed by external investment managers	12 815	14 952
Beneficiary units	5 138	3 446
Total non-current investments	**92 684**	**106 814**
Total investments	**175 353**	**163 930**

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 2022	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2022*
Current investments							
Money market instruments	39 986	19 887	(45 000)	35	–	–	14 908
Bonds	17 004	21 961	(24 250)	(41)	–	53 029	67 703
Total current investments	**56 990**	**41 848**	**(69 250)**	**(6)**	**–**	**53 029**	**82 611**
Non-current investments							
Bonds	88 416	39 350	–	(6)	–	(53 029)	74 731
Total non-current investments	**88 416**	**39 350**	**–**	**(6)**	**–**	**(53 029)**	**74 731**
Total investments held to maturity	**145 406**	**81 198**	**(69 250)**	**(12)**	**–**	**–**	**157 342**

As at 31 December 2022, 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 2022	*31 December 2021*
Investments available for sale		
Current investments		
Bonds	58	126
Total current investments	**58**	**126**
Non-current investments		
Equities	7 694	9 513
Bonds	5 121	5 439
Total non-current investments	**12 815**	**14 952**
Total investments managed by external investment managers: available for sale	**12 873**	**15 078**

The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $0.569 million (2021: $0.492 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 $13.4 million (2021: $15.6 million).

As at 31 December 2022, 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 2022	*Purchase*	*Net gain/(loss)*	*31 December 2022*
Non-current investments				
Beneficiary units BUILD I 1B1	531	–	(462)	69
Beneficiary units BUILD I 1B2	–	2 874	(194)	2 680
Beneficiary units BUILD II 21B1	2 915	–	(526)	2 389
Total investment – beneficiary units	**3 446**	**2 874**	**(1 182)**	**5 138**

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 2022	*31 December 2021*
Current		
Receivables (non-exchange transactions)	108 008	85 572
Total current receivables (non-exchange transactions)	**108 008**	**85 572**
Non-current		
Receivables (non-exchange transactions)	63 121	46 591
Total non-current receivables (non-exchange transactions)	**63 121**	**46 591**
Total receivables (non-exchange transactions)	**171 129**	**132 163**

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Past due	19 371	416
Due in future periods	151 758	131 747
Total receivables (non-exchange transactions)	**171 129**	**132 163**

Contribution receivables include $151.758 million (2021: $131.747 million) pledged to UNCDF by donors in signed agreements for future periods. This amount includes $10.121 million (2021: $4.994 million) in receivables for regular resources.

The $19.371 million (2021: $0.416 million) past due contribution receivable represents the amount that is already due to UNCDF based on signed donor agreements. Of this, no amount in 2022 or 2021 was more than six months of age.

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

As at 31 December 2022, UNCDF did not have any impairment on its non-exchange receivables.

10.2 Receivables (other)

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Receivables from the United Nations Development Programme	1 917	16 333
Investment receivables	579	334
Receivables from staff	25	6
Derivative assets	2	34
Receivables from third parties	398	278
Total receivables (other)	**2 921**	**16 985**

Ageing of receivables (other)

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Less than or equal to six months	2 631	16 751
More than six months	290	234
Total receivables (other)	**2 921**	**16 985**

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 2022	*31 December 2021*
Operating funds provided to Governments	38	54
Operating funds provided to United Nations entities	513	–
Prepayments	266	15
Advances to staff	517	613
Total advances issued, gross	**1 334**	**682**
Impairment	–	–
Total advances issued, net	**1 334**	**682**

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Less than or equal to six months	659	654
More than six months	675	28
Advances issued, gross	**1 334**	**682**

Note 12
Loans

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Current		
Loans	1 302	1 071
Impairment	(315)	–
Total current loans	**987**	**1 071**
Non-current		
Loans	1 858	2 437
Impairment	(505)	(442)
Total non-current loans	**1 353**	**1 995**
Total loans	**2 340**	**3 066**

Movement in loans

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Balance at 1 January	**3 066**	**2 570**
Revaluation of loans (translation gain/loss at reporting date)	(198)	(250)
Loans impaired	(378)	(322)
Repayment of loans	(611)	(423)
Disbursement of loans	270	1 718
Amortization of loans	191	(227)
Balance at 31 December	**2 340**	**3 066**

The loan balances comprise concessionary loans issued to 24 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 after confirmation of compliance with due diligence requirements and review and approval by its investment committee. 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 already received.

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 89 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 11 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 2022					
Cost	78	69	984	28	1 159
Accumulated depreciation	(44)	(38)	(477)	(6)	(565)
Carrying amount at 1 January 2022	**34**	**31**	**507**	**22**	**594**
Year ended 31 December 2022					
Additions	–	9	76	–	85
Disposals – cost	–	(15)	(76)	–	(91)
Depreciation	(5)	(7)	(64)	(2)	(78)
Disposals – accumulated depreciation	–	11	76	–	87
Carrying amount at 31 December 2022	**29**	**29**	**519**	**20**	**597**
Balance at 31 December 2022					
Cost	78	63	984	28	1 153
Accumulated depreciation	(49)	(34)	(465)	(8)	(556)
Carrying amount at 31 December 2022	**29**	**29**	**519**	**20**	**597**

As at 31 December 2022, 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 2022	*31 December 2021*
Current		
Payables to third parties	–	928
Accruals	735	1 146
Payables to staff	2	23
Finance guarantee liabilities	102	19
Payables to United Nations	185	93
Derivative liability	112	2
Investment settlement payable	–	10
Total current accounts payable and accrued liabilities	**1 136**	**2 221**
Non-current		
Finance guarantee liabilities	9	22
Total non-current accounts payable and accrued liabilities	**9**	**22**
Total accounts payable and accrued liabilities	**1 145**	**2 243**

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 2022	*31 December 2021*
Advances payable	–	33
Total advances payable	**–**	**33**

15.2 Other current liabilities

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Unapplied deposits	132	125
Other payables	111	172
Total other current liabilities	**243**	**297**

15.3 Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Refund to donors	392	–
Total funds held on behalf of donors	**392**	**–**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Current		
Annual leave	2 736	2 575
Home leave	259	251
After-service health insurance	210	192
Repatriation entitlements	327	290
Death benefits	6	5
Total current employee benefits liabilities	**3 538**	**3 313**
Non-current		
After-service health insurance	11 204	14 342
Repatriation entitlements	2 761	3 169
Home leave	104	145
Death benefits	61	64
Total non-current employee benefits liabilities	**14 130**	**17 720**
Total employee benefits liabilities	**17 668**	**21 033**

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 2022, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted on 31 December 2022.

(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 2022	**14 534**	**3 459**	**69**	**18 062**
Increase in the obligation				
Current service cost	1 269	302	2	1 573
Interest cost	456	89	2	547
Decrease in the obligation				
Actual benefits paid	(239)	(281)	–	(520)
Actuarial (gains) on disbursement	41	(17)	(5)	19
Actuarial (gains) from change in financial assumptions	(5 490)	(750)	(14)	(6 254)
Actuarial (gains) due to experience adjustment	843	286	13	1 142
Recognized liability at 31 December 2022	**11 414**	**3 088**	**67**	**14 569**

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	1 269	302	2	1 573
Interest cost	456	89	2	547
Total employee benefits expenses recognized	**1 725**	**391**	**4**	**2 120**

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	4 647	464	1	5 112
Actuarial gains/(losses) on disbursements	(41)	17	5	(19)
Total actuarial gains/(losses)	**4 606**	**481**	**6**	**5 093**

In 2022, of the net actuarial gains of $5.093 million, the actuarial gains relating to after-service health insurance from changes in financial assumptions was $4.647 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)

	2022	*2021*	*2020*	*2019*	*2018*
After-service health insurance					
Defined benefit obligation	11 414	14 534	14 577	12 644	13 146
Experience adjustment on plan liabilities	843	(1 340)	–	(512)	4 558
Duration[a]	18	21	21	22	18
Repatriation					
Defined benefit obligation	3 088	3 459	3 281	2 904	2 489
Experience adjustment on plan liabilities	286	123	–	(33)	(206)
Duration[a]	8	9	10	10	9
Death benefits					
Defined benefit obligation	67	69	59	58	24
Experience adjustment on plan liabilities	13	11	–	25	(3)
Duration[a]	7	8	8	8	8

[a] The weighted average duration of the defined benefit obligation is available only from 2018 onwards.

The next actuarial valuation will be conducted in line with the United Nations common system process.

UNCDF estimated benefit payments net of participant contributions for the next 10 years are provided in the table below.

(Thousands of United States dollars)

	2023	*2024*	*2025*	*2026*	*2027*	*2028–2032*
After-service health insurance	221	245	273	307	341	2 122
Repatriation	344	269	214	197	245	871
Death benefits	6	6	6	6	5	26

(b) Actuarial assumptions

The most recent actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2022. 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:

	2022	*2021*
Discount rate:		
(a) After-service health insurance	5.21 per cent	3.16 per cent
(b) Repatriation benefits	5.11 per cent	2.70 per cent
(c) Death benefits	5.06 per cent	2.56 per cent
Health-care cost-trend rates (percentage):		
(a) United States, non-Medicare	6.50, grading down to 3.85 after 9 years	5.17, grading down to 3.95 after 10 years
(b) United States, Medicare	6.50, grading down to 3.85 after 9 years	5.03, grading down to 3.95 after 10 years
(c) United States, dental	6.50, grading down to 3.85 after 9 years	4.53, grading down to 3.95 after 10 years
(d) Non-United States, Switzerland	4.25, grading down to 2.55 after 6 years	3.44, grading down to 2.25 after 7 years
(e) Non-United States, eurozone	5.20, grading down to 4.15 after 11 years	Constant at 3.75
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.97–9.27 per cent
Rate of inflation	2.40 per cent	2.00 per cent
Per capita medical claim cost (varies by age)	$1 087–$16 341	$1 020–$15 344
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:

	2022		*2021*	
Mortality rate – active employees	*At age 20*	*At age 65*	*At age 20*	*At age 65*
Male	0.00062	0.00495	0.00062	0.00495
Female	0.00034	0.00263	0.00034	0.00263

	2022		*2021*	
Mortality rate – retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.01113	0.00062	0.01113
Female	0.00035	0.00570	0.00035	0.00570

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

Rate of retirement: Professional staff with 30 or more years of service	*2022*		*2021*	
	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	*2022*	*2021*
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	(1 061)	1 224
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	1 200	(1 050)

(c) United Nations Joint Staff Pension Fund

UNCDF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The 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 Pension Fund was completed as at 31 December 2021 and a roll forward of the participation data as at 31 December 2021 to 31 December 2022 will be used by the Fund for its 2022 financial statements.

The actuarial valuation as at 31 December 2021 resulted in a funded ratio of actuarial assets to actuarial liabilities of 117.0 per cent (107.1 per cent in the 2019 valuation). The funded ratio was 158.2 per cent (144.4 per cent in the 2019 valuation) when the current system of pension adjustments was not 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 2021, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the Pension Fund, deficiency payments required from each member organization would be based on 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 (2019, 2020 and 2021) amounted to $8,505.27 million, of which 0.16 per cent was contributed by UNCDF.

During 2022, the contribution of UNCDF paid to the Pension Fund amounted to $5.3 million (2021: $4.9 million). Expected contributions due in 2023, depending on staffing levels and changes in pensionable remuneration, are approximately $5.6 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 on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities 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 Fund's 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 2022	*Movements*	*31 December 2022*
Operational reserve	6 800	400	7 200
Total reserves	**6 800**	**400**	**7 200**

The Capital Development Fund updated its operational reserve to ensure full compliance with the methodology approved by the Board of Auditors in September 2018. The formula to calculate the operational reserve for regular resources is 50 per cent of the average of the previous three years of core utilization cash flow-based expenditure (actual budget comparable basis total amount). The formula 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 2022	*Movements*	*31 December 2022*
Accumulated surpluses	294 085	85 390	379 475
Funds with specific purposes	2 749	307	3 056
Actuarial gains/(losses)	3 848	5 093	8 941
Changes in fair value of available-for-sale investments	1 950	(2 728)	(778)
Total accumulated surpluses	**302 632**	**88 062**	**390 694**

Movements in the accumulated surpluses of $85.390 million comprise a surplus for the year of $85.790 million and an operational reserve transfer from accumulated surpluses of negative $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 as at 31 December 2022 include receivables for future periods of $171.129 million (2021: $132.163 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)

	2022	*2021*
Contributions	199 113	134 381
Less: returns to donors of unused contributions	(423)	(910)
Total voluntary contributions	**198 690**	**133 471**

For the period 2022–2025, 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 2022, as an in-kind contribution, UNDP directly partially covered the salary costs of 15 UNCDF staff members, amounting to $1.864 million, and general operating expenses, which comprise rent, travel and other costs, amounting to $0.837 million. Furthermore, UNDP provided programme support amounting to $1.310 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2022	*2021*
Interest plus amortized discount, net of amortized premium earned on fixed income instruments, bank account balances and loans	2 566	1 418
Dividends earned on investment portfolio	123	110
Realized gain on sale of investments	167	1 154
Total investment revenue	**2 856**	**2 682**

Note 21
Other revenue

(Thousands of United States dollars)

	2022	*2021*
Foreign exchange gains	447	235
Other miscellaneous revenue	8	228
General management services fees	–	5
Total other revenue	**455**	**468**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses 2022	*Total expenses[a] 2022*	*Programme expenses 2021*	*Total expenses 2021*
22.1 Contractual services				
Contractual services with individuals	22 165	23 037	17 511	18 436
Contractual services with companies	1 380	1 480	2 271	2 332
United Nations Volunteers expenses for contractual services	1 349	1 349	1 293	1 293
Total contractual services	**24 894**	**25 866**	**21 075**	**22 061**
22.2 Staff costs				
Salary and wages	13 521	17 894	12 512	16 852
Pension benefits	2 710	3 526	2 481	3 288
Post-employment	1 382	2 406	1 168	1 985
Appointment and assignment	575	821	876	1 025
Leave benefits	354	576	475	597
Other staff benefits	1 357	1 765	1 114	1 557
Total staff costs	**19 899**	**26 988**	**18 626**	**25 304**
22.3 Supplies and consumables				
Maintenance costs for property, plant and equipment and project-related supplies	150	163	114	131
Stationery and other office supplies	55	61	62	69
Agricultural, petroleum and metal products	72	75	57	57
Information technology supplies and software maintenance	278	442	209	438
Information technology and communications equipment	123	188	132	154
Other consumables	134	151	85	126
Total supplies and consumables	**812**	**1 080**	**659**	**975**
22.4 General operating expenses				
Travel	5 244	5 677	1 347	1 538
Learning and recruitment	2 670	2 772	851	981
Rent, leases and utilities	1 691	1 827	1 357	1 636
Reimbursement	112	125	81	93
Communications	1 402	1 672	1 239	1 567
Security	495	621	564	724
Professional services[b]	1 268	1 340	1 277	1 388
General management costs[c]	7 168	81	5 664	96
Contribution to United Nations jointly financed activities	282	376	298	403
Contribution to information and communications technology	173	439	160	219
Freight	30	30	15	16
Insurance/warranties	11	13	12	14
Miscellaneous operating expenses	600	694	564	683
Total general operating expenses	**21 146**	**15 667**	**13 429**	**9 358**

	Programme expenses 2022	*Total expenses[a] 2022*	*Programme expenses 2021*	*Total expenses 2021*
22.5 Grants and other transfers				
Grants	44 702	44 702	37 859	37 859
Transfers	61	64	20	36
Total grants and other transfers	**44 763**	**44 766**	**37 879**	**37 895**
22.6 Other expenses				
Foreign exchange losses/(gains)	477	477	433	434
Losses/(gains) on sale of fixed assets	(14)	(12)	5	13
Sundries	537	844	293	661
Impairment[d]	457	457	322	322
Total other expenses	**1 457**	**1 766**	**1 053**	**1 430**
22.7 Depreciation				
Depreciation	65	78	56	82
Total depreciation	**65**	**78**	**56**	**82**
Total expenses	**113 036**	**116 211**	**92 777**	**97 105**

[a] Of the total expenses, $113.036 million represents programme expenses and the remaining $3.175 million represents expenses for development effectiveness, management and elimination. See note 27.1, Expenses by cost classification, for details.
[b] In 2022, UNCDF recognized $1.181 million as net loss on beneficiary units classified as financial assets at fair value through surplus or deficit.
[c] In 2022, of the $7.168 million, $7.088 million was eliminated to remove the effect of internal UNCDF cost recovery.
[d] In 2022, UNCDF recognized impairment of $0.378 million relating to loans and $0.079 million relating to guarantees.

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 2022, 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. These investments are 100 per cent funded by donor contributions and UNCDF is not responsible for losses beyond the invested amount.

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*	
					2022	*2021*
Cash and cash equivalents	–	–	63 668	–	63 668	15 618
Investments	157 342	12 873	–	5 138	175 353	163 930
Receivables (non-exchange)	–	–	171 129	–	171 129	132 163
Receivables (other)	–	–	2 919	2	2 921	16 985
Advances	–	–	1 334	–	1 334	682
Loans	–	–	2 340	–	2 340	3 066
Total financial assets	**157 342**	**12 873**	**241 390**	**5 140**	**416 745**	**332 444**

Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2022, book value of these assets exceeded the market value by $5.682 million (2021: market value of these assets exceeded book value by $0.611 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 $8.032 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*	
			2022	*2021*
Accounts payable and accrued liabilities	1 033	112	1 145	2 243
Advances payable	–	–	–	33
Funds held on behalf of donors	392	–	392	–
Other current liabilities	243	–	243	297
Total financial liabilities	**1 668**	**112**	**1 780**	**2 573**

The carrying value of other liabilities is a reasonable approximation of their fair value. As at 31 December 2022, UNCDF had $0.112 million (2021: $0.002 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 2022, net losses of $1.181 million (2021: $0.966 million) related to beneficiary units and net gains of $0.298 million (2021: net losses of $0.049 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 $0.111 million (2021: $0.041 million) is a reasonable approximation of their fair value. As at 31 December 2022, UNCDF had deployed three 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. The duration of the first loan guarantee agreement is until the end of 2024. The second underlying guaranteed asset was a $0.117 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 $0.070 million, which represented the maximum liability of UNCDF under the loan guarantee agreement. The duration of the second loan guarantee agreement is until the end of 2025. The third underlying guaranteed asset was a $0.049 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 $0.019 million, which represented the maximum liability of UNCDF under the loan guarantee agreement. The duration of the third loan guarantee agreement is until the end of June 2023. Any risks arising from exchange rate fluctuations and potential payouts under the guarantee agreements are fully covered by dedicated programme resources already received.

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 2022.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	7 694	–	–	7 694
Bonds	5 179	–	–	5 179
Total available-for-sale financial assets	**12 873**	**–**	**–**	**12 873**
Fair value through surplus or deficit financial assets				
Beneficiary units	–	–	5 138	5 138
Total fair value through surplus or deficit financial assets	**–**	**–**	**5 138**	**5 138**
Total fair value of financial instruments	**12 873**	**–**	**5 138**	**18 011**

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 2022, 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 2022	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*Total*
Money market instruments	–	–	–	5 000	9 908	14 908
Bonds – investments	74 671	40 929	9 988	7 000	9 846	142 434
Total	**74 671**	**40 929**	**9 988**	**12 000**	**19 754**	**157 342**

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**

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2022	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	182	101	125	–	77	77	102	71	30	495	3 919	5 179
Total	**182**	**101**	**125**	**–**	**77**	**77**	**102**	**71**	**30**	**495**	**3 919**	**5 179**

31 December 2021 (reclassified)	*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**

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 $3.229 million, with the remaining balance of $0.690 million comprising government bonds.

The investment management function is performed by the UNDP Treasury Division. UNCDF does 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 92 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 2022, 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	Government entity	81 139	47
2	Multilateral agency	41 325	24
3	United Nations pooled fund	36 877	22
Subtotal		**159 341**	**93**
Others		11 788	7
Total		**171 129**	**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 2022	*Percentage*	*31 December 2021*	*Percentage*
Cash balances	1 122	1	3 187	2
Cash equivalents	62 546	26	12 431	7
Total cash and cash equivalents	**63 668**	**27**	**15 618**	**9**
Current investments	82 669	35	57 116	32
Non-current investments	92 684	38	106 814	59
Total current and non-current investments	**175 353**	**73**	**163 930**	**91**
Total investments, cash and cash equivalents	**239 021**	**100**	**179 548**	**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 2022	*31 December 2021*
Money market funds	52 552	12 431
Money market instruments	9 994	–
Cash equivalents	**62 546**	**12 431**

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 (90 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 2022*	*31 December 2021*
Held-to-maturity investments	Amortized cost	157 342	145 406
Available-for-sale investments	Fair value	12 873	15 078
Fair value through surplus or deficit	Fair value	5 138	3 446
Total investments		**175 353**	**163 930**

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 2022 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
5 179	100 basis point increase	(111)	–
5 179	50 basis point decrease	56	–

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 2022, 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 2022*	*31 December 2021*
Cash and cash equivalents	63 560	23	–	85	63 668	15 618
Investments	171 859	1 753	69	1 672	175 353	163 930
Receivables (non-exchange transactions)	87 458	34 856	29 426	19 389	171 129	132 163
Receivables (other)	2 526	–	–	395	2 921	16 985
Advances issued	550	535	–	249	1 334	682
Loans	556	–	–	1 784	2 340	3 066
Total financial assets	**326 509**	**37 167**	**29 495**	**23 574**	**416 745**	**332 444**
Accounts payable and accrued liabilities	808	148	–	189	1 145	2 243
Advances payable	–	–	–	–	–	33
Other current liabilities	243	–	–	–	243	297
Funds held on behalf of donors	392	–	–	–	392	–
Total financial liabilities	**1 443**	**148**	**–**	**189**	**1 780**	**2 573**

As at 31 December 2022, 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 2022, 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 2022 market value	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
7 694	5 per cent increase	385	–
7 694	5 per cent decrease	(385)	–

UNCDF, through UNDP, actively monitors ratings of its investment holdings and investment counterparties in accordance with its investment guidelines.

Any changes, due to market volatility, in the value of the after-service health insurance portfolio of UNCDF, which is classified as available for sale, have 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 2022.

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	1 038	346	1 384	2 499
Total	**5**	**1 038**	**346**	**1 384**	**2 499**

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 $0.220 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. As at 31 December 2022, 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 2022	*31 December 2021*
Property, plant and equipment	193	–
Goods	34	46
Services	732	485
Grants	16 515	12 220
Total open commitments	**17 474**	**12 751**

Open commitments represent acquisition of various items of property, plant and equipment, goods, services and grants contracted but not received as at 31 December 2022.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2022	*31 December 2021*
Obligations for property leases		
Less than one year	292	281
One to five years	1 458	1 404
Total obligations for property leases	**1 750**	**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 assets

As at 31 December 2022, UNCDF had $9.450 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 benefits 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.

(d) Contingent liabilities

During 2022, UNCDF issued three portfolio guarantees to financial intermediaries, one in Papua New Guinea and two in Zambia, to provide credit enhancements to businesses owned by women, youth and persons with disabilities. These guarantees remained unutilized as at 31 December 2022. The total guarantee ceiling for these portfolio guarantees is $0.585 million and represents the maximum value of any potential liability generated from these operations. Any risks arising from exchange rate fluctuations and potential payouts under the guarantee agreements will be fully covered by dedicated programme resources already received.

Note 26
Events after the 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 these financial statements).

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

Note 27
Additional disclosures

27.1 Expenses by cost classification

(Thousands of United States dollars)

	31 December 2022
Development	
Programme	113 036
Development effectiveness	5 631
Management	4 632
Elimination	(7 088)[a]
Total expenses	**116 211**

[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 2021*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments to net assets*	*Net assets 31 December 2022*
Multi-donor trust fund – Pass-through trust fund	2 882	9 761	(6 863)	–	5 780
Last mile finance trust fund	36 979	15 428	(13 714)	–	38 693
Total	**39 861**	**25 189**	**(20 577)**	**–**	**44 473**

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