



**Executive Board of the
United Nations Development
Programme, the United Nations
Population Fund and the
United Nations Office for
Project Services**

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Structured funding dialogue

**Annual review of the financial situation, 2017
Report of the Administrator**

Summary

This report provides an overview of the financial position of UNDP and the United Nations Capital Development Fund (UNCDF) at the end of 2017. UNDP maintained a positive net asset position on its balance sheet and achieved regular resources year-end liquidity above the threshold requested by the Executive Board. The 2017 institutional budget was brought back to balance through deliberate actions to reduce expenses.

Total UNDP revenue increased by 3 per cent, to \$5.237 billion (2016: \$5.103 billion), and contributions were 1 per cent higher, at \$4.915 billion (2016: \$4.866 billion). Total expenses were 9 per cent higher, at \$5.095 billion (2016: \$4.660 billion).

Contributions to regular resources fell by 1 per cent, to \$0.612 billion (2016: \$0.618 billion). This includes \$0.017 billion from programme country governments (2016: 0.015 billion). Regular resources expenses also fell, by 2 per cent, to \$0.695 billion (2016: \$0.712 billion).

Other resources contributions grew by 1 per cent, to \$4.303 billion (2016: \$4.248 billion). The ratio of regular to other resources fell to 12 and 88 per cent, respectively (2016: 13 and 87 per cent).

Contributions to other resources comprised funding from: programme country governments, \$1.051 billion, an increase of 7 per cent (2016: \$0.98 billion); donor country governments, which decreased by 2 per cent, to \$1.464 billion (2016: \$1.489 billion); and multilateral partners, which grew by 1 per cent, to \$1.788 billion (2016: \$1.778 billion). Other resources expenses increased by 12 per cent, to \$4.643 billion (2016: \$4.151 billion).

UNDP coordinates the United Nations system at the country level. The value of fund flows to multi-donor trust funds, joint programmes, and United Nations organizations rose by 12 per cent, to \$1.715 billion (2016: \$1.532 billion).



UNCDF revenue totalled \$0.060 billion. Contributions increased to \$0.057 billion (2016: \$0.055 billion). Regular resources contributions were \$9.7 million, below the \$25 million required to sustain UNCDF operations in 40 of the 47 least developed countries per the UNCDF strategic framework, 2014-2017. Total expenses increased to \$0.065 billion, primarily for development activities (2016: \$0.063 billion), remaining above the level of total revenue by drawing upon the accumulated surplus from previous years.

Elements of a decision

The Executive Board may wish to:

- (a) take note of documents DP/2018/19, DP/2018/19/Add.1, and DP/2018/20;
- (b) note the importance of regular resources, which remain the bedrock of UNDP support to programme countries, particularly the poorest and most vulnerable and low-income countries, for UNCDF and its impact on the least developed countries served, and for UNV on promoting peace and development through volunteerism;
- (c) recall the importance of funding predictability, and urge Member States to prioritize regular resources and multi-year pledges for 2018, and multi-year pledges, given that further reductions in regular resources risk jeopardizing the ability of UNDP to achieve planned strategic results; and
- (d) recall decision 2013/30, and urge all programme countries to meet their obligations with respect to government local office costs.

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 - B. Statement of financial position as at 31 December 2017
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I. Introduction

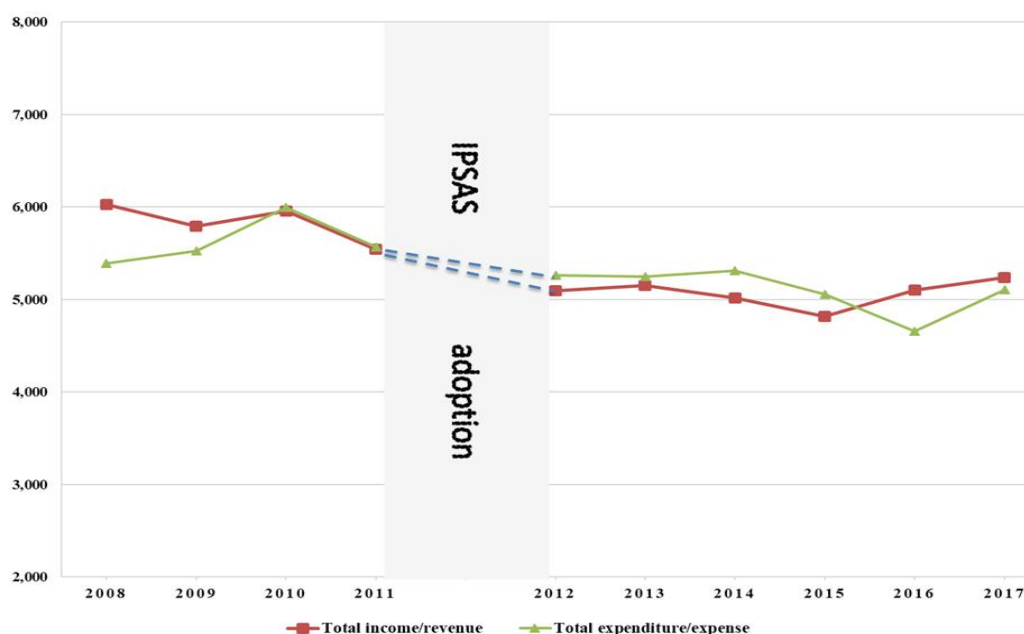
1. This report provides an overview of the financial position of UNDP – including the United Nations Volunteers (UNV) and the United Nations Office for South-South Cooperation (UNOSSC) – and UNCDF at the end of 2017.
2. Annexes I-VI are available on the Executive Board web page. Tables 1-11, in DP/2018/19/Add.1, provide further details of the activities undertaken by UNDP and UNCDF.
3. In accordance with Executive Board decision 2013/28, this report includes a comparative overview of actual 2017 utilization compared to the resource planning figures in the UNDP integrated budget, 2014-2017 (DP/2013/41), and the corresponding annex II. It includes annexes III.A and III.B in the format of the UNDP integrated resources plan. Annex III.C provides the resources allocated to posts, by location.

II. UNDP overview

A. Revenue

4. In a challenging financial environment, total UNDP revenue increased by 3 per cent, to \$5,237 million (2016: \$5,103 million). Total expenses increased by 9 per cent, to \$5,095 million (2016: \$4,660 million). UNDP continued to maintain a positive net asset position on the balance sheet, and a year-end core liquidity position above the minimum threshold requested by the Executive Board (see paragraph 49). However, UNDP was funded 12 per cent from regular resources and 88 per cent from other resources (2016: 13 per cent and 87 per cent, respectively) continuing the downward trend. Figure 1 illustrates the trend.

Figure 1. Revenue and expenses, 2008-2017
(in millions of dollars)



Note: IPSAS=International Public Sector Accounting Standards

5. Total revenue grew by 3 per cent, to \$5,237 million (2016: \$5,103 million). Table 1 shows the breakdown.

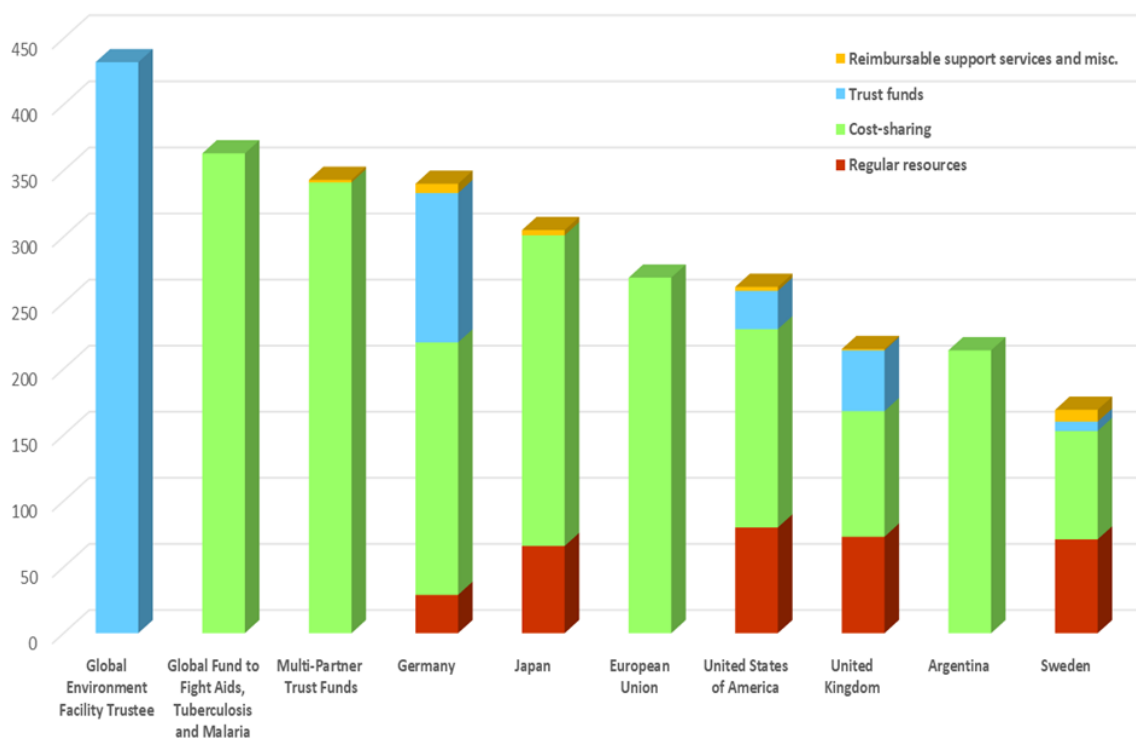
Table 1. UNDP revenue, 2017
(in millions of dollars)

<i>Resources</i>	2017	2016	<i>increase/ (decrease)</i>	<i>% change</i>
Revenue				
Contributions	4,915	4,866	49	1%
GLOC accounting linkage	(1)	(1)	-	0%
GLOC	19	28	(9)	(32%)
NCC contributions	12	9	3	33%
U-MIC contributions	9	6	3	50%
Contributions in kind	16	20	(4)	(20%)
Transfer of funds and refunds to funding partners	(78)	(143)	65	(45%)
Contributions, net	4,892	4,785	107	2%
Hedging	4	7	(3)	(43%)
Investments	89	53	36	68%
Other	495	461	34	7%
Total revenue before elimination	5,480	5,306	174	3%
Elimination	(243)	(203)	(40)	20%
Total revenue after elimination	5,237	5,103	134	3%

GLOC=Government contributions towards local office costs middle-income country NCC=Net contributor country U-MIC=Upper-

6. Total contributions were \$4,915 million, with \$2,912 million (59 per cent) contributed by the top-ten funding partners shown in figure 2.

Figure 2. UNDP contributions by top 10 funding partners, 2017
(in millions of dollars)



7. Table 2a presents the total UNDP contributions of \$4,915 million, which increased by 1 per cent (2016: \$4,866 million). This includes \$137 million contributions receivable from partners (2016: \$124 million).

Table 2a. UNDP contributions by funding partners, 2017
(in millions of dollars)

Year	Donor country governments	Programme country governments	Multilateral partners	Total
2017	2,058	1,068	1,789	4,915
2016	2,092	996	1,778	4,866
Increase/(decrease)	(34)	72	11	49
% change	(2%)	7%	1%	1%

8. Of total contributions, \$2,058 million came from donor country governments, representing 42 per cent (2016: 43 per cent); \$1,068 million from programme country governments – primarily in support of their national development priorities – representing 22 per cent (2016: 20 per cent); and \$1,789 million from multilateral partners, representing 36 per cent (2016: 37 per cent), which includes \$67 million from the private sector, foundations and non-governmental organizations (2016: \$46 million). UNDP remains committed to further diversifying the funding base across and beyond governments.

Table 2b. UNDP contributions by resource type, 2017
(in millions of dollars)

Resources	2017			2016		
	Regular resources	Other resources	Total	Regular resources	Other resources	Total
Revenue						
Contributions	612	4,303	4,915	618	4,248	4,866
less: GLOC* accounting linkage	(1)	-	(1)	(1)	-	(1)
GLOC contributions	19	-	19	28	-	28
NCC** contributions		12	12		9	9
U-MIC*** contributions		9	9	-	6	6
Contributions, in-kind and other	16	-	16	19	1	20
Transfer of funds; refunds to donors	1	(79)	(78)	-	(143)	(143)
Contributions, net	647	4,245	4,892	664	4,121	4,785

*GLOC=Government contributions to local office costs **NCC=Net contributor country

***U-MIC=Upper-middle-income country

9. Total contributions to regular resources fell by 1 per cent, to \$612 million (2016: \$618 million). Government contributions to local office costs decreased by 32 per cent, to \$19 million (2016: \$28 million). Contributions to local office costs from net contributor programme country governments increased by 33 percent, to \$12 million (2016: \$9 million), and upper-middle income programme country governments increased by 50 percent, to \$9 million (2016: \$6 million). Total in-kind contributions reached \$16 million (2016: \$19 million).

10. While UNDP has continued to respond to the reductions in regular resources with institutional efficiency and economy measures, regular resources remain vulnerable to volume reductions and exchange rate fluctuations. UNDP continues to adapt to

fluctuations in funding, although reductions in regular resources jeopardize its ability to achieve planned strategic results.

11. Total other resources contributions increased by 1 per cent, to \$4,303 million (2016: \$4,248 million), including \$106 million in receivables. The details of other resources are reported in chapters V (cost sharing), VI (trust funds) and VII (reimbursable support services and miscellaneous activities).

12. Other resources contributions are ‘earmarked’ for individual programmes or projects and are important complements to the ‘un-earmarked’ regular resource base. UNDP is committed to working with Member States to improve the flexibility of this funding.

Investment revenue

13. Total investment revenue increased by 68 per cent, to \$89 million (2016: \$53 million), consisting of \$37 million in regular resources (2016: \$16 million) and \$52 million in other resources (2016: \$37 million). Of this, revenue from the internal working capital portfolio was \$67 million (\$15 million in regular resources and \$52 million in other resources), with a return of 1.34 per cent, due to higher interest rates, and revenue from the externally managed after-service health insurance portfolio was \$22 million (attributed to regular resources), representing a 15.75 per cent return, due to continued strong equity market performance. Both portfolios exceeded their benchmarks.

B. Expenses

14. Total expenses increased by 9 per cent, to \$5,095 million (2016: \$4,660 million). Eighty-five per cent (2016: 83 per cent) was spent on development activities, including development effectiveness; 2 per cent (2016: 3 per cent) on United Nations development coordination activities; 7 per cent (2016: 7 per cent) on management activities; 2 per cent (2016: 2 per cent) on special-purpose activities; and 4 per cent (2016: 5 per cent) on other activities.

15. In 2017 the institutional budget was brought back to balance through actions to reduce the budget. UNDP made deliberate efforts to reduce management expense by 1 per cent, to \$359 million (2016: \$361 million), comprising \$117 million (2016: \$109 million) for regular resources and \$242 million (2016: 252 million) for other resources. The management ratio fell to 6.93 per cent (2016: 7.86 per cent), below the Integrated Results and Resources Framework target of 8.1 per cent for 2014-2017.

16. UNDP is the steward of the resident coordinator system that leads the strategic planning and coordination of United Nations country teams. Total expenses on United Nations development coordination activities increased by 1 per cent to \$130 million (2016: \$129 million).

Table 3a. UNDP overall expenses, 2017
(in millions of dollars)

Resources	2017	2016	increase/ (decrease)	% change
Expenses				
Development activities				
Programme	4,387	3,878	509	13%
Development effectiveness	172	166	6	4%
Subtotal – development activities	4,559	4,044	515	13%
United Nations development coordination activities	130	129	1	1%
Management activities	359	361	(2)	(1%)
Special-purpose activities	64	71	(7)	(10%)
Other activities	226	258	(32)	(12%)
Total expenses before elimination	5,338	4,863	475	10%
Elimination	(243)	(203)	(40)	20%
Total expenses	5,095	4,660	435	9%

17. The total expenses of \$5,338 million by resource type is shown in table 3b.

Table 3b. UNDP expenses, by resource type and cost classification, 2017
(in millions of dollars)

Resources	2017			2016		
	Regular resources	Other resources	Total	Regular resources	Other resources	Total
Expenses						
Development activities						
Programme	346	4,041	4,387	377	3,501	3,878
Development effectiveness	71	101	172	62	104	166
Subtotal – development activities	417	4,142	4,559	439	3,605	4,044
United Nations development coordination activities	93	37	130	93	36	129
Management activities	117	242	359	109	252	361
Special-purpose activities	13	51	64	11	60	71
Other activities	55	171	226	60	198	258
Total expenses before elimination	695	4,643	5,338	712	4,151	4,863

C. Accumulated surplus

18. The financial regulations and rules of UNDP require it to operate on a fully-funded basis for activities funded by other resources. In accordance with partnership agreements, all project balances are segregated for accounting and reporting purposes, with no commingling of balances between projects. Appropriate cash balances are held for settling liabilities.

19. UNDP receives programmatic resources for multi-year programmes linked to individual programmes or projects. Hence, in any given year there is an excess of resources over expenditure. This excess of resources is referred to as the accumulated surplus, which consists mainly of resources committed for future programme delivery. At 31 December 2017, the accumulated surplus, excluding reserves, decreased by 1 per cent, to \$4,339 million (2016 restated: \$4,364 million). This resource comprised cost-sharing surpluses of \$2,921 million, of which \$938 million was from programme country governments, \$1,859 million was third-party cost sharing from donor

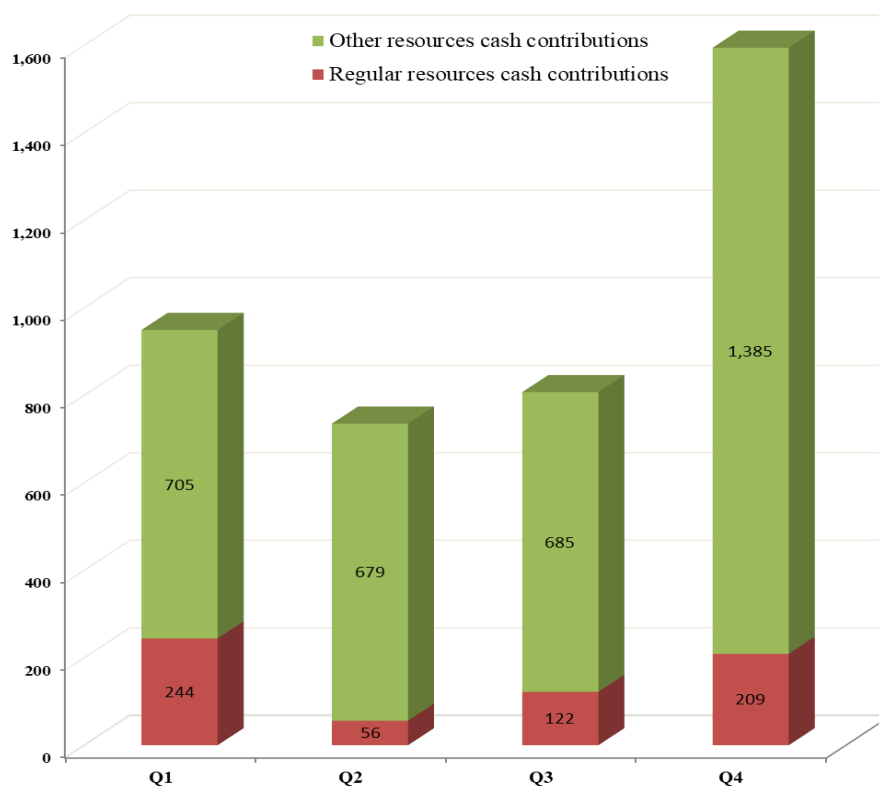
governments, and \$124 million from the Global Fund to Fight AIDS, Tuberculosis and Malaria; \$1,092 million from trust funds, consisting of \$583 million from vertical funds – the Global Environment Facility (GEF), the Montreal Protocol and the Green Climate Fund – and \$509 million from others; \$300 million from reimbursable support services; and \$26 million from regular resources.

20. In 2017, UNDP total expenses were below total revenue, with an overall surplus for the year of \$142 million (2016: \$443 million), contributing to the accumulated surplus. A further \$23 million was released to the accumulated surpluses from the operational reserve, in accordance with the formula approved in decision 1999/9; a \$31 million increase due to changes in the fair value of certain investments; and a \$9 million increase in funds with specific purposes. Those increases were offset by a \$230 million accounting adjustment for an unrealized loss on the after-service health insurance portfolio resulting from changes in actuarial assumptions based on the independent study.

21. Timely and early payments of contributions by Member States aid delivery of development results. However, \$1,594 million, or 39 per cent of total cash contributions for current and prior years (regular and other resources), was received in the last quarter (2016: 34 per cent), as shown in figure 3. Furthermore, most of the accumulated surplus has been programmed for delivery in future years.

22. UNDP continued to seek opportunities to accelerate the delivery of development results and further draw down its accumulated surplus, taking into account the revenue increase and the late receipt of funds.

**Figure 3. Receipt of resources, by quarter, 2017
(in millions of dollars)**



III. Regular resources

A. Revenue

23. Regular resources revenue, inclusive of contributions, investment interest and other revenue, increased by 2 per cent, to \$723 million (2016: \$710 million). This was due to increases in investment revenue, primarily for the after-service health insurance portfolio, and other revenue. Expenses decreased by 2 per cent, to \$695 million (2016: \$712 million). The excess of revenue over expenses was \$28 million (2016: deficit \$2 million).

Figure 4. Regular resources revenue and expenses, 2008-2017
(in millions of dollars)

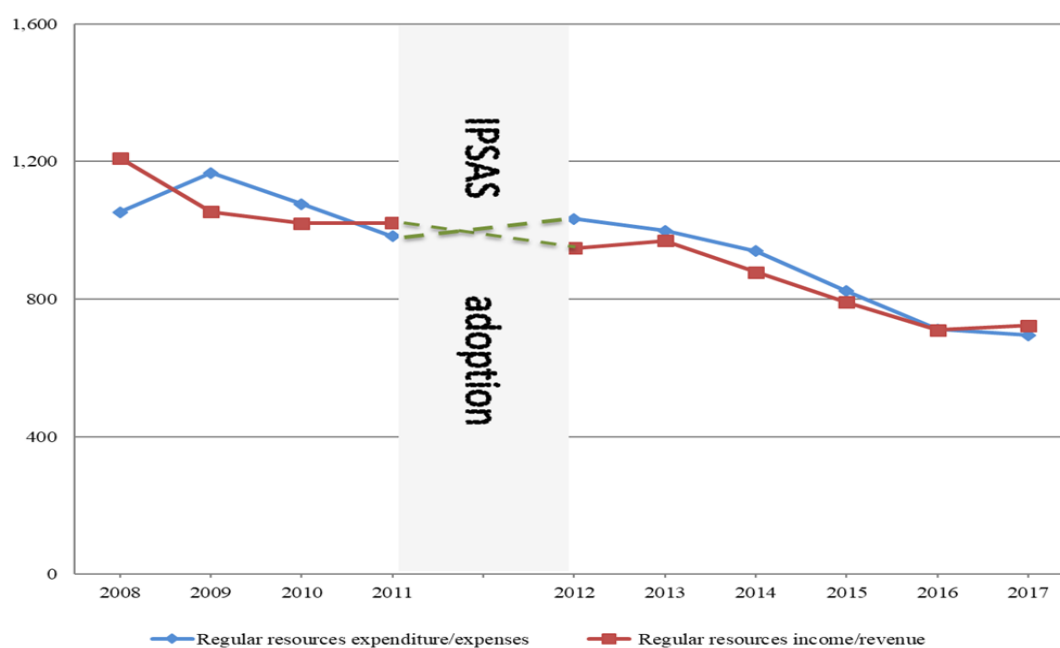


Table 4. Regular resources revenue, 2016-2017
(in millions of dollars)

Regular resources	2017	2016	Increase/ (decrease)	% change
Revenue				
Contributions	612	618	(6)	(1%)
GLOC* accounting linkage	(1)	(1)	-	-
GLOC	19	28	(9)	(32%)
Contributions in kind	16	19	(3)	(16%)
Transfer of funds & refunds to funding partners	1	-	1	-
Contributions, net	647	664	(17)	(3%)
Hedging	4	7	(3)	(43%)
Investments	37	16	21	131%
Other	35	23	12	52%
Total revenue	723	710	13	2%

*GLOC = Government contributions to local office costs

Contributions

24. Contributions to regular resources decreased by 1 per cent (\$6 million) to \$612 million (2016: \$618 million). This comprised \$594 million from donor country governments (2016: \$603 million), \$17 million from programme country governments (2016: \$15 million), and \$1 million from a private company.

25. Contributions from the top 10 partners amounted to \$527 million, representing 86 per cent of total contributions of \$612 million (2016: \$527 million; 85 per cent of total contributions), as listed in table 5. Estonia, Iceland, Japan, Pakistan, the Republic of Korea, and Sweden increased their regular resources contributions in United States dollars or local currencies. Four programme country governments and two donor countries resumed making contributions after suspending them for one or more years.

26. Fifty-three Member States contributed to regular resources (2016: 52), including 22 programme countries (2016: 23). Details of these contributions are presented in table 4 of document DP/2018/19/Add.1.

**Table 5. Regular resources contributions – top 10 partners, 2016-2017
(in millions of dollars)**

Donor	Contributions in local currency (millions)			Contributions expressed as dollars (millions)		
	2017	2016	Per cent change	2017	2016	Per cent change
United States of America	80	83	-	80	83	(4%)
United Kingdom of Great Britain and Northern Ireland	55	55	-	73	69	6%
Sweden	620	615	1%	71	72	(1%)
Japan*				66	60	10%
Norway	535	535	-	64	64	-
Switzerland	57	57	-	57	57	-
Canada	40	40	-	31	32	(3%)
Netherlands	28	28	-	30	32	(6%)
Germany	25	25	-	28	28	-
Denmark	175	210	(17%)	27	30	(10%)
Total for top 10 donors	N/A	N/A	N/A	527	527	-
Others	N/A	N/A	N/A	85	91	(7%)
Total voluntary contributions				612	618	(1%)

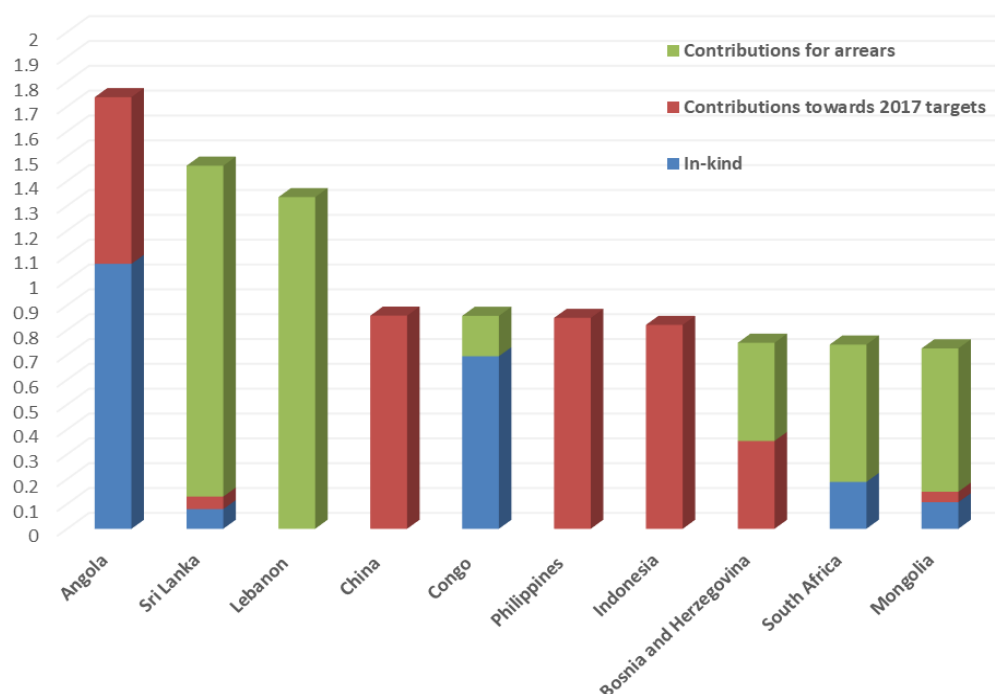
*Contributions pledged and received in dollars

27. Declining regular resources pose a serious challenge, constraining the ability of UNDP to ensure global development effectiveness and make strategic choices and investments. If regular resources decrease further, it will not be possible for UNDP to maintain the protections for the programme budget now in place. Reduced support for development effectiveness and management could adversely affect quality assurance, monitoring, accountability and oversight capacity.

Government contributions to local office costs

28. Government contributions to local office costs are an important source of revenue, and can take the form of in-kind or cash contributions. \$18 million was received in 2017 (2016: \$17 million), consisting of cash contributions of \$10 million, in-kind contributions of \$8 million for premises and utilities, and \$9 million against arrears. The top 10 contributors are shown in figure 5.

**Figure 5. GLOC contributions by top 10 host governments, 2017
(in millions of dollars)**



29. Tables 8(a), 8(b) and 8(c) in document DP/2018/19/Add.1 provide information on 2017 government cash contributions to local office costs in regular resources by countries in low and middle-income categories, cumulative arrears, and contributions towards arrears. Table 4, in the same document, shows government contributions to local office costs, contributions from net contributor countries and upper-middle income countries, and in-kind contributions.

Hedging programme

30. The UNDP currency hedging programme generated a \$4.4 million benefit by mitigating the effects of movements in exchange rates, plus premiums earned on options transactions. Given continued volatility of exchange rates, UNDP took a dynamic approach to hedging, based on market conditions and exposure of regular resources contributions.

Other revenue

31. Other revenue, mainly comprising miscellaneous revenue and exchange gains on assets, totalled \$35 million (2016: \$23 million).

B. Expenses

32. Pursuant to decision 2010/32, expenditures are reported in four harmonized cost-classification categories: (a) development; (b) United Nations development coordination; (c) management; and (d) special purpose. Expenditures outside those classifications are reported under 'other activities' and included as part of overall expenditure.

33. Regular resources expenses fell by 2 per cent, to \$695 million (2016: \$712 million). After five consecutive years of expenses remaining above revenue, regular resources expenses were below total revenue due to measures taken by UNDP to curtail expenses and achieve the minimum required liquidity level. While total expenses were reduced, shielded programme components such as TRAC¹-1, TRAC-3, South-South cooperation, the Human Development Report Office, and programme support to resident coordinator activities were not affected. UNDP managed to protect United Nations development coordination activities and maintain its expense at almost the same level as 2016. Regular resources expenses, by cost classification, are shown below.

Table 6. Regular resources expenses, by cost classification, 2016-2017
(in millions of dollars)

Regular resources	2017	2016	Increase/ (decrease)	% change
<i>Expenses</i>				
Development activities:				
Programme	346	377	(31)	(8%)
Development effectiveness	71	62	9	15%
Subtotal development activities	417	439	(22)	(5%)
United Nations development coordination activities	93	93	-	-
Management activities	117	109	8	7%
Special-purpose activities	13	11	2	18%
Other	55	60	(5)	(8%)
Total expenses	695	712	(17)	(2%)

Development expenses

34. Development expenses decreased by 5 per cent, to \$417 million (2016: \$439 million). This was in line with the reduction in regular resources, given the volume of regular resources contributions received.

United Nations development coordination expenses

35. UNDP support to the resident coordinator system was \$93 million, the same as 2016, maintaining the support highlighted in the strategic plan and integrated budget, 2014-2017. Those expenses incorporated both financing the ‘backbone’ resident coordinator system structure at country, regional and global levels, and the UNDP share of supplemental costs as part of the system-wide cost sharing of the resident coordinator system (\$5 million).

Management expenses

36. Expenses rose 7 per cent, to \$117 million (2016: \$109 million), remaining within the institutional budget per decision 2013/28 and within the level of regular resources allocated for management activities under the cost recovery policy in decision 2013/9. Further details are presented in section C, below.

¹ Target for resources assignment from the core

Special-purpose expenses

37. Expenses totalled \$13 million (2016: \$11 million). Major expenses include \$9 million related to UNV and \$3 million related to UNCDF (the same as 2016 for each).

Other expenses

38. Other expenses totalled \$55 million (2016: \$60 million), of which \$18 million (2016: \$17 million) related to after-service health insurance, and \$17 million (2016: \$22 million) to currencies revaluation and exchange rate fluctuations.

39. UNDP participates in the United Nations system-wide valuation of post-retirement benefits, performed by an independent actuary. The latest valuation was carried out as at 31 December 2017. The after-service health insurance liability, valued at \$1,316 million (2016: \$1,035 million), was recorded as a UNDP liability in accordance with International Public Sector Accounting Standards. The \$281 million (27 per cent) increase in the liability was due primarily to changes in actuarial assumptions, most notably an increase in the life expectancy of staff members.

40. UNDP has a 15-year plan to fund its after-service health insurance liability, which shall be reviewed after completing an asset-liability study. Of the \$1,316 million, \$654 million had been funded as of 31 December 2017. The investment management of the portfolio was outsourced to external managers. The funds set aside are being transferred to the external managers in quarterly instalments from 2016 until the second quarter of 2018. UNDP, UNFPA, UNCDF, the United Nations Children's Fund and UN-Women collaborate in this arrangement.

C. Regular resources and integrated budget expenditure

41. For activities reported in 2017, UNDP operates within the integrated budget, 2014-2017, as approved in decision 2013/28, for regular resources-financed activities: (a) programmatic components; and (b) institutional components.

42. Annex II compares the final approved budget, covering both programmatic and institutional components, with the actual expenditure amounts, calculated on the same basis as the corresponding budget for regular resources (modified accruals basis).

43. During 2017, due to reduced levels of contributions to regular resources, UNDP reduced expenditures, thus maintaining the three-month liquidity requirement for regular resources mandated by the Executive Board. The transitional measures of \$33 million of core resources, in line with the integrated budget, 2014-2017, were drawn upon in 2017.

44. Table 7 compares actual expenditures for 2016 and 2017. In 2017, 38 per cent of regular resources were spent on institutional costs, compared to 33 per cent in 2016. The share of regular resources spent for programmatic activities was 62 per cent, compared to 67 per cent in 2016.

**Table 7. Integrated budget expenditure, by cost classification category, 2016-2017
(in millions of dollars)**

Regular resources	2017 actual expenditures		2016 actual expenditures	
Programmatic	62%	\$377	67%	\$415
Institutional	38%	\$233	33%	\$207
Total	100%	\$610	100%	\$622
Institutional	2017 actual expenditures		2016 actual expenditures	
Development effectiveness	23%	\$54	21%	\$43
United Nations coordination	33%	\$76	37%	\$77
Management	40%	\$92	38%	\$78
Special purpose	4%	\$10	4%	\$9
Total	100%	\$233	100%	\$207

45. Annex III.A presents the integrated resources plan that covers regular and other resources for the period 2014-2017 and compares the plan with 2014-2017 actuals. The comparison shows that:

- (a) activities reported in 2014-2017 remain within the approved integrated resources plan;
- (b) at the end of 2014-2017, UNDP had achieved the management ratio level of 7.7 per cent, or 0.4 per cent below the targeted level of 8.1 per cent (in 2012-2013: 8.7 per cent);
- (c) overall expenditure level of programmatic activities in 2014-2017 increased, reaching 88.6 per cent (in 2012-2013: 88.0 per cent); and
- (d) the share of regular resources for programmatic activities over the period 2014-2017 was 63 per cent; this was above the 62 per cent planned allocation of regular resources to programmatic activities. Within the reduced institutional budget, the proportion of management costs was 45 per cent. This was below the 47 per cent planned allocation of regular resources for management activities.

46. Annex III.B presents 2014-2017 actuals versus estimates of the institutional components of the integrated resources plan by functional cluster, while annex III.C presents information on resources allocated to posts by location.

D. Accumulated surplus

47. The regular resources accumulated surplus at 31 December 2017 decreased to \$26 million (2016 restated: \$75 million), due mainly to an accounting adjustment of \$129 million for an unrealized loss to after-service health insurance (offset by a surplus of \$28 million), and \$31 million accounting adjustment relating to investments. Based on the operational reserve formula approved in decision 1999/9 and the final 2017 income and expenditure, the regular resources operational reserve was adjusted downwards, and \$21 million was released to the accumulated surplus from the operational reserve.

48. In line with decision 1999/9, a prudent level of liquidity for regular resources is equivalent to three to six months' expenditures. UNDP maintained the year-end core liquidity position at 5.26 months of working capital, above the minimum threshold.

IV. Other resources

49. Other resources are composed of cost-sharing, trust funds, and reimbursable support services and miscellaneous activities including the Junior Professional Officers programme, the UNV programme, and management service agreements.

V. Cost sharing

50. Cost sharing is a co-financing modality, with resources provided by donor governments, programme country governments and other partners.

A. Revenue

51. Cost-sharing total revenue increased by 7 per cent, to \$3,315 million (2016: \$3,101 million). The breakdown is shown below.

Table 8. Cost-sharing revenue, 2016-2017
(in millions of dollars)

Cost sharing	2017	2016	Increase/ (decrease)	% change
Revenue				
Contributions	3,385	3,191	194	6%
Transfer of funds and refunds to funding partners	(107)	(116)	9	(8%)
Contributions, net	3,278	3,075	203	7%
Investments	32	22	10	45%
Other	5	4	1	25%
Total revenue	3,315	3,101	214	7%

Contributions

52. Cost-sharing contributions grew by 6 per cent, to \$3,385 million (2016: \$3,191 million), due to increases by donor and programme country governments and multilateral partners. This comprised \$3,257 million in contributions received and \$128 million receivable.

Table 9. Cost-sharing contributions by funding partners, 2016-2017
(in millions of dollars)

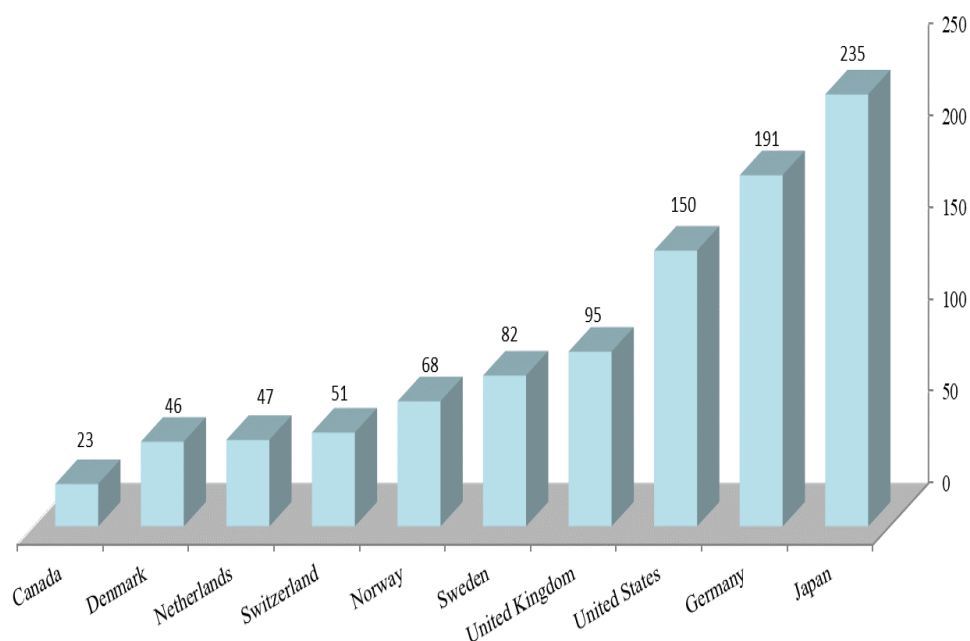
Year	Donor country governments	Programme country governments	Multilateral partners	Total
2017	1,096	1,038	1,251	3,385
2016	982	964	1,245	3,191
<i>Increase/ (decrease)</i>	114	74	6	194
% change	12%	8%	0%	6%

Donor country governments

53. Contributions from donor country governments rose by 12 per cent, to \$1,096 million, representing 32 per cent of cost-sharing contributions (2016:

31 per cent). Figure 6 shows contributions from the top 10 donor country governments, which totalled \$988 million (2016: \$883 million), 29 per cent of cost-sharing contributions.

**Figure 6. Cost-sharing contributions, top 10 donor country governments, 2017
(in millions of dollars)**

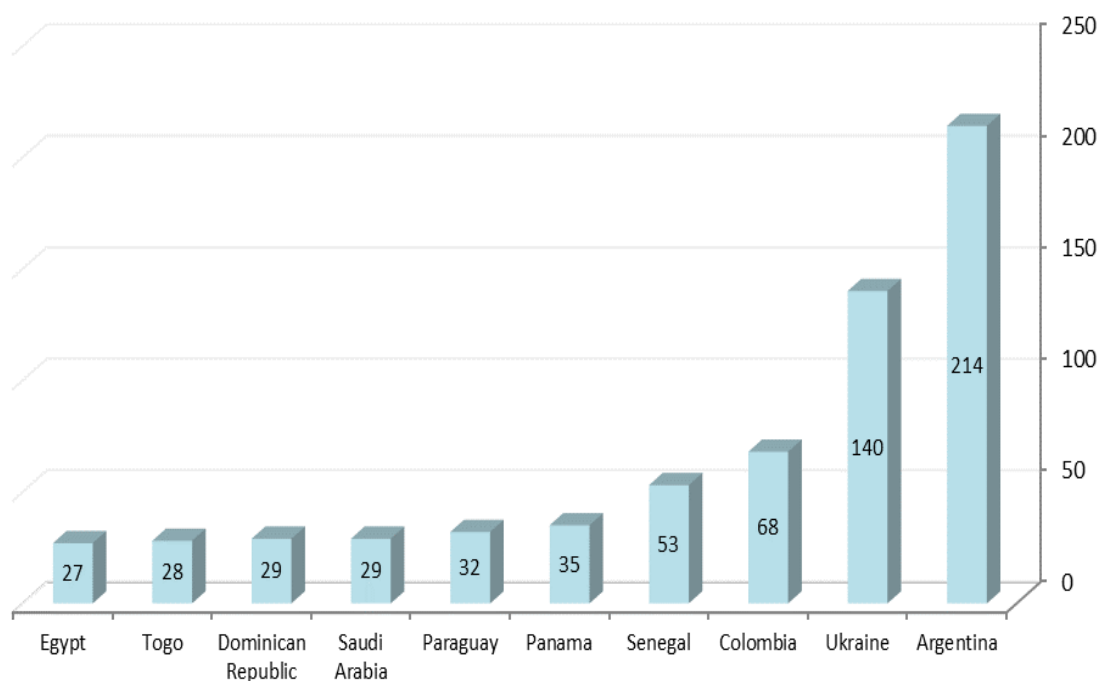


Programme country governments

54. Contributions channelled through UNDP by programme country governments increased by 8 per cent, to \$1,038 million (2016: \$964 million), representing 31 per cent of cost-sharing contributions (2016: 30 per cent). This included \$17 million from China for South-South and triangular cooperation.

55. Of the cost-sharing contributions, 63 per cent (2016: 62 per cent) came from governments of 10 programme countries. Argentina, Ukraine, Colombia, Panama, Paraguay, and the Dominican Republic increased their cost-sharing contributions. The largest increase was from Ukraine (79 per cent) and the Dominican Republic (61 per cent).

**Figure 7. Cost-sharing contributions: top 10 programme country governments, 2017
(in millions of dollars)**



Multilateral resources

56. Multilateral resources comprised funding from multilateral partners and multi-donor trust funds/joint programmes.

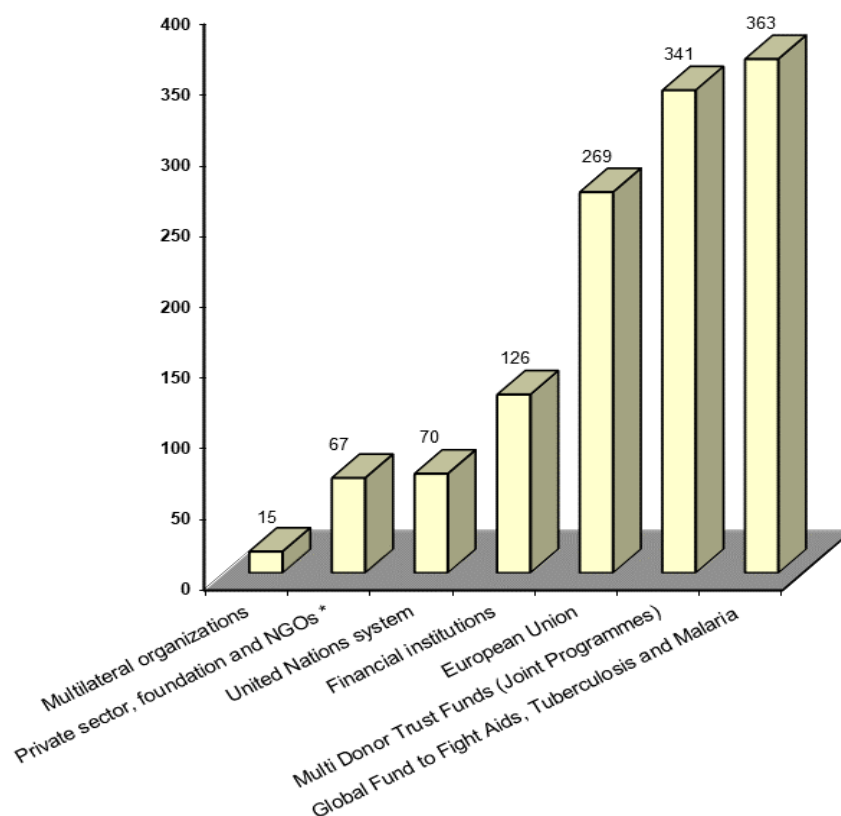
57. Contributions from multilateral resources rose to \$1,251 million (2016: \$1,245 million), representing 37 per cent (2016: 39 per cent) of cost-sharing contributions.

58. Contributions from the Global Fund amounted to \$363 million (2016: \$396 million), excluding \$21 million received for future programming (2016: \$86 million), which will be recognized as contributions in 2018. Contributions from the European Union were \$269 million (2016: \$336 million). Funds received from the Multi-Partner Trust Fund Office were \$341 million (2016: \$350 million).

59. Contributions from the private sector, foundations and non-governmental organizations increased by 46 per cent, to \$67 million (2016: \$46 million). The Global Alliance for Vaccines and Immunization (\$10 million), Education Above All-Al Fakhoora (\$13 million), and Repsol Exploración Murzuq SA (\$11 million) were the top contributors.

60. Total contributions from international and regional financial institutions increased by 35 per cent, to \$126 million (2016: \$36 million), primarily representing contributions to UNDP for programming in country offices. The World Bank and the Islamic Development Bank were the top contributors, contributing \$111 million (2016: \$24 million) and \$12 million (as in 2016), respectively.

**Figure 8. Cost-sharing contributions, multilateral partners, 2017
(in millions of dollars)**



*NGOs=Non-governmental organizations

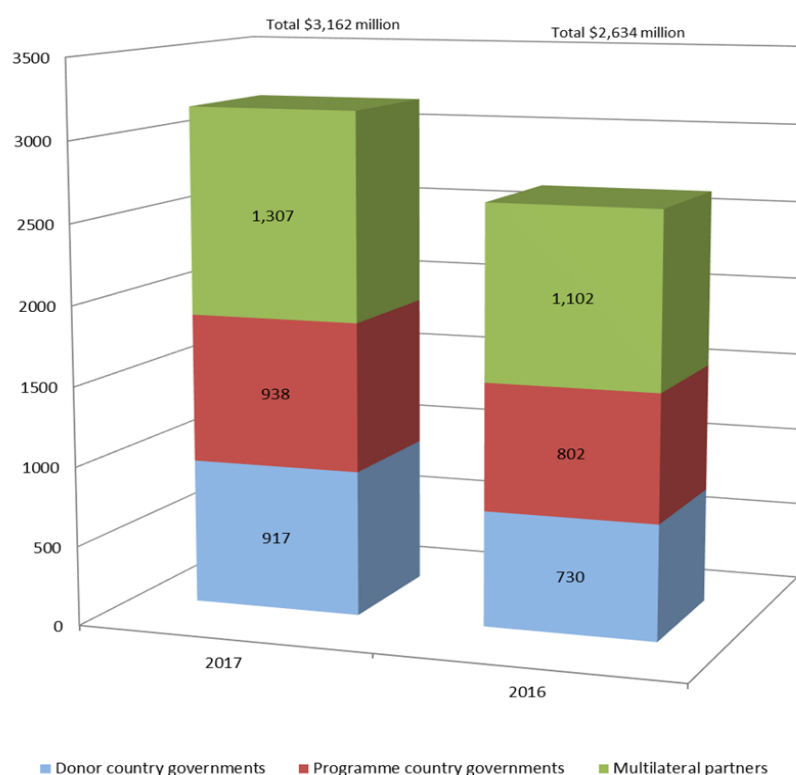
Other revenue

61. Other revenue totalled \$5 million (2016: \$4 million), which included miscellaneous revenue such as income generated by projects, reimbursements for services, and foreign exchange gains.

B. Expenses

62. Cost-sharing expenses for development activities increased by 20 per cent, to \$3,162 million (2016: \$2,634 million), of which 29 per cent was funded by donor country governments, 30 per cent by programme country governments, and 41 per cent by multilateral partners.

**Figure 9. Breakdown of cost-sharing expenses, 2016-2017
(in millions of dollars)**



C. Accumulated surplus

63. The accumulated cost-sharing surplus at 31 December 2017 was \$2,921 million (2016: \$2,768 million), including \$939 million of programme government cost sharing and \$124 million of vertical funds. At the time of preparation of this report, 79 per cent of those cost-sharing resources had been programmed for delivery in future years.

VI. Trust funds

64. A trust fund is a co-financing modality established as a separate accounting entity under which UNDP receives contributions to finance its programme activities; it is overseen by a trust fund manager.

A. Revenue

65. Trust fund revenue decreased by 15 per cent, to \$828 million (2016: \$970 million). The breakdown is shown below.

Table 10. Trust fund revenue, 2016-2017
(in millions of dollars)

Trust funds	2017	2016	Increase/ (decrease)	% change
Revenue				
Contributions	825	973	(148)	(15%)
Transfer of funds and refunds to donors	(11)	(16)	5	(31%)
Contributions, net	814	957	(143)	(15%)
Investment revenue	12	9	3	33%
Other revenue	2	4	(2)	(50%)
Total revenue	828	970	(142)	(15%)

Contributions

66. Contributions dropped to \$825 million (2016: \$973 million), including \$3 million receivable. The decrease was mainly in the GEF, and the Law and Order Trust Fund for Afghanistan.

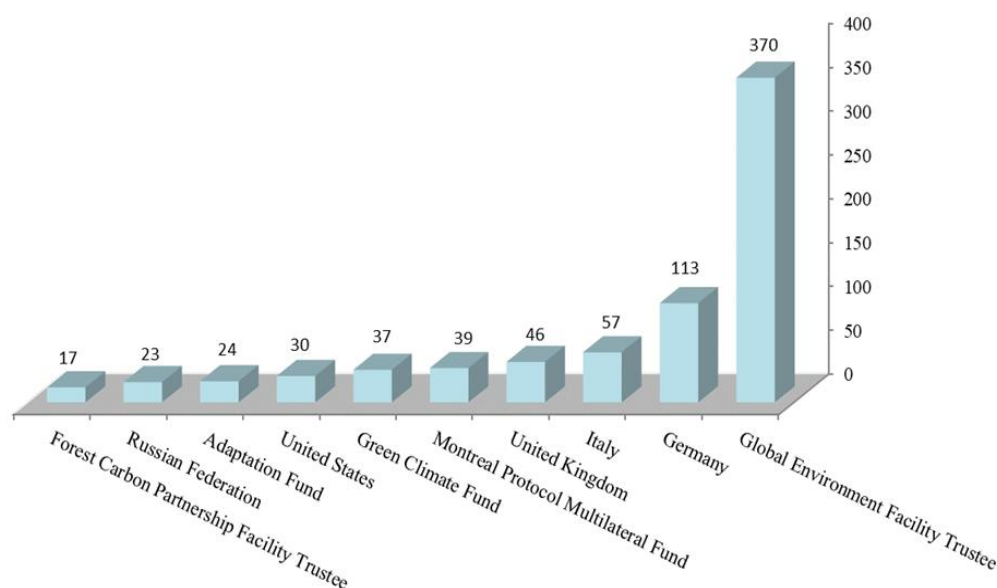
Table 11. Trust fund contributions by funding partner source, 2016-2017
(in millions of dollars)

Year	Donor country governments	Programme country governments	Multilateral partners	Total
2017	320	9	496	825
2016	470	4	499	973
Increase/(decrease)	(150)	5	(3)	(148)
% change	(32%)	125%	(1%)	(15%)

67. Figure 10 presents the top 10 contributions by bilateral governments and multilateral partners to trust funds, which totalled \$756 million (2016: \$900 million) representing 92 per cent of total trust funds contributions. Of this, \$375 million was for the Law and Order Trust Fund and \$63 million for the funding windows.

68. Launched in 2016, the funding windows provide pooled, flexible funding mechanisms to support country-level efforts to achieve the sustainable development goals. Of the \$63 million contributed, \$6 million was for climate change and disaster risk reduction; \$20 million for governance for peaceful and inclusive societies; \$12 million for emergency development response to crisis and recovery; and \$25 million for sustainable development and poverty eradication.

**Figure 10. Trust fund contributions, top 10 partners, 2017
(in millions of dollars)**



69. Contributions to trust funds from programme country governments totalled \$9 million (2016: \$4 million). Top contributors were India (\$6 million), China (\$1 million); Turkey (\$1 million), and South Africa (\$1 million). This amount comprised \$6 million for the promotion of South-South cooperation (India: \$5 million, China: \$1 million); \$2 million for the India, Brazil and South Africa Facility for Poverty and Hunger Alleviation (India and South Africa: \$1 million each); and \$1 million (Turkey) for private sector development.

Other revenue

70. Other revenue of \$2 million (2016: \$4 million) consisted of miscellaneous income and gains from foreign exchange rate fluctuations.

B. Expenses

71. Trust fund expenses increased by 3 per cent, to \$880 million (2016: \$855 million), due mainly to an increase of \$43 million for GEF and \$11 million for funding windows offset by expense reductions in other trust funds.

**Table 12. Trust fund expenses, by cost classification, 2016-2017
(in millions of dollars)**

Trust funds	2017	2016	Increase/ (decrease)	% change
Expenses				
Development activities				
Programme	837	819	18	2%
Development effectiveness	43	36	7	19%
Subtotal – development activities	880	855	25	3%
Management activities	-	-	-	-
Total expenses	880	855	25	3%

Development expenses

72. Development activities comprised \$837 million for programme activities and \$43 million for development effectiveness activities, as follows: development expenses of the GEF, \$423 million (48 per cent); of the Law and Order Trust Fund, \$331 million (38 per cent); and of thematic trust funds, \$26 million (3 per cent), including \$14 million for the Environment, \$7 million for the Crisis Prevention and Recovery, and \$3 million for the Democratic Governance..

73. Development effectiveness expenses for the GEF and the Multilateral Fund for the Implementation of the Montreal Protocol are reported under reimbursable support services.

C. Accumulated surplus

74. Trust funds reported a deficit of \$52 million, by drawing upon the accumulated surplus from previous years. The accumulated surplus at the end of 2017 dropped to \$1,092 million (2016: \$1,144 million), including \$583 million (53 per cent) for vertical funds. At the time of preparation of this report, 71 per cent of trust fund resources had been programmed for delivery in future years.

VII. Reimbursable support services and miscellaneous activities

75. Reimbursable support services and miscellaneous activities represent resources from provision of management and other support services to third parties, and include, primarily, the following activities: the Junior Professional Officer programme; UNV; management service agreements; special activities; and cost recovery.

A. Revenue

76. Revenue increased by 17 per cent, to \$614 million.

**Table 13. Reimbursable support services and miscellaneous activities revenue, 2016-2017
(in millions of dollars)**

Reimbursable support services and miscellaneous activities	2017	2016	Increase/ (decrease)	% change
Revenue				
Contributions	93	84	9	11%
NCC* contributions	12	9	3	33%
U-MIC** contributions	9	6	3	50%
Contributions, in-kind and other	-	1	(1)	-
Transfer of funds and refunds to donors	39	(11)	50	-
Contributions, net	153	89	64	72%
Investment revenue	8	6	2	33%
Other revenue	453	430	23	5%
Total revenue before elimination	614	525	89	17%

*NCC=Net contributor country

**U-MIC=Upper-middle-income country

Contributions

77. The contributions of \$93 million are shown in table 14, below. The special activities contain \$37 million for United Nations development coordination (inclusive of \$29 million from United Nations Development Group member organizations), \$5 million for support to security from partners, \$6 million for the Engagement Facility fund, and \$4 million for other special activities.

Table 14. Reimbursable support services and miscellaneous activities contributions, 2017 (in millions of dollars)

	Donor resources			Total resources
	Donor country governments	Programme country governments	Multilateral partners	
Resources:				
JPO* programme	16		-	16
UNV programme	19	1	1	21
Management service agreements	-	1	-	1
Special activities	14	2	36	52
Reimbursable support services	-	-	3	3
Total	49	4	40	93

JPO=Junior Professional Officer

78. Net contributor and upper-middle-income programme country governments contributed \$21 million to local office costs: 43 per cent in the Arab States region; 40 per cent in the Latin America and the Caribbean region; 14 per cent in the Europe and the Commonwealth of Independent States region; 2 per cent in the Africa region; and 1 per cent in the Asia and the Pacific region.

Other revenue

79. Other revenue increased by 5 per cent, to \$453 million (2016: \$430 million). Further details of cost-recovery revenue are presented in paragraphs 87-89.

B. Expenses

80. Expenses decreased by 9 per cent, to \$601 million (2016: \$662 million).

Table 15. Reimbursable support services and miscellaneous activities, expenses by cost classification, 2016-2017 (in millions of dollars)

Reimbursable support services and miscellaneous activities	2017	2016	Increase/ (decrease)	% change
Expenses				
Development activities				
Programme	42	48	(6)	(13%)
Development effectiveness	58	68	(10)	(15%)
Subtotal – development activities	100	116	(16)	(14%)
United Nations development coordination activities	37	36	1	3%
Management activities	242	252	(10)	(4%)
Special purpose activities	51	60	(9)	(15%)
Other activities	171	198	(27)	(14%)
Total expenses before elimination	601	662	(61)	(9%)

Development expenses

81. Development expenses totalled \$100 million (2016: \$116 million), consisting of \$42 million for programme activities and \$58 million for development effectiveness.

82. Programme expenses comprised \$8 million for management service agreements (2016: \$7 million), \$23 million for the UNV programme (2016: \$30 million) and \$11 million for special activities (2016: \$11 million).

United Nations development coordination expenses

83. Support to United Nations development coordination activities reached \$37 million (2016: \$36 million). That included expenses of \$6 million utilizing donor resources earmarked for country coordination, and \$24 million in resources from United Nations Development Group member organizations in support to the resident coordinator function.

Management expenses

84. Management activities decreased by 4 per cent, to \$242 million (2016: \$252 million), utilizing cost-recovery resources, due to better attribution of management costs between regular and other resources, and the utilization of prior year accumulated cost-recovery resource balances due to the reduced level of core resources available to fund management expenses.

Special-purpose expenses

85. Special-purpose expenses totalled \$51 million (2016: \$60 million), representing expenses on reimbursable support service activities.

Other expenses

86. Other expenses totalled \$171 million (2016: \$198 million). Of this, \$91 million was related to staff security on behalf of the United Nations system (funded by the United Nations Department of Safety and Security); \$16 million to the Junior Professional Officers programme; \$22 million to the UNDP share of common service activities; and \$14 million to after-service health insurance.

C. Cost recovery*Cost-recovery policy*

87. UNDP made every effort to recover the general management and implementation costs associated with the delivery of other resources-funded programmes and projects and with United Nations entities.

88. Cost-recovery revenue fell by 1 per cent, to \$343 million (2016: \$346 million), and expenses were \$349 million. Table 16 shows the breakdown. The lower revenue reflects a change in mix of resources, where the growth in programme delivery derived from funding sources with lower cost-recovery rates.

Table 16. Cost recovery, 2017
(in millions of dollars)

Cost recovery	Programme and projects	Reimbursable support services	Total
<i>Revenue</i>			
General management/implementation support services	237	-	237
United Nations organizations – reimbursable services	21	32	54
Administrative agent fees	8	-	8
Net contributor country contributions to fund local office costs	21	-	21
Interest	6	-	6
Other	17	-	17
Total revenue	311	32	343
<i>Expenditure</i>			
Total expenditure	308	41	349

89. Following demands from funding partners, six general management support fee waivers were granted in 2017 (DP/2018/19, annex IV). UNDP made every effort to attain full compliance with the cost-recovery rate and seeks to further reduce the number of waivers.

D. Accumulated surplus

90. The accumulated surplus for reimbursable support services and miscellaneous activities at the end of 2017 declined by 20 per cent, to \$300 million (2016 restated: \$377 million). The decline was due primarily to a \$101 million accounting adjustment for an unrealized loss to after-service health insurance.

E. Others

91. Management service agreement contributions were \$1 million (2016: \$11 million); investment and other revenue, \$3 million (2016: \$2 million); and refunds to donors and transfers, \$7 million (2016: \$2 million), exceeding total management service agreement revenue by drawing on accumulated surplus. Total expenses registered \$8 million (2016: \$7 million), and the accumulated surplus fell to \$37 million (2016: \$48 million). Details are provided in DP/2018/19/Add.1.

United Nations Volunteers programme

92. In 2017, 6,501 United Nations Volunteers from 159 countries supported partner United Nations entities in their peace and development activities through 6,649 assignments. The financial value of UNV operations amounted to \$195 million (2016: \$203 million) including support by UNDP regular resources of \$8.8 million (2016: \$8.5 million). Of this, programme regular resources expenses made directly by the UNV programme through the Special Voluntary Fund, cost sharing, trust funds and full funding arrangements, totalled \$23.2 million (12 per cent). The remaining financial value was attributable to direct charges to United Nations organizations.

93. Contributions to the Special Voluntary Fund decreased by 5 per cent to \$3.7 million (2016: \$3.9 million), reflecting the historical fluctuations of annual

contributions to the fund. Given the critical role of resources from the Fund, the UNV programme continuously seeks to increase contributions to enable it to further explore, expand and strengthen the role of volunteerism in development activities.

94. Contributions (including multi-year contributions) received for fully funded United Nations Volunteers, including contributions for fully funded United Nations Youth and University Volunteers, increased by 116 per cent, to \$13.2 million (2016: \$6.1 million). UNV continued to diversify its funding sources through various partnership initiatives, revitalize existing partnerships, and broker new ones.

95. On regular resources for institutional activities, UNV received a 5 per cent increase in funding through UNDP regular resources, consisting of \$8.8 million (2016: \$8.4 million).

96. To improve sustainability, UNV implemented its Transformation Plan and is focusing on volunteer mobilization and prudent financial management. UNV is in urgent need of a stable, predictable level of regular resources to allow it to fulfil its mandate and provide high-quality volunteers to UNDP and other United Nations entities.

United Nations Office of South-South Cooperation

97. In 2017, the United Nations Office for South-South Cooperation supported Member States to make informed policy for South-South engagements based on data, analysis of trends, and knowledge of good practices. It advanced the documentation, showcasing, and exchanging of hundreds of Southern development solutions. It harnessed innovative financing mechanisms to contribute to the achievement of the 2030 Agenda through South-South and triangular cooperation.

98. The Office received from UNDP an institutional budget of \$2.6 million and a programme budget of \$3.5 million, which were fully expended. Non-core contributions amounted to \$10.7 million (United Nations Fund for South-South Cooperation, \$3.6 million; India, Brazil and South Africa Facility for Poverty and Hunger Alleviation, \$2 million; Perez-Guerrero Trust Fund, \$0.1 million; India-UN Development Partnership Fund, \$5 million). This represented an increase of \$3.7 million in non-core contributions from 2016, explained mostly by the establishment of the India-UN Development Partnership Fund. Non-core expenditures amounted to \$6.9 million, an increase of \$1.8 million from 2016.

Junior Professional Officers programme

99. Twenty-seven governments have agreements for the provision of junior professional officers, five have agreements for the provision of special assistants to the resident coordinator, and four have agreements for the provision of specialist development programmes. At 31 December 2017, UNDP administered 161 junior professional officers (69 of whom were working with UNDP and affiliated funds and programmes), 22 special assistants to the resident coordinator, and three specialist development programmes.

100. In 2017, total contributions were \$17 million, while expenses, including support costs, were \$16 million. The accumulated surplus at the end of 2017 was \$18 million. UNDP received \$16 million from United Nations organizations and partners to administer 92 junior professional officers on their behalf as of end 2017, and \$17 million was delivered, including support costs.

Sector budget support

101. In its decision 2008/24, the Executive Board endorsed a pilot allowing financial contributions to pooled funding and sector budget support, on a case-by-case basis and at the request of the recipient country. As previously reported, UNDP was involved in sector budget support in two pooled-fund projects in Burkina Faso, and one programme in Nepal. Those activities ceased in 2016, with no activity in 2017.

VIII. United Nations reform and support to United Nations organizations

102. UNDP coordinates the United Nations system at the country level. Available data indicate that the value of joint programmes, fund flows to multi-donor trust funds, and support to United Nations organizations totalled \$1,715 million (2016: \$1,532 million).

A. UNDP administrative agent function

103. UNDP supports joint programming through its role in fund design and administration of joint programmes and multi-donor trust funds on behalf of the United Nations system and national governments, and through its programme implementation role as a participating United Nations organization. Contributions received for multi-donor trust funds increased by 17 per cent, to \$814 million (2016: \$697 million). The growth can be attributed largely to the strong performance of recently established funds, such as the Spotlight Initiative, and to the ongoing humanitarian and climate change portfolios, the Peacebuilding Fund, and a group of funds designed to flexibly “pivot” to meet needs across the humanitarian-development-peace nexus. The net value of funds transferred by the Multi-Partner Trust Fund Office, in its role as administrative agent for all participating organizations, was \$605 million (2016: \$748 million), including \$381 million transferred to UNDP for UNDP programmes (2016: \$340 million).

B. Support to United Nations organizations

104. UNDP provides services, on a cost-recovery basis, to United Nations organizations, including peacekeeping missions. The value of funds received from those organizations totalled \$896 million (2016: \$835 million).

C. United Nations development coordination activities

105. UNDP supports United Nations system and country-level coordination in support of national development. Combined expenses totalled \$130 million (\$93 million from regular resources and \$37 million from reimbursable support services and miscellaneous activities).

D. United Nations-mandated security costs

106. In decision 2013/28, the Executive Board granted the Administrator exceptional authority during 2014-2017, in addition to the approved appropriation from regular resources for the institutional component of the integrated budget of \$1,510.4 million, to access up to \$30 million in regular resources for security measures. During 2014-2017, \$5 million was drawn to respond to the outbreak of Ebola virus disease in West Africa, although none in 2017.

107. The \$30 million forms part of a total estimated requirement of \$61.4 million in 2016-2017. UNDP spent \$30.6 million (2016: \$30.8 million), including \$25.7 million in other resources (2016: \$25.4 million). Of the \$30.6 million expended, \$20.2 million (2016: \$20.5 million) was associated with the UNDP share of the United Nations field security coordination programme; and \$10.4 million (2016: \$10.3 million) with security assessments and compliance, improvement of premises security, blast and seismic assessments, and office relocations.

IX. ‘Greening’ UNDP

108. In 2017, UNDP continued to demonstrate its commitment to operational environmental sustainability based on the Executive Group-approved ‘Sustainability and Climate Neutrality Plan for Global UNDP Operations’. UNDP continued to be climate neutral in its global operations, procuring Certified Emission Reductions from the Adaptation Fund.

109. UNDP reported its eighth global annual greenhouse gas inventory using data from over 70 UNDP offices, including waste generation data for the first time. A web-based environmental management tool was finalized to provide better analysis and inform decision-making for ‘greening’ UNDP operations.

110. Measuring energy consumption is a critical first step for detecting opportunities and informing green energy solutions. A power consumption monitoring device was installed in 70 UNDP country offices; a UNDP country office guide to undertaking energy audits and energy efficiency measures was developed; and the UNDP solar electric initiative progressed, adding 3 new photovoltaic systems and generating an estimated 2.427 GWh/year of clean, affordable electricity.

111. UNDP mainstreamed its sustainable procurement approach, delivering \$81 million of sustainable procurement volume in 2017.

X. Funds administered by UNDP

United Nations Capital Development Fund

112. In 2017, UNCDF operated in 29 of the 47 least developed countries, leveraging its capital mandate to help them pursue inclusive growth.

113. UNCDF net contributions totalled \$57 million, up from \$52 million in 2016. The diversification of UNCDF donors remained high, with 38 development partners contributing (compared to 35 in 2016). Contributions included \$11.2 million from private sector foundations, corporations and non-governmental organizations, representing 20 per cent of total revenue. The top overall donors to UNCDF were Sweden, the United Nations Multi-Partner Trust Fund, the MasterCard Foundation, Switzerland, the United States of America, the European Union, the Bill and Melinda Gates Foundation, Australia, Belgium and Luxembourg, in that order. Contributions to UNCDF regular resources from donors increased to \$9.7 million (2016: \$9.4 million). As a result, regular resources contributions remained below the \$25 million per year required to sustain UNCDF operations in 40 of the 47 least developed countries as envisaged in the UNCDF strategic framework, 2014-2017.

114. Expenses for development activities, before elimination, totalled \$64 million, including programme expenses of \$60 million and development effectiveness expenses of \$4 million. UNCDF disbursed \$19 million in grants, as reflected in expenses. The operational reserve for UNCDF regular and other resources was

\$7 million. UNCDF updated its operational reserve to comply with the new methodology approved in decision 2017/22. With effective management of available resources, UNCDF delivered its planned development, management and financial results while sustaining its liquidity.

115. The \$64 million expenses excluded \$2.7 million in the UNDP institutional budget and \$0.7 million of UNDP programme support that were set aside for UNCDF management and technical expenditures, respectively. The amounts were expended by UNCDF, but were recorded and reported by UNDP.
