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Structured funding dialogue

**Annual review of the financial situation of the United Nations
Capital Development Fund, 2020**

Report of the Managing Director*

Summary

This report provides an overview of the financial position of the United Nations Capital Development Fund (UNCDF) at the end of 2020 and of its financial performance for 2020. In 2020, UNCDF maintained an overall positive financial position and liquidity, with an increase of 11 per cent in expenses. The increase in expense is mainly due to strengthening of programme delivery in local development financing systems, especially the expansion of the local climate adaptation and municipal financing approaches.

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* As stated in General Assembly resolution 2321 (XXII), the UNDP Administrator performs the functions of the Managing Director of UNCDF.



I. Introduction and overview

1. This report provides an overview of the financial position of the United Nations Capital Development Fund (UNCDF) at the end of 2020 and of its financial performance for the year. In 2020, UNCDF maintained an overall positive financial position and liquidity, with an increase of 11 per cent in expenses. The increase in expenses is mainly due to strengthening of programme delivery in local development financing systems, especially the expansion of local climate adaptation and municipal financing approaches.

2. In 2020, UNCDF implemented programmes in 39 of the 46 least developed countries, leveraging its capital mandate to help them pursue inclusive growth. With its capital mandate and instruments, UNCDF offers “last-mile” finance models through financial inclusion and localized investments that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

II. Financial highlights for 2020

A. Summary of the UNCDF financial situation

Table 1. UNCDF financial situation, 2019-2020

(In millions of United States dollars)

	2020	2019	Increase/ (decrease)	% change
Revenue	76	148	(72)	(49%)
Expense	82	74	8	11%
Surplus	(6)	74	(80)	(108%)
Assets	292	295	(3)	(1%)
Liabilities	23	21	2	10%
Net assets	269	274	(5)	(2%)
<u>Composed of:</u>				
Accumulated surplus	263	268	(5)	(2%)
Reserves	6	6	-	-
	269	274	(5)	(2%)

B. Revenue

3. Total revenue decreased by 49 per cent, to \$76 million (2019: \$148 million). Contributions of \$73 million (2019: \$144 million) represent 96 per cent of the total revenue, with the remaining 4 per cent largely consisting of investment revenue and other miscellaneous revenue.

4. While the accounting policy allows UNCDF to recognize revenue for the full value of contribution agreements (including multi-year agreements) in the year an agreement is signed, under the UNCDF Financial Regulations and Rules, UNCDF is permitted to spend only up to the amount of cash received. Hence, in the following sections of this document, where applicable, “annual contributions” are presented to align to the past revenue recognition policies for contributions (i.e., cash received in a reporting year, plus receivables due in a reporting year), and the comparative figures of the 2019 financial statement (audited) will also be presented where applicable.

Table 2. UNCDF revenue, 2019-2020
(In millions of United States dollars)

	2020	2019	Increase/ (decrease)	% change
Voluntary contributions ^a				
Annual contributions	76	104	(28)	(27%)
Future due contributions ^b	44	77	(33)	(43%)
IPSAS 23 adjustment ^c	(47)	(37)	(10)	27%
Subtotal, voluntary contributions	73	144	(71)	(49%)
Other revenue	3	4	(1)	(25%)
Total revenue	76	148	(72)	(49%)

IPSAS = International Public Sector Accounting Standards

^a The amounts shown include returns to donors and transfers to other funds of unused contributions.

^b Future due contributions are calculated to show the cash to be received after the reporting year based on the multi-year agreement signed in a reporting year.

^c Based on the change in revenue recognition policy, this adjustment was made for agreements signed prior to 2020 for all contributions not received by the end of 2019.

5. UNCDF contributions are channelled through regular (core) resources and other (non-core) resources. In 2020, annual contributions to regular resources of \$10.9 million remained constant compared to 2019, while annual contributions to other resources decreased to \$66.5 million (2019: \$94.4 million). The decrease is mainly due to large multi-year commitments received in 2019. The ratios between regular and other resources as a percentage of total resources in 2020 are at 14 per cent and 86 per cent, respectively.

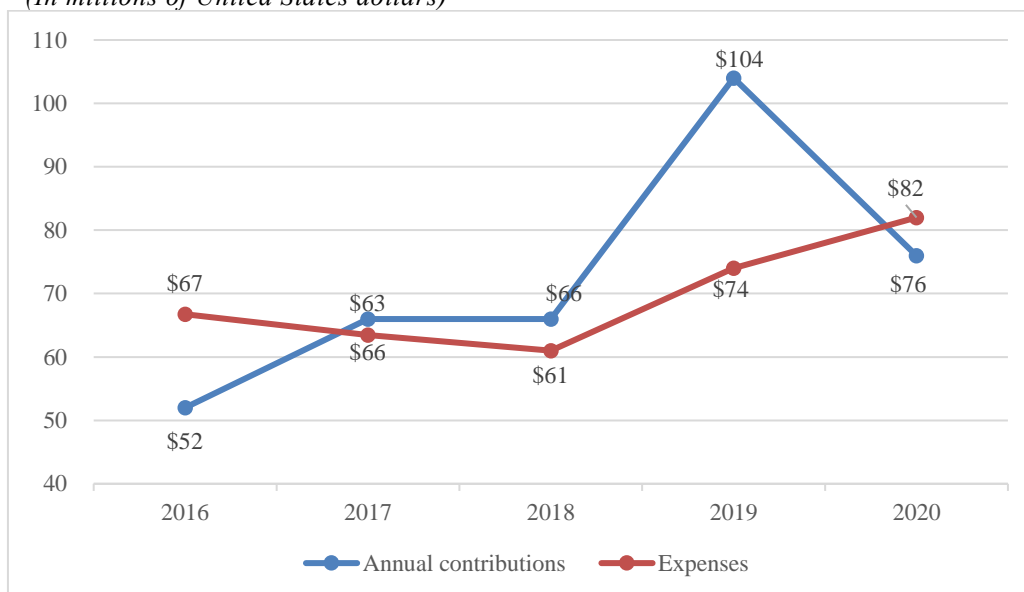
C. Expenses

6. Total expenses increased by \$8 million, to \$82 million (2019: \$74 million). The increase is mainly due to strengthening of programme delivery in local development financing systems, especially the expansion of the local climate adaptation and municipal financing approaches.

7. The other capital investment portion of programme delivery includes grants and other transfers amounting to \$31 million (2019: \$26 million).

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

Figure 1. Trends in total annual contributions and expenses, 2016-2020^a
(In millions of United States dollars)



^a The in-year deficit for 2016 and 2020 drew down on surplus other resources accumulated from previous years.

D. Others

9. In addition, UNCDF received \$2.7 million (2019: \$2.7 million) from the United Nations Development Programme (UNDP) institutional budget and \$1.3 million (2019: \$1.1 million) from UNDP programme support to cover management and technical expenditures, respectively. These amounts were expended by UNCDF and reported by UNDP.

10. At the end of 2020, UNCDF held assets of \$292 million (2019: \$295 million). The decrease is comprised largely of a decrease in non-exchange receivables of \$12.2 million (9 per cent), a decrease in receivables (others) of \$5.0 million (81 per cent) and an increase in cash and cash equivalents and investments of \$13.6 million (10 per cent).

11. At the end of 2020, UNCDF held liabilities of \$23 million (2019: \$21 million), including \$14.6 million (2019: \$12.6 million) in after-service health insurance (ASHI) liabilities. The UNCDF ASHI liabilities continue to be fully funded.

12. Net assets/equity of \$269 million in 2020 included \$255 million in accumulated surplus, \$6 million for operational reserve and \$8 million for actuarial gains with respect to ASHI etc. Of the \$255 million accumulated surplus, \$131 million represents contributions yet to be received from the donors as at 31 December 2020; \$65 million represents contributions to other resources received but earmarked for multi-year activities; \$35 million represents contributions to other resources received in the last quarter of the year and hence only budgeted in 2021; and \$24 million represents general accumulated balances.

13. UNCDF continued to apply the UNDP cost-recovery policy and minimized the number of waivers. No new waivers in the general management support fee were granted during 2020.

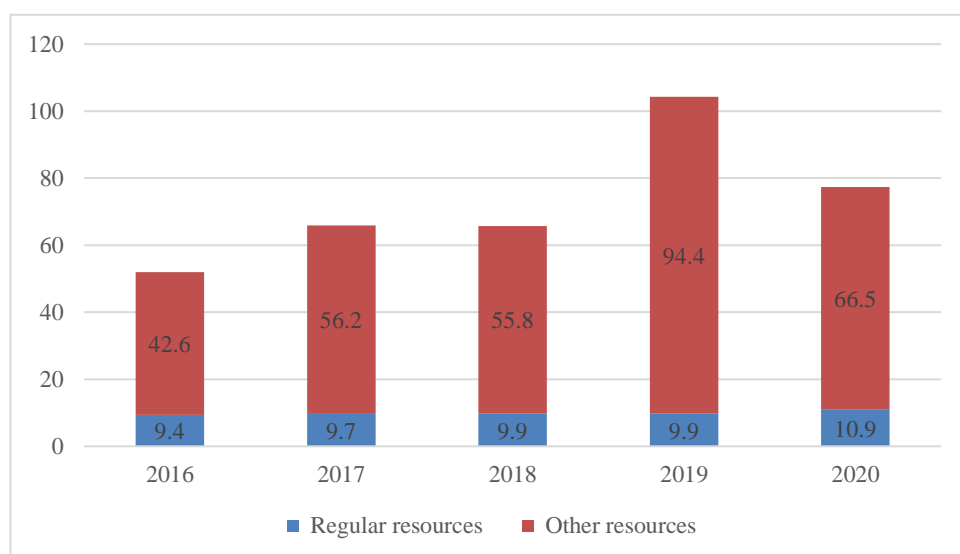
14. The new generation of UNCDF concessional loans and guarantees has benefited from a strengthened process for due diligence, financial modelling and credit scoring. Based on this new process, UNCDF approved and disbursed 17 concessional loans totalling \$2.6 million and provided 2 guarantees totalling \$0.3 million in coverage as at 31 December 2020. The investments were made in the areas of agribusiness, clean energy, financial inclusion and women's empowerment in Burkina Faso, the Democratic Republic of the Congo, Ethiopia,

Myanmar, Papua New Guinea, Uganda and the United Republic of Tanzania. UNCDF has also tested an innovative methodology for combining assessments of development impact returns and risks alongside its financial return and credit risk, which the organization hopes to scale up in the future.

III. Partnerships

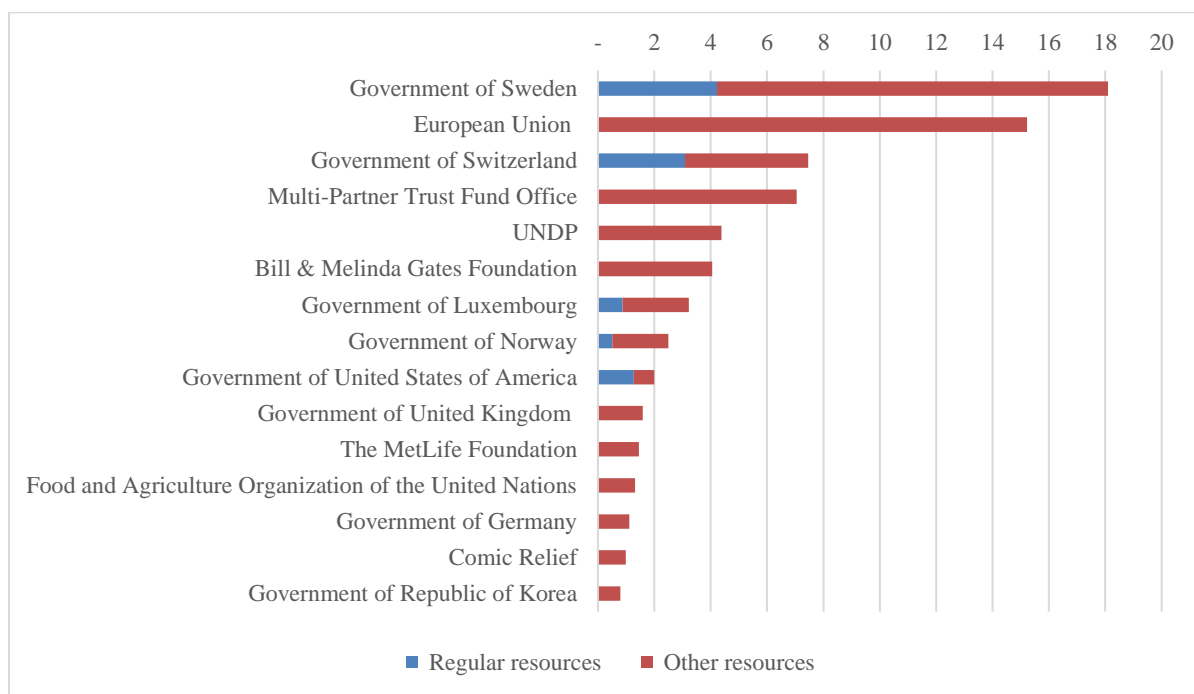
15. UNCDF continues to maintain strong partnerships with the Governments of donor countries and multilateral partners. Figure 2 shows the trend in total annual contributions from 2016 to 2020 by type of resources.

Figure 2. Total annual contributions, 2016-2020
(In millions of United States dollars)



16. UNCDF received contributions from 43 development partners in 2020 (2019: 41 partners). Figure 3 shows annual contributions from the top 15 funding partners to UNCDF, which totalled \$71.3 million, representing 92 per cent of total annual contributions (2019: \$99.1 million, 95 per cent).

Figure 3. Total annual contributions, top 15 funding partners, 2020
(In millions of United States dollars)



17. Annual contributions to UNCDF regular resources from funding partners remained constant at \$10.9 million. Despite increased funding partner diversification in recent years, UNCDF continues to be dependent on a limited number of funding partners for contributions to regular resources. Regular resources contributions remain short of the \$25 million annual target required to extend UNCDF operations to 40 of the 46 least developed countries, as envisaged in the UNCDF Strategic Framework, 2018-2021. Furthermore, this shortfall strains the ability of UNCDF to innovate and to bring its financing expertise in support of the wider United Nations development system and United Nations reform.

18. UNCDF met its Strategic Framework resource mobilization target (per the Strategic Framework 2018-2021) of \$75 million for other resources in 2019 due to multi-year commitments; however, this figure declined slightly to \$66.5 million in 2020. The overall increase in funding reflects continued commitment to UNCDF from its partners, particularly from major donors such as the Government of Sweden and the European Union, which have increased their contributions in recent years as cooperation expands. These trends provide a solid foundation on which to build scale for the more ambitious targets sought in the Strategic Framework period and beyond.