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**Annual review of the financial situation of the United Nations
Capital Development Fund, 2021**

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 2021 and of its financial performance for 2021. In 2021, UNCDF maintained an overall positive financial position and liquidity, with an increase of 18 per cent in expenses. This increase is due mainly to improved programme delivery in the focus areas of inclusive digital economies and local development finance.

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* As stated in General Assembly resolution 2321 (XXII), the Administrator of the United Nations Development Programme 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 2021 and of its financial performance for the year. In 2021, UNCDF maintained an overall positive financial position and liquidity, with an increase of 18 per cent in expenses. This increase is due mainly to improved programme delivery in the focus areas of inclusive digital economies and local development finance.

2. In 2021, UNCDF implemented programmes in 37 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 of 2021

A. Summary of the UNCDF financial situation

Table 1. UNCDF financial situation, 2020-2021

(In millions of United States dollars)

	2021	2020	Increase/ (decrease)	% change
Revenue	137	76	61	80%
Expenses	97	82	15	18%
Surplus	40	(6)	46	>100%
Assets	333	292	41	14%
Liabilities	24	23	1	4%
Net assets	309	269	40	15%
<u>Composed of:</u>				
Accumulated surplus	303	263	40	15%
Reserves	6	6	-	-
Total	309	269	40	15%

B. Revenue

3. Total revenue increased by 80 per cent, to \$137 million (2020: \$76 million). Contributions of \$134 million (2020: \$73 million) represent 98 per cent of the total revenue, with the remaining 2 per cent 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 2020 financial statement (audited) will also be presented where applicable.

Table 2. UNCDF revenue, 2020-2021
(In millions of United States dollars)

	2021	2020	Increase/ (decrease)	% change
Voluntary contributions ^a				
Annual contributions	134	76	58	76%
Future due contributions ^b	70	44	26	59%
IPSAS 23 adjustment ^c	(70)	(47)	(23)	49%
Subtotal, voluntary contributions	134	73	61	84%
Other revenue	3	3	-	-
Total revenue^d	137	76	61	80%

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 all contributions received in the current year from agreements signed prior to the current year.

^d As per UNCDF 2021 financial statements.

5. Contributions to UNCDF are channelled through regular (core) resources and other (non-core) resources. In 2021, annual contributions to regular resources remained constant at \$10.8 million (2020: \$10.9 million), while annual contributions to other resources increased to \$122.8 million (2020: \$66.5 million). The increase is due mainly to large multi-year commitments received in 2021. The ratios between regular and other resources as a percentage of total annual contributions in 2021 were 8 per cent and 92 per cent, respectively.

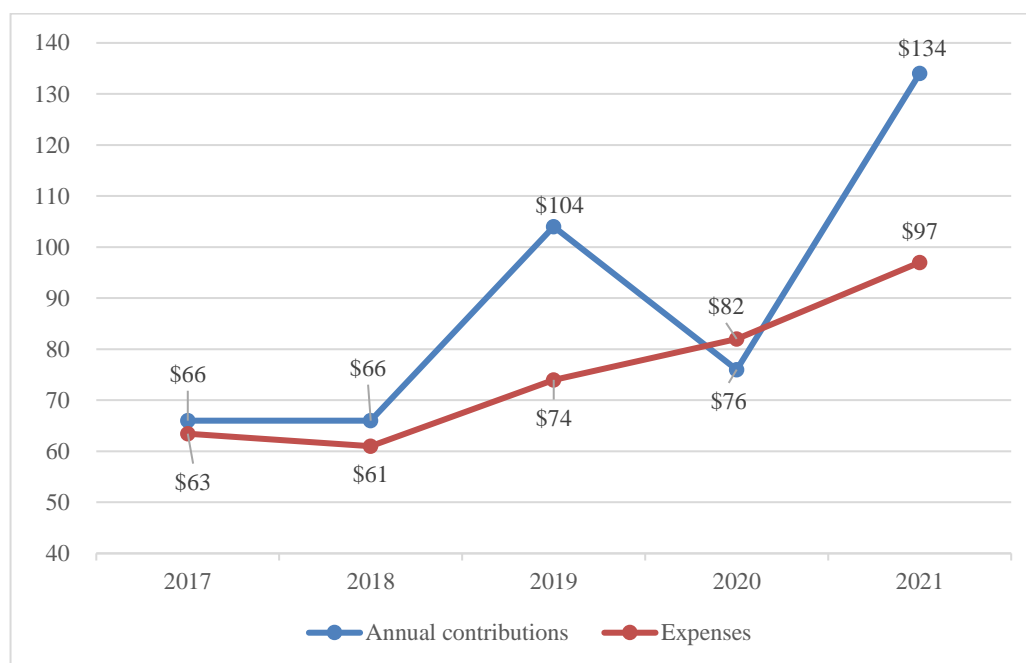
C. Expenses

6. Total expenses increased by \$15 million, to \$97 million (2020: \$82 million). The increase is due mainly to improved programme delivery in the focus areas of inclusive digital economies and local development finance.

7. Included in total expenses is the other capital investment portion of programme delivery comprising grants and other transfers amounting to \$38 million (2020: \$31 million).

8. In 2021, of total expenses of \$102.7 million (excluding the effect of the elimination of internal cost recovery), \$92.8 million (90 per cent) was spent on programme activities, \$5.4 million (5 per cent) on development effectiveness and \$4.5 million (5 per cent) on management activities.

Figure I. Trends in total annual contributions and expenses, 2017-2021^a
(In millions of United States dollars)



^a The in-year deficit for 2020 was funded from the drawdown on surplus accumulated from previous years.

D. Other highlights

9. In addition, UNCDF received \$2.6 million (2020: \$2.7 million) from the United Nations Development Programme (UNDP) institutional budget and \$1.3 million (2020: \$1.3 million) from UNDP programme support to cover management and technical expenditures, respectively. These amounts were expended by UNCDF and reported in the UNDP books.

10. At the end of 2021, UNCDF held assets of \$333 million (2020: \$292 million). The increase is driven largely by an increase in cash and investments of \$23.1 million (15 per cent) and an increase in receivables (others) of \$15.8 million (over 100 per cent).

11. At the end of 2021, UNCDF held liabilities of \$24 million (2020: \$23 million), including \$14.5 million (2020: \$14.6 million) in after-service health insurance liabilities. These liabilities continue to be fully funded.

12. Net assets/equity of \$309 million in 2021 included \$303 million in accumulated surplus and \$6 million for operational reserve. Of the \$303 million accumulated surplus, \$132 million represents contributions yet to be received from donors as at 31 December 2021; \$80 million represents contributions of other resources received but earmarked for multi-year activities; \$46 million represents contributions of other resources received in the last quarter of the year and hence only budgeted in 2022; and \$45 million represents general accumulated balances.

13. UNCDF continued to apply the UNDP cost-recovery policy and no waivers in the general management support fee were granted during 2021.

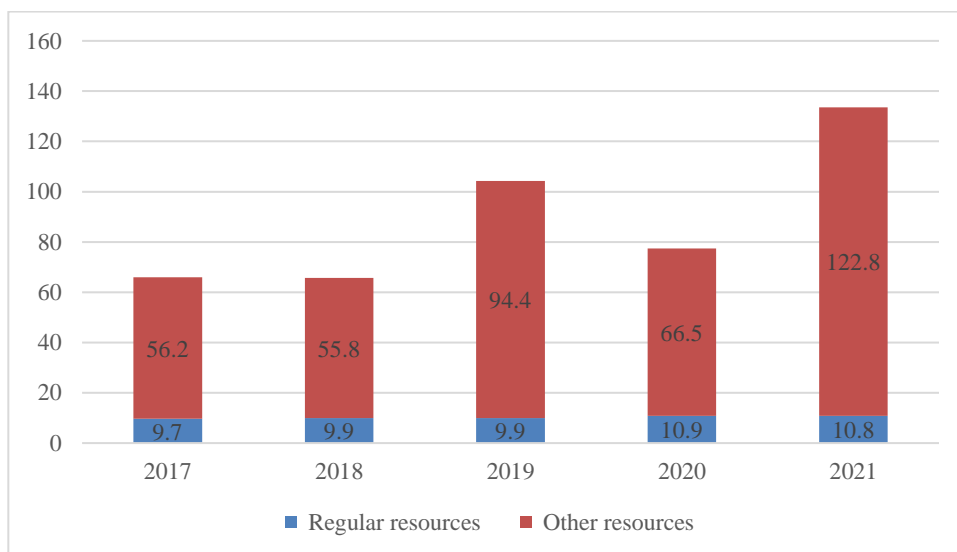
14. UNCDF had 23 concessional loans totaling \$3.0 million and two guarantees totaling \$0.3 million outstanding as at 31 December 2021. The organization instituted a strengthened process for due diligence, financial modelling and credit scoring that is used during the evaluation of loans and guarantee transactions. The outstanding investments were made in the areas of agribusiness, clean energy, financial inclusion and women's economic empowerment in a number of least developed countries including Burkina Faso, the Democratic Republic of the Congo, Ethiopia, Myanmar, 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 II shows the trend in total annual contributions from 2017 to 2021 by type of resources.

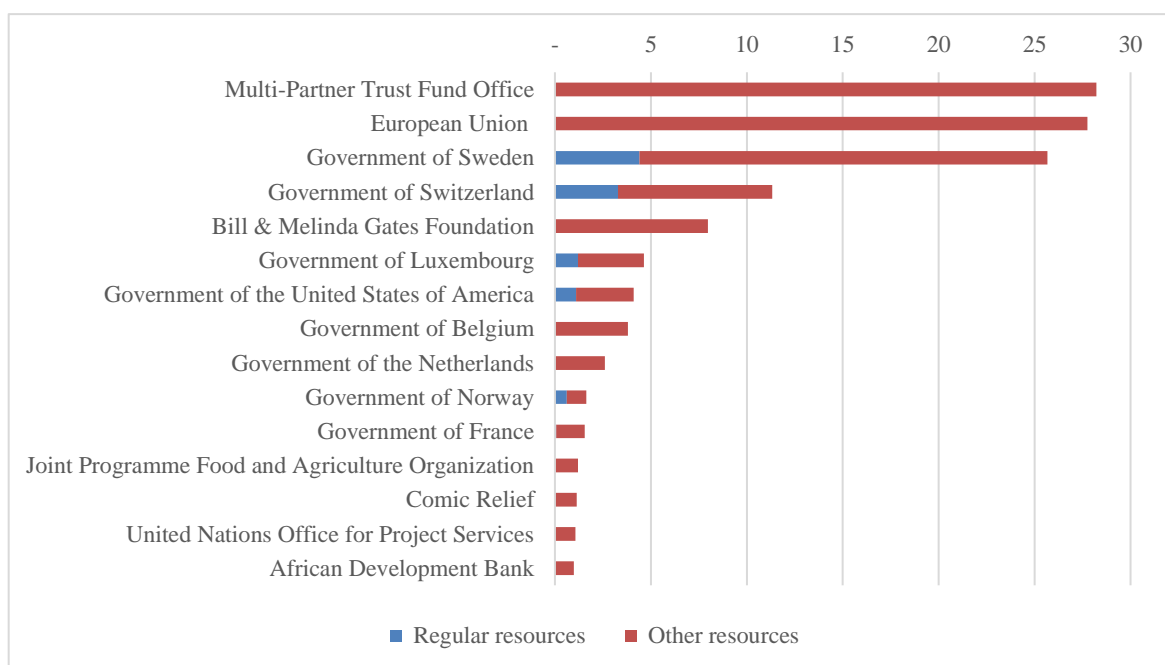
Figure II. Total annual contributions, 2017-2021

(In millions of United States dollars)



16. UNCDF received contributions from 42 development partners in 2021 (2020: 43 partners). Figure 3 shows annual contributions received from the top 15 funding partners, which totaled \$137.2 million, representing 99 per cent of total annual contributions (2020: \$71.3 million, 92 per cent).

Figure III. Total annual contributions by the top 15 funding partners, 2021
(In millions of United States dollars)



17. Annual contributions to UNCDF regular resources from funding partners remained constant at \$10.8 million (2020: \$10.9 million). Despite increased diversification of its funding partner base 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 annual target of \$25 million required to allow UNCDF to have a strategic presence in 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. In 2021, UNCDF met the target of \$75 million in other resources set out in the Strategic Framework, 2018–2021. The overall increase in funding reflects the continued commitment to UNCDF of its partners, particularly major donors such as the European Union and the Government of Sweden, which have increased their contributions and cooperation with UNCDF in recent years. These trends provide a solid foundation on which to build in order to achieve the more ambitious targets sought in the Strategic Framework, 2022–2025.