A/79/5/Add.2

United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2023

and

Report of the Board of Auditors

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

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Report of the Board of Auditors

United Nations • New York, 2024

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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[24 July 2024]

Contents

Letters of transmittal and certification

Letter dated 29 April 2024 from the Administrator of the United Nations Development Programme and Managing Director of the United Nations Capital Development Fund, the Executive Secretary of the Fund and the Head of the 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 2023, 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*) Pradeep **Kurukulasuriya**
Executive Secretary
UNCDF

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

Letter dated 24 July 2024 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 2023.

(*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 2023, 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 2023 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 2023, 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*) Dorothy **Pérez Gutiérrez**
Acting Comptroller General of the Republic of Chile

24 July 2024

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 2023, implemented programmes in 41 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 2023. The audit was carried out at headquarters in New York in December 2023 and in March and May 2024.

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 2023 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 observations on the management of budget processes and 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 2023. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at 31 December 2023 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 total revenue decreased by 17.03 per cent, from $202.0 million (in 2022) to $167.6 million, and is mainly attributable to the decrease in voluntary contributions from $198.7 million (in 2022) to $157.8 million.

Total expenses decreased by 13.3 per cent in 2023 compared with 2022 ($100.8 million compared with $116.2 million). This decrease is mainly due to a decrease in grants and other transfers by $14.6 million in 2023.

The surplus amounted to $66.8 million, compared with $85.8 million in 2022. UNCDF maintains a high level of current assets ($291.0 million) to meet its current liabilities ($7.3 million). Total assets increased by $68.2 million (16.3 per cent) in 2023 as a result of increases in receivables from non-exchange transactions ($64.1 million) and other receivables ($23.7 million).

Key findings

Finance

Grants and exchange transactions clarification

The UNCDF mandate, as defined by the General Assembly, is to assist the least developed countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans. Grants, especially "performance-based grants", are the largest category of UNCDF expenses, amounting to $30.2 million in 2023 and representing 30.0 per cent of total expenses in 2023. The widespread use of grants has led to some divergence from their original purpose, particularly for transactions which are in substance exchange transactions and which should follow different accounting rules under the present IPSAS.

Control of financial reporting on payroll transactions

United Nations Development Programme (UNDP) global payroll services are responsible for centrally providing monthly payroll and related services to personnel of UNCDF as part of the common shared services provided to partner agencies. These services amounted to $44.6 million in 2023. The Board identified difficulties in the financial reporting of these payroll transactions. Continuous efforts from UNCDF should be maintained.

Management of budget processes

The Board audited the management of budget processes at UNCDF. The audit focused on four areas: budget framework, planning and formulation; resource mobilization; budget implementation; and accountability for budget management and reporting on performance.

Budget framework, planning and formulation

Budget processes at UNCDF follow the UNDP Financial Regulations and Rules, with an annex dedicated to specifics of UNCDF that are not addressed in the main text. The budget architecture relies on intricate aggregates and is not fully in line with the regulatory framework. The "institutional budget" appropriation amounted to $16.2 million in 2023.

Budget planning is still very informal. It presents the advantage of flexibility and simplicity, but does not allow for the annual institutional budget to be properly linked with the multi-year strategic framework.

In view of the preparation of its strategic framework for the period 2026–2029, UNCDF plans to present a more comprehensive "integrated budget" to its Executive Board.

Resource mobilization

UNCDF is entirely financed by voluntary resources, both for programmes and headquarters expenses. Resource mobilization is therefore imperative to ensure the implementation of the organization's mandate.

UNCDF has already identified the main gaps in fundraising, as well as the objectives that should be prioritized for resource mobilization.

Fundraising needs to be in line with the budgetary needs in the Fund's next strategic framework. The successful implementation of an ambitious mandate would require a strong relationship with major public and private sector donors, including through multi-year strategic agreements.

Accountability for budget management and reporting on performance

The only existing reporting on budget execution is provided in financial statement V. This reporting, however, provides minimal information, which is insufficient to support oversight of budget management.

Tracking and steering performance relies on a limited tool, which mainly includes activity indicators. Most of the time, the targets are considered as achieved, and this framework is barely used for managerial purposes.

Performance management needs to be enhanced in order to be used in budget planning and to increase accountability. UNCDF could take advantage of the monitoring tools provided by the new Quantum Plus environment.

Recommendations

The Board has issued nine 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 main recommendations are that UNCDF:

Finance

(a) **Clarify the criteria to distinguish between grants and exchange transactions in cases where the recipient of the financial transaction is not the end beneficiary of the operation;**

(b) **Continue and refine the reconciliation of payroll transactions to the financial statements;**

Management of budget processes

(c) **Clearly define the scope of its institutional budget, detailing the provisional revenues, expenditures and staffing positions, and formally submit it to the Executive Board for approval, as required by the financial regulations and rules;**

(d) **Adopt, at the Executive Secretary level, a budget planning process defining responsibilities and expected outputs, and set up proper communication and training for staff to ensure its successful implementation;**

(e) **Build up an informative integrated budget, including provisional revenues and expenditures for both institutional and programmatic components, and present regular updates to the Executive Board;**

(f) **Formally adopt, at the Executive Secretary level, a fundraising strategy and regularly update it to ensure the appropriate level, predictability and quality of resources necessary to sustain its business model and strategic objectives;**

(g) **Increase the operational usefulness of its integrated results and resources matrix by updating indicators more frequently and, where appropriate, reviewing the targets.**

Follow-up on previous recommendations

All eight outstanding recommendations of the Board have been implemented (see annex).

Key figures	
$8.7 million	Approved budget (regular resources)[1]
$9.5 million	Revenue (regular resources)
$8.8 million	Actual expenses (regular resources). Only regular resources are budgeted and approved by the Executive Board
$157.8 million	Revenue from voluntary contributions
$30.2 million	Actual expenses for grants
169	Total number of staff
$28.9 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 2023, implemented programmes in 41 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 2023 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 and the International Standards of Supreme Audit Institutions. 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 2023 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 December 2023 and in March and May 2024.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

7. As at 31 May 2024, the eight outstanding recommendations had been implemented. Details of the status of implementation of the recommendations are provided in the annex to the present chapter. The Board acknowledges the efforts of UNCDF towards implementing its recommendations.

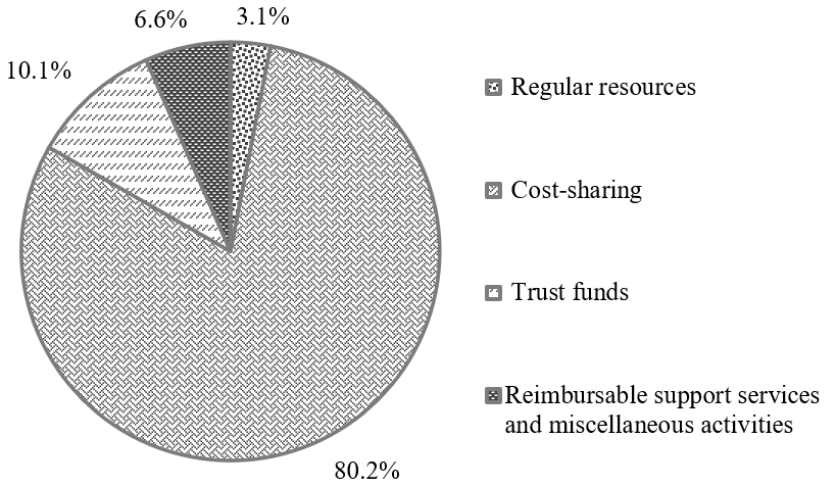
2. Financial overview

Revenue and expenses

8. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. In 2023, total revenue amounted to $167.6 million (2022: $202.0 million) and total expenses amounted to $100.8 million (2022: $116.2 million), resulting in a surplus of $66.8 million (2022: surplus of $85.8 million).

9. The total voluntary contributions to UNCDF were $157.8 million (2022: $198.7 million), representing 94.2 per cent (2022: 98.4 per cent) of total revenue. Voluntary contributions decreased by $40.9 million (20.6 per cent) compared with 2022 contributions. For the most part, the decrease in revenue was due to an increase in donor refunds and to the fact that UNCDF funding is received on a cyclical basis and revenue is mainly recorded at the time the agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of $4.9 million (3.1 per cent), cost-sharing of $126.6 million (80.2 per cent), trust funds of $16.0 million (10.1 per cent) and reimbursable support services and miscellaneous activities of $10.4 million (6.6 per cent). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions to regular and other resources



Source: Analysis made by the Board of the UNCDF financial statements for the year ended 31 December 2023.

10. Total expenses in 2023 ($100.8 million) decreased compared with 2022 ($116.2 million). For the breakdown of expenses into segments, UNCDF excludes an elimination of $6.7 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 $107.5 million and the breakdown by segment was as follows: regular resources expenses of $8.8 million (8.1 per cent), cost-sharing expenses of $78.7 million (73.2 per cent), trust fund expenses of $13.4 million (12.5 per cent) and expenses on reimbursable support services and miscellaneous activities of $6.7 million (6.2 per cent).

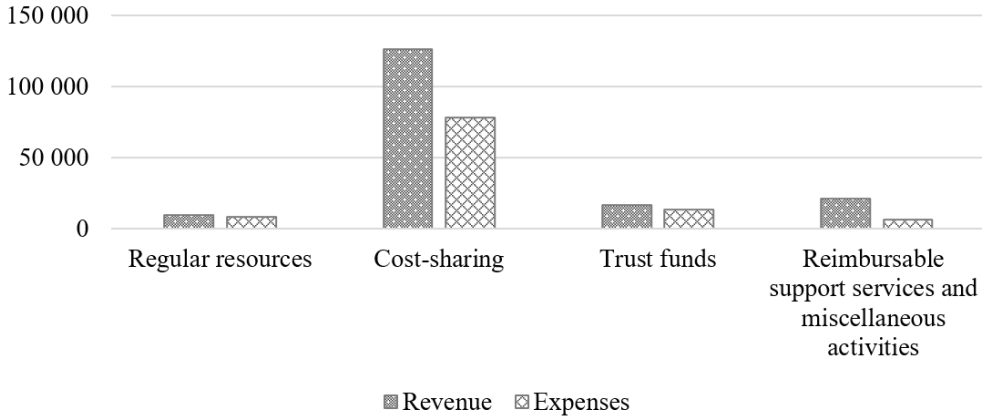
11. The classification of the expenses by nature indicates that the largest expense category continued to be grants and other transfers, with expenses of $30.2 million (30.0 per cent of overall expenses). An amount of $28.9 million (28.7 per cent) was spent on staff costs, $27.4 million (27.2 per cent) on contractual services, $11.6 million (11.5 per cent) on general operating expenses net of $6.7 million for internal cost recovery, $0.6 million (0.6 per cent) on supplies and consumables and $2.1 million (2.1 per cent) on other expenses and on depreciation and amortization.

12. Total expenses by cost classification indicate that an amount of $95.3 million (88.6 per cent) was spent on programme activities, $6.4 million (5.9 per cent) on development effectiveness and $5.8 million (5.4 per cent) on management activities. The breakdown of expenses by cost classification excludes an elimination of $6.7 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 2023.

Ratio analysis

14. The analysis carried out by the Board of the main financial ratios of UNCDF (see table II.1 below) showed a decrease in the current ratio, the quick ratio, the cash ratio and the ratio of total assets to total liabilities in 2023 compared with 2022. The decrease in these ratios resulted from current liabilities (especially accounts payable and accrued liabilities) rising more sharply than current assets. Total liabilities and total assets followed the same trend.

Table II.1
Ratio analysis

Ratio	*31 December 2023*	*31 December 2022*
Current ratio[a]		
Current assets: current liabilities	40.07	48.90
Total assets: total liabilities[b]	19.91	21.46
Cash ratio[c]		
Cash plus investments: current liabilities	15.63	27.56
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	39.54	48.46

Source: Analysis made by the Board of the UNCDF financial statements for the year ended 31 December 2023.

[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 2023 were $291.0 million, or 40.07 times the current liabilities of $7.3 million, which indicates the Fund's ability to meet its short-term obligations. Similarly, total assets of $485.5 million exceeded total liabilities of $24.4 million, which indicates a healthy financial position. Assets include contributions committed by donors for future periods.

16. Net assets consist of the operational reserve and accumulated surpluses. UNCDF calculated its operational reserve in compliance with the methodology approved by its Executive Board. As at 31 December 2023, UNCDF held net assets of $461.1 million compared with $397.9 million reported on 31 December 2022. The increase of $63.2 million is the result of an accumulation of surpluses ($64.4 million), changes in the operational reserve ($0.9 million) and the implementation of IPSAS 41: Financial instruments ($2.1 million).

3. Finance

Grants and exchange transactions clarification

17. The UNCDF mandate, as defined by the General Assembly, is to assist the least developed countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans. Grants, especially "performance-based grants", are the largest category of UNCDF expenses, reaching 30 per cent of total expenses in 2023, amounting to $30.2 million. The widespread use of grants has led to some divergence from their original purpose, particularly for transactions which are in substance exchange transactions and which should follow different accounting rules under the present IPSAS.

18. In its previous report, the Board issued a recommendation that UNCDF make a clear distinction between genuine performance-based grants and other transactions presented as "grants" but which might consist of procurement operations, for which the IPSAS recognition criteria are different (A/78/5/Add.2, chap. II, para. 32), while the Office of Audit and Investigations of UNDP also issued a recommendation that "UNCDF should strengthen oversight over procurement activities by … ensuring that the appropriate modality is used when procuring professional services, and that purchase orders are raised in a timely manner" in its report on the audit performed in 2023.

19. UNCDF assesses that those recommendations were implemented in 2024, as "all new grants are now required to be reviewed and approved by the UNCDF Investment and Disbursement Impact Committee. The review by the Committee includes ensuring that the appropriate modality has been selected to ensure that grants are not being used in lieu of procurement. The Committee also provides oversight of the deployment of financial instruments, including grants, reimbursable grants, loans, guarantees and other financial instruments, to ensure that the deployed instruments meet development impact criteria determined by measurable indicators. The Committee's terms of reference were approved by the UNCDF Managing Director on 17 October 2023".

20. The Board agrees that the establishment of the Investment and Disbursement Impact Committee should improve the grants approval process and help to distinguish between genuine grants and procurement operations. It has also led the UNDP Office of Audit and Investigations to clear its recommendation, while a follow-up audit is still planned in the coming months.

21. The Board is of the view that weaknesses in the updated process should still be addressed, as evidenced by one responsible party agreement (ref. G1235) from the sample, signed on 10 November 2023, having been categorized as a grant whereas the standard terms and conditions qualify it as an exchange transaction (notably

clauses 8 and 9, on equipment and on copyrights, patents and other proprietary rights, respectively). Under the present IPSAS, the non-exchange nature of the transaction remains the basic criterion for recognizing a grant.

22. The main difficulty arises when the recipient is a private entity. The principles of the Investment and Disbursement Impact Committee, contained in paragraph 2.3 of the Committee's terms of reference, distinguish:

- Deployment of grants to the private sector as investment grants. Such grants may need to be deployed at the initial stages of the investment continuum for early-stage companies.
- Other types of utilization of resources by the private sector are governed by articles 16, 17 and 20 of the UNCDF financial regulations and rules, and which involve executing agencies and implementing partners.

23. It appears from the terms of reference of the Investment and Disbursement Impact Committee that the scope for grants with the private sector is quite restrictive, yet several grants signed after the adoption of the terms of reference do not qualify as early-stage investments. This is notably the case for grants approved with financial service providers or other private entities, such as a mobile network operator.

24. UNCDF has issued a grant screening checklist to distinguish between grants, responsible party agreements and procurement transactions. The proposed assessment is partially based on the purpose of the project, which may not be a sufficient criterion. A preliminary criterion could be whether the recipient is the end beneficiary or not; if the recipient is the end beneficiary, the agreement can be recognized as a grant.

25. In cases where the recipient is not the end beneficiary, the distinction between grants and exchange transactions is more difficult to assess. It depends on whether the terms and conditions of the agreement define a precise service rendered to UNCDF by a partner to fulfil its mission (exchange transaction) or a general result or performance achieved by the recipient and directly benefiting a third party (grant). In some cases, they do both, and the distinction may be problematic. In order to avoid such cases, and to clarify its rules and regulations and harmonize its accounting practices and principles, UNCDF should carefully define the terms and conditions of the agreements in order to facilitate a clear distinction between both situations.

26. In most cases, implementing partner expenses are exchange transactions accounted for when the obligation is fulfilled, even if there is a prepayment, whereas grants, as non-exchange transactions, should be accounted for upon signature of the agreement. A clearer distinction could result in the present impact of the departure from IPSAS mentioned in note 2 to the financial statements being reduced.

27. **The Board recommends that UNCDF clarify the criteria to distinguish between grants and exchange transactions in cases where the recipient of the financial transaction is not the end beneficiary of the operation.**

28. UNCDF accepted the recommendation.

Control of financial reporting on payroll transactions

29. UNDP global payroll services are responsible for centrally providing monthly payroll and related services to personnel of UNCDF as part of the common shared services provided to partner agencies. These services amounted to $44.6 million in 2023. The Board identified difficulties in the financial reporting of these payroll transactions. Continuous efforts from UNCDF should be maintained.

30. Since 1 January 2023, UNDP has implemented a cloud-based financial system (Quantum), which has partially changed the accounting process and had a significant

impact on the posting of payroll transactions into the general ledger. These effects arose from newly implemented budgetary controls, financial accounts reporting and separation of ledgers.

31. In order to comply with the UNCDF financial regulations and rules, in which the entity is required to submit on a yearly basis its financial statements to the Board of Auditors, all UNCDF offices (both country offices and headquarters units) must adhere to financial closure instructions, completing all transactions, processes analyses and certifications by the respective deadlines set in the IPSAS financial closure instructions issued each year by the Office of Finance and Management Services. These instructions request, in particular, the monthly, quarterly and yearly closure of UNCDF general ledgers, which must be followed in order to ensure the timely and reliable production of the UNCDF financial statements.

32. Following the implementation of Quantum in January 2023 and as part of its interim financial audit missions to UNCDF through UNDP in Copenhagen (September 2023), Kuala Lumpur (November 2023) and headquarters in New York (December 2023), the Board noted the difficulties faced by UNCDF in complying with its 2023 IPSAS financial closure instructions. Operations that are requested to close their general ledgers on a monthly and quarterly basis did not manage to comply with that requirement. At the time of the interim financial audit missions, 11 months after the launch of the new system, none of the accounting periods were closed. This significant delay was explained by the Fund's difficulties following the implementation of Quantum, especially with regard to the Project and Portfolio Management module project and budgetary embedded controls impacting the integration of payroll transactions into the general ledger, although employees had already been paid. Such massive rejections were the result of inaccurate project and budget allocations from operations, owing mainly to the new Quantum configuration, which had a significant impact on the financial reporting process.

33. As part of the interim financial audit and as a result of these difficulties identified by UNDP, as a service provider, UNCDF, as the owner of the financial reporting, and the Board of Auditors, UNCDF was requested to implement a test to monitor the integration of payroll transactions originating from UNDP (global payroll) into its general ledger with the aim of resolving these anomalies by the end of the reporting period. This test was initially implemented to cover staff transactions, and was later extended to non-staff (those with personnel service agreements and United Nations Volunteers) and took the form of a global payroll to general ledger monthly reconciliation. This reconciliation enabled UNCDF to identify, among other discrepancies, payroll expenditures pending integration into the general ledger in order to be accurately reported in the UNCDF financial statements at year-end. As of 31 December 2023, these anomalies had been reduced to an insignificant level,[2] which evidences both the relevance of this test and the need for it to be continued.

34. **The Board recommends that UNCDF continue and refine the reconciliation of payroll transactions to the financial statements.**

35. UNCDF accepted the recommendation.

IPSAS 41 discounting of long-term contribution receivables

36. IPSAS 41: Financial instruments, which came into force in 2023, implies the discounting of non-current unconditional voluntary contributions, which has a material impact on the financial statements. This has been appropriately accounted for by UNCDF in the 2023 financial statements.

[2] Amount in payroll but not in general ledger: $0.023 million; amount mismatch: $0.053 million.

37. The discounting of long-term contribution receivables is framed by paragraphs 40, 42 (b) and AG71 of IPSAS 41 and the United Nations Task Force on Accounting Standards guidance for IPSAS 41, issued on 29 January 2024. As noted in the International Federation of Accountants summary of IPSAS 41, "the most commonly used financial assets are cash, or a contract to receive cash". A voluntary contribution agreement is clearly, for the recipient, a "contract to receive cash", which implies that if the payment of cash is not submitted in accordance with conditions as defined in IPSAS 23: Revenue from non-exchange transactions (taxes and transfers), it meets the characteristics of a financial asset as defined in IPSAS 41.

38. Under IPSAS 23, "earmarking" of contributions to UNCDF by donors is considered as a restriction and not as a condition. As a consequence, UNCDF voluntary contribution agreements meet the definition of financial assets under IPSAS 41, and the recipient must determine at each reporting date its expected credit losses.

39. Being held, in line with paragraph 40 of IPSAS 41, "in order to collect contractual cash flows", and giving rise "on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding", unconditional voluntary contributions must be measured at amortized cost. In addition, paragraph 42 (b) of IPSAS 41 provides that "interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs".

40. UNCDF, like most international organizations, is not a borrower on financial markets, and so in order to apply paragraph 42 (b) of IPSAS 41 a "proxy" rate must be used. In that case:

- Paragraph AG71 of the application guidance for IPSAS 41 provides that "a regulated interest rate shall be considered a proxy for the time value of money element for the purpose of applying the condition in paragraphs 40 (b) and 41 (b)".
- The Task Force on Accounting Standards, in its guidance for IPSAS 41, issued on 29 January 2024, notes that IPSAS 41 applies to non-current unconditional voluntary contributions, and suggests in annex III to the guidance (on effective interest rates) that "organizations unable to commercially borrow due to restrictions in their financial regulations and rules should utilize a notional rate for calculation purposes", and adds that for comparative purposes, organizations with a functional reporting currency included in the International Monetary Fund special drawing rights composite rate should use the special drawing rights interest rate.

41. For the year 2023, the impact was the following: on the opening balance, non-current contributions amounted to $63.1 million, the special drawing rights interest rate as at 1 January 2023 was 2.92 per cent and, based on the outstanding non-current contributions maturity, the discount amounted to $2.1 million. On the closing balance, the opening balance discount was reversed: the non-current contributions amounted to $93.6 million, the special drawing rights interest rate as at 31 December 2023 was 4.10 per cent and, based on the outstanding non-current contributions maturity, the discount amounted to $5.4 million. It is to be noted that the impact of the discounting of non-current outstanding contributions is due to the fact that there is a strong link between IPSAS 23 and the qualification of unconditional voluntary contributions as financial assets in line with IPSAS 41. It is expected that the impact will be minimized when IPSAS 47: Revenue comes into force and supersedes IPSAS 23 in 2026.

42. UNCDF has appropriately discounted its long-term contribution receivables with the implementation of IPSAS 41.

4. Management of budget processes

43. The Board audited the management of budget processes at UNCDF. The audit focused on four areas: budget framework, planning and formulation (see sect. 4 (a)); resource mobilization (see sect. 4 (b)); budget implementation (see sect. 4 (c)); and accountability for budget management and reporting on performance (see sect. 4 (d)).

(a) Budget framework, planning and formulation

44. The budget architecture is not fully in line with the regulatory framework (see paras. 45–58). Budget planning is still very informal and does not allow for the annual institutional budget to be properly linked with the multi-year strategic framework (see paras. 59–67). UNCDF plans to build up a more comprehensive "integrated budget" (see paras. 68–73).

The budget architecture is not fully in line with the regulatory framework

45. Budget processes at UNCDF follow the UNDP Financial Regulations and Rules, with an annex dedicated to specifics of UNCDF that are not addressed in the main text. The budget architecture relies on intricate aggregates and is not fully in line with the regulatory framework. The "institutional budget" appropriation amounted to $16.2 million in 2023.

46. The General Assembly, in its resolution 2186 (XXI), established UNCDF "as an organ of the General Assembly which shall function as an autonomous organization within the United Nations". Nevertheless, for historical reasons, UNDP and UNCDF used to work tightly together, with some functions performed by UNDP on behalf of UNCDF, especially regarding the "supporting activities" and therefore budget management.

47. Relations between the two organizations are evolving. In order to strengthen UNCDF autonomy from UNDP, including on budget process management, an administrative arrangements agreement was signed by both the UNDP Administrator and the UNCDF Executive Secretary on 17 January 2024.

48. In its previous report, when analysing the most critical risks faced by UNCDF, the Board underlined the regulatory risks linked notably to UNDP regulations that would not be suited to the specificities of UNCDF (see A/78/5/Add.2, chap. II, paras. 51–56). This applies notably to the UNDP Financial Regulations and Rules, which have been tailored for UNDP. In continuity of the 2024 administrative arrangements agreement signed with UNDP while implementing the Board's recommendation, UNCDF should consider whether a further adaptation of the Financial Regulations and Rules would be useful, and needs to clearly define the scope and structure of its budget and operationalize the related processes, in order to improve performance and accountability.

49. Under financial regulation 13.06, only the Executive Board is entitled to approve and formally adopt the budget, which remains to be done for UNCDF.[3]

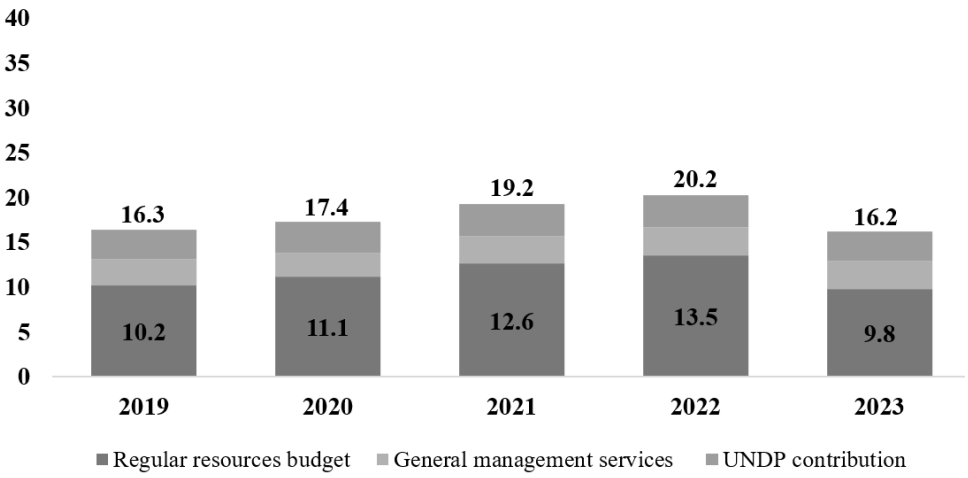
50. The "regular resources budget" is the first piece of the budgetary architecture and is presented in statement V of the annual financial statements. It is funded by the regular resources, defined in line with financial regulation 27.02 as all resources of UNCDF that are commingled, untied and unearmarked resources that are free from the restrictions of funding partners, including unearmarked voluntary contributions from governmental, intergovernmental or non-governmental sources and related investment income and miscellaneous revenue.

[3] See annex I to the UNDP Financial Regulations and Rules.

51. The institutional budget, mentioned in the applicable financial regulations and rules, covers expenses related to development effectiveness, United Nations development coordination, management and special purpose activities (see financial regulation 13.01). It includes the regular resources budget and other unearmarked resources, as follows:

- The cost recovery for the costs that are not directly attributable to specific projects or services, defined as the general management support fees, encompassing costs incurred in providing general management and oversight functions of the organization as a whole. The fees are calculated by applying a standard rate (in general, 8 per cent) to the programmes and projects funded by earmarked resources, defined as extrabudgetary resources.
- The UNDP contribution towards the UNCDF annual regular resources budget, which is divided into two amounts ("institutional" and "programmes") and is not supported by any formal agreement between UNDP and UNCDF but is approved by the Executive Board as part of the UNDP integrated budget.

Figure II.III
Evolution of the institutional budget (cost allocation), 2019–2023
(Millions of United States dollars)



Source: Board of Auditors, based on UNCDF data.

52. UNCDF fully understands the definitions of inflow and outflow items according to the financial regulations and rules. However, the budget approved by the Deputy Executive Secretary, for 2022 as well as for 2023, which is an internal working document for cost allocation, does not use the appropriate terminology.

53. In this context, the resources type (regular, cost recovery, and other resources if also included), divided into two cost categories – "institutional" (or "management") and "programmes" – should be clarified, in particular if funded by the UNDP contribution.

54. Financial regulation 13.02 highlights the fact that "The institutional budget shall cover proposed commitments and disbursements and anticipated revenue relating to the budget period and shall be submitted in United States dollars." However, in the last "approved" budget presented by the Administration (in 2023), the budget allocation only reflected the different costs for the organization, subdivided into a management allocation and a programmes allocation. This "approved" budget does

not mention the “anticipated revenue” in its main sources of funds, whereas UNDP mentions it for its more comprehensive integrated budget.[4]

55. There is no staff position list attached to the institutional budget, as required by financial rules 113.03 and 114.04. The compilation of these lists should provide an opportunity to assess positions on the basis of the organization’s corporate priorities and mandate. Indeed, several important positions have remained vacant for a long time; however, UNCDF has not requested or obtained the authority to reorganize its human resources in order to address the issue. As staff costs represent 75 per cent of the management allocation for 2023 according to the final approved “budget allocation”, and are adjusted sluggishly, this limits the ability of the Administration to provide direction and to turn corporate priorities into actionable decisions. To be compliant with the financial regulations and rules and enable the preparation of a solid multi-year forecast, linked with the integrated resources plan, additional information should be shared regarding the staffing of the organization.

56. Financial regulation 2.04 stipulates that “The period for the purpose of the utilization of the institutional budget shall consist of two consecutive calendar years … the first of which shall be an even year”. In addition, regulation 10.02 indicates that the “financial framework period” shall consist of four consecutive calendar years and, at least two years prior to the beginning of a new such framework, the Administrator shall submit to the Executive Board for its approval a distribution of UNDP regular resources in percentage shares among specific categories. For 2022[5] as well as for 2023,[6] the presented budget refers to only one year. No biennial budget proposal was submitted for 2022 or 2023 regarding the institutional budget.

57. In accordance with the financial regulations and rules, the institutional budget for the subsequent budget period shall be adopted “in the last year of the budget period” by the Executive Board (regulation 13.06), which should have received the proposed institutional budget in the last year of the budget period (regulation 13.03). More specifically, the proposed institutional budget, together with the report of the Advisory Committee on Administrative and Budgetary Questions thereon, “shall be considered for approval by the Executive Board in September of the year preceding the period to which the budget relates” (regulation 13.04 (a)).

58. An option to facilitate the budgetary appropriations process could also be to update the financial regulations and rules in order to change it from a biennial to an annual process.

Budget planning is still very informal and does not allow for the annual institutional budget to be properly linked with the multi-year strategic framework

59. Budget planning is still very informal. It presents the advantage of flexibility and simplicity, but does not allow for the annual institutional budget to be properly linked with the multi-year strategic framework.

60. The planning process concerning the institutional budget is still very informal, owing to the small size of both that budget and the team charged with planning and implementing it.

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[4] For instance, for UNDP, the table presenting the institutional components of the UNDP integrated resources plan and integrated budget estimates, 2022–2025, provide the budgetary information for both the resources available (“inflows”) and estimated expenditures (“outflows”), by resources type (see DP/2021/29, table 1).

[5] 2022 budget allocation, final version approved on 1 March 2022 by the Deputy Executive Secretary.

[6] 2023 budget allocation, final version approved on 25 October 2023 by the Head of the Office of Finance and Management Services on behalf of the Deputy Executive Secretary.

61. The planning process is not outlined in a specific procedure that could be co-owned by the entire corporate organization, under the responsibility of the Executive Secretary, but in an ad hoc document devised in response to the queries of the Board of Auditors.

62. The signing of the original budget for 2023 by the Executive Secretary was accompanied by the unlocking of 70 per cent of the allocated budget in Quantum, in order to allow for later revisions.

63. In 2022, revisions amounted to 7 per cent of the initial institutional budget, indicating a realistic planning process at the global level. However, some budget lines, such as general operating expenses for the Evaluation Unit, have been reduced by more than 90 per cent; staff costs for the Senegal office were similarly cut by 42 per cent.

64. Intrayear adjustments to budgets are rudimentary, consisting of one midterm review of actual spending compared with the original budget and the issuance of a revised budget. There can be several rounds of revisions: for example, in 2022 and 2023, the midterm review only allowed for an extra 20 per cent of the budget to be released in August. The final release of spending permission took place in December, with a view to effecting savings on the remaining 10 per cent.

65. The main advantage of this system is its flexibility, as practices can be changed as the situation requires. This was particularly the case in 2023, when an unforeseen decrease in core funding led to last-minute modifications of the budget. However, the result was also a severe delay in the process, since the allocated budget for 2023 was only adopted in late April of that year. Programmes and units were thus only provided with incomplete information with which to operate for the first two quarters of the year.

66. This system has two major negative impacts at the corporate level. Firstly, it limits the effect of the multi-year strategic framework, as there is no formal process to check whether the yearly (or, in the future, biennial) budgets deviate from the framework. There lies a significant risk of the mission moving beyond the corporate priorities set out by the Executive Secretary.

67. Secondly, it limits external input and oversight. The planned budget is not provided to the Executive Board as required by financial regulation 13.03. In practice, the only exterior body that is consulted is the UNDP Administrator, who performs the functions of the Managing Director of UNCDF. Once again, this deprives the organization of external oversight that could help to ensure that it stays on target.[7]

The Fund plans to build up a more comprehensive "integrated budget"

68. In view of the preparation of its strategic framework for the period 2026–2029, UNCDF plans to present a more comprehensive "integrated budget" to its Executive Board.

69. The "integrated budget" concept relies on the priorities of the strategic framework for the period 2022–2025. Hence, the integrated budget is a recent notion within the Administration and follows the UNDP budget methodology regarding the implementation of the "integrated resources plan and integrated budget estimates".

70. This budget would cover a wider scope than the simple disclosure of the institutional budget, by presenting "all cost categories, for regular and other resources". The integrated budget, which encompasses both the regular resources and

[7] See the section on enterprise risk management of the previous report of the Board of Auditors, which describes the mechanisms of the "lines of defence" (A/78/5/Add.2, chap. II, paras. 46–81).

other resources within the overall organization, would include the institutional budget and the unearmarked resources devoted to fund the anticipated costs of the programmes and projects received through contributions or generated through interest income resulting from the different financial instruments of UNCDF.

71. It would not be within the authority of the Executive Board to approve such a budget, as it would include extrabudgetary voluntary funding agreed bilaterally with each donor.

72. However, such an integrated budget would bring transparency on the complete scope of UNCDF, and with the proper performance indicators could support accountability.

73. Neither the institutional budget nor the integrated budget had been submitted by the Administration as of March 2024. This exercise may be considered as a preparation in 2025 for the strategic framework for the period 2026–2029.

Way forward

74. The transparency, exhaustiveness and frequency of the budgetary information could be increased as UNCDF builds up an integrated budget.

75. **The Board recommends that UNCDF clearly define the scope of its institutional budget, detailing the provisional revenues, expenditures and staffing positions, and formally submit it to the Executive Board for approval, as required by the financial regulations and rules.**

76. **The Board also recommends that UNCDF adopt, at the Executive Secretary level, a budget planning process defining responsibilities and expected outputs, and set up proper communication and training for staff to ensure its successful implementation.**

77. **The Board further recommends that UNCDF build up an informative "integrated budget", including provisional revenues and expenditures for both institutional and programmatic components, and present regular updates to the Executive Board.**

78. UNCDF accepted the recommendations.

(b) Resource mobilization

79. Resource mobilization is vital for the organization (see paras. 80–90). UNCDF has identified its main fundraising challenges (see paras. 91–97). Resource mobilization needs to be in line with the strategic ambitions (see paras. 98–109).

Resource mobilization is vital for the organization

80. UNCDF is entirely funded by voluntary resources, both for programmes and headquarters expenses. Resource mobilization is therefore imperative to ensure the implementation of the organization's mandate.

81. This challenge is clearly identified in the latest strategic framework, in which it is stated that the full implementation of the strategic framework is contingent on several risks, the main one being the mobilization of required resources (DP/2022/12, para. 85).

82. In terms of core resources, strong dependence on a handful of donors is a major risk: only nine countries (and no private structures) contributed to core resources between 2019 and 2023, with two countries alone accounting for 64 per cent of those resources.

83. In 2022, the withdrawal of the main contributor between 2019 and 2022 led to a loss of resources of this type by more than a third (38 per cent). Interest on investments, if it were an unearmarked contribution from a donor, would be the second largest contribution.

84. Similarly, over the period 2019–2023, the general management support fees accounted for equivalent to 60 per cent of the volume of core resources, excluding interest. This means that, irrespective of the core funding, UNCDF is highly exposed to the upward and downward variability of the project portfolio. The need for an ad hoc strategy, particularly for a modest-sized structure, was reiterated during the evaluation of the previous strategic framework and more recently by the internal auditor.

85. The evaluation[8] conducted on the strategic framework for the period 2018–2021 was published in September 2021[9] and resulted in several recommendations, including a specific one on fundraising, to conduct a review of the resource mobilization process in order to develop an overarching strategy to achieve the Fund's ideal resources-to-results scenario in core and non-core funding, which the Administration has taken into consideration.

86. One of the reasons for this recommendation was the fragmentation of fundraising within UNCDF, but also the fact that a small organization needs to make extra effort to be heard above the clamour of the multitude of United Nations and development agencies operating in the field.

87. UNCDF is a modest player compared with UNDP or the World Bank. Although the auditor did not carry out any measurement of brand awareness, it is reasonable to assume that it is generally lower than that of the two major development players mentioned above.[10]

88. In addition, the UNCDF mandate is quite unique, making it a hybrid between a "development organization" and a "development finance institution",[11] in particular for the benefit of the least developed countries: this singular positioning needs to be explained in a pedagogical way to potential donors.

89. In February 2024, UNCDF drew up a draft communications strategy, which has yet to be approved by senior management.

90. This strategy is one of the elements of performance and accountability to which UNCDF committed itself in its previous plan, and which is now a constant in the United Nations system, for example in the United Nations Secretariat.[12]

The Fund has identified its main fundraising challenges

91. UNCDF has already identified the main gaps in fundraising, as well as the objectives that should be prioritized for resource mobilization.

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[8] Evaluation within UNCDF follows the rules of the UNDP Independent Evaluation Office (see http://web.undp.org/evaluation/evaluation-office.shtml).

[9] See https://erc.undp.org/evaluation/evaluations/detail/9961.

[10] On one of the major professional networks, UNCDF had 129,000 followers in March 2024, against more than 2 million for UNDP.

[11] See strategic framework for the period 2022–2025: "As a hybrid organization, UNCDF will fulfil its unique capital mandate by complementing traditional grant-making and technical assistance with an increased and mainstreamed use of its financing capabilities and instruments, including loans, guarantees and blended finance funds across areas of technical expertise" (DP/2022/12, para. 18).

[12] The notion of accountability was clearly defined by the General Assembly for the Secretariat in paragraph 8 of its resolution 64/259: "Accountability includes achieving objectives and high-quality results in a timely and cost-effective manner, in fully implementing and delivering on all mandates".

92. UNCDF has identified the budgetary and management challenges for its institutional budget (see section VI of the strategic framework for the period 2022-2025, on institutional and operational agility), which are sine qua non conditions for the implementation of the organization's mandate along three axes:

(a) Catalyse capital;

(b) Strengthen market systems and financing mechanisms;

(c) Accelerate inclusive, diversified and green economic transformation.

93. The strategic framework for the period 2022–2025 clearly labelled these financing issues (DP/2022/12, paras. 72 and 74); however, UNCDF has not yet formally adopted a strategy to address them:

> Para. 72: "Effectively meeting the growing demands for UNCDF support from LDCs and the United Nations development system will require adequate, flexible and predictable funding."
>
> Para. 74: "Regular resources are the backbone of the UNCDF business model, providing the operational capacity, technical expertise and flexible risk capital that enable UNCDF to innovate and leverage additional resources. Regular resources also serve to ensure a minimum presence at regional and country levels. Sufficient and predictable regular resources are critical for UNCDF to be able to provide a basic level of support to its partner Governments and to the United Nations development system."

94. The Board was able to examine a "resource mobilization plan" produced by UNCDF in February 2023,[13] which identifies difficulties and proposes guidelines for a future strategy. However relevant it may be, it remains a technical document at the level of the unit in charge of partnerships.

95. While the evaluator's recommendation was due to be implemented at the end of 2021, no strategy has been signed at the Executive Secretary level, and the organization of fundraising has not evolved.

96. As of March 2024, the official position of UNCDF is that implementation of this recommendation has begun ("initiated"), representing little concrete progress in over two years. The idea of a resource mobilization task force to overcome some shortcomings could not be implemented.

97. As a result, the adoption of the strategic framework for the period 2022–2025 in February 2022 came without a resource mobilization or communications strategy to ensure its ambitious implementation.

Resource mobilization needs to be in line with the strategic ambitions

98. Fundraising needs to be in line with the budgetary needs of the next UNCDF strategic framework. Successful implementation of an ambitious mandate would require a strong relationship with major public and private sector donors, including through multi-year strategic agreements.

99. A resource mobilization strategy only makes sense if it is designed, adopted and implemented in support of strategic orientations.

100. The current strategic plan (2022–2025) will soon come to an end, and UNCDF must therefore already look ahead to the next one, which should be adopted by the Executive Board at the end of 2025. The related strategy will therefore have to be

[13] This plan was initially devised in 2021 and has since been updated.

prepared at the same time, so that it can be validated as soon as the framework is adopted.

101. By way of comparison, in the case of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), for example, a multi-year resource mobilization strategy has been adopted to implement the strategic plan: "the strategy provides UN-Women staff with a blueprint to use in planning efforts to mobilize the resources required to successfully implement the Executive Board-approved UN-Women strategic plan".[14]

102. In the meantime, with the prospect of the next institutional budget for the 2024–2025 transition period, it would be useful to adopt an initial strategy. Even if it is only temporary, it will provide a basis for the development of a future strategy for the period 2026–2029 which can be refined by the end of 2025.

103. Within UNCDF, the Partnerships, Policy and Communications Unit is dedicated to the implementation of partnerships The Unit's head position has been vacant for two years. The Unit is responsible for relations with donors, including the private sector.

104. International organizations can compete for resources, and the private sector is seen as a growth driver for funding. The Office of the United Nations High Commissioner for Refugees has a policy specifically dedicated to the private sector (EC/72/SC/CRP.26), as does UNDP.[15] For UNCDF, the private sector contributes around 8 per cent of overall resources, but not to the institutional budget, except indirectly through general management support.

105. UNCDF, for its part, follows the UNDP programme and operations policies and procedures for the effective management of relations with the private sector.[16] A due diligence process must therefore be carried out prior to any contract (memorandum of understanding), in accordance with the UNDP ad hoc policy.[17]

106. On the basis of a sample, the Board was able to observe that funding agreements for projects could exceed the annual duration and extend over the lifetime of the activities financed by the donor.

107. As far as the institutional budget is concerned, in particular the core resources, the organization's strong dependence on a few donors means that, particularly if the objective of broadening the contributor base is not achieved,[18] it will be necessary to consolidate the relationships already established.

108. The agreement signed in 2023 with a Member State is a good example, as it guarantees a level of contributions over the period 2023–2027.[19]

109. The Board suggests that UNCDF extend this mechanism, as much as possible, to all core resource donors,[20] and on a broader scale that it obtain a general review in 2025 so that the agreements cover the duration of the next strategic framework, for

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[14] UN-Women, Strategic Partnerships, Advocacy and Communications Division, *The Time Is Now: UN-Women's Resources Mobilization and Partnership Strategy, 2018–2021* (New York, 2018).

[15] UNDP, "Private sector development and partnership strategy (2018–2022): making markets work for the SDGs" (New York, August 2020).

[16] See UNDP, "Private sector partnerships" (New York, December 2016). Available at https://popp.undp.org/document/private-sector-partnerships.

[17] See UNDP, "Policy on due diligence and partnerships with the private sector" (New York, October 2023).

[18] Expanding the donor base is a major focus of the Administration.

[19] Although it concerns a contribution to the "integrated budget", a document that has not yet been implemented.

[20] The signing of a multi-year agreement is at the donor's discretion.

the period 2026–2029. This would provide a solid foundation for the organization, and real visibility for human resources planning in particular.

Way forward

110. UNCDF needs to develop a specific fundraising strategy to support the implementation of its mandate.

111. **The Board recommends that UNCDF formally adopt, at the Executive Secretary level, a fundraising strategy and regularly update it to ensure the appropriate level, predictability and quality of resources necessary to sustain its business model and strategic objectives.**

112. UNCDF accepted the recommendation.

(c) Budget implementation

113. The use of the internal control framework, the UNDP procedures and Quantum provides various safety checks with regard to budget implementation.

114. The Board examined samples of implementing data in human resources, travels and procurement funded by the institutional budget. The Board also examined the list of persons holding approver roles in Quantum, at three different levels, based on the cost of the considered purchase.

115. On the basis of these samples, processes in place to make sure that expenditure complies with the budget allocations seem adequate. The controls set in the internal control framework on financial expenditure are respected and the approver system is in place.

116. Indeed, in cases like travels, additional approver systems relating to compliance and advisability have been put in place that may have placed an undue burden on some actors (such as the Deputy Executive Secretary, then the Special Adviser to the Executive Secretary, serving as final reviewer of the travel request in the UNall system, or the regional manager of the travel destination, who is now also required to approve the travel).

117. The use of the internal control framework, the UNDP procedures and Quantum provides safety checks to ensure that sufficient funds are available before a purchase order or a contract is issued.

(d) Accountability for budget management and reporting on performance

118. Reporting on the budget provides minimal information (see paras. 119–123). The performance framework relies on a limited tool, with virtually no impact on management (see paras. 124–131). Performance management needs to be enhanced by taking advantage of the new digital environment (see paras. 132–139).

Reporting on the budget provides minimal information

119. The only existing reporting on budget execution is provided in financial statement V. This reporting, however, provides minimal information, which is insufficient to support oversight of budget management.

120. Statement V, which is mandated by IPSAS 24: Presentation of budget information in financial statements, only displays part of the institutional budget, through the regular resources budget implementation, and only at a very general level. In terms of chronology, it presents both the original and the revised approved budgets, as well as the actual implemented sums.

121. The statement does not include a comparison with the previous year, nor a separation of spending on staff and general operating expenses, which would be useful to understand the global evolution of the corporate organization.

122. In the near future, as the budget will be presented as a multi-year integrated budget, the degree of precision should be increased with regard to the nature of budget lines. This should naturally be reflected in the statement of comparison of budget and actual amounts.[21]

123. In 2026, the yearly reporting on budget implementation could therefore be presented in a more detailed form, including elements of comparison with the previous years within the framework period.

The performance framework relies on a limited tool, with virtually no impact on management

124. Tracking and steering performance relies on a limited tool, which mainly includes activity indicators. Most of the time, the targets are considered as achieved, and this framework is barely used for managerial purposes.

125. In the latest integrated results and resources matrix provided (covering the year 2022), out of 47 indicators, only 2 were evaluated as partially achieved (50–75 per cent), 2 were not evaluated and the other 45 were considered achieved (>75 per cent). This limits the use of the matrix for identifying priorities, as underlined by the internal auditor in a recent report.[22]

126. Within those indicators, "tier four" indicators explicitly focus on institutional effectiveness. The Board identified four indicators that pertained to the budget funded by regular resources. These are:

- Total core funding and number of partners contributing (1.1)
- Percentage share of core and total country-level programme expenditures (excluding local resources) spent in least developed countries (1.4)
- Percentage of delivery against approved budget (1.5)
- Share of expenditure committed to management activities and travel costs (1.7)

127. The first of these indicators was indicated as partially achieved for 2022. The other three were evaluated as achieved.

128. The indicators are monitored within the integrated results and resources matrix framework and compared against yearly milestones and the eventual goal at the end of the five-year framework. The matrix is only updated on a yearly basis, which is not frequent enough to make it a proper contribution to results-based management.

129. The integrated results and resources matrix indicators relating to the institutional budget are preliminary, as they are provided in April for the annual report, while the final figures in the financial statements are finalized in June. They are not revised after being provided by the Office of Finance and Management Services, nor are they verified by other sources.

130. A quarterly revision of the indicators would support their use as a management tool and embed performance management in the organization. It is therefore necessary to adapt the integrated results and resources matrix or, failing that, to develop real-time ambitious indicators as internal management tools.

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[21] See IPSAS 24, para. 31.

[22] UNDP, Office of Audit and Investigations, "Audit of United Nations Capital Development Fund", report No. 2608, 2 October 2023.

Performance management needs to be enhanced by taking advantage of the new digital environment

131. Performance management needs to be enhanced in order to be used in budget planning and to increase accountability. UNCDF could take advantage of the monitoring tools provided by the new Quantum Plus environment.

132. The integrated results and resources matrix does not include indicators for personnel evaluation, despite the intention of UNCDF to develop its human talent on a large scale.[23] In a similar fashion to the matrix indicators, staff performance evaluations for fixed-term appointments were performed in 2022 for 118 staff, only 3 of whom were assessed as "not satisfactory".

133. Including indicator ownership in the evaluation matrix would provide more detailed and more useful evaluations, as the usefulness of staff evaluations is currently just as limited as that of the integrated results and resources matrix indicators.

134. Furthermore, there is no procedure to ensure that achievement indicators (both within the integrated results and resources matrix and outside of it) are considered in the design of the subsequent year's budget.

135. The two processes of indicator collection and budget planning are run in parallel, and budget design is based on unit requests and forecasted income rather than on indicators. Individual ownership of indicators, considered during staff evaluations, would help to ensure that indicators are duly followed up on.

136. There is a budget planning module in the Quantum Plus environment. This module has not been implemented for the UNCDF institutional budget (a similar module for programmes is available, however, through the regular Quantum platform).

137. This means that UNCDF is dependent on a time-intensive midterm review to follow up on implementation and does not have an integrated way to take it into account for the next budget planning process.

138. As data quality and availability are mandatory for results-based management, it would prove useful to move the budget management processes to Quantum Plus. It would also limit the supplementary paperwork.

Way forward

139. Accountability for budget management and reporting on performance should both be enhanced.

140. **The Board recommends that UNCDF increase the operational usefulness of its integrated results and resources matrix by updating indicators more frequently and, where appropriate, reviewing the targets.**

141. **The Board recommends that UNCDF assign the ownership of performance indicators, with results reported to the Executive Board and taken into account for the development of the subsequent budget.**

142. **The Board recommends that UNCDF perform a cost-benefit analysis in order to obtain real-time information on the use of resources and on expenditures.**

143. UNCDF accepted the recommendations.

[23] See UNCDF strategic framework for the period 2022–2025 (DP/2022/12), para. 81.

C. Transmissions of information by management

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

144. Management informed the Board that in accordance with financial rule 126.17, UNCDF had no write-offs in 2023.

2. Ex gratia payments

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

3. Cases of fraud and presumptive fraud

146. 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 should not, however, be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

147. 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.

148. UNCDF reported one case of presumptive fraud during 2023, with a potential financial impact unknown to date. Two cases of presumptive fraud were resolved in 2023, with a financial loss of $6,577 for UNCDF.

D. Acknowledgement

149. 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*) Dorothy **Pérez Gutiérrez**
Acting Comptroller General of the Republic of Chile

24 July 2024

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2022

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*
1.	2022	A/78/5/Add.2, chap. II, para. 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.	Supplementary guidelines to the programme and operations policies and procedures have been developed and are undergoing quality assurance. The description of grants that can be issued to public or private sector entities has been made in paragraph 3.2.2 of the terms of reference of the Investment and Disbursement Impact Committee, which have been approved by the UNCDF Managing Director.	The Board reviewed the supplementary guidelines to the programme and operations policies and procedures and the terms of reference of the Investment and Disbursement Impact Committee, and agrees that they formally address the recommendation, although further clarifications should be made between grants and exchange transactions (see recommendation in para. 27 above). The Board considers this recommendation implemented.	X			
2.	2022	A/78/5/Add.2, chap. II, para. 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.	The Administration considers the recommendation implemented. A complete reconciliation of grants outstanding in the general ledger to the grants module has been prepared for the financial closing for 2023. As a result, the outstanding grants commitments disclosed in the financial statements are an accurate reflection of the outstanding grants.	The Board notes that a complete reconciliation of grants outstanding in the general ledger to the grants module has been prepared for the financial closing for 2023. As a result, the outstanding grants commitments disclosed in the financial statements are an accurate reflection of the outstanding grants. Therefore, the Board considers this recommendation implemented.	X			
3.	2022	A/78/5/Add.2, chap. II, para. 43	The Board recommends that UNCDF reconcile the budget and cash flow positions of its financial statements.	The budget and cash flow positions will be reconciled in the 2023 financial statements.	The Board notes that the budget and cash flow positions are now reconciled in compliance with IPSAS in the 2023 financial statements and 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*
4.	2022	A/78/5/Add.2, chap. II, para. 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.	The administrative arrangements agreement with UNDP was signed by the UNDP Administrator and the UNCDF Officer-in-Charge in January 2024.	The Administration has provided an administrative arrangements agreement to the Board, signed by the Administrator of UNDP and the Executive Secretary (Officer-in-Charge) of UNCDF. The Board considers this recommendation implemented.	X			
5.	2022	A/78/5/Add.2, chap. II, para. 61	The Board recommends that UNCDF review its risk management policy to better adapt it to its needs.	UNCDF engaged an audit firm in February 2024 to review and update its risk management policy to reflect the UNCDF business model and risk appetite statement. The work was completed by the audit firm in May 2024.	The Administration has contracted a consulting and business advisory company to support the implementation of the recommendation. It has provided the Board with the contract and terms of reference with the company and the revised enterprise risk management policy. The Board considers this recommendation implemented.	X			
6.	2022	A/78/5/Add.2, chap. II, para. 71	The Board recommends that UNCDF develop its own risk appetite statement.	UNCDF engaged an audit firm in February 2024 to develop its risk appetite statement in order to reflect the UNCDF mandate and business model. The work was completed by the audit firm in May 2024.	Similar situation as for recommendation No. 5. The Administration provided the Board with the UNCDF risk appetite statement and related guidance. 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.	2022	A/78/5/Add.2, chap. II, para. 75	The Board recommends that UNCDF assign the responsibility of Chief Risk Officer to an existing senior executive.	Responsibility to chair the Investment and Disbursement Impact Committee has been delegated to the Policy Adviser, and review and oversight of project risk logs has been delegated to the Head of the Programme Management Support Unit ad interim. Recruitment of a risk management specialist is also under way and is expected to be completed by the second quarter of 2024.	The Administration has taken steps to implement the recommendation, which is key in order to have sustainable and efficient risk management in the Fund. The recruitment of a risk management specialist will support the effective implementation of the recommendation. The Board considers this recommendation implemented.	X			
8.	2022	A/78/5/Add.2, chap. II, para. 80	The Board recommends that UNCDF complete the transition of its risk registers to Quantum+ by the end of 2023.	Project risk logs and registers have been incorporated into the UNCDF Project and Portfolio Management module in Quantum. As part of the configuration, creating a project requires that a project risk register be created.	The risk register for projects is included in the Quantum Project and Portfolio Management module. The Board considers this recommendation implemented.	X			
	Total number of recommendations					**8**	–	–	–
	Percentage of total number of recommendations					**100**	–	–	–

Chapter III
Financial report for the year ended 31 December 2023

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 2023. 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 2023 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, particularly long-term loans made free of interest or at low interest rates (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 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 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 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 decreased by 17.0 per cent, from $202.0 million in 2022 to $167.6 million in 2023. Total expenses decreased by 13.3 per cent, from $116.2 million in 2022 to $100.8 million in 2023. Total accumulated surpluses and reserves increased by 15.9 per cent, from $397.9 million in 2022 to $461.1 million at the end of 2023. That increase is attributable primarily to a surplus for the year of $66.8 million.

9. At the end of 2023, UNCDF had total assets of $485.5 million, an increase from $417.3 million in 2022. The change is attributable primarily to increases in receivables (non-exchange transactions) and receivables (other) of $64.1 million and $23.7 million, respectively.

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

C. Financial performance

Revenue analysis

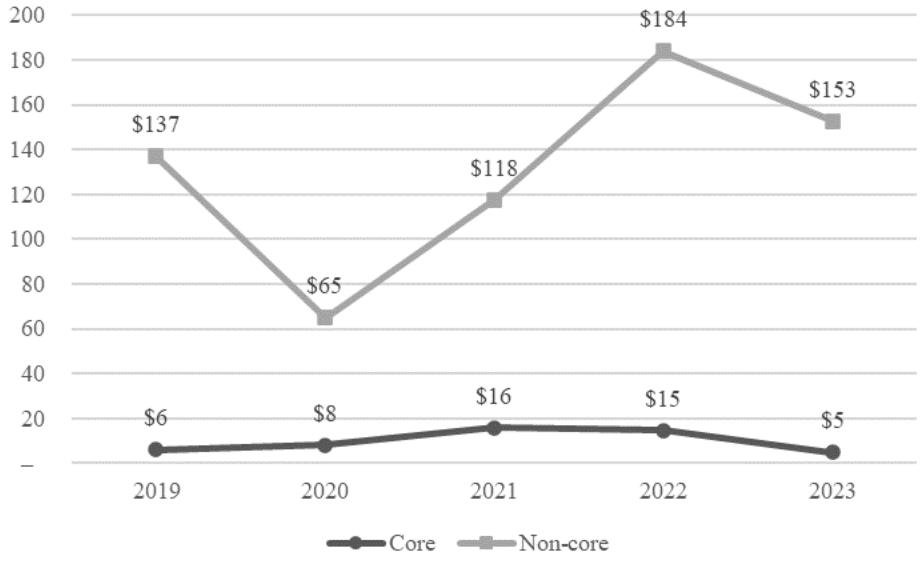
10. The activities of UNCDF are funded by voluntary contributions through regular (core) resources and other (non-core) resources.

11. Total revenue in 2023 was $167.6 million, a decrease of $34.4 million (17.0 per cent) from the total revenue of $202.0 million in 2022. The main sources of revenue in 2023 were as follows:

- Voluntary contributions in the amount of $157.8 million (94.2 per cent), compared with $198.7 million (98.4 per cent) in 2022
- Investment and other revenue in the amount of $9.8 million (5.8 per cent) compared with $3.3 million (1.6 per cent) in 2022

12. In 2023, UNCDF reported $4.9 million in regular (core) contributions (3.1 per cent of total voluntary contributions) and $152.9 million in other (non-core) contributions (96.9 per cent of total voluntary contributions). The $40.9 million decrease in voluntary contributions is mainly due to an increase in donor refunds made in 2023.

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



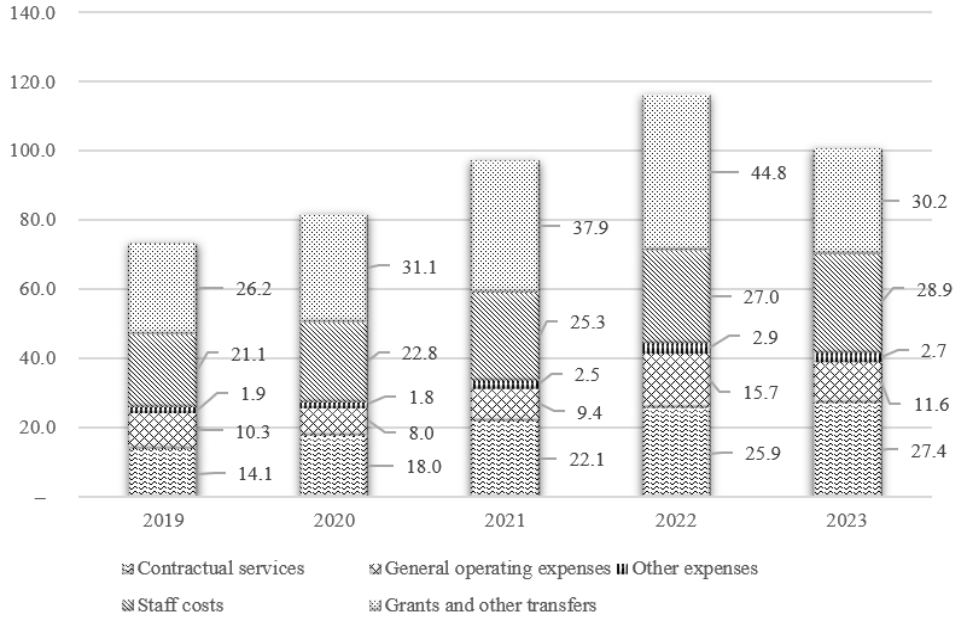
Expense analysis

13. In 2023, UNCDF expenses were $100.8 million ($107.5 million before the elimination of internal UNCDF cost recovery), a decrease of $15.4 million (13.3 per cent) from 2022. The decrease is mainly due to a decrease in grants and other transfers by $14.6 million in 2023.

14. Grants and other transfers amounting to $30.2 million in 2023 represent a portion of UNCDF capital investment included in programme delivery. In 2022, grants and other transfers amounted to $44.8 million.

15. The other two largest expense categories by nature in 2023 were staff costs of $28.9 million and contractual services of $27.4 million, which predominantly represent technical assistance provided by UNCDF through its programmes. In 2022, staff costs and contractual services amounted to $27.0 million and $25.9 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 2023, of total expenses of $107.5 million (before the elimination of internal cost recovery), $95.3 million (88.6 per cent) was spent on programme activities, $6.4 million (6.0 per cent) on development effectiveness and $5.8 million (5.4 per cent) on management activities.

D. Surplus/deficit

18. In 2023, UNCDF had a surplus of revenue over expense of $66.8 million, compared with a surplus of $85.8 million in 2022. The decrease of $19.0 million was:

- Driven by a decrease in total revenue of $34.4 million, from $202.0 million in 2022 to $167.6 million in 2023
- Offset by a decrease in spending of $15.4 million, from $116.2 million in 2022 to $100.8 million in 2023

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

	2023		*2022*	
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	8.3	96	12.5	97
Management activities	0.4	98	1.0	99
Total	**8.7**	**96**	**13.5**	**97**

22. Overall, UNCDF utilized 96.0 per cent of its approved budgeted amount, a consistent performance compared with the utilization level for 2022 (97.0 per cent). The decrease of $4.8 million in the final approved budget is due to a decrease in regular resources revenue in 2023.

F. Financial position

Assets

23. At the end of 2023, UNCDF held assets of $485.5 million (2022: $417.3 million). The increase of $68.2 million (16.3 per cent) is driven primarily by increases in receivables (non-exchange transactions) and receivables (other) of $64.1 million and $23.7 million, respectively.

24. At the end of 2023, total investments amounted to $194.9 million (39.7 per cent of total assets). The Fund's investments were 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 increased by $5.0 million (25.8 per cent), from $19.4 million in 2022 to $24.4 million in 2023.

26. At the end of 2023, UNCDF held after-service health insurance liabilities of $14.2 million (2022: $11.4 million), which accounted for 58.2 per cent (2022: 58.8 per cent) of total liabilities. The Fund's after-service health insurance liabilities continue to be fully funded.

Net assets/equity

27. Net assets/equity reached $461.1 million in 2023, including accumulated surpluses of $453.0 million and operational reserves of $8.1 million. Accumulated surpluses at 31 December 2023 included non-exchange receivables of $235.2 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 $5.9 million operational reserve for regular resources and a $2.2 million operational reserve for other resources.

29. During 2023, net assets/equity increased by $63.2 million (15.9 per cent) as a result of the combined net effect of the following factors: (a) a surplus of $66.8 million; (b) an increase in funds with specific purposes of $0.2 million; (c) an actuarial loss of $1.7 million; and (d) an adjustment for IPSAS 41: Financial instruments of $2.1 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 and the UNDP Ethics Office;

(d) UNCDF internal accountability: the UNCDF Managing Director, the UNCDF Executive Secretary and the senior management team.

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 financial, operational, organizational, environmental, political, regulatory and strategic in nature. Risk and uncertainty are inherent in many of the Fund’s activities due to the nature of the Fund’s unique mandate, including its primary focus on the least developed countries. 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, in order to ensure that the Fund adheres to its mandate and maintains 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 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, first and foremost but not exclusively, in the least developed countries, 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 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 on assets, including expected credit losses under IPSAS 41
- 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. On 1 January 2023, UNCDF adopted the new IPSAS 41: Financial instruments, which has resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial statements. As permitted by the transitional provisions of IPSAS 41, UNCDF has elected not to restate comparative figures. Changes were limited to:

- New classification and measurement categories: the Fund's externally managed investments are now classified and measured as fair value through surplus or deficit, having been previously classified and measured as fair value through net assets/equity.
- Credit losses for the Fund's loan portfolio is now based on forward-looking expected credit losses, having been previously based on objective evidence of impairment.
- Receivables (non-exchange transactions) due in more than 12 months from the reporting date are discounted using the effective interest rate method.

Further information is included in note 5 to the financial statements.

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

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

47. UNCDF joined UNDP in the implementation of the next-generation enterprise resource planning project (Quantum), which was approved in May 2020 and successfully rolled out on 9 January 2023. Quantum replaces the previous enterprise resource planning system, Atlas, with a modern cloud-based architecture anchored in the Oracle Cloud enterprise resource planning solution. Quantum supports new digital ways of working that will help upgrade the Fund's processes to incorporate

next-generation technology aligned with the aspirations and capabilities set out in the UNDP information technology and digital strategies, thereby representing a major milestone in the digitalization of UNCDF.

48. Implementation of the project started in June 2021 with continuous engagement with end users, and culminated in the successful launch on 9 January 2023 of the Finance (general ledger, accounts payable, accounts receivable and fixed assets), Supply Chain Management, Project Portfolio Management and Human Capital Management Quantum modules. Optimization of Quantum processes will continue in 2024 as UNCDF seeks to further improve efficiencies of business processes by exploring opportunities to fully leverage additional Quantum functionalities, including the corporate planning and enterprise risk management systems.

J. Looking forward to 2024 and beyond

49. Looking ahead, in line with its strategic framework for the period 2022–2025, UNCDF will continue to provide support to the United Nations development system by making available its financing instruments and expertise to other United Nations entities and jointly deploying innovative solutions that crowd in additional capital and catalyse Sustainable Development Goal financing at scale. Seizing the opportunity of the preparatory process in 2024 and 2025 for the Fourth International Conference on Financing for Development, UNCDF will also seek to enhance engagement with Member States and other stakeholders to assist in crowding in private financing to help respond to evolving financing needs and support the mobilization of Sustainable Development Goal financing at greater scale, including through blended finance and especially in the least developed countries and other vulnerable countries.

Chapter IV
Financial statements for the year ended 31 December 2023

United Nations Capital Development Fund

I. Statement of financial position as at 31 December 2023

(Thousands of United States dollars)

	References	*31 December 2023*	*31 December 2022*
Assets			
Current assets			
Cash and cash equivalents	Note 8	23 778	63 668
Investments	Note 9	89 761	82 669
Receivables (non-exchange transactions)	Note 10	146 984	108 008
Receivables (other)	Note 10	26 626	2 921
Advances issued	Note 11	3 057	1 334
Loans	Note 12	774	987
Other current assets	Note 10	15	–
Total current assets		**290 995**	**259 587**
Non-current assets			
Investments	Note 9	105 145	92 684
Receivables (non-exchange transactions)	Note 10	88 206	63 121
Loans	Note 12	462	1 353
Property, plant and equipment	Note 13	698	597
Total non-current assets		**194 511**	**157 755**
Total assets		**485 506**	**417 342**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Notes 2 and 14	3 041	1 136
Funds held on behalf of donors	Note 15	28	392
Employee benefits	Note 16	3 637	3 538
Other current liabilities	Note 15	557	243
Total current liabilities		**7 263**	**5 309**
Non-current liabilities			
Accounts payable and accrued liabilities	Note 14	–	9
Employee benefits	Note 16	17 119	14 130
Total non-current liabilities		**17 119**	**14 139**
Total liabilities		**24 382**	**19 448**
Net assets/equity			
Reserves	Note 17	8 100	7 200
Accumulated surpluses	Note 18	453 024	390 694
Total net assets/equity		**461 124**	**397 894**
Total liabilities and net assets/equity		**485 506**	**417 342**

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 2023

(Thousands of United States dollars)

	References	*2023*	*2022*
Revenue			
Voluntary contributions	Note 19	157 794	198 690
Investment revenue	Note 20	7 546	2 856
Other revenue	Note 21	2 262	455
Total revenue		**167 602**	**202 001**
Expenses[a]			
Contractual services	Note 22	27 367	25 866
Staff costs	Note 22	28 898	26 988
Supplies and consumables	Note 22	632	1 080
General operating expenses	Note 22	11 608	15 667
Grants and other transfers	Notes 2 and 22	30 190	44 766
Other expenses	Note 22	1 995	1 766
Depreciation	Note 22	90	78
Total expenses		**100 780**	**116 211**
Surplus/(deficit) for the year		**66 822**	**85 790**

[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 2023

(Thousands of United States dollars)

	References	*Reserves*	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2022		**7 200**	**390 694**	**397 894**
Adjustment for IPSAS 41	Note 5	–	(2 128)	(2 128)
Balance at 31 December 2022 (adjusted)		**7 200**	**388 566**	**395 766**
Changes in net assets/equity				
Operational reserve transferred from accumulated surpluses		900	(900)	–
Funds with specific purposes	Note 18	–	265	265
Actuarial gains/(losses)	Note 16	–	(1 729)	(1 729)
Surplus for the year		–	66 822	66 822
Total changes in net assets/equity		**900**	**64 458**	**65 358**
Balance at 31 December 2023		**8 100**	**453 024**	**461 124**

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 2023

(Thousands of United States dollars)

	References	*2023*	*2022*
Cash flows from operating activities			
Surplus/(deficit) for the year	Statement II	66 822	85 790
Adjustments to reconcile surplus/(deficit) for the year to net cash flows			
Depreciation		90	78
Impairment	Note 22.6	349	457
Amortization of bond premium	Note 9	(1 699)	12
(Gains)/losses on fair value through surplus or deficit		(739)	1 182
(Gains)/losses on disposal of property, plant and equipment	Note 22.6	(36)	(12)
Changes in assets			
(Increase)/decrease in receivables (non-exchange transactions)		(66 189)	(38 966)
(Increase)/decrease in receivables (other)		(28 224)	11 563
(Increase)/decrease in advances issued		(1 723)	(652)
(Increase)/decrease in loans		744	348
(Increase)/decrease in other current assets		(15)	–
Interest received on loans		322	577
Changes in liabilities/net assets			
(Decrease)/increase in accounts payable and accrued liabilities		1 907	(1 177)
(Decrease)/increase in funds held on behalf of donors		(364)	392
(Decrease)/increase in advances payable	Note 15	–	(33)
(Decrease)/increase in employee benefits	Note 16	1 359	1 728
(Decrease)/increase in other liabilities		314	(54)
(Decrease)/increase in funds with specific purposes	Note 18	265	307
Cash flows from/(used in) operating activities		**(26 817)**	**61 540**
Cash flows from investing activities			
Purchases of investments	Note 9	(134 602)	(84 072)
Maturities of investments	Note 9	117 890	69 250
(Increase)/decrease in investments managed by external investment managers		(403)	(523)
Interest and dividends received		4 197	1 924
Purchases of property, plant and equipment	Note 13	(195)	(85)
Disposal of property, plant and equipment		40	16
Cash flows from/(used in) investing activities		**(13 073)**	**(13 490)**
Cash flows from financing activities		–	–
(Decrease)/increase in cash and cash equivalents		**(39 890)**	**48 050**
Cash and cash equivalents at beginning of the year		**63 668**	**15 618**
Cash and cash equivalents at end of the year	Note 8	**23 778**	**63 668**

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 2023

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*[a]	*Difference between final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	1 888	1 888	1 825	63
Development effectiveness	7 441	6 394	6 145	249
Subtotal	**9 329**	**8 282**	**7 970**	**312**
Management activities	432	432	425	7
Total	**9 761**	**8 714**	**8 395**	**319**

[a] In 2023, against approved budget actual expenditure of $8.395 million, the Fund's available regular resources amounted to $8.837 million. For the difference of $0.442 million, note 7 provides a reconciliation with the decrease in cash and cash equivalents of $39.890 million (see statement IV).

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

United Nations Capital Development Fund
Notes to the 2023 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, particularly long-term loans made free of interest or at low interest rates" (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 41 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,[24] 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 based on the best estimates for outstanding grants.

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

(Thousands of United States dollars)

	31 December 2023	*31 December 2023 (pro forma)*	*31 December 2022*	*31 December 2022 (pro forma)*
Statement of financial position extract				
Current liabilities				
Accounts payable and accrued liabilities	3 041	26 440	1 136	17 651
Total current liabilities	**7 263**	**30 662**	**5 309**	**21 824**
Total liabilities	**24 382**	**47 781**	**19 448**	**35 963**
Net assets/equity				
Accumulated surpluses	453 024	429 625	390 694	374 179
Total net assets/equity	**461 124**	**437 725**	**397 894**	**381 379**
Total liabilities and net assets/equity	**485 506**	**485 506**	**417 342**	**417 342**

(Thousands of United States dollars)

	31 December 2023	*31 December 2023 (pro forma)*	*31 December 2022*	*31 December 2022 (pro forma)*
Statement of financial performance extract				
Expenses				
Grants and other transfers	30 190	35 726	44 766	49 061
Total expenses	**100 780**	**106 316**	**116 211**	**120 506**
Surplus/(deficit) for the year	**66 822**	**61 286**	**85 790**	**81 495**

(Thousands of United States dollars)

	Total net assets/ equity	*Total net assets/ equity (pro forma)*
Statement of changes in net assets/equity extract		
Balance at 31 December 2022	**397 894**	**381 379**
Surplus for the year	66 822	61 286
Total changes in net assets/equity	**65 358**	**59 822**
Balance at 31 December 2023	**461 124**	**437 725**

(Thousands of United States dollars)

	31 December 2023	*31 December 2023 (pro forma)*	*31 December 2022*	*31 December 2022 (pro forma)*
Cash flow statement extract				
Cash flow from operating activities				
Surplus/(deficit) for the year	66 822	61 286	85 790	81 495
(Decrease)/increase in accounts payable and accrued liabilities	1 907	7 443	(1 177)	3 118
Cash flows from/(used in) operating activities	**(26 817)**	**(26 817)**	**61 540**	**61 540**

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 except where a change in accounting policy is disclosed in note 5. 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, including expected credit losses under IPSAS 41: Financial instruments; classification of financial instruments; valuation of investment assets; revenue recognition; and contingent assets and liabilities.

(d) Future accounting changes

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 of 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 that there is 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 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 2024.

Note 4
Significant accounting policies

(a) Financial instruments

Recognition and derecognition

All financial assets and liabilities, including contribution receivables, other receivables and payables, are initially recognized when UNCDF becomes a party to the contractual provisions of the financial instrument.

All financial assets are recognized initially on the trade date, which is the date UNCDF becomes party to the contractual provisions of the instrument, except for:

- Loans and receivables, which are recognized on the date they originate.
- Multi-year contributions that have performance conditions beyond the control of UNCDF, which are recognized when the performance conditions are met.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred, or when UNCDF neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

A financial liability is derecognized when it is extinguished, discharged or cancelled or expires. UNCDF also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized.

Classification and initial measurement of financial assets

Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements.

Financial assets are classified in one of the following categories:

Amortized cost	
Cash and cash equivalents (with original maturities of 3 months or less)	Cash and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value (net of expected credit losses for restricted-use currencies)
Investments managed by UNDP	Money market instruments, such as commercial paper, certificates of deposit, time deposits and treasury bills, and interest-bearing or discounted bonds, including fixed-rate, floating-rate and callable notes. UNCDF holds these instruments until their respective maturity solely to collect the contractual cash flows
Receivables (non-exchange transactions)	Amounts due based on signed contribution agreements
Receivables (other)	Amounts owed to UNCDF for services provided to other entities. In exchange, UNCDF directly receives approximately equal value in the form of cash
Loans	UNCDF issues loans at concessionary terms to third parties in financially underserved areas to unlock public and private capital

Fair value through surplus or deficit	
Investments managed by external investment managers	Equity and debt investments held through external investment managers
Derivatives	Used to manage foreign exchange risk and contracted in accordance with the UNDP investment guidelines. UNCDF does not apply hedge accounting treatment for derivatives
Beneficiary units	Group of financial assets whose performance is evaluated on a fair value basis in accordance with the UNCDF risk management strategy
Fair value through net assets/equity	
	UNCDF does not have any financial assets classified as fair value through net assets/equity in the period presented

The financial asset classification is determined by both:

- The UNCDF business model for managing the financial asset
- The contractual cash flow characteristics of the financial asset

Except for those short-term receivables where the effect of discounting is immaterial and which are measured at the original invoice amount, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

Financial assets are not reclassified after their initial recognition unless UNCDF changes its management model for managing the respective type of financial asset, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the management model.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as fair value through surplus or deficit:

- The financial asset is held within a management model whose objective is to hold assets to collect contractual cash flows
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these assets are measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest revenue, foreign exchange gains and losses and impairment are recognized in surplus or deficit. Any gain or loss on derecognition is recognized in surplus or deficit.

Receivables (non-exchange transactions) due in more than 12 months from the reporting date are discounted using the effective interest rate method, if material, to reflect the time value of money. Revenue recorded is based on signed agreements that have yet to be implemented; therefore receivables (non-exchange transactions) are not subject to expected credit losses.

Accounting for concessionary loans

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

A concessionary loan is a loan provided on more favourable terms than 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 amortized cost. 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 of the loan and the fair value of the loan.

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.

Financial assets at fair value through surplus or deficit

All UNCDF financial assets not classified as measured at amortized cost as described above are measured at fair value through surplus or deficit, and include all UNCDF derivative financial assets.

These financial assets are measured at fair value. Net gains and losses, including any interest or dividend revenue, are recognized in surplus or deficit.

Impairment of financial assets

In order to allow for more timely information in the financial statements that supports better decision-making, IPSAS 41 uses a single forward-looking model for the estimation of expected credit losses on financial assets and requires recognition of expected credit losses from day one and at all times.

For the purposes of determining expected credit losses, UNCDF assesses the related credit risk of the financial instrument. In so doing, UNCDF considers a broad range of qualitative and quantitative information, including past events, current conditions, forward-looking information and other reasonable and supportable information that is relevant and available without undue cost or effort.

In accordance with the general approach for expected credit losses under IPSAS 41, UNCDF measures loss allowances on its financial assets, except certain receivables, at an amount equal to:

- 12-month expected credit losses – if the credit risk is determined to be low at initial recognition or has not increased significantly since initial recognition.
- Lifetime expected credit losses – if the credit risk on the financial instrument has increased significantly since initial recognition, and if the instrument is credit-impaired.

Loss allowances for loans and receivables under exchange and non-exchange transactions are measured by UNCDF at an amount equal to either 12-month expected credit losses or lifetime expected credit losses in accordance with the IPSAS 41 simplified approach.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that UNCDF expects to receive).

Classification and measurement of financial liabilities

UNCDF financial liabilities are classified in one of the following categories:

Amortized cost	
Accounts payable and accrued liabilities	Amounts owed relating to the purchase of goods and services
Funds held on behalf of donors	Includes unspent funds for completed or terminated projects
Other liabilities	Includes unapplied deposits and other payables
Fair value through surplus or deficit	
Derivative liabilities	Used to manage foreign exchange risk and contracted in accordance with the UNCDF investment guidelines. UNCDF does not apply hedge accounting treatment for derivatives

Financial liabilities at amortized cost are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. Interest expenses, foreign exchange gains and losses and any gain or loss on derecognition are all recognized in surplus or deficit.

Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost when goods are delivered or services are rendered and accepted by UNCDF. Liabilities are estimated when invoices are not available at the reporting date.

Financial liabilities entered into with a duration of less than 12 months are recognized at their carrying value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in surplus or deficit.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position only when UNCDF has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(b) Advances issued

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.

(c) 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, 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.

(d) 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.

(e) 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 material finance lease arrangements at year-end in 2023 or 2022.

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.

(f) 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 UNCDF financial policies. 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, return of unused funds to donors and the effect of discounting receivables (non-exchange transactions).

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.

(g) 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.

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

(h) 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, if material. 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
Change in accounting policy

Impact of adoption of IPSAS 41: Financial instruments

UNCDF has adopted IPSAS 41, with an initial application date of 1 January 2023. This has resulted in changes in accounting policies and adjustments to amounts previously recognized in the financial statements. As permitted by the transitional provisions of IPSAS 41, UNCDF has elected not to restate comparative figures. Differences arising from the adoption of IPSAS 41 have been recognized in the opening balance of each affected component of net assets/equity at the date of initial application.

Upon adoption of IPSAS 41, as at 1 January 2023, UNCDF identified no material changes between the value of its financial instruments measured under IPSAS 29: Financial instruments: recognition and measurement and the value under IPSAS 41, except for the effect of discounting receivables (non-exchange transactions).

Upon adoption of IPSAS 41, as at 1 January 2023, UNCDF identified no material changes between the allowances for impairment under IPSAS 29 and expected credit losses under IPSAS 41.

UNCDF has classified its financial instruments at the date of initial adoption of IPSAS 41, in accordance with the new classification and measurement categories under the new standard, as compared to IPSAS 29.

Financial statement line item	*Measurement categories according to IPSAS 29*	*New measurement categories according to IPSAS 41*
Assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Investments (internally managed portfolio)	Held to maturity	Amortized cost
Investments (externally managed portfolio)	Available for sale	Fair value through surplus or deficit
Beneficiary units	Fair value through surplus or deficit	Fair value through surplus or deficit
Receivables (non-exchange transactions)	Loans and receivables	Amortized cost
Receivables (other)	Loans and receivables	Amortized cost
Loans	Loans and receivables	Amortized cost
Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Funds held on behalf of donors	Amortized cost	Amortized cost
Other current liabilities	Amortized cost	Amortized cost

Externally managed portfolio

UNCDF holds certain investments with external investment managers. Previously, these were classified as available-for-sale financial assets under IPSAS 29 and measured at fair value through net assets/equity. Upon adoption of IPSAS 41, UNCDF has determined the portfolio of these externally managed investments as held for trading, since the external managers actively trade these instruments. As a result, these investments are classified and measured as fair value through surplus or deficit from 1 January 2023.

(Thousands of United States dollars)

	Changes in accumulated surpluses as from 1 January 2023
Reclassification of fair value changes from accumulated surpluses for financial assets classified as available-for-sale under IPSAS 29	778
Reclassification of fair value changes to accumulated surpluses for financial assets classified as fair value through surplus or deficit under IPSAS 41	(778)
Impact upon adoption of IPSAS 41	–

Loans

As part of its mandate, UNCDF issues loans at concessionary terms to third parties in financially underserved areas to unlock public and private capital. Under IPSAS 29, impairment is recognized if there is objective evidence that UNCDF will be unable to collect amounts due on a loan according to the original contractual terms. Upon adoption of IPSAS 41, expected credit losses are recognized on the basis of forward-looking information and reflect: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

UNCDF determined that the cumulative-effect adjustment to its financial assets for expected credit losses amounted to $0.343 million. As permitted by IPSAS 3: Accounting policies, changes in accounting estimates and errors, UNCDF has elected not to restate the difference in the opening accumulated surplus or deficit as the effect is immaterial. The carrying amount of financial assets under IPSAS 29 on 31 December 2022, is considered equivalent to the carrying value under IPSAS 41 on 1 January 2023.

(Thousands of United States dollars)

	Changes in accumulated surpluses as from 1 January 2023
Impairment on loans under IPSAS 29	(820)
Expected credit losses on loans under IPSAS 41	(1 163)
Impact upon adoption of IPSAS 41	(343)

Receivables (non-exchange transactions)

Receivables (non-exchange transactions) represent amounts due based on signed contribution agreements. Since the adoption of IPSAS 41, UNCDF has discounted receivables due in more than 12 months from the reporting date using the effective interest rate method.

(Thousands of United States dollars)

	Changes in accumulated surpluses as from 1 January 2023
Receivables (non-exchange transactions), non-current, under IPSAS 29	63 121
Receivables (non-exchange transactions), non-current, under IPSAS 41	60 993
Impact upon adoption of IPSAS 41	2 128

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 donor 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. The use of donor contributions is usually 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 in thematic areas 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.

(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 2023

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2023	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*
Assets										
Current assets										
Cash and cash equivalents	2 978	11 647	11 983	37 482	4 565	6 423	4 252	8 116	23 778	63 668
Investments	12 328	17 164	44 657	47 197	16 927	8 088	15 849	10 220	89 761	82 669
Receivables (non-exchange transactions)	5 525	4 315	131 969	84 749	6 025	18 944	3 465	–	146 984	108 008
Receivables (other)	26 159	2 492	361	335	72	60	34	34	26 626	2 921
Advances issued	526	527	2 413	785	92	1	26	21	3 057	1 334
Loans	–	–	215	449	559	538	–	–	774	987
Other current assets	15	–	–	–	–	–	–	–	15	–
Total current assets	**47 531**	**36 145**	**191 598**	**170 997**	**28 240**	**34 054**	**23 626**	**18 391**	**290 995**	**259 587**
Non-current assets										
Investments	7 634	12 408	52 281	54 138	19 817	9 277	25 413	16 861	105 145	92 684
Receivables (non-exchange transactions)	3 132	5 806	85 074	56 815	–	500	–	–	88 206	63 121
Loans	–	–	314	550	148	803	–	–	462	1 353
Property, plant and equipment	272	160	396	399	29	36	1	2	698	597
Total non-current assets	**11 038**	**18 374**	**138 065**	**111 902**	**19 994**	**10 616**	**25 414**	**16 863**	**194 511**	**157 755**
Total assets	**58 569**	**54 519**	**329 663**	**282 899**	**48 234**	**44 670**	**49 040**	**35 254**	**485 506**	**417 342**

Segment reporting: statement of financial position as at 31 December 2023 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2023	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	378	164	1 902	590	207	164	554	218	3 041	1 136
Funds held on behalf of donors	–	–	28	392	–	–	–	–	28	392
Employee benefits	3 566	3 467	27	27	4	4	40	40	3 637	3 538
Other current liabilities	209	10	29	74	24	18	295	141	557	243
Total current liabilities	**4 153**	**3 641**	**1 986**	**1 083**	**235**	**186**	**889**	**399**	**7 263**	**5 309**
Non-current liabilities										
Accounts payable and accrued liabilities	–	–	–	–	–	9	–	–	–	9
Employee benefits	17 072	14 091	2	2	1	1	44	36	17 119	14 130
Total non-current liabilities	**17 072**	**14 091**	**2**	**2**	**1**	**10**	**44**	**36**	**17 119**	**14 139**
Total liabilities	**21 225**	**17 732**	**1 988**	**1 085**	**236**	**196**	**933**	**435**	**24 382**	**19 448**
Net assets/equity										
Reserves	5 900	5 300	–	–	–	–	2 200	1 900	8 100	7 200
Accumulated surpluses	31 444	31 487	327 675	281 814	47 998	44 474	45 907	32 919	453 024	390 694
Total net assets/equity	**37 344**	**36 787**	**327 675**	**281 814**	**47 998**	**44 474**	**48 107**	**34 819**	**461 124**	**397 894**
Total liabilities and net assets/equity	**58 569**	**54 519**	**329 663**	**282 899**	**48 234**	**44 670**	**49 040**	**35 254**	**485 506**	**417 342**

Segment reporting: statement of financial performance for the year ended 31 December 2023

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total*	
	2023	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*
Revenue												
Voluntary contributions	4 858	14 730	126 553	155 610	15 958	24 832	10 425	3 518	–	–	157 794	198 690
Investment revenue	2 396	931	110	181	937	353	4 103	1 391	–	–	7 546	2 856
Other revenue	2 240	298	4	147	13	5	6 732	7 093	(6 727)	(7 088)	2 262	455
Total revenue	**9 494**	**15 959**	**126 667**	**155 938**	**16 908**	**25 190**	**21 260**	**12 002**	**(6 727)**	**(7 088)**	**167 602**	**202 001**
Expenses												
Contractual services	1 778	2 342	21 343	19 614	3 668	3 615	578	295	–	–	27 367	25 866
Staff costs	5 021	7 096	14 864	12 603	4 636	4 250	4 377	3 039	–	–	28 898	26 988
Supplies and consumables	62	259	457	696	89	79	24	46	–	–	632	1 080
General operating expenses	1 400	2 710	12 878	14 250	2 455	4 190	1 602	1 605	(6 727)	(7 088)	11 608	15 667
Grants and other transfers	57	402	28 041	36 523	2 092	7 841	–	–	–	–	30 190	44 766
Other expenses	402	522	1 044	618	439	596	110	30	–	–	1 995	1 766
Depreciation	33	25	50	45	7	7	–	1	–	–	90	78
Total expenses	**8 753**	**13 356**	**78 677**	**84 349**	**13 386**	**20 578**	**6 691**	**5 016**	**(6 727)**	**(7 088)**	**100 780**	**116 211**
Surplus/(deficit) for the year	**741**	**2 603**	**47 990**	**71 589**	**3 522**	**4 612**	**14 569**	**6 986**	**–**	**–**	**66 822**	**85 790**

[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 $1.047 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 2023 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 2023 against budget levels are as follows:

(a) Development activities: actual utilization of $7.970 million, representing 96 per cent of the annualized final approved budget of $8.282 million;

(b) Management activities: actual utilization of $0.425 million, representing 98 per cent of the annualized final approved budget of $0.432 million.

To provide a reconciliation between the actual amounts on a comparable basis presented in statement V, comparison of budget and actual amounts, and the net increase/(decrease) in cash and cash equivalents presented in statement IV, cash flow statement, amounts are adjusted in the below table to show the net position.

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Available resources	6 032	2 805	–	8 837
Total actual amount on a comparable basis as presented in statement V	(8 246)	(149)	–	(8 395)
Net position	**(2 214)**	**2 656**	**–**	**442**

This net position is reconciled to the net increase/(decrease) in cash and cash equivalents presented in statement IV, cash flow statement, as follows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Net position	**(2 214)**	**2 656**	**–**	**442**
Basis differences	(9)	(40)	–	(49)
Entity differences	(24 594)	(15 689)	–	(40 283)
Net increase/(decrease) in cash and cash equivalents from statement IV	**(26 817)**	**(13 073)**	**–**	**(39 890)**

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 2023	*31 December 2022*
Cash in bank accounts	3 164	551
Cash held by external investment managers	402	569
Money market funds	20 187	52 552
Money market instruments	–	9 994
Petty cash and project cash	25	2
Total cash and cash equivalents	**23 778**	**63 668**

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 2023	*31 December 2022*
Current investments		
Investments managed by UNDP	89 626	82 611
Investments managed by external investment managers	135	58
Total current investments	**89 761**	**82 669**
Non-current investments		
Investments managed by UNDP	83 377	74 731
Investments managed by external investment managers	14 910	12 815
Beneficiary units	6 858	5 138
Total non-current investments	**105 145**	**92 684**
Total investments	**194 906**	**175 353**

UNCDF investments include financial assets at amortized cost, which are managed by UNDP, and financial assets at fair value through surplus or deficit, which are managed by external investment managers.

As at 31 December 2023, UNCDF did not have any material expected credit losses on its investments.

The exposure of UNCDF to credit, market and currency risks and risk management activities related to investments is disclosed in note 23.

9.1 Investments managed by UNDP: at amortized cost

(Thousands of United States dollars)

	1 January 2023	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification of non-current as current*	*31 December 2023*
Current investments							
Money market instruments	14 908	50 297	(50 000)	1 106	–	5 000	21 311
Bonds	67 703	11 094	(67 890)	257	–	57 151	68 315
Total current investments	**82 611**	**61 391**	**(117 890)**	**1 363**	**–**	**62 151**	**89 626**
Non-current investments							
Money market instruments	–	5 000	–	–	–	(5 000)	–
Bonds	74 731	65 461	–	336	–	(57 151)	83 377
Total non-current investments	**74 731**	**70 461**	**–**	**336**	**–**	**(62 151)**	**83 377**
Total investments at amortized cost	**157 342**	**131 852**	**(117 890)**	**1 699**	**–**	**–**	**173 003**

As at 31 December 2023, UNCDF did not have any impairment on financial assets at amortized cost. 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: at fair value through surplus or deficit

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Current investments		
Bonds	133	59
Bonds: fair value adjustments	2	(1)
Total current investments	**135**	**58**
Non-current investments		
Equities	7 674	7 737
Equities: fair value adjustments	1 337	(43)
Bonds	6 319	5 927
Bonds: fair value adjustments	(420)	(806)
Total non-current investments	**14 910**	**12 815**
Total investments managed by external investment managers: at fair value through surplus or deficit	**15 045**	**12 873**

The financial assets at fair value through surplus or deficit portfolio represents investments managed by external investment managers for after-service health insurance. In addition to the above investments, $0.402 million (2022: $0.569 million) in after-service health insurance investments have been classified under cash and cash equivalents.

Total after-service health insurance investments, including cash and cash equivalents, amounted to $15.447 million (2022: $13.442 million).

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 2023	*Purchase*	*Net gain/(loss)*	*31 December 2023*
Non-current investments				
Beneficiary units BUILD I 1B1	69	–	(5)	64
Beneficiary units BUILD I 1B2	2 680	–	(185)	2 495
Beneficiary units BUILD I TR1	–	2 750	(220)	2 530
Beneficiary units BUILD II 21B1	2 389	–	(620)	1 769
Total investment – beneficiary units	**5 138**	**2 750**	**(1 030)**	**6 858**

The fair value through surplus or deficit portfolio includes 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 2023	*31 December 2022*
Current		
Receivables (non-exchange transactions)	146 984	108 008
Less: allowance for expected credit losses	–	–
Total current receivables (non-exchange transactions)	**146 984**	**108 008**
Non-current		
Receivables (non-exchange transactions)	93 640	63 121
Less: allowance for expected credit losses	–	–
Less: discounting	(5 434)	–
Total non-current receivables (non-exchange transactions)	**88 206**	**63 121**
Total receivables (non-exchange transactions)	**235 190**	**171 129**

Ageing of receivables (non-exchange transactions)

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Past due	5 978	19 371
Due in future periods	229 212	151 758
Total receivables (non-exchange transactions)	**235 190**	**171 129**

Contribution receivables include $229.212 million (2022: $151.758 million) pledged to UNCDF by donors in signed agreements for future periods. This amount includes $8.657 million (2022: $10.121 million) in receivables for regular resources.

The $5.978 million (2022: $19.371 million) past due contribution receivable represents the amount that is already due to UNCDF based on signed donor agreements. Of this, no amount in 2023 or 2022 was more than six months past due.

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

As at 31 December 2023, UNCDF did not have any impairment on its non-exchange receivables.

10.2 Receivables (other)

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Receivables from UNDP	24 423	1 917
Investment receivables	1 744	579
Receivables from staff	20	25
Derivative assets	3	2
Receivables from third parties	436	398
Total receivables (other)	**26 626**	**2 921**

Ageing of receivables (other)

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Less than or equal to six months	26 212	2 631
More than six months	414	290
Total receivables (other)	**26 626**	**2 921**

The Fund's exposure to credit and currency risks related to receivables is disclosed in note 23, Financial instruments and risk management.

10.3 Other current assets

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Other current assets	15	–
Total other current assets	**15**	**–**

Note 11
Advances issued

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Operating funds provided to Governments	37	38
Operating funds provided to United Nations entities	2 300	513
Prepayments	183	266
Advances to staff	537	517
Total advances issued, gross	**3 057**	**1 334**
Impairment	–	–
Total advances issued, net	**3 057**	**1 334**

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Less than or equal to six months	1 818	659
More than six months	1 239	675
Advances issued, gross	**3 057**	**1 334**

Note 12
Loans

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Current		
Loans	949	1 302
Impairment	(175)	(315)
Total current loans	**774**	**987**
Non-current		
Loans	1 468	1 858
Impairment	(1 006)	(505)
Total non-current loans	**462**	**1 353**
Total loans	**1 236**	**2 340**

Movement in loans

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Balance at 1 January	**2 340**	**3 066**
Revaluation of loans (translation gain/loss at reporting date)	(271)	(198)
Loans impaired	(360)	(378)
Repayment of loans	(621)	(611)
Disbursement of loans	86	270
Amortization of loans	62	191
Balance at 31 December	**1 236**	**2 340**

The loan balances comprise concessionary loans issued to 23 institutions. The range of discount rates depends on the country in which the loan is issued and varies between 9.52 per cent and 30.6 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. Second, they should avoid exposing the borrowers 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.

The exposure of UNCDF to credit, market and currency risks and risk management activities related to loans is disclosed in note 23.

The impact of the adoption of IPSAS 41 on loan impairment is disclosed in note 5.

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 93 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 7 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 2023					
Cost	78	63	984	28	1 153
Accumulated depreciation	(49)	(34)	(465)	(8)	(556)
Carrying amount at 1 January 2023	**29**	**29**	**519**	**20**	**597**
Year ended 31 December 2023					
Additions	–	–	195	–	195
Disposals – cost	–	–	(94)	–	(94)
Depreciation	(6)	(6)	(77)	(1)	(90)
Disposals – accumulated depreciation	–	–	90	–	90
Carrying amount at 31 December 2023	**23**	**23**	**633**	**19**	**698**
Balance at 31 December 2023					
Cost	78	63	1 085	28	1 254
Accumulated depreciation	(55)	(40)	(452)	(9)	(556)
Carrying amount at 31 December 2023	**23**	**23**	**633**	**19**	**698**

As at 31 December 2023, 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 2023	*31 December 2022*
Current		
Payables to third parties	2 683	–
Accruals	196	735
Payables to staff	2	2
Finance guarantee liabilities	87	102
Payables to United Nations	–	185
Derivative liability	70	112
Investment settlement payable	3	–
Total current accounts payable and accrued liabilities	**3 041**	**1 136**
Non-current		
Finance guarantee liabilities	–	9
Total non-current accounts payable and accrued liabilities	**–**	**9**
Total accounts payable and accrued liabilities	**3 041**	**1 145**

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 Other current liabilities

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Unapplied deposits	133	132
Other payables	424	111
Total other current liabilities	**557**	**243**

15.2 Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Refund to donors	28	392
Total funds held on behalf of donors	**28**	**392**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2023	*31 December 2022*
Current		
Annual leave	2 807	2 736
Home leave	235	259
After-service health insurance	192	210
Repatriation entitlements	396	327
Death benefits	7	6
Total current employee benefits liabilities	**3 637**	**3 538**
Non-current		
After-service health insurance	13 979	11 204
Repatriation entitlements	2 995	2 761
Home leave	74	104
Death benefits	71	61
Total non-current employee benefits liabilities	**17 119**	**14 130**
Total employee benefits liabilities	**20 756**	**17 668**

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 2023, liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted on 31 December 2023.

(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 2023	**11 414**	**3 088**	**67**	**14 569**
Increase in the obligation				
Current service cost	832	268	2	1 102
Interest cost	588	149	3	740
Actuarial losses from change in financial assumptions	1 759	39	2	1 800
Actuarial losses/(gains) from change in demographic assumptions	(511)	–	1	(510)
Actuarial losses due to experience adjustment	317	194	9	520

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Decrease in the obligation				
Actual benefits paid	(215)	(286)	–	(500)
Actuarial (gains) on disbursement	(13)	(58)	(6)	(78)
Actuarial (gains) due to experience adjustment	–	(3)	–	(3)
Recognized liability at 31 December 2023	**14 171**	**3 391**	**78**	**17 640**

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	832	268	2	1 102
Interest cost	588	149	3	740
Total employee benefits expenses recognized	**1 420**	**417**	**5**	**1 842**

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Actuarial gains/(losses) from change in assumptions and experience adjustments	(1 565)	(230)	(12)	(1 807)
Actuarial gains/(losses) on disbursements	13	58	6	78
Total actuarial gains/(losses)	**(1 552)**	**(172)**	**(6)**	**(1 729)**

In 2023, of the net actuarial loss of $1.729 million, the actuarial loss relating to after-service health insurance from changes in financial assumptions was $1.552 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)

	2023	*2022*	*2021*	*2020*	*2019*
After-service health insurance					
Defined benefit obligation	14 171	11 414	14 534	14 577	12 644
Experience adjustment on plan liabilities	317	843	(1 340)	–	(512)
Duration	19	18	21	21	22
Repatriation					
Defined benefit obligation	3 391	3 088	3 459	3 281	2 904

	2023	*2022*	*2021*	*2020*	*2019*
Experience adjustment on plan liabilities	194	286	123	–	(33)
Duration	7	8	9	10	10
Death benefits					
Defined benefit obligation	78	67	69	59	58
Experience adjustment on plan liabilities	9	13	11	–	25
Duration	6	7	8	8	8

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)

	2024	*2025*	*2026*	*2027*	*2028*	*2029–2033*
After-service health insurance	192	213	246	285	308	2 076
Repatriation	396	283	237	280	205	978
Death benefits	7	7	7	6	6	30

(b) Actuarial assumptions

The most recent actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2023. 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:

	2023	*2022*
Discount rate:		
(a) After-service health insurance	4.84 per cent	5.21 per cent
(b) Repatriation benefits	4.91 per cent	5.11 per cent
(c) Death benefits	4.86 per cent	5.06 per cent
Health-care cost-trend rates (per cent):		
(a) United States of America, non-Medicare plans	8.00, grading down to 3.65 after 7 years	6.50, grading down to 3.85 after 9 years
(b) United States of America, Medicare plans	7.40, grading down to 3.65 after 7 years	6.50, grading down to 3.85 after 9 years
(c) United States of America, dental plans	Constant at 3.65	6.50, grading down to 3.85 after 9 years
(d) Non-United States of America, Switzerland	8.00, grading down to 2.35 after 4 years	4.25, grading down to 2.55 after 6 years
(e) Non-United States of America, eurozone	7.70, grading down to 3.95 after 12 years	5.20, grading down to 4.15 after 11 years
Salary scale (varies by age and staff category)	4.07–9.37 per cent	3.97–9.27 per cent
Rate of inflation	2.30 per cent	2.40 per cent
Per capita medical claim cost (varies by age)	$894–$13 837	$1 087–$16 341
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:

	2023		*2022*	
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

	2023		*2022*	
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:

	2023		*2022*	
Rate of retirement: Professional staff with 30 or more years of service	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.07	0.65	0.16	0.70
Female	0.07	0.65	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	*2023*	*2022*
Male	0.80	0.75
Female	0.50	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	(1 443)	1 676
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	1 640	(1 426)

(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 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 Pension 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 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 Pension Fund. UNCDF and the Pension Fund, in line with the other participating organizations in the Pension 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 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 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. 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 financial obligation of UNCDF to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 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 Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at 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 the valuation as at 31 December 2023 is currently being performed. A roll forward of the participation data as at 31 December 2021 to 31 December 2022 was used by the Pension 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, assuming no future pension adjustments, of 117.0 per cent. The funded ratio was 158.2 per cent when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Pension Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2021, for deficiency payments under article 26 of the Regulations of the Pension 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 either to an actuarial deficiency during the ongoing operation or 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 Pension Fund during the three years preceding the valuation date. Total contributions paid to the Pension Fund during the preceding three years (2020, 2021 and 2022) amounted to $8,937.68 million, of which 0.16 per cent was contributed by UNCDF.

During 2023, contributions paid to the Pension Fund amounted to $6.3 million (2022: $5.3 million). Expected contributions due in 2024 are approximately $6.9 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 Pension 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 Pension Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Pension Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Pension 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 to the General Assembly on the audit every year. The Pension Fund publishes quarterly reports on its investments and these can be viewed by visiting the Pension Fund website (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 2023	*Movements*	*31 December 2023*
Operational reserve	7 200	900	8 100
Total reserves	**7 200**	**900**	**8 100**

The 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 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 2023	*Impact of adoption of IPSAS 41*	*Movements*	*31 December 2023*
Accumulated surpluses	379 474	(2 906)	65 922	442 490
Funds with specific purposes	3 057	–	265	3 322
Actuarial gains/(losses)	8 941	–	(1 729)	7 212
Changes in fair value of available-for-sale investments	(778)	778	–	–
Total accumulated surpluses	**390 694**	**(2 128)**	**64 458**	**453 024**

Movements in the accumulated surpluses of $65.922 million comprise a surplus for the year of $66.822 million and an operational reserve transfer from accumulated surpluses of negative $0.900 million. UNCDF holds certain investments with external investment managers that were previously classified as available-for-sale financial assets under IPSAS 29. They are classified and measured at fair value through surplus or deficit from 1 January 2023 under IPSAS 41. Since the adoption of IPSAS 41, UNCDF has discounted receivables due in more than 12 months from the reporting date totalling $2.128 million.

Funds with specific purposes include the information and communications technology fund, the learning fund, the reserve for agreed separation and other funds.

Accumulated surpluses as at 31 December 2023 include receivables for future periods of $235.190 million (2022: $171.129 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)

	2023	*2022*
Contributions	212 644	199 113
Less: returns to donors of unused contributions	(51 544)	(423)
Less: discounting of receivables	(3 306)	–
Total voluntary contributions, net	**157 794**	**198 690**

The increase in returns to donors of unused contributions is mainly due to a $51.1 million refund made to a donor in 2023.

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 2023, as an in-kind contribution, UNDP 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 $0.886 million. Furthermore, UNDP provided programme support amounting to $1.156 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2023	*2022*
Interest plus amortized discount, net of amortized premium earned on fixed-income instruments, bank account balances and loans	7 427	2 566
Dividends earned on investment portfolio	121	123
Realized gain on sale of investments	(2)	167
Total investment revenue	**7 546**	**2 856**

Note 21
Other revenue

(Thousands of United States dollars)

	2023	*2022*
Foreign exchange gains	1 828	447
Other miscellaneous revenue	434	8
Total other revenue	**2 262**	**455**

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses 2023	*Total expenses[a] 2023*	*Programme expenses 2022*	*Total expenses 2022*
22.1 Contractual services				
Contractual services	24 656	26 068	23 545	24 517
United Nations Volunteers expenses for contractual services	1 289	1 299	1 349	1 349
Total contractual services	**25 945**	**27 367**	**24 894**	**25 866**
22.2 Staff costs				
Salary and wages	13 238	19 514	13 521	17 894
Pension benefits	2 621	3 861	2 710	3 526
Post-employment	1 235	2 153	1 382	2 406
Appointment and assignment	599	655	575	821
Leave benefits	636	936	354	576
Other staff benefits	1 643	1 779	1 357	1 765
Total staff costs	**19 972**	**28 898**	**19 899**	**26 988**
22.3 Supplies and consumables				
Maintenance costs for property, plant and equipment and project-related supplies	155	165	150	163
Stationery and other office supplies	103	135	55	61
Agricultural, petroleum and metal products	39	42	72	75
Information technology supplies and software maintenance	124	139	278	442

	Programme expenses 2023	*Total expenses[a] 2023*	*Programme expenses 2022*	*Total expenses 2022*
Information technology and communications equipment	149	150	123	188
Other consumables	1	1	134	151
Total supplies and consumables	**571**	**632**	**812**	**1 080**
22.4 General operating expenses				
Travel	4 544	4 754	5 244	5 677
Learning and recruitment	770	825	2 670	2 772
Rent, leases and utilities	2 241	2 293	1 691	1 827
Reimbursement	128	134	112	125
Communications	314	351	1 402	1 672
Security	398	586	495	621
Professional services[b]	1 102	1 495	1 268	1 340
General management costs[c]	6 766	39	7 168	81
Contribution to United Nations jointly financed activities	280	413	282	376
Contribution to information and communications technology	177	265	173	439
Freight	6	8	30	30
Insurance/warranties	24	29	11	13
Miscellaneous operating expenses	287	416	600	694
Total general operating expenses	**17 037**	**11 608**	**21 146**	**15 667**
22.5 Grants and other transfers				
Grants	30 101	30 101	44 702	44 702
Transfers	75	89	61	64
Total grants and other transfers	**30 176**	**30 190**	**44 763**	**44 766**
22.6 Other expenses				
Foreign exchange losses/(gains)	239	239	477	477
Losses/(gains) on sale of fixed assets	(36)	(36)	(14)	(12)
Sundries	966	1 443	537	844
Impairment[d]	349	349	457	457
Total other expenses	**1 518**	**1 995**	**1 457**	**1 766**
22.7 Depreciation				
Depreciation	78	90	65	78
Total depreciation	**78**	**90**	**65**	**78**
Total expenses	**95 297**	**100 780**	**113 036**	**116 211**

[a] Of the total expenses, $95.297 million represents programme expenses and the remaining $5.483 million represents expenses for development effectiveness, management and elimination. See note 27.1, Expenses by cost classification, for details.

[b] In 2023, UNCDF recognized $1.030 million as net loss on beneficiary units classified as financial assets at fair value through surplus or deficit.

[c] In 2023, of the $6.766 million, $6.727 million was eliminated to remove the effect of internal UNCDF cost recovery.

[d] In 2023, UNCDF recognized impairment of $0.360 million relating to loans and negative $0.011 million relating to guarantees for impairment reversal.

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 the UNDP Treasury Division 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 2023, the after-service health insurance portfolio was classified as financial instruments at fair value through surplus or deficit, and the portfolio comprised equities and fixed-income securities.

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)

	Amortized cost	*Fair value through surplus or deficit*	*Book value*	
			2023	*2022*
Cash and cash equivalents	23 778	–	23 778	63 668
Investments	173 003	21 903	194 906	175 353
Receivables (non-exchange)	235 190	–	235 190	171 129
Receivables (other)	26 626	–	26 626	2 921
Advances issued	3 057	–	3 057	1 334
Loans	1 236	–	1 236	2 340
Total financial assets	**462 890**	**21 903**	**484 793**	**416 745**

The internally managed investment portfolio is classified as amortized cost. As at 31 December 2023, the book value of these investments exceeded the market value by $2.541 million (2022: book value of these assets exceeded the market value by $5.682 million). Beneficiary units are classified as fair value through surplus or deficit based on quoted prices obtained from knowledgeable third parties. As at 31 December 2023, the Fund’s cumulative investment in the beneficiary units was $10.782 million. The carrying values for other financial instruments are a reasonable approximation of their fair value.

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)

	Amortized cost	*Fair value through surplus or deficit*	*Book value*	
			2023	*2022*
Accounts payable and accrued liabilities	2 971	70	3 041	1 145
Funds held on behalf of donors	28	–	28	392
Other current liabilities	557	–	557	243
Total financial liabilities	**3 556**	**70**	**3 626**	**1 780**

The carrying value of other liabilities is a reasonable approximation of their fair value. As at 31 December 2023, UNCDF had $0.070 million (2022: $0.112 million)

in financial liabilities recorded at fair value through surplus or deficit arising from various forward foreign exchange contracts managed by external investment managers.

For the year ended 31 December 2023, net losses of $1.030 million (2022: $1.182 million) related to beneficiary units and net gains of $1.769 million (2022: net losses of $0.298 million) related to investments managed by external investment managers recorded at fair value through surplus or deficit were recognized in the statement of financial performance.

The carrying value of financial guarantee liabilities of $0.087 million (2022: $0.111 million) is a reasonable approximation of their fair value. As at 31 December 2023, UNCDF had deployed two partial credit guarantees. The first underlying guaranteed asset was a $0.454 million senior loan disbursed to a greenfield operation. The UNCDF guarantee provided a 50 per cent coverage of the guaranteed party's net losses of principal provided by the guaranteed party to the qualifying borrower. The guaranteed ceiling was $0.227 million, which represented the maximum liability of UNCDF under the loan guarantee agreement. 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. Any risks arising from exchange rate fluctuations and potential payouts under the guarantee agreements are fully covered by donor contributions already received.

Valuation

The table below presents the fair values of UNCDF financial instruments as at 31 December 2023.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Financial instruments at amortized cost				
Money market instruments	21 311	–	–	21 311
Bonds	151 692	–	–	151 692
Financial instruments at fair value through surplus or deficit				
Equities	9 011	–	–	9 011
Bonds	6 034	–	–	6 034
Beneficiary units	–	–	6 858	6 858
Total fair value of financial instruments	**188 048**	**–**	**6 858**	**194 906**

Fair value hierarchy

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

(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 others), advances and loans.

UNCDF uses UNDP local bank accounts to make payments to cover its day-to-day operating activities. Contributions are made directly to UNCDF or UNDP contribution bank accounts at UNDP headquarters and locally in country offices.

With regard to the Fund's financial instruments, the UNDP 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 the UNDP Treasury Division.

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 2023, 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 2023	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*A-*	*Total*
Money market instruments	9 881	6 430	–	5 000	–	–	–	21 311
Bonds – investments	85 968	28 453	15 489	4 993	9 794	2 000	4 995	151 692
Total	**95 849**	**34 883**	**15 489**	**9 993**	**9 794**	**2 000**	**4 995**	**173 003**

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**

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2023	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*United States Treasury*	*Not rated*	*Total*
Bonds – investments	210	102	62	49	39	96	146	74	64	654	4 538	6 034
Total	**210**	**102**	**62**	**49**	**39**	**96**	**146**	**74**	**64**	**654**	**4 538**	**6 034**

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**

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 $3.692 million, with the remaining balance of $0.845 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 2023, 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	94 334	40
2	Multilateral agency	98 484	42
3	United Nations pooled fund	29 635	12
Subtotal		**222 453**	**94**
Others[a]		12 737	6
Total		**235 190**	**100**

[a] Includes the effect of discounting non-exchange receivables.

UNCDF is exposed to credit risk as part of its loan activities, stemming from the potential of a borrower not servicing its debt obligation in a timely manner. This risk is mitigated through detailed due diligence on the counterpart before extending

the loan facility, as well as active monitoring over the life of the facility, as set out in the financial regulations and rules of UNCDF. All risks arising from the deployment of loans are fully funded by donor resources dedicated to the respective activities.

Credit risk exposure: loans

(Thousands of United States dollars)

	Number of loans	*Loan carrying amount*	*Impairment amount*
12-month expected credit losses	7	536	(27)
Lifetime expected credit losses – credit risk increased significantly	5	740	(124)
Lifetime expected credit losses – credit impaired	11	1 141	(1 030)
Total	**23**	**2 417**	**(1 181)**

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 2023	*Percentage*	*31 December 2022*	*Percentage*
Cash balances	3 591	2	1 122	1
Cash equivalents	20 187	9	62 546	26
Total cash and cash equivalents	**23 778**	**11**	**63 668**	**27**
Current investments	89 761	41	82 669	35
Non-current investments	105 145	48	92 684	38
Total current and non-current investments	**194 906**	**89**	**175 353**	**73**
Total investments, cash and cash equivalents	**218 684**	**100**	**239 021**	**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 2023	*31 December 2022*
Money market funds	20 187	52 552
Money market instruments	–	9 994
Cash equivalents	**20 187**	**62 546**

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

Analysis of the Fund's market risk

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

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

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

(b) Future cash flows.

A significant portion (89 per cent) of the UNCDF investment portfolio is classified as amortized cost, whose carrying values are not affected by changes in interest rates.

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2023*	*31 December 2022*
Investments at amortized cost	Amortized cost	173 003	157 342
Investments at fair value through surplus or deficit	Fair value	21 903	5 138
Investments at fair value through net assets/equity	Fair value	–	12 873
Total investments		**194 906**	**175 353**

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 fair value through surplus or deficit.

Investments at fair value through surplus or deficit interest rate sensitivity analysis

(Thousands of United States dollars)

31 December 2023 market value	*Sensitivity variation*	*Surplus/(deficit)*
6 034	100 basis point increase	(132)
6 034	50 basis point decrease	66

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 to United States dollars using the prevailing exchange rate. As at 31 December 2023, 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 dollar	*Euro*	*Swedish krona*	*Other currencies*	*31 December 2023*	*31 December 2022*
Cash and cash equivalents	23 739	13	–	26	23 778	63 668
Investments	191 043	1 942	43	1 878	194 906	175 353
Receivables (non-exchange transactions)	146 003	60 530	12 307	16 350	235 190	171 129
Receivables (other)	26 277	–	–	349	26 626	2 921
Advances issued	1 370	1 354	–	333	3 057	1 334
Loans	258	–	–	978	1 236	2 340
Total financial assets	**388 690**	**63 839**	**12 350**	**19 914**	**484 793**	**416 745**
Accounts payable and accrued liabilities	2 625	18	–	398	3 041	1 145
Other current liabilities	557	–	–	–	557	243
Funds held on behalf of donors	28	–	–	–	28	392
Total financial liabilities	**3 210**	**18**	**–**	**398**	**3 626**	**1 780**

As at 31 December 2023, 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 2023, 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 fair value through surplus or deficit.

(Thousands of United States dollars)

31 December 2023 market value	*Sensitivity variation*	*Surplus/(deficit)*
9 011	5 per cent increase	451
9 011	5 per cent decrease	(451)

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

Note 24
Related parties

(a) Key management personnel

As at 31 December 2023, the Fund's leadership structure consisted of a six-member Executive Group: the Officer-in-Charge, the Deputy Executive Secretary, three Directors of the Practice Areas and the Head of the Office of Finance and Management Services. The Executive Group is responsible for the strategic direction and operational management of UNCDF and is entrusted with significant authority to execute 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	6	1 287	518	1 805	2 618
Total	**6**	**1 287**	**518**	**1 805**	**2 618**

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 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 $0.273 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 2023, 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 2023	*31 December 2022*
Property, plant and equipment	34	193
Goods	6	34
Services	1 280	732
Grants	23 399	16 515
Total open commitments	**24 719**	**17 474**

Open commitments represent acquisition of various items of property, plant and equipment, goods, services and grants contracted but not received as at 31 December 2023.

In addition, UNCDF leases its headquarters offices from UNDP at an annual cost of $0.297 million.

(b) Contingent liabilities

During 2023, UNCDF issued two portfolio guarantees to financial intermediaries, one in Uganda and one in Tonga, to provide credit enhancement to women- and youth-owned businesses, refugees and migrants. As at the end of 2023, the UNCDF had five portfolio guarantees outstanding with a total guarantee ceiling of $0.935 million, which represents the maximum value of any potential liability generated from these operations. Any risk arising from exchange rate fluctuations and potential payouts under the guarantee agreements are fully covered by dedicated programme resources already received.

Note 26
Events after the reporting date

The reporting date of these financial statements is 31 December 2023. UNCDF is in the process of an organization performance review, the implementation of which will begin in 2024, with the goal of improving its efficiency and institutional effectiveness through better functional and geographic integration in order to meet its strategic plan objectives. As at 31 December 2023, no final determination on the extent and scope of the performance review had been made; therefore, the associated costs had not been determined.

Other than the organization performance review, there have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date the financial statements were authorized for issuance 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 2023
Development	
Programme	95 297
Development effectiveness	6 392
Management	5 818
Elimination	(6 727)[a]
Total expenses	**100 780**

[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 2022*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments to net assets*	*Net assets 31 December 2023*
Multi-donor trust fund – Pass-through trust fund	5 781	2 707	(4 088)	–	4 400
Last mile finance trust fund	38 693	14 201	(9 297)	–	43 597
Total	**44 474**	**16 908**	**(13 385)**	**–**	**47 997**