**United Nations Capital Development Fund (UNCDF)**

*Note to the Executive Board – Annual Review of the Financial Situation, 2018*

*Second Regular Session 2019 of the Executive Board*

1. **Introduction and Overview**
2. UNCDF is presenting its Note on the Annual Review of the Financial Situation, 2018 to the Executive Board.[[1]](#footnote-1)
3. This report provides an overview of the financial position of UNCDF at the end of 2018 and of the financial performance of UNCDF for the year 2018. In 2018 UNCDF maintained a positive financial position and liquidity, with an increase of 9 per cent in net assets. UNCDF revenues continued to show an upward trend since 2016 with total revenue reaching $69 million.
4. In 2018, UNCDF implemented programmes in 31 of the 47 least developed countries, leveraging its capital mandate to help them pursue inclusive growth. With its capital mandate and instruments, UNCDF offers ‘last-mile’ finance models through financial inclusion and localized investments that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

**Figure 1. UNCDF total revenue and expense trend, 2014-2018**[[2]](#footnote-2)

(US$ in millions)

1. **Financial highlights for 2018**
2. **Summary of UNCDF financial situation**

**Table 1. UNCDF financial situation, 2017-2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (US$ in millions) | **2018** | **2017****(restated)** | Increase/ (decrease) | % change |
| **Revenue** | 69 | 68 | 1 | 1% |
| **Expense** | 61 | 65 | (4) | (6%) |
| **Surplus** | 8 | 3 | 5 | N/A |
| **Assets** | 220 | 183 | 37 | 20% |
| **Liabilities** | 113 | 85 | 28 | 33% |
| **Net assets** | 107 | 98 | 9 | 9% |
| **Composed of:** |  |  |  |  |
| **Accumulated surplus** | 101 | 92 | 9 | 9% |
| **Reserves** | 6 | 6 | - | - |
|  | 107 | 98 | 9 | 9% |
|  |
|  |

1. **Revenue**
2. Total revenue, grew by 1 per cent, to $69 million (2017: $68 million). Contributions of $65.7 million (2017: $65.9 million) represent 95 per cent of the total revenue, with the remaining 5 per cent largely consisting of other revenue and investment revenue.
3. UNCDF’s contributions are channeled through regular resources and other resources. In 2018, UNCDF’s core and non-core contributions remained constant compared with 2017. The ratio between regular and other resources as a percentage of total resources in 2018 remained the same as in 2017, at 15 per cent and 85 per cent, respectively.
4. **Expense**
5. Total expenses decreased by $4 million, to $61 million (2017: $65 million), remaining below the level of revenue for the year. The decrease is mainly due to the impact of project cycles and the increased utilization of new capital instruments i.e. loans.
6. Other capital investment portion of programme delivery includes grants and other transfers amounting to $15 million (2017: $19 million).
7. In 2018, of total expenses of $63 million (excluding the effect of the elimination of internal cost recovery of $2.1 million), $54 million (86 per cent) was spent on programme activities, $4.6 million (7 per cent) on development effectiveness and $4.4 million (7 per cent) on management activities.
8. **Others**
9. In addition, UNCDF received $2.7 million from the UNDP institutional budget and $0.7 million from UNDP programme support to cover management and technical expenditures, respectively. These amounts were expended by UNCDF and reported by UNDP.
10. At the end of 2018, UNCDF held assets of $220 million (2017: $183 million). The increase (20 per cent) is largely comprised of an increase in cash and investments of $17.1 million (18 per cent) and an increase in non-exchange receivables of $16.6 million (21 per cent).
11. At the end of 2018, UNCDF held liabilities of $113 million (2017: $85 million), including $8.6 million (2017: $9.0 million) in after-service health insurance (ASHI) liabilities and $92.8 million (2017: $70.0 million) in deferred revenue. UNCDF’s ASHI liabilities continue to be fully funded.
12. Net assets/equity of $107 million in 2018 included $92 million accumulated surplus, $6.4 million for operational reserve, and $8.6 million for actuarial gains etc. Of the $92 million accumulated surplus, $61.9 million represents non-core contributions earmarked for multi-year activities; $9.5 million represents non-core contributions received in the last quarter of the year and hence only budgeted in 2019 and $20.6 million represents general accumulated balances.
13. UNCDF continued to apply the UNDP cost recovery policy and minimized the number of waivers. Only two new waivers in the general management support fee were granted during 2018. The financial impact of these two waivers was minimal and estimated at $6,500 only.
14. UNCDF has fully rolled out its new generation of concessional loans and guarantees in 2018 with a strengthened process for due diligence, financial modelling and credit scoring. UNCDF is also piloting an innovative methodology for combining assessments of development impact returns and risks alongside its financial return and credit risk analysis. Based on this new process, UNCDF approved and started disbursements of 10 new concessional loans totaling $1.4 million as at 31 December 2018. The investments were made in the areas of agribusiness, financial inclusion, women’s empowerment and clean energy in Myanmar, Uganda and United Republic of Tanzania.
15. **Partnerships**
16. UNCDF continues to maintain strong partnerships with the governments of donor countries and multilateral partners. Figure 2 shows the total contributions trend from 2014 to 2018 by type of resources.

**Figure 2. Total contributions, 2014 - 2018**

(US$ in millions)

1. UNCDF continued to diversify its funding partners, with 45 development partners contributing in 2018 (compared to 37 in 2017). Contributions included $16.2 million from private sector foundations, corporations and non-governmental organizations, representing 25 per cent of total revenue. Figure 3 shows contributions from the top 15 funding partners to UNCDF, which totaled $60.6 million, representing 92 per cent of total contributions.

**Figure 3. Total contributions, top 15 funding partners, 2018**

(US$ in millions)

1. Contributions to UNCDF regular resources from funding partners increased to $9.9 million (2017: $9.7 million). Despite increased funding partner diversification in recent years, UNCDF continues to be dependent on a limited number of funding partners for contributions to regular resources. Regular resources contributions remain short of the $25 million annual target required to extend UNCDF operations to 40 of the 47 least developed countries, as envisaged in the UNCDF Strategic Framework, 2018-2021. This shortfall strains the ability of the Fund to innovate and to assure presence in the 40 LDCs projected in the Strategic Framework (against an actual of 31 in 2018).
2. UNCDF has met its “baseline” resource mobilization targets (per the UNCDF Strategic Framework funding scenarios) for the other resources reaching $55.8 million in 2018. This reflects continued commitment to UNCDF from its partners, and provides a solid foundation on which to build scale for the more ambitious targets sought in the Strategic Framework.
1. In the past, UNCDF’s financial information was included as a distinct section within UNDP’s Annual Review of the Financial Situation report. In line with the findings of an observation by the United Nations Board of Auditors, moving forward UNCDF matters will be presented to the Executive Board directly. Thus the UNCDF Annual Review of the Financial Situation, 2018 is presented as a separate item. [↑](#footnote-ref-1)
2. The in-year deficit for year 2015 and 2016 drew down on non-core surplus resources accumulated from previous years. [↑](#footnote-ref-2)