

UNICEF Executive Board – Annual Session 2020

IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTION 72/279 ON “REPOSITIONING OF THE UN DEVELOPMENT SYSTEM” –

ANNEX TO INFORMATION NOTE

1% COORDINATION LEVY

I. Introduction

1. UNICEF is pleased to provide its Executive Board with information on the operationalization of the 1% coordination levy. This forms an integral part of the **three-pronged funding formula envisioned in [General Assembly Resolution 72/279](#) to ensure an adequately funded development coordination system**, and more specifically to guarantee the sustainability of the Resident Coordinator (RC) system. This note is an annex to the Information Note on the wider repositioning of the UN development system (UNDS), also prepared for the Executive Board’s Annual Session.

2. Complementing the other two funding streams, voluntary contributions from Member States and United Nations Sustainable Development Group (UNSDG) entities’ global cost-sharing contributions, the 1% levy was envisioned as a mechanism that would not only generate funding, but also serve to incentivize more flexible contributions. The Deputy Secretary-General issued the system-wide **operational policy for the collection of the 1% coordination levy on tightly earmarked development contributions in March 2019**. It outlines clear guidance to both UN entities and funding partners on the mutual expectations, processes and applicability criteria for the levy. It provides funding partners with the options of paying the levy directly to the United Nations Secretariat-housed [Special Purpose Trust Fund \(SPTF\)](#) (“donor-administered”) or, paying the levy via a UN entity (“agency-administered”) for transfer to the UN Secretariat on the donor’s behalf. The system-wide operational policy notes that the agency-administered option is simply a collection modality for partners to pay the levy to the Secretariat. As such, levy payments passed through a UN agency do not become agency revenue and are thus completely separate from agency-specific contributions for development activities.

3. In anticipation of resource partners opting to pass levy payments through UN agencies, **UNICEF developed internal guidance to facilitate the organization-wide roll-out**, closely aligned to the system-wide policy and in coordination with other members of the UNSDG and the UN Development Coordination Office (DCO). This meant that UNICEF and funding partners were able to initiate implementation during the second quarter of 2019, subject to the confirmation by each individual funding partner on their preferred transfer modality and levy activation date.

4. Adhering to the system-wide operational policy, **UNICEF submits quarterly financial reports to the United Nations Secretariat** which reflect the contribution agreements signed and the amounts collected and transferred to the SPTF during the corresponding period. In addition, UNICEF has continuously kept Executive Board members abreast of the levy implementation through the Information Notes on UNICEF’s implementation of GA Res. 72/279, presented at each session.

II. UNICEF's internal review of the 1% levy arrangements

5. In order to review its experience with the 1% levy, UNICEF created a small internal 1% Levy Task Team. **This annex provides an overview of the 1% levy's impact on UNICEF to date**, including the observed changes in resource partner behaviors, as well as the abovementioned costs associated with the administration of the levy. This update was prepared in coordination with other UN agencies.

6. **UNICEF estimates the total administrative costs incurred to date at US\$249,000.** This amount includes the initial one-off costs related to the necessary adjustments to our financial systems and the time dedicated to sensitizing both internal and external stakeholders. In addition, the amount captures the average costs of levy-related tasks in the proposal, negotiation and registration stages of contribution agreements subject to the levy.

Resource Partner Approaches

7. With the aim of incentivizing more flexible, unearmarked funding to optimize UNDS resourcing, the effectiveness of the levy must take both administrative costs and changes in partner approaches into account.

a) Government Partners

8. UNICEF continues to implement the levy in line with donor preferences and recognizes that many partners are keen to pay their portion of the levy. According to internal surveys, the first year of implementation witnessed the majority of **partners implementing the levy adjust the amounts of anticipated contributions to UNICEF activities to accommodate the equivalent levy amounts to be paid to the Secretariat.** This is the most prominent trend in terms of partner approaches to the levy.

9. At the time of the levy rollout many resource partners had already approved funding envelopes based on proposals submitted prior and were therefore unable to top up UNICEF contributions with the levy amount, as per the system-wide operational policy. While this may have been the primary reason for this trend at the outset, most government partners have since adopted this as their standard approach.

10. UNICEF has been unable to collect levy payments from donors who cannot pay the levy unless in arrears, due to their internal financial systems. As levy payments are not UNICEF income, we are unable to pay them to the Secretariat out of our own budget.

11. Additional challenges encountered in relation to government partner contributions include the sometimes-differing interpretation of levy applicability among UN agencies in the context of joint programming arrangements or complementary interventions funded by one donor. UNICEF resolves each such case in close bilateral relations in consultation with the other agencies and/or with DCO.

12. **Overall, UNICEF and government partner assessments of the levy applicability to tightly earmarked contributions have been clearly aligned.** The exemption for humanitarian assistance was the most commonly cited when the levy was deemed non-applicable by parties.

13. As many contribution negotiations and levy discussions are centralized, UNICEF country offices have had a limited experience with the 1% levy and its impact on local resource mobilization and partner relations to date. UNICEF has witnessed a varying degree of understanding of the funding mechanism

among local donor missions. This has at times led to significant additional work for UNICEF staff, guiding conversations where partner familiarity has been limited.

b) Private Sector Partners

14. UNICEF, through its Private Fundraising and Partnerships Division (PFP) and the National Committees has promoted the 1% coordination levy extensively with current and potential private sector partners.

15. As was also the case with numerous Government partners, many of the contribution agreements to which the levy would apply, had already been negotiated and signed between the donors and the National Committees when the levy came into force. **It was also a challenge to convince private sector partners negotiating new agreements to pay the levy as they perceived it as an increase of UNICEF's overhead costs** which, at 8 %, is already considered too high by many. Notwithstanding the efforts of PFP and the National Committees to convince private sector donors to pay the levy, very few agreed to do so.

16. As a result, the **running costs to date of administering the levy for the private sector partners are about 3 times higher than the amount of levy payments collected from them**, according to detailed internal estimates of the administrative costs.

c) Levy Commitments to Date

17. Thanks to dedicated engagement with resource partners implementing the levy, **UNICEF has transferred the amount of \$3.7 million in levy payments to the Secretariat to date (28 May 2020), on behalf of 19 donors** (including 15 Governments and 4 National Committees for UNICEF). Overall, UNICEF has signed 79 agreements including levy payments with a total of 21 donors. Most levy disbursements are still pending and, in some cases, span several years.

18. At the time of writing this paper, UNICEF has received payments from the following: *Government partners*¹ - Austria, Canada, Denmark, Estonia, Finland, Germany, Ireland, Japan, Luxembourg, the Netherlands, Norway, the Republic of Korea, the Russian Federation, Switzerland and the United Kingdom. *Private sector partners* - the National Committees for UNICEF in the Netherlands, Sweden and the United Kingdom, as well as private sector donors who chose to channel their funding through the UNICEF Country Office in Mongolia.

III. Conclusion

19. **UNICEF continues to collect levy amounts on behalf of donors** and transferring these to the UN Secretariat. This is done in accordance with donor preferences and the system-wide guidance, accompanied by quarterly financial reporting to the UN Secretariat.

20. While many donors are keen to apply the levy, the administration of it on their behalf comes at a clear **financial cost due to the added administrative burden** on UNICEF staff and systems. This cost is particularly high in relation to private sector contributions where the cost of collecting the levy outweighs the levy amounts contributed by donors.

¹ The European Union and Sweden have chosen to pay levy amounts directly to the Secretariat and are therefore not taken into account here.

21. As most partners paying the levy through UNICEF are not adding it on top of agency-specific contributions, **the levy does not seem to incentivize more flexible funding**. As such, it will be important that the principle of additionality is maintained when applying the levy so that programme funding is not negatively impacted and does not entail a net reduction of development resources.

22. It will be difficult to predict future levy amounts considering the uncertainties of the COVID-19 pandemic's impact on various funding streams. UNICEF will continue to assess the impact of the levy and stands ready to further update the Executive Board on this matter.