Request for ECOSOC/General Assembly authorization to utilize financing instruments in support of UNICEF operations

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UNICEF Executive Board – Informal consultation – 30 March 2022

Item 12 (b) Note requesting authorization from the United Nations Economic and Social Council/General Assembly for UNICEF to utilize financing instruments in support of its operations

Reference document: E/ICEF/2022/AB/L.7

AGENDA

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02 Background and objectives

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04 Value and impact of using the instruments

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What are financing instruments?

Financing instruments include debt instruments, concessional and flexible loans and similar financial structures that require repayment, usually with interest. Debt instruments provide borrowers with upfront funding in exchange for repayment of this funding (the "principal") along with interest, based on predetermined time frames and interest rate terms

What will the instruments be used for?

- ❑ Mainly as investment funds for private sector fundraising, to generate more resources for programme delivery
- ❑ Interest-free loans - As a prefinancing mechanism for programme grants implemented on a cost reimbursement basis as needed

What is UNICEF seeking from governing bodies?

- ❑ That the Executive Board, having considered the UNICEF rationale for the ongoing use of the financing instruments to enhance funding from the private sector for the delivery of the child-focused Sustainable Development Goals, will recommend to the General Assembly, through the Economic and Social Council, to grant authority to the Executive Board to oversee the use of such financing instruments by UNICEF on an ongoing basis for private sector fundraising. and to support its operations in line with risk management parameters to be established by the Board.

Background

8 years

to meet the SDGs for children

Pre-pandemic, the annual **funding gap** for **the SDGs** was estimated at **$2.5 trillion**.

25 years of gains for children associated with the SDGs have already been lost due to COVID-19 induced challenges, widening this funding gap **even further**.

The need to find **new sources** of **funding & financing** to fill this **>$2.5 trillion gap** has never been greater than it is now.

Financing gap to achieve the SDGs

$2.5

trillion per year

New sources → of funding & financing

PROBLEM STATEMENT

More resources need to be mobilized for achievement of the child-focused SDGs. However, **continuing decline in the ratio of regular resources to other resources,** makes the current model of funding fundraising efforts exclusively from regular resources unsustainable for long-term growth strategy

OBJECTIVES

Diversify the sources of investment funding needed to grow private sector fundraising income for the delivery of the child-focused SDGs through non-traditional sources

Pursue a busines approach to private sector fundraising investment strategy using predictable and sustainable sources of investment funds and reducing the overreliance on limited regular resources

Leverage cheaper financing, including that of global philanthropic capital, as source of fundraising investment funds to generate more resources. and essential regular resources funding. for UNICEF programme delivery

2021 private sector fundraising performance

- Despite the global uncertainty created by the COVID-19 pandemic, UNICEF reported annual income of more than $8 billion in 2021.
- Proportion of unrestricted income (regular resources) to total income decreased from nearly 50 per cent in the early 2000s to 17 per cent in 2021.
- In 2021, total private sector revenue reached $2.08 billion, of which regular resources represented $755 million and other resources represented $1,323 million.
- Private sector regular resources increase driven largely by investments made in the fundraising activities of the National Committees for UNICEF and the UNICEF country offices private sector fundraising.
- Public sector income to regular resources has declined as a proportion of total public sector income – below 30 per cent funding compact commitment.
- The long-term growth of UNICEF private sector income depends on level of investments made (investment funds).

TOTAL INCOME

$8.2B

RR AS PERCENTAGE OF TOTAL

17%

PUBLIC SECTOR RR

$536M

PRIVATE SECTOR RR

$755M

Value and impact of using financing instruments

Value and impact for UNICEF

1. To continue investing in private sector fundraising while reducing reliance on limited regular resources, using new sources of funding will allow UNICEF to create long-term and predictable investment funds for private sector fundraising.

2. Use of financing instruments equals more investment funds to generate significant resources to repay principal amounts and associated costs plus makes substantial resources available to fund UNICEF country programmes.
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3. Philanthropic capital at low or no interest rate is currently untapped. This opens up new avenues for programme-related investments. If leveraged, it could generate additionality in resources for UNICEF.

4. Financing at no interest is attractive to programme delivery based on donor grants where resources only become available on a cost-reimbursement basis. This form of financing will mitigate constraints around upfront funding using regular resources reserves.

Explore the structuring of financing agreements without recourse, similar to the conditions used in financing arrangements with the World Bank bonds issuance and/or guarantees from traditional donors (like the guarantees provided for the Vaccine Independence Initiative) that provide extra protection and further limits UNICEF exposure to risks.

Specific risks and their solutions

01 Lack of return on investment

PSFR historically achieves a 3:1 rate of return over 36 months, making default risk highly unlikely

02 Potential currency volatility in PSFR markets

UNCEF has demonstrated the capacity to adequately mitigate foreign exchange impact in the past years

03 Capacity to document income from such investment income

Existing types of reports will be adapted to make them appropriate for and accessible to stakeholders

04 Potential exposure to criticism for using donations to repay finance

PSFR will generate resources sufficient to cover associated cost and significant excess resources for programmes. Value proposition will be communicated

Proposed oversight, regulatory and reporting framework

Update of regulations	UNICEF Financial Regulations and Rules will be updated to include the authority of the UNICEF Executive Board to approve the utilization of prescribed financing instruments on an ongoing basis once General Assembly authorization is granted.
Executive Board approvals	The Executive Director shall, during the first regular session of each year, submit to the Executive Board an indicative borrowing programme for approval. All borrowing activities shall be consistent with prior approvals by the Executive Board.
Reporting framework	Executive Director shall submit to the Executive Board a report in such form, frequency and content as the Executive Board may determine regarding transactions relating to the approved financial instruments.
Finance cost/ repayments	Interest, charges, expenses and amortization payments made in respect of a borrowing transaction shall be borne by the resources generated from the fundraising investments of the financial instrument.

Types of financing instruments, cost, risk parameters and partners

Type of financing instrument	Nature of instrument	Cost of capital	Use of instrument	Risks Parameter and Safeguards	Partners/ Potential Partners
Bonds – unrated	Debt instrument issued as notes	≤ 2%	For investment in private sector fundraising	Capital at risk notes may result in the loss of entire investment to the lender, with no payment of any type made at maturity by UNICEF.	World Bank Global Debt Issuance Facility (IBRD Capital at Risk Notes). implemented a pilot approved in 2021 by the Executive Board
Pre-financing mechanism	Release of liquidity for programme implementation in advance of receipt of funds from donor partners	0%	For programme grants implemented on cost reimbursement basis	There is no risk of default to the lender and by UNICEF - funding partners always fulfil grant obligations. Only meant for cash flow and working capital solution purposes.	UNICEF National Committee (US Fund for UNICEF Impact Fund for Children)
Concessional loans	Loans that are made with extended terms at a substantially more generous rate than market loans	≤ 1.5%	For investment in private sector fundraising	Without recourse of repayment or backed by default guarantees where guarantor(s) pay debt in the event of default by UNICEF.	Institutional investors/ governments/ sovereign institutions
No-interest loans	Loan for which only the principal is repayable	0%	For investment in private sector fundraising	Without recourse of repayment or backed by default guarantees where guarantor(s) pay debt in the event of default by UNICEF.	High-net-worth UNICEF philanthropic donors UNICEF National Committee (UNICEF USA Impact Fund for Children)

Thank you.