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

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UNICEF Executive Board – Informal briefing – 24 May 2022

Note requesting authorization from the United Nations Economic and Social Council/General Assembly for UNICEF to utilize financing instruments in support of its operations.
The Note under consideration does not present another instrument for approval but a request for the Executive Board to be given the delegated authority by the General Assembly to oversee the use of such instruments on an ongoing basis.

The Executive Board having the authority to oversee the use of such financing instruments will ensure opportunities are not missed when the need arises.

Acknowledges Executive Board decision 2021/5 that World Bank instrument is considered a pilot project and limited operation, which will be evaluated before a repeat engagement may be considered.

While a full evaluation of impact is yet to be conducted on the pilot of $50 million World Bank Instrument, preliminary results reported to the World Bank indicate a positive path by already generating revenue amounting to $177.1 million from emerging fundraising markets.
More resources need to be mobilized for achievement of the child-focused Sustainable Development Goals. However, a continuing decline in the ratio of regular resources to other resources, makes the current model of fundraising efforts being funded exclusively from regular resources unsustainable for the 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 Sustainable Development Goals through non-traditional sources**
- **Pursue a business approach to the 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 a 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 $756 million and other resources represented $1,323 million.

- Private sector regular resources increase driven largely by investments made in the fundraising activities of the UNICEF National Committees and the country offices private sector fundraising.

- Public sector regular resources as a proportion of total public sector income has declined – below the 30 per cent funding compact commitment.

- The long-term growth of UNICEF private sector income depends on the level of investments made (investment funds).
Value and impact of using financing instruments

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.

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.
Private sector fundraising (PSFR) historically achieves a 3:1 rate of return over 36 months, making default risk highly unlikely.

UNICEF has demonstrated the capacity to adequately mitigate foreign exchange impact over the past years.

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

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

1. Lack of return on investment
2. Potential currency volatility in PSFR markets
3. Capacity to document income from such investment income
4. Potential exposure to criticism for using donations to repay principal and related finance cost

Risk management

The financing agreements will be structured using similar conditions used with the World Bank bond issuance and/or guarantees from traditional donors (like the those provided for the Vaccine Independence Initiative) to further limit UNICEF exposure to risks.
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.

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.

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.

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.
<table>
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<tr>
<th>Type of financing instrument</th>
<th>Nature of instrument</th>
<th>Cost of capital</th>
<th>Use of instrument</th>
<th>Risks Parameter and Safeguards</th>
<th>Partners/ Potential Partners</th>
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<td>Bonds – unrated</td>
<td>Debt instrument issued as notes</td>
<td>≤2%</td>
<td>For investment in private sector fundraising</td>
<td>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.</td>
<td>World Bank Global Debt Issuance Facility (IBRD Capital at Risk Notes). Implemented a pilot approved in 2021 by the Executive Board</td>
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<td>Pre-financing mechanism</td>
<td>Release of liquidity for programme implementation in advance of receipt of funds from donor partners</td>
<td>0%</td>
<td>For programme grants implemented on cost reimbursement basis</td>
<td>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.</td>
<td>UNICEF National Committee (US Fund for UNICEF Impact Fund for Children)</td>
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<td>Concessional loans</td>
<td>Loans that are made with extended terms at a substantially more generous rate than market loans</td>
<td>≤1.5%</td>
<td>For investment in private sector fundraising</td>
<td>Without recourse of repayment or backed by default guarantees where guarantor(s) pay debt in the event of default by UNICEF.</td>
<td>Institutional investors/ governments/ sovereign institutions</td>
</tr>
<tr>
<td>No-interest loans</td>
<td>Loan for which only the principal is repayable</td>
<td>0%</td>
<td>For investment in private sector fundraising</td>
<td>Without recourse of repayment or backed by default guarantees where guarantor(s) pay debt in the event of default by UNICEF.</td>
<td>High-net-worth UNICEF philanthropic donors</td>
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## ACABQ report – Key observations and recommendations

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<th>Expert Committee of Executive Board</th>
<th>Significant Financial, Legislative Directive Change</th>
<th>Process and Route for Further Requests</th>
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<td>ACABQ sees merit in further exploring the use of financing instruments, leveraging extensive experience and positive record in private sector fundraising.</td>
<td>Recommends a pilot project for three years approved by General Assembly, with a predetermined scope and progress update to the governing bodies.</td>
<td>UNICEF Executive Board currently does not have an expert subsidiary body like that of the Investment Committee of UNJSPF.</td>
<td>Proposal presented by UNICEF would constitute a significant change to the current legislative directives governing financial management of the United Nations.</td>
<td>To allow for appropriate consideration by the General Assembly of the matter, recommends a change in process of presenting requests following an established procedure.</td>
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### Further Pilots of Instruments

**Process and Route for Further Requests**

(a) To the UNICEF Executive Board for decision on the request to the General Assembly (b) to ACABQ for advice (c) through the Fifth Committee to the Assembly for decision (d) to ECOSOC for information.
THANK YOU!