World Bank financial instrument to facilitate sustained investment in private sector fundraising

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Rationale for the Financial Instrument

- **Challenging global environment**, combined with increased demand to deliver more due to the COVID-19 pandemic, requires supplemental sources to **accelerate fundraising investment for income growth**

- Addresses the need for **additional and alternative source of investment** in fundraising in emerging markets to complement investment funds available from regular resources (RR), given the projected reduction in RR

- The instrument proceeds will be **utilized strategically to retain existing donors**, acquire new donors and replace those lost through natural attrition and widen the donor base

- The instrument will support UNICEF's growth and programmes by **leveraging the capital markets' appetite** to invest in the Sustainable Development Goals

Benefits of the Financial Instrument

- **Raises funding of approximately $50 million**, which, together with existing and new monthly pledge donors in emerging markets, yields $450 million over the 5-year maturity period

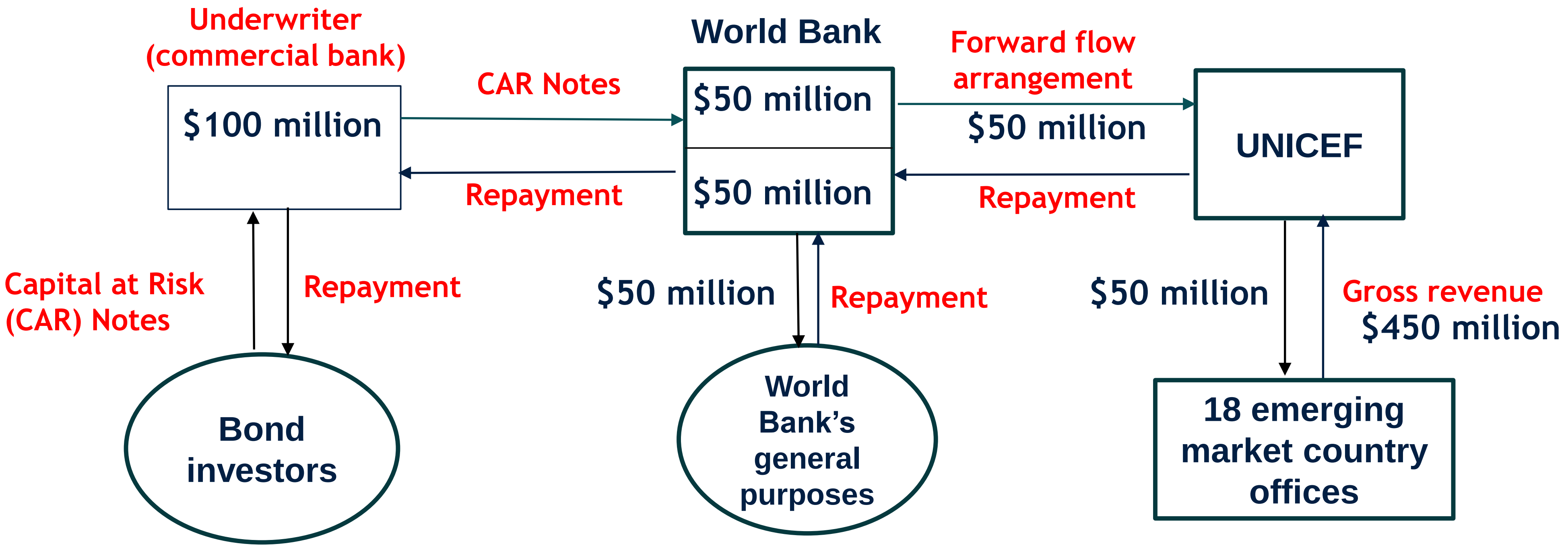
- **It will allow repurposing,** to National Committees and other private sector fundraising channels, of a greater proportion of PFP special purpose funds for investment in fundraising

- Successful and matured country PSFR supports country programme delivery and **contributes to regular resources (RR)** for the global programme activities of UNICEF

- **Alleviates the pressure to thinly spread** the PFP special purpose funds for investment without tapping the maximum potential of the fundraising markets

- **First time this opportunity is offered by the World Bank** to a United Nations system entity to use this financial instrument in addressing a global challenge

STRUCTURE OF THE FINANCIAL INSTRUMENT



- **World Bank issues bond to investors through its Capital at Risk Notes programme for $100 million and retains $50 million for its own purpose.**

- **UNICEF will repay the $50 million with the overall income from pledge donors in emerging markets with $450 million projected income by 2025.**

- **UNICEF will repay the interest coupons and principal from gross income as first or senior payment before other costs.**

Risks and Proposed Risk Management

Potential risks

1. Inability to repay the World Bank due to lack of expected return
2. Currency volatility in the 18 emerging market countries
3. Lack of absorption capacity by the 18 country offices to deploy the proceeds
4. Lack of capacity to document the expected impact these proceeds will have on children's lives
5. UNICEF can be criticized that it is using donations for programmes to repay the principal plus interest

Mitigation measures

1. UNICEF has good cash donations historically from these emerging markets, with $130 million in 2019
2. UNICEF has robust hedging mechanisms, and cash flow growth has more than offset currency volatility in USD terms
3. There is enough absorption capacity – with fundraising investment needs estimated at $58 million for 2021
4. Data collection systems already exist at the country office level and expected reporting will be agreed in advance
5. This will be paid for by monthly pledge donations which are unrestricted and meant for UNICEF's overall mandate

Administration of the Financial Instrument

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PRINCIPAL AND INTEREST REPAYMENT

- Country offices receiving funds are expected to start interest repayment from the **third year**
- Offices are expected to be generating sufficient resources to start setting aside funds from the **third year** for repayment of principal at the end of the **fifth year**
- Interest payments for the first two years will be made from PFP's special purpose budget

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ALLOCATION

- Proceeds will be allocated based on fundraising market potential and commitment by country and regional offices
- The offices' capacity to invest these resources in fundraising is higher than this $50 million. Since 2010, an ROI of 3:1 has resulted from investing in fundraising
- A detailed fundraising plan will accompany the allocated funds and implementation will be closely monitored by PFP

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MANAGEMENT AND FIDUCIARY OVERSIGHT

- The Comptroller will have fiduciary oversight and ensure compliance with UNICEF Financial Regulations and Rules
- Accountability for the management will be delegated to Director, PFP, in collaboration with Regional Directors
- An annual update will be provided to the Executive Board up to the period of redemption of the instrument

Thank you