Maximizing core resources: investing in sustainable growth via a proven private fundraising model

Inspired by the rich discussion and the questions raised by Member States during the Executive Board first regular session around the World Bank instrument, this document attempts to provide further clarity around the nature and criticality of this instrument and the approval requested by the Board during this session.

In June 2020, on the suggestion of the Comptroller, the Board took note of the establishment of a revolving fund (or “Dynamo Fund”) as an instrument to ensure flexible and sustainable funding for private sector fundraising (PSFR) activities and encouraged UNICEF to pursue this. The idea is to create a predictable source of investment without tapping into regular resources (RR), which are increasingly on the decline as a percentage of overall income. UNICEF views the Dynamo Fund as a vital tool in these efforts. As such, this revolving fund must have resources in order to function. The proposed instrument with the World Bank is a source of financing for the revolving fund unless or until the Division of Private Fundraising and Partnerships (PFP) finds a grant or other alternative sources to capitalize it.

Despite registering a record income year in 2020, overall RR levels remain flat, and the PFP Division does not forecast a substantial growth over the next few years. The acquisition of new pledge donors is a key priority to increase flexible income, but this requires sustained investments from the organization. Given lower amounts of overall RR, an executive decision was taken to cut US$30 million of the division’s investment fund in 2020 to prioritize RR funding for country programmes. The Board was informed of these cuts in the February 2020 session. Despite this significant cut and thanks to mitigation efforts and the capacity of UNICEF to adapt to the COVID-19 pandemic, the PFP division, Country Offices, and National Committees for UNICEF delivered exceptional results by pivoting from investments in face-to-face fundraising activities and into digital fundraising activities. In 2020, to mitigate the cut to the investment funds available to country offices, PFP and these offices explored, used and fully exhausted all alternative financing tools that were available to maintain and fund investments in fundraising during the year. Therefore, we have no alternative sources of funding or reserves to cover this investment in 2021. To date, country offices have received investment funds to cover costs only until March 2021. Hence, if there are no more investment funds available, this will have consequences for these offices and for UNICEF globally (see question 3 below). In particular, if this instrument is not approved or delayed, the lost opportunity cost would amount to an estimated US$ 300 million over five years which could have been generated through investments from the bond.

Therefore, the revolving fund and the proposed financial instrument through the World Bank partnership is a response to the Board recommendation on the need to increase and maximize RR, to find alternatives to RR, and to generate sustainable ways to finance private fundraising activities as approved by the Board in endorsing the revolving fund.

In simple terms, the World Bank will provide the US$50 million investment for growth without utilizing the RR that is currently available to UNICEF for programmes or the already reduced investment funds of PFP and National Committees. Until such time as the Funding Compact kicks in on RR, we need to finance our ability to be voluntarily funded. This is financing and not funding for UNICEF—it simply allows us to seek voluntary funding from interested donors to augment our flexible resources.
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In the Q&A section below, we have tried to address some key concerns that have been raised by Member States.

1. What is the nature and risks associated with the proposed instrument?

In essence, the proposed instrument is a financing mechanism to our activities—in this case, fundraising. UNICEF already uses a pre-financing modality in many activities, for example, the Vaccine Independence Initiative, the Emergency Programme Fund (EPF) and, in some cases, from the United Nations Central Emergency Response Fund (CERF) during emergencies.¹

Under this proposal, the World Bank will transfer the US$50 million to UNICEF once they have raised US$100 million in total through their bonds. This is a modality that they ordinarily use to finance their activities. In fact, the bond is a World Bank Bond, and 50 per cent of the proceeds will go to finance World Bank's operations. The World Bank will make clear to its investors that the portion of UNICEF financing (i.e., US$50 million to be repaid to the Bank) is subject to available resources from monthly pledge donors in the 18 countries. The potential investors will know and will accept this condition and the risks associated at the moment of the subscription of the World Bank Bond. The bank has no further risk other than ordinary bond issuance.

The investors have full transparency that the funds will be used to finance fundraising which will, in turn, release resources to country programmes and RR. These investors will receive reports from the World Bank and UNICEF on their activities on an annual basis. The likely major investor is a regular purchaser of World Bank SDG bonds, and thus fully familiar with such mechanisms.

Over the past ten years, we have seen 20 per cent year-on-year growth in these 18 countries. Based on this track record, we are confident that there are negligible risks for UNICEF not to reach the US$50 million and there is therefore a minimal risk for the World Bank and investors to not get their capital. In fact, these 18 markets have generated US$50 million from monthly pledge donors from the first quarter of 2020 alone, so our target to raise US$450 million in five years is conservative. Once the first US$50 million has been raised, there is an obligation to the World Bank and investors are no longer at risk - even though US$50 million is only paid at the end of the five years. This latest estimate factors in currency depreciation and volatility, market saturation, COVID-19 and economic contraction.

2. Will this instrument constitute a precedent for UNICEF and for the entire UN system to create a dependency on private debt while they are voluntary-funded organizations?

This is an interesting question and indeed this modality can raise concerns that we create the conditions for overreliance on external debt to finance activities that would otherwise be funded only by voluntary contributions.

We take this concern seriously, however, this is a pre-financing activity and is based on and limited only to this agreement between the World Bank and UNICEF. It is also important to point out that this is a one-time-only and limited operation, and this is the reason why we seek approval from the Board. The World Bank itself has received authorization for this partnership as

¹ In some cases, the CERF advances the funds for our activities and UNICEF repays once we donations are received
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a one-off transaction only. If relevant, this can be addressed with appropriate language in the final decision specifying and limiting the Board’s authorization for this partnership only.

The Comptroller will report to the Board on the use and performance on this instrument and we will share the lessons learned with the wider United Nations System. As explained by the Comptroller, this instrument will be paid for from private sector resources raised and not from regular or other resources raised for UNICEF programme activities. In other words, no ODA funds will be used nor any public sector RR. **This is financing and not funding for UNICEF**—it simply allows us to seek voluntary funding from interested donors to make up for our lack of flexible resources.

**This cannot become an instrument to be used and replicated as such by other UN agencies or used as a precedent** because no other agencies have an individual giving base of UNICEF’s size, which is the fundamental condition for an instrument like this. Even agencies with established PSFR operations, like UNHCR or WFP, do not have the volume of pledge donors to replicate and support a similar instrument.

**3. What are the consequences of a delayed decision or non-approval?**

The Board approves the PFP budget every year, and this includes the allocation of Investment Funds. As we have continuously messaged to the Board, these allocations have been progressively reduced over the last decade and were significantly reduced last year, with the cut of US$30 million. PFP does not have alternative sources of budget, reserves or income to invest in this.

A delay of the decision until June could have an impact on the delivery of country programmes in these countries and across UNICEF more widely.

a) After the Board approval, we need to execute the transaction. That includes finding or confirming a financial partner like the World Bank (including their internal approval process), an underwriter as well as interested investors to subscribe the bond. This process can take up to six months, and a delay until June would add 5-12 months to this process.

b) This will imply that Country offices will not have the resources to invest until the beginning of 2022. As Country Offices do not have other alternative sources for investment funds, we can expect lower income in 2021 and an impact on subsequent years. As explained, we estimate a 3:1 return on investment over three years. The investments that help us acquire new monthly pledge donors will take up to 12 months and continue for at least five to seven years. **In sum, if this instrument is not approved or delayed, the opportunity cost would amount to an estimated US$ 300 million over five years which could have been generated through investments from the bond.**

c) It is important to note that part of the resources’ gap created by the lack or delay of investments will also be in terms of RR, as several country offices are also large contributors of RR, after they fund their country programmes.

d) This will also cause a heavy burden on the 18 country offices, setting them back a year or longer with the reduction or abolition of country office fundraising **staff** and posts, as well as the cancellation of **contracts** with external vendor fundraising agencies and firms. And,
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given their new perceived risk in working with UNICEF, the costs of external vendors charged to UNICEF will be increased.

e) As a separate consequence, there are the risks of damaging the relationship with the World Bank and investors. While they are fully aware that this transaction requires full authorization from the UNICEF board, and there is a risk of non-approval or delay, this does not guarantee they will accept a delay.

Considering the above and having the Board full visibility and oversight of PFP budget and resources for investment, PFP will have no choice than to reduce activities in country offices with the potential negative impact on results and staff, as explained above.

As an alternative, Member States could fund the Revolving fund with an additional new grant of US$50 million, which would flow through the Dynamo Fund now. As it is revolving, the donors would receive regular updates on the amounts of funds raised and respective impact results achieved on an ongoing basis.

4. What are the risk mitigation measures in place if this is not approved?

Since cuts were made in investment funds in 2020 due to our low levels of RR, we have been looking at multiple possibilities to fund the Dynamo Fund. The only one that has become a real possibility is the World Bank bond. None of the others have worked out thus far. Despite efforts, not all risks can be mitigated.

We survived 2020 by cutting reserves to a bare minimum in the country offices and regional offices. That cannot be repeated as we have no more reserves.

As mitigation, all country offices were informed that board approval was required, and they received only a minimum of investment funds to keep fundraising staff and operations moving through roughly the first quarter of 2021. After that risk mitigation means laying off staff, not renewing vendor contracts, watching income fall, impacting budgets for country programmes, the mobilisation of RR, and ultimately, affecting results for children.