Update on the World Bank instrument to facilitate sustained investment in private sector fundraising

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UNICEF Executive Board
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Item 13: Update on the World Bank instrument to facilitate sustained investment in private sector fundraising
Reference document: (UNICEF/2021/EB/8)
01 Results of the UNICEF consultations with the 18 emerging market countries as well as other relevant actors of the United Nations system

02 An updated comprehensive risk management matrix

03 Opinion of the United Nations Office of Legal Affairs on the agreement with the World Bank

04 Information on the principal amount, interest costs and other associated fees

05 Written assessment of the need to update the UNICEF financial regulations and rules

06 Affirmation that the conditions of this instrument are made fully transparent to potential investors
CONSULTATIONS WITH MEMBER STATES

- 1st Session (4 March 2021)
- 2nd Session (19 March 2021)
- 3rd Session (29 April 2021)

- Further consultations were well appreciated by the Member States and brought additional clarity and understanding.
- In the future, UNICEF to devote adequate time for consultations prior to the submission of such technical instruments to the Executive Board.

RELEVANT ACTORS OF THE UNITED NATIONS SYSTEM

- CERF, DESA, IADB, ILO, UNCDF, UNDP, UNFPA, UNHCR, UNOPS, UNRWA, UN-Women and WFP.
- Acknowledged as an experience that can be used as another tool in the United Nations-wide Financing for Development toolbox.
- Other United Nations agencies currently do not have the underlying assets, capacity, or volume to replicate a similar instrument.

COUNTRIES WITH PSFR OPERATIONS

- Funding going to countries with UNICEF private sector fundraising operations.
- UNICEF used established consultation mechanisms in consulting both country offices and their counterparts on the new financial instruments.

UPDATE ON CONSULTATIONS

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Principal amount, interest costs and other associated fees

- The principal amount of the World Bank Bond is US$ 50 million.
- The overall one-off issuance-related costs of the Bond are US$ 112,000. This includes US$ 62,500 costs related to underwriters and US$ 50,000 related to World Bank overhead.
- The total interest cost of the World Bank Bond amounts to US$ 4,772,500 for the five-year cycle of the Bond. This translates into an annual interest cost of US$ 954,500, payable semi-annually (two payments of US$ 477,250 each).
- The effective interest rate payable by UNICEF is therefore 1.909 per cent. Due to the partnership with the World Bank, this is still lower than what is ordinarily obtainable in the market for an unrated bond.

Affirmation that the conditions of this instrument are made fully transparent to potential investors

The following conditions are transparently disclosed:

“Payments on the UNICEF Portion of the Notes are linked to the receipt by UNICEF of monthly pledge donations from private individuals in the UNICEF Donation Countries and are conditional on the payment of equivalent amounts by UNICEF to IBRD. Accordingly, the Notes are subject to risks which are not associated with a conventional debt security, which may result in the reduction of the interest and/or principal payable on the Notes. Noteholders may therefore lose all or a portion of their investment represented by the UNICEF Portion of the Notes” and “Noteholders have no rights to require IBRD to enforce its rights against UNICEF under the Forward Flow Agreement.”
**Opinion of United Nations Office of Legal Affairs on the agreement with the World Bank**

- Opinion is expected to be received from OLA by the end of May and will be delivered orally by UNICEF during the 2021 annual session of the Executive Board.

**Written assessment of the need to update the UNICEF financial regulations and rules**

- UNICEF financial regulations and rules (E/ICEF/2011/AB/L.8) currently do not refer to possible use by UNICEF of such financial instruments.
- UNICEF sought Executive Board approval before implementing the World Bank instrument.
- Instrument was also approved by the Executive Board as a one-off transaction and a pilot; therefore an amendment to the financial regulations and rules is not recommended at this time.
- Should instrument become a regular part of UNICEF financing model, an amendment would be explicitly required.
- Any proposed amendment would be based on, and supported by, advice from the independent Audit Advisory Committee, the ACABQ, the legal services, and views of other United Nations funds and programmes.
1. Inability to repay the World Bank due to the 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. Criticism that UNICEF is using donations for programmes in repaying principal plus interest
6. Possible early redemption of the financial instrument in case of default on interest payments

1. UNICEF has good cash donations historically from these emerging markets with US$ 145 million in 2020
2. UNICEF has robust hedging mechanism and cash flow growth has more than offset currency volatility
3. There is enough absorption capacity – with fundraising investment needs estimated at US$ 58 million for 2021
4. Data-collection systems already exist at 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 overall mandate
6. UNICEF can start setting aside funds to prepare in case of early redemption once the pledge donations reach US$ 50 million
Thank you.

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