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**For information**

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## **United Nations Children's Fund**

Executive Board

**Annual session 2021**

1–4 June 2021

Item 13 of the provisional agenda\*

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

#### *Summary*

During its first regular session, 9–12 February 2021, the UNICEF Executive Board authorized the Executive Director, with the advice of the Comptroller, to execute a financial instrument in partnership with the World Bank to raise additional financing for investment in private sector fundraising, as a pilot project limited to an amount of \$50 million. This financial instrument was executed in March 2021. In line with the request of the Executive Board for an update during its 2021 annual session, the present report briefs the Board on the results of the UNICEF consultations with the 18 emerging market countries as well as other relevant actors of the United Nations system. It also provides an updated, comprehensive risk management matrix; information on the opinion of the United Nations Office of Legal Affairs on the agreement with the World Bank; information on principal amount, interest costs and other associated fees; a written assessment of the need to update the UNICEF Financial Regulations and Rules; and an affirmation that the conditions of this financial instrument are made fully transparent to potential investors.

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\* E/ICEF/2021/9.

## I. Overview

1. During its first regular session of 2021, held from 9 to 12 February 2021, the UNICEF Executive Board authorized the UNICEF Executive Director, with the advice of the Comptroller, to execute a financial instrument in partnership with the World Bank to raise additional financing for investment in private sector fundraising, as a pilot project limited to an amount of \$50 million. This financial instrument, which was executed in March 2021, leverages the expertise of the World Bank in financial markets. The Executive Board stipulated that no regular resources should be used towards the repayment of the principal amount or interest owed to the World Bank and requested that UNICEF report to the Board on the financial performance and the attainment of goals, and corresponding costs and capacities, annually at the first regular session.

2. In response to a request made by the Executive Board, the present report provides the Board with an update on the following: (a) the results of the UNICEF consultations with the 18 emerging market countries as well as other relevant actors of the United Nations system; (b) an updated, comprehensive risk management matrix; (c) information on the opinion of the United Nations Office of Legal Affairs on the agreement with the World Bank; (d) information on the principal amount, interest costs and other associated fees; (e) a written assessment of the need to update the UNICEF Financial Regulations and Rules; and (f) affirmation that the conditions of this instrument are made fully transparent to potential investors.

3. The principal amount of this financial instrument is \$50 million. The overall issuance-related costs and total interest costs associated with this financial instrument amount to a total of \$112,000 and \$4,772,500, respectively, for the five-year period of the financial instrument.

4. As part of the preparation for and roll-out of this new financial instrument, UNICEF has consulted with the following entities:

- (a) United Nations Capital Development Fund (UNCDF);
- (b) United Nations Office for Project Services (UNOPS);
- (c) Central Emergency Response Fund (CERF);
- (d) United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women);
- (e) Inter-American Development Bank
- (f) United Nations Department of Economic and Social Affairs (DESA);
- (g) United Nations Population Fund (UNFPA);
- (h) United Nations Development Programme (UNDP);
- (i) International Labour Organization (ILO);
- (j) United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA);
- (k) Office of the United Nations High Commissioner for Refugees (UNHCR);
- (l) World Food Programme (WFP).

5. The most significant risks associated with this financial instrument, as identified by UNICEF, include the following: inability to repay the World Bank due to insufficient return on investment; currency volatility in relevant countries; lack of absorption capacity in country offices; lack of capacity to document the impact of this financial instrument on children's lives; the reputational risk of using income for

programmes to repay the principal amount and interest costs associated with the financial instrument; and possible early redemption of the financial instrument due to default.

6. Because the use of the financial instrument was approved by the Executive Board as a pilot initiative, UNICEF does not recommend an amendment to the UNICEF Financial Regulations and Rules at this time.

7. UNICEF has been fully transparent with potential investors by clearly outlining the conditions of the financial instrument within its prospectus document. The relevant extract can be found under section IX of the present report (paragraph 25).

8. The funds allocation process and consultations with the Governments of the relevant emerging market countries, as well as the review of the new instrument by the United Nations Office of Legal Affairs, are in progress. UNICEF will provide an oral update to the Executive Board on these three areas during its annual session in June 2021.

## **II. Costs associated with issuance of the financial instrument and the funds allocation plan**

### **A. Costs associated with the issuance of the financial instrument**

9. The overall issuance-related costs associated with the financial instrument are \$112,000. This includes \$62,500 for the underwriting cost and \$50,000 for defrayment of World Bank overhead.

10. The interest rate for the financial instrument is 1.291 per cent. However, the financial instrument was not rated and as a result carries higher risks than regular World Bank Sustainable Development Bonds. The effective interest rate payable by UNICEF is therefore 1.909 per cent. Nevertheless, because of the partnership with the World Bank and the attractiveness of the UNICEF brand, this interest rate is lower than the rate that would have been applicable in the capital markets.

11. The total interest costs of the financial instrument therefore amount to \$4,772,500 for the five-year period of the financial instrument. This translates into an annual interest cost of \$954,500, payable semi-annually (two payments per year of \$477,250 each).

### **B. Allocation of funds from the financial instrument**

12. The allocation process is in progress following the execution of the instrument, and UNICEF will provide an oral update to the Executive Board during the upcoming annual session.

## **III. Consultations with emerging market countries**

13. UNICEF is having consultations with the emerging market countries concerned to help to determine the final allocation of the funds raised through the financial instrument. UNICEF offices in these countries are using their established mechanisms to consult with their government counterparts on this new financial instrument.

14. An oral update will be provided to the Executive Board during its annual session in June 2021.

#### IV. Consultations with other relevant actors within the United Nations system

15. UNICEF consulted with UNCDF, UNOPS, CERF, UN-Women and the Inter-American Development Bank during the feasibility and preparatory stage of the financial instrument. Additional consultations and strategic dialogues were held with DESA, ILO, UNDP, UNFPA, UNHCR, UNRWA and WFP after the Executive Board approval of execution of the instrument.

16. The discussions with several agencies in the system helped to better frame and strategize the execution of the instrument. There were also discussions about how it could be replicated by other agencies. A clear outcome of the dialogue is that, while other agencies do not have the underlying assets, capacity or volume that UNICEF does to be able to replicate a similar instrument at the moment, the UNICEF experience with this instrument was widely acknowledged as one that could be used as another tool in the financing-for-development toolbox of the United Nations.

#### V. The comprehensive risk management matrix related to the financial instrument

17. The most significant risks associated with the financial instrument identified by UNICEF are the following:

<i>Risk</i>	<i>Mitigating measure</i>
Inability to repay the World Bank due to lack of expected return on investment	UNICEF has good cash flow from pledge donations historically from emerging markets that are being considered for investments from the financial instrument (including \$145 million in 2020)
Currency volatility in the 18 countries	UNICEF has a robust hedging mechanism and had cash flow growth in the past 10 years that more than offset currency volatility, with 20 per cent compound annual growth rates year on year
Lack of absorption capacity by the 18 country offices to deploy the proceeds	Absorption capacity by UNICEF country offices is estimated at \$58 million for 2021
Lack of capacity to document the expected impact of the financial instrument on children's lives	Data-collection systems already exist at the country-office level and expected reporting will be agreed in advance, without creating new reporting burdens but by using existing data
UNICEF may be criticized that it is using donations for programmes to repay the principal amounts and interest costs of the financial instrument	The financial instrument will be paid for by monthly pledge donations that are unrestricted and meant for the overall UNICEF mandate. The financial instrument will also allow UNICEF to accelerate income growth, and to accelerate progress towards results in the child-focused Sustainable Development Goals
Possible early redemption of the financial instrument in case of default on interest payments	UNICEF can start setting aside funds to prepare in case of early redemption once the pledge donations reach \$50 million

## **VI. Opinion of the United Nations Office of Legal Affairs on the agreement with the World Bank**

18. The agreement with the World Bank regarding the instrument is currently under review by the United Nations Office of Legal Affairs, as directed by the Executive Board. UNICEF will provide an oral update on the opinion received during the annual session of the Executive Board in June 2021.

## **VII. Principal amount, interest costs and other associated fees**

19. The principal amount, interest costs and other associated fees resulting from the settled transaction are itemized below:

(a) The principal amount of this financial instrument is \$50 million;

(b) The overall one-off issuance-related cost of the financial instrument is \$112,000. This includes \$62,500 in costs related to underwriting and \$50,000 for defrayment of World Bank overhead;

(c) The total interest cost of the financial instrument amounts to \$4,772,500 for the five-year period of the financial instrument. This translates into an annual interest cost of \$954,500, payable semi-annually (two payments per year of \$477,250 each).

## **VIII. Written assessment of the need to update the UNICEF Financial Regulations and Rules**

20. The UNICEF Financial Regulations and Rules ([E/ICEF/2011/AB/L.8](#)) currently do not include any reference to the possible use by UNICEF of financial instruments such as this financial instrument and the associated financial transaction as approved by the Executive Board in decision 2021/5 (document ([E/ICEF/2021/AB/L.1/Add.2](#))).

21. For these reasons, UNICEF sought the approval of the Executive Board before executing this financial instrument. Additionally, the use of this financial instrument was approved by the Executive Board as a pilot, and therefore an amendment to the UNICEF Financial Regulations and Rules is not recommended at this time.

22. However, should UNICEF in the future, with the approval of the Executive Board, decide that this type of financial instrument could become a regular part of the UNICEF financing model, an amendment would be required.

23. In such a situation, UNICEF management would seek such proposed amendments to the UNICEF Financial Regulations and Rules by the Executive Board, based on and supported by advice from the independent Audit Advisory Committee, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the legal services, and taking into account the advice of other United Nations funds and programmes.

24. The proposed amendments to the Financial Regulations and Rules would be submitted for consideration and approval by the Executive Board after full consultation with the Board, on a timetable and schedule satisfactory to the Board.

**IX. Conditions of the instrument made transparently available to potential investors and reflected in any associated public promotion**

25. The financial instrument was issued through a private placement so its prospectus was never made public. Nevertheless, it included the following verbatim extract from the document that was made available to all concerned parties:

(a) *“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”.*

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