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Annex to the midterm review of the UNICEF Strategic Plan and UNICEF integrated budget, 2018–2021: Establishment of a revolving Working Capital Fund

Summary

This paper proposes the establishment of a revolving Working Capital Fund of $120 million, the purpose of which will be to address the funding gaps for UNICEF country programmes of cooperation while fundraising pipelines mature. This funding will allow programmatic activities to commence without loss of implementation time, and provide UNICEF the opportunity to achieve the intended results for children. The Working Capital Fund will include a revolving fund to facilitate the smooth implementation of country programme implementation; and direct programme support costs, to accelerate programme implementation or fundraising activities that result in additional regular resources raised for UNICEF. The Working Capital Fund will be capitalized from a portion of the interest revenue generated by UNICEF from its investment activities.

* E/ICEF/2020/6.

I. Overview

1. The Executive Director of UNICEF proposes the establishment of a Working Capital Fund, the purpose of which will be to address temporary funding gaps for country programmes of cooperation. The fund will provide immediate resources for programme implementation while funding pipelines mature. It will help to prevent loss of implementation time and assist in achieving the intended programme results.

2. The components of the Working Capital Fund will be: (a) a revolving fund, to facilitate the smooth implementation of country programmes; and (b) direct programme support costs, to accelerate programme implementation or fundraising activities that result in additional regular resources raised for UNICEF. The capitalization of the revolving Working Capital Fund will come from a portion of interest revenue generated by UNICEF from its investment activities. The governance mechanisms and policies for the revolving Working Capital Fund will be set by the Comptroller.

3. The revolving Working Capital Fund will be financed from an annual allocation, the amounts of which will be determined by the Comptroller and reported to the Executive Board for its information in the document titled UNICEF Strategic Plan: updated financial estimates at the second regular session each year, starting in 2020, until the fund reaches a ceiling of $120 million. UNICEF maintains a regular resources fund level and this balance of available resources, also referred to as "working capital", is considered prudent to ensure the continuity of programmes and other activities. This working capital reserve will include in its balance the revolving Working Capital Fund. A repayment period of no longer than 24 months, as determined by the Comptroller, will ensure continued financing of programme implementation.

4. Regulation 11.4 of the UNICEF Financial Regulations and Rules states: "Interest derived from placement of funds shall be credited to the UNICEF Account and shall be recorded in the Regular Resources sub-account." As the Working Capital Revolving fund will be a sub-account of the regular resources sub-account, UNICEF is seeking to inform the Executive Board that the revolving Working Capital Fund will be capitalized by allocating a portion of the investment revenue as an internal financing mechanism under the regular resources reserve.

5. UNICEF is seeking a decision from the Executive Board to give authority to the Executive Director, based on the advice of the Comptroller, to advance funds from the Working Capital Fund to the country offices for the implementation of activities, on the condition that the funds will be repaid within the stated period. This will ensure continued financing of country programmes. UNICEF will report annually to the Executive Board on the status of the revolving Working Capital Fund, and will include details of all advances and repayments. A draft decision has been included in the report on the midterm review of the UNICEF integrated budget, 2018–2021 (E/ICEF/2020/AB/L.5) which is being shared with the Board for its decision at the 2020 annual session.

II. Introduction

6. Over the past 20 years, UNICEF has progressed from an organization with a large proportion of regular resources, the core resources that are flexible and thus result in a more agile organization, to an organization with a larger proportion of earmarked resources as compared to regular resources. Earmarked funds are less flexible and are mostly specific to a country or programme, and therefore are not fungible.

7. The midterm review of the UNICEF Strategic Plan, 2018–2021 has highlighted the critical need to accelerate and scale up results in order to meet the Strategic Plan targets and to effectively contribute to the achievement of the Sustainable Development Goals. This is within a context that is growing increasingly complex, with challenges such as climate change and the coronavirus disease 2019 (COVID - 19) pandemic, which necessitate more flexible and predictable resources. In addition, in light of the trend of earmarked contributions being received by UNICEF, the traditional ways of managing working capital will not be sufficient to meet the required pre-financing of programme activities while resource mobilization is in progress.

8. The primary purpose of the fund will be to address the funding gaps for country programmes while the fundraising pipeline matures, so that those programmatic activities that need to urgently commence can be initiated, or those that need to continue can do so in advance of receipt of funds.

9. The Working Capital Fund will support the organization’s continuity of programming and its ability to transition from emergency response to development programming. It can also be used for preparatory work for the development of longer-term programmes, especially those initiatives that will help UNICEF to accelerate the achievement of the Sustainable Development Goals; for example, foundational policies that enable the implementation of programmes, setting up or strengthening systems to boost programme delivery, and investing in innovative ways to strengthen the capacities of national and local governments. The fund will enable country offices to finance adaptive programming approaches, particularly when regular programming experiences shortfalls due to, for example, diversions of donor funds to respond to emergencies, or other disruptions to the implementation of the regular programme cycle.

10. Further, the fund can be applied to help country offices to address emerging cross-cutting programmatic and policy areas that may not have been readily apparent during the development of the country programme management plan, and which may potentially disrupt or accelerate the achievement of Sustainable Development Goals, such as environmental and climate policies, human capital development and development of frontier technologies.

11. The fund does not intend to replace or change the current means of funding gaps for emergency programmes or of government counterparts for procurement services.

12. Other United Nations entities have set up working capital funds to address temporary gaps between fundraising and programme implementation.

III. Current mechanisms for pre-financing resource gaps

13. For UNICEF, the main source of bridging funding gaps has been the Emergency Programme Fund. This is a revolving fund with an annual ceiling of $75 million (as approved in Executive Board decision 2015/4) and, as the name suggests, the fund was established to meet the funding needs of emergency programmes.

14. Another source of covering funding gaps has been pre-financing of government counterparts for the procurement of essential supplies. This service is managed by the UNICEF Supply Division and is fully backed by cash reserves from funding partners, or financed through the Vaccine Independence Initiative.

15. In addition, under the current operating model, UNICEF can use various mechanisms to pre-finance programmes funded by other resources, including the issuance of a budget for these programmes after a contribution agreement has been signed, but prior to receiving a cash contribution. In exceptional cases, UNICEF has

issued a budget where a contribution agreement was not yet signed, but the organization had obtained assurances from the donor that signature was imminent. These pre-financing arrangements are backed by the regular resources reserve. Careful management of the collection of receivables for these grant agreements is required to avoid a cashflow strain on regular resources.

16. Although successful, these mechanisms do not fully address the funding gaps that may arise for regular programmes and activities, especially in the intervening period between programme implementation and maturity of the fundraising pipeline.

17. The Executive Director views the absence of a working capital fund as a serious impediment to programme acceleration and urges that the Executive Board takes cognizance of the situation and consider the need to establish a revolving Working Capital Fund for UNICEF.

IV. Revolving Working Capital Fund: Recommended mechanism and source of the seed capital

18. The components listed below are proposed for the Working Capital Fund.

A. Revolving fund

19. The Working Capital Fund will be set up as a revolving fund and will remain available to finance the organization’s continuing operations without any fiscal year limitations, because UNICEF will continuously replenish the fund by repaying any monies used from the account.

B. The nature and scope of the fund

20. The fund will have a proposed ceiling of $120 million to cover any liquidity gaps that UNICEF may face. It is envisaged that the bulk of funding requests will be used to cover programme implementation or programme support costs. Any use of the fund will be considered an internal loan, from regular resources to other resources, to be repaid up to a 24-month period from the date of allocation by the respective office.

21. The country office, regional office or headquarters division, in collaboration with the Private Fundraising and Partnerships Division and the Public Partnerships Division, shall ensure that during negotiations for other resources funding, donors agree to fund activities that have already been implemented through pre-financing provided by the revolving Working Capital Fund, with their contributions used to reimburse the fund.

22. In the event that a country office, regional office or headquarters division fails to mobilize the resources envisaged and cannot repay the amount within the stipulated period, the loaned amount should be recovered from the regular resource or institutional budget allocation in instalments, over a period approved by the Comptroller.

C. Capitalization: Initial sources of the fund

23. It is proposed that the initial capitalization of the Working Capital Fund should come from a portion of the interest income from UNICEF investment activities.

24. The financing of the revolving Working Capital Fund up to a ceiling of $120 million will be done on an annual basis starting in 2020, based on the amounts determined by the Comptroller after due consideration of interest income earned, until

such time as the ceiling has been reached. The revolving Working Capital Fund will count as part of regular resources reserve.

25. To avoid putting a strain on regular resources revenue, the financing of the revolving Working Capital Fund will be staggered over a period of time until the ceiling of $120 million has been reached. This approach will allow the build-up of the fund without making a significant impact on the regular resources reserve.

26. The repayment period for advances from the revolving Working Capital Fund will be determined by the Comptroller, and will be for a maximum of 24 months.

V. Risk management

27. Measures will be adopted to reduce the risk that donor conditions in grant agreements do not allow planned contributions to be used for the repayment of the funds advanced. UNICEF will collaborate with donors to identify and reduce conditions that inhibit the repayment of funds already spent, including seeking and obtain prior written approvals as and when necessary. Process risks will also be reduced by developing rigorous in-house control systems and repayment schedules.