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For information

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Update on the strategic approach to alternative/innovative finance

Summary

UNICEF is pleased to provide the Executive Board with an update on its strategic approach to innovative financing, including planned investments and resource mobilization targets, as requested in Executive Board decision 2021/20.

* E/ICEF/2022/1.

I. Overview

1. Increased financial resources are needed to achieve the Sustainable Development Goals and related outcomes for children. With official development assistance likely to remain stagnant, the ability to leverage additional non-traditional sources of finance from both the public and private sectors is essential for the achievement of the Sustainable Development Goals.

2. Past experiences and emerging trends have shown that relying solely on traditional voluntary grant funding to implement such ambitious development efforts as the Sustainable Development Goals poses significant financial constraint. UNICEF, therefore, is pursuing alternative/innovative finance mechanisms to broaden its funding and financing sources, within the parameters of Executive Board oversight.

3. This document provides the Executive Board with an update on the UNICEF strategic approach to alternative/innovative finance, including planned investments and resource mobilization targets.

II. Introduction

4. In 2021, the financing gap between what is needed and what is currently available to achieve the Sustainable Development Goals in low- and middle-income countries by 2030 was estimated at approximately $2.5 trillion per year.[1] The health, economic and social consequences of the coronavirus disease 2019 (COVID-19) pandemic will increase this financing gap further. The importance of protecting and enhancing existing resources – while finding new sources of financing to safeguard gains made, recover from losses due to the COVID-19 pandemic and global economic recession and achieve planned progress towards the Sustainable Development Goals – has never been greater.

5. New sources are available to reduce this financing gap. Compared with the broader universe of global finance, the estimated annual gap in funding for the Sustainable Development Goals is relatively small, equivalent to only 1 per cent of total global financial assets (which are currently valued at more than $378.9 trillion).[2] However, these financial assets are not being tapped for sustainable development or for meeting the needs of children.

6. The vision and ambition of UNICEF is that public and private financing for development work together to enable significantly greater volumes of funding and financing to flow to the places and activities that will make the greatest difference in radically accelerating results and impact for children.

7. This entails: (a) leveraging and enhancing the impact of public finance, the main source of financing services for children; (b) new partnerships and creative complementary financing solutions, including capital markets and integration of environmental, social and governance strategies; and (c) public and private funding and financing working together to achieve social outcomes.

8. The objective is to leverage substantive additional investments in priorities for children. Some of this will flow through UNICEF, and an even larger portion will

[1] Organisation for Economic Co-operation and Development (OECD), *Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet*, chapter 3, "The next frontier to financing sustainable development", OECD Publishing, Paris, 2020, available at: www.oecd-ilibrary.org/sites/095705eb-en/index.html?itemId=/content/component/095705eb-en.

[2] Ibid.

come from the broader range of public and private sources for funding and financing development outcomes for children.

III. Mutually reinforcing investments

9. The sources of funds to meet the Sustainable Development Goals will primarily come from two channels: public finance and private, domestic and international capital. As the global economy becomes more constrained, traditional sources of development and humanitarian aid will continue to shift in volume and scope. The continued ability of UNICEF to advocate for official development assistance minimums and to leverage additional sources of public finance, in conjunction with tapping private sector resources, will be essential to achieve the Sustainable Development Goals for children.

10. Public finance provides the basis for financing for development and is closely linked to key programmatic priorities. Alternative/innovative finance is a vital complementary tool to public finance. UNICEF should deploy alternative/innovative finance alongside – and as a complement to – existing development finance instruments.

11. By deploying alternative/innovative finance, UNICEF can more effectively turn private, domestic and international capital to the service of children and the Sustainable Development Goals. Alternative/innovative finance creates scalable and effective ways of channelling both public and private resources in support of development goals. It is also a key enabler of public-private partnerships that can accelerate results for children and progress towards the Sustainable Development Goals.

12. Innovative financing involves the use of a diverse range of solutions-driven mechanisms to increase the effectiveness and efficiency of financial flows that address global challenges. It can make use of a wide range of non-traditional mechanisms, including financing instruments, to raise additional funding and financing. Not all alternative/innovative finance instruments are debt instruments.

13. The strategy of UNICEF is to focus on mutually reinforcing investments in Public Finance for Children (PF4C) and Alternative/Innovative Finance for Children (IF4C[3]). Together, these can catalyse greater sources of financing and funding for sustainable development.

IV. Alternative/innovative finance for children in UNICEF

14. Within UNICEF, alternative/innovative finance for children refers to financing approaches and mechanisms that: (a) leverage additional resources for children through new financial instruments or apply existing instruments in a new way; (b) make resources work more effectively and efficiently in the interest of children; and/or (c) make resources more results-oriented to accelerate programmatic and operational solutions for children.

15. UNICEF is currently finalizing the UNICEF Innovative Financing for Children – IF4C Global Vision & Strategy, which sets out a clear vision, concrete goals and comprehensive plan for using more innovative methods to tap into a diverse spectrum of capital, including through the National Committees for UNICEF.

16. The Strategy aims to support innovative approaches that create synergies between public and private finance to increase resources for areas of work that can

[3] The acronym IF4C refers to the range of approaches and mechanisms that constitute alternative/innovative finance for children.

result in major positive impact for children. Specifically, it expects to accomplish the following:

(a) Align a greater share of the capital markets towards the Sustainable Development Goals for children. This includes new child-aligned global standards (e.g., the Child Bond Standard being developed with the United Nations Development Programme (UNDP)) and work with partners to incorporate the needs of children into current global financial standards (e.g., the SDG Impact Standards supported by UNDP);

(b) Amplify impact for children by using UNICEF-driven alternative/innovative finance instruments, scaling up current UNICEF and National Committee-driven financing initiatives (for example, the World Bank instrument and the Bridge Fund), building on current experiences and applying them in new contexts and on a wider scale;

(c) Accelerate additional capital for children through new-impact investment products, expanding partnerships with public and private sector partners to create new child-aligned impact investing opportunities in support of the Sustainable Development Goals and that consider both direct and indirect positive impact for children;

(d) Access global insurance and risk finance markets to protect the most vulnerable, piloting new child-focused risk financing instruments (for example, parametric risk insurance) and new innovative insurance products (for example, mobile health insurance) to protect the most vulnerable groups of children, young people and their families from the negative impacts of unexpected events, including natural hazards and catastrophes;

(e) Apply new innovative solutions that add value for children over the next four years. This includes using cutting-edge technologies to leverage new resource channels for children (for example, cryptocurrency donations and transactional fundraising opportunities).

17. Strategic deployment of alternative/innovative finance could help to leverage additional resources for UNICEF programmes and tap new sources of predictable capital at scale by creating financial instruments in collaboration with various partners.

18. If scaled up, alternative/innovative finance could also yield other important benefits, including increasing the sustainability and impact of existing resources by smoothing financial flows; boosting efficiency in terms of operations, sustainability and environmental impact; and enhancing global brand and appeal among entirely new audiences. This major shift is aligned with the approach of the UNICEF Strategic Plan, 2022–2025, which focuses on financing outcomes for children that go beyond the specific outputs driven by UNICEF programmes.

19. The objective of the new global strategy on alternative/innovative finance is to align $20 billion in environmental, social and governance investments towards child-centred priorities during the period of the UNICEF Strategic Plan, 2022–2025. This includes leveraging an additional $3 billion towards investments in UNICEF-driven alternative/innovative finance solutions for children over the next four years. Of this total amount, approximately $500 million will flow through UNICEF.

V. Implementing alternative/innovative finance for children

20. The use of financing instruments is an essential part of the forthcoming global strategy on alternative/innovate finance for children. Following the execution of the World Bank financial instrument as a pilot, UNICEF has considered several financing

opportunities. However, UNICEF is unable to pursue such opportunities without first addressing the opinion of the Office of Legal Affairs that, to engage in additional transactions similar to the World Bank instrument, the organization should first seek the approval of the General Assembly; and if the General Assembly were to authorize such transactions on an ongoing basis, UNICEF would then have to appropriately amend the UNICEF Financial Regulations and Rules to provide for such transactions.

21. Externally, UNICEF is taking the necessary steps with the General Assembly to provide authority to the Executive Board to approve the utilization of various financing instruments for fundraising and other critical operations of UNICEF on an ongoing basis. This will be within established risk management parameters and will include the amendment of the UNICEF Financial Regulations and Rules. UNICEF will update the Executive Board on the processes and timelines involved in these efforts; and it will also seek the support of members of the Executive Board in the process.

22. At the same time, successfully scaling up the use of alternative/innovative finance at UNICEF for the new Strategic Plan cycle requires an agile, streamlined internal governance and operational framework in UNICEF. This will facilitate cross-organizational collaboration, alignment with regulatory frameworks and comprehensive risk management for all initiatives related to alternative/innovative finance for children.

23. Coordination of the alternative/innovative finance for children work is a team effort, led by the Deputy Executive Director, Partnerships, in close collaboration with the Deputy Executive Director, Innovation, and will also involve the Deputy Executive Director, Management and the Deputy Executive Director, Programmes. A senior convener is working with key divisions and Regional Directors, technical teams and the National Committees to finalize and roll out an organization-wide operational plan aligned with the new global strategy.

24. As a key element of this reinforced approach, an innovative finance hub within the Office of Innovation is being established in Finland, with funding from the Government of Finland. The hub will support the goals of the new global strategy. It will serve as an incubator for new alternative social goods constructs. It will also be an environment for developing standards, a methodology for sourcing pipeline initiatives and impact reporting criteria with industry experts.

VI. Examples of collaboration on alternative/innovative finance for children

25. As noted above, in 2021, UNICEF and the World Bank issued a bond, a first-of-its-kind forward flow arrangement for a total of $100 million via capital markets, of which $50 million was made immediately available to support UNICEF programmes by accelerating private sector fundraising activities in emerging markets. Experience from this collaboration will provide key lessons for future initiatives (see “Update on the World Bank instrument to facilitate sustained investment in private sector fundraising”, UNICEF/2022/EB/6).

26. Sovereign donors, private sector partners and National Committees have contributed to the Vaccine Independence Initiative, which is the primary tool of UNICEF for accelerating availability of essential supplies, including vaccines and other non-immunization commodities, via pre-financing and special contracting interventions. In 2020 alone, the Vaccine Independence Initiative facilitated accelerated availability of a total of $308 million in essential supplies. In 2021, the Initiative continued as a critical innovative financing tool within the COVID-19 pandemic response, with a throughput of $576.1 million (as at 30 November 2021).

Importantly, the Initiative supports countries to mobilize domestic resources. The capital base of the Vaccine Independence Initiative is currently $234.7 million (as at 30 November 2021).

27. The National Committees are an important asset and resource for key alternative/innovative finance for children intiatives. One example of their work in this area is the Bridge Fund, run through a subsidiary organization of the United States Fund for UNICEF, which raises capital from impact investment markets to bridge the timing gaps that emerge between the commitment of a funder's support to UNICEF and the actual receipt of the funds by UNICEF. Since 2012, this Fund has bridged more than $450 million in transactions to accelerate UNICEF programming and the delivery of health supplies. The Bridge Fund capital base is currently over $83 million and is financed by 28 different private sector sources.

28. UNICEF recently launched the Nutrition Match Fund ($7.4 million), which matches donor financing to countries that purchase nutrition supplies using their own domestically mobilized resources. The objective of this Fund is to incentivize countries to prioritize the reduction of child wasting and to raise domestic resources for nutrition supplies, a commodities area that has historically been heavily reliant on donor funding. This Fund is currently in a pilot phase, and four countries have signed up to date. Resource mobilization to expand the resources of the Fund is ongoing to help it to keep pace with increasing interest from countries.

29. UNICEF and UNDP are rolling out a joint global finance initiative that supports the Sustainable Development Goals. This initiative leverages the strengths of UNDP on alternative/innovative finance and the experiences of UNICEF on financing and budgeting for social sectors, private sector engagement and innovation. It complements the collaboration the two agencies have with the World Bank and other international financial institutions. The initiative emphasizes public finance management, support to integrated national financing frameworks, private sector engagement and alternative/innovative finance.