



UNICEF
INNOVATIVE FINANCING FOR
CHILDREN – IF4C
GLOBAL VISION & STRATEGY
Handout

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UNICEF IF4C Strategy - Handout

UNICEF's new Innovative Finance for Children (IF4C) Vision and Strategy

sets out a clear vision, concrete goals and comprehensive plan that identifies more innovative ways to finance and invest across a diverse spectrum of capital, including through UNICEF National Committees, **to achieve maximum impact for children.**

This document provides the Executive Board with an Overview and Summary Update on UNICEF's strategic approach to, and current implementation of, **alternative/innovative finance for children (IF4C)**. It is primarily based on the *Update on the strategic approach to alternative/innovative finance* document, which has been prepared for UNICEF's Executive Board First regular session 2022.¹

OVERVIEW

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.

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. Therefore, UNICEF is pursuing alternative/innovative finance mechanisms to broaden its funding and financing sources, within the parameters of Executive Board oversight.

SUMMARY UPDATE

Background

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 year². The health, economic and social consequences of the coronavirus disease 2019 (COVID-19) pandemic have increased this financing gap even further: currently, the additional COVID-19 recovery funding needs of developing countries are expected to increase this gap by ≥\$1 trillion according to some estimates, with the

¹ The *Update on the strategic approach to alternative/innovative finance* document has been prepared for UNICEF's Executive Board First regular session 2022, 8-11 February 2022, agenda item 11. It is publicly available under: https://www.unicef.org/executiveboard/media/8796/file/2022-EB5-Strategic_approach_to_alternative_innovative_finance-EN-2021.12.27.pdf

² 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.

latest annual gap estimated between \$3.7 and \$4.3 trillion³, thus making the implementation of all 17 SDGs even more difficult. 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. New sources within the broader universe of global private sector finance are available to reduce this massive funding gap for the SDGs: compared with the current value of all global financial assets, which are currently valued at more than \$378.9 trillion, the estimated annual gap in funding for the Sustainable Development Goals is relatively small, equivalent to only 1 per cent of this total. However, these potential sources of additional funding and financing are not being significantly tapped for sustainable development, or for meeting the needs of children.

Definition of alternative/innovative finance for children in UNICEF

Within UNICEF, alternative/innovative finance for children refers to financing approaches, tools 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.

The objective of these new financing approaches, tools and mechanisms is to leverage substantial additional investments in achieving priorities for children, in the form of both funding and financing. Some of this new funding and financing will flow directly through UNICEF, and an **even larger portion will come from the broader range of partnerships with both the public and private sectors.**

IF4C is not intended to replace or cannibalize UNICEF's existing traditional sources of funding support, e.g., donations, grants and official development assistance (ODA), but to maximize impact for children by crowding in new additional resources, financing and partnerships. The IF4C financial instruments that UNICEF is currently using and proposes to use in future for this purpose cover a wide range of functions. [Due to the risks inherently associated with these novel tools and innovative ways to address financing, UNICEF management is focused on ensuring all initiatives developed under the IF4C Strategy are in strict compliance with its Financial Regulations and Rules as set by the executive board. Annex 1 contains a list of the most common categories of risks associated with UNICEF's IF4C priorities and offers some insights on measures we have adopted to mitigate these risks.]

³ Principles for Responsible Investing (PRI): *Closing the funding gap: The case for ESG incorporation and sustainability outcomes in emerging markets*. <https://www.unpri.org/sustainable-developmentgoals/closing-the-funding-gap-the-case-for-esgincorporation-and-sustainability-outcomes-inemerging-markets/9430.article>

Alternative/innovative finance for children at UNICEF - IF4C Global Vision & Strategy

UNICEF Innovative Financing for Children – IF4C Global Vision & Strategy, which has been recently launched at as an internal document at UNICEF, 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. The Strategy aims to support innovative approaches that create synergies between public and private finance to increase resources for areas of work that can result in major positive impact for children.

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**.

UNICEF proposes to accomplish the above through the following (includes example approaches/initiatives):



Align a greater share of the global private capital markets towards the SDGs for children by creating new child-aligned global standards and/or influencing existing standards.

- UNICEF is currently developing a child lens investing framework, aiming to unlock the full potential of the capital markets to help fill the SDG financing gap, create thought leadership, and field mobilization through innovative financing in support of children. It will demonstrate child-lens investing as a viable investment strategy and build a robust pipeline of high impact investable projects that are child-lens aligned.



Amplify financing to achieve the SDGs and accelerate results for children through UNICEF driven innovative financing instruments.

- The UNICEF USA Bridge Fund 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 Vaccine Independence Initiative (VII) 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.



Accelerate the alignment of private capital towards the SDGs for children by developing new impact investing opportunities.

- UNICEF launched the Nutrition Match Fund (\$22.3 million contributions committed until 2025), which matches governments' domestically mobilized resources for the procurement of nutrition supplies. 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.
- 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.



Access global insurance to protect the most vulnerable, especially children, from the negative impacts of unexpected events, including natural hazards and catastrophes.

- UNICEF's Today and Tomorrow initiative is an integrated climate change finance solution that, for the first time, combines funding for immediate climate resilience and risk prevention programmes for children today, with an innovative use of risk transfer finance provided by the insurance market for cyclone disasters tomorrow. Focusing on eight cyclone-prone countries, the \$30 million risk transfer financing platform seeks to support 15 million children, youth and women over an initial three-year pilot; to date, UNICEF has secured funding to finance the cost of the Initiative's risk transfer instrument from the German and UK governments under the newly launched G7-V20 Global Shield against Climate Risks.



Apply alternative solutions by using fintech and cutting-edge technologies to leverage new, innovative resource channels for children.

- The UNICEF CryptoFund is a new financial vehicle that allows UNICEF to receive, hold, and disburse cryptocurrency - a first for the UN. This cryptocurrency-denominated fund is a part of UNICEF's Innovation Fund, with investments made in bitcoin and ether. At the one-year anniversary of the launch of the CryptoFund, UNICEF has made 12 investments across eight countries, including in start-ups that are working on data science, extended reality & virtual reality, artificial intelligence and blockchain solutions.

Creating an enabling environment for successfully implementing, replicating, and scaling up the use of IF4C at UNICEF – what it takes

Forging new **strategic partnerships** with both the public and the private sector - and, equally, deepening existing partnerships - will be key to finding additional, flexible and incentivized methods and sources of sustainable funding and financing that can readily be drawn upon to protect children in the ways that matter most. These partnerships are also critical to achieving the ambitious goals and cumulative targets of this new IF4C Strategy.

Many of UNICEF's partners are willing to participate in and contribute philanthropic capital to UNICEF-led alternative/innovative finance initiatives on terms that are highly favorable to UNICEF in return for social impact. In addition to UNICEF's current public and private sector partners, there are also many potential partners who currently are not working closely with UNICEF and who do not factor children's needs into either their philanthropic or investing considerations. Applying IF4C opens up a new world of possible approaches to co-opt these current and new potential partners for the benefit of the world's children and, more broadly, to influence the flow of investments by the global financial markets towards children's needs and in alignment with the child rights agenda. This includes co-developing IF4C instruments that transfer risk to the markets and ringfence UNICEF resources and assets, et al.

Enablers, needs and limitations

Please refer to Annex 2 below for details of enablers/limitations to creating an enabling environment for scaling up IF4C at UNICEF.

Annex 1: Risks

Risk Categories*	Risk Description & Consideration	Mitigation Measures
Governance Risks	The IF4C strategy cut across several divisions and cones within UNICEF, and in many situations would require close collaboration with National Committees. This raises significant governance risks which requires various parts of UNICEF work together harmoniously, failure of which will result in negative impacts not only on the activities carried out under the strategy but also the strategy and more broadly UNICEF as well. Inadequate governance structure may also lead to political fallouts and/or loss in donor revenue.	Management and governance arrangements has been developed and deployed to support the implementation of UNICEF's global level work on alternative/innovative financing for children. Procedural and guidance document will be developed to guide UNICEF and National Committee personnel in identifying and carrying out their respective roles and responsibilities.
Financial Risks	The IF4C strategy requires innovative ways to finance and invest across a diverse spectrum of capital, including through UNICEF National Committees. This present unique financial risks to UNICEF. For example, unrealistic financial expectations may result in loss in donor contribution which may in turn cause an adverse impact on Regular Resources. In addition, transaction costs of some financial instruments may exceed anticipated benefits which may jeopardize the financial viability of the instruments or other IF4C activities. In extreme cases, UNICEF may be even held financially accountable for certain instruments.	IF4C activities will comply with UNICEF Financial Regulations and Rules and other regulatory framework governing the UN organizations. A project approval process has been developed to verify the feasibility and ensure an appropriate ROI. No project will be launched, and no commitments made unless express approval is given by IFC Directors further to that approval process.
Legal and Regulatory Risks	Many of the initiatives and plans proposed in this document presents innovative solutions that have not been previously implemented by UNICEF or other UN organizations. Many of these activities carry legal and regulatory risks of a specific nature, that are often unfamiliar to UNICEF and are different by an order of magnitude from the risks associated with traditional transactions or engagements.	Legal Office will be involved at an early stage of development of any IF4C initiative to identify any specific legal and regulatory concerns. External counsel will be engaged as needed to provide advice address risks pertaining to specific instruments or jurisdictions. Any legal arrangement must reflect the UNICEF Financial Regulations and Rules and other regulatory framework governing the UN organizations. Communication

		protocols concerning the IF4C collaborations will be developed and complied with by all UNICEF personnel (and to the extent applicable, National Committee personnel).
Reputational Risks	Successful implementation of this IF4C Strategy requires UNICEF actively engage with various external parties or providing technical support or otherwise contribute to the development of certain financial instruments. If the public associates UNICEF with these external parties or financial instruments, significant reputational risks will arise when these parties or financial instruments are under public scrutiny, for example including alleged blue washing, SDG washing or if the external parties are involved in controversial sectors or practices.	Comprehensive due diligence will be carried out prior to and during the life cycle of any IF4C initiative. Engagement under IF4C initiative will follow relevant legal templates with disclaimers distancing UNICEF from any endorsement or association with any partners or products. Communication protocols concerning the IF4C collaborations will be developed and complied with by all UNICEF personnel (and to the extent applicable, National Committee personnel).

* This table merely presents some common examples of risks that are often associated with IF4C activities identified within this document. Neither the risk categories nor the specific risks identified here are intended to be exhaustive. All these risks are interlinked and need to be considered in all contexts. Additional risk analysis should be carried out, and corresponding mitigation measures should be developed to address each specific project and context.

Annex 2: Enabling Environment

While ensuring an enabling environment is essential for achieving UNICEF's IF4C targets by 2025, this new IF4C Strategy stops short of going beyond basic recommendations for some key institutional barriers and enablers outlined below. Successfully moving this strategy forward entails prioritizing the following measures:



Leveraging the existing technical expertise and capacity of public and private sector partners, and building new alliances, including with the World Bank Group/International Finance Corporation, United Nations development partners (notably UNDP through the new Global Finance Flagship and United Nations Capital Development Fund through existing financing facility collaborations), the Global Impact Investing Network, key IFIs, bilateral donor governments, National Committees' private sector partners (e.g., philanthropic foundations), leading global experts and service providers.



Implementing a structured approach to convening internal stakeholders across UNICEF at all levels, and to working cohesively as a unified and complementary team. Effective management of various initiatives at the organizational level is important for scalability, as is ensuring a streamlined process for IF4C initiatives in the interests of time and effective use of UNICEF resources. Achieving this will require greater alignment between the Programme, Supply, Public Partnership, and Private Fundraising and Partnerships Divisions, and the Office of Innovation. Close collaboration with DFAM and the Office of Legal Affairs is also critical for success.

Addressing institutional issues and capacity, including those relating to:



UNICEF's overall risk appetite for scaling up IF4C across the agency: Greater intentionality and clarity are needed regarding choices made between the potential benefits and the risks of scaling up a particular IF4C innovation, as well as appropriate risk mitigation strategies. These could include leveraging the National Committees' independent structures and ability to take on a higher risk profile for IF4C solutions, and working with UNICEF DFAM, Legal Office, partners and experts to implement favourable terms for new ESG/impact investments that explicitly subordinate the purely financial achievement of ROI to priorities for children, to avoid 'SDG washing' and ensure the right results from deploying and scaling up these new types of IF4C solutions.



Implementing a continuous impact and risk assessment process to ensure fitness for purpose, including internal and external risk mitigation strategies, connections with sectoral work as well as due diligence.



Staffing up and resourcing of IF4C in order to build capacity, leveraging existing expertise and growing a culture of shared IF4C knowledge within UNICEF and the National Committees, with an emphasis on building staff knowledge on how IF4C concepts work and what they can actually achieve.

At present, UNICEF staff face the dilemma of either doing business as usual with grant funding or making the choice to proactively work towards expanding innovative partnerships in order to fund UNICEF-assisted programmes and leverage financing for child-focused investments and outcomes within the current challenging resource mobilization environment. Insufficient levels of resourcing allocated to the key areas of work on deploying IF4C will hinder the ability of the organization to deliver on its commitments.



Income recognition: Where relevant, a new modality will be created whereby funds raised from the private sector for IF4C initiatives can be recognized as a contribution to UNICEF, in particular for the repayment of financing.



Funding vs Financing: IF4C solutions do not necessarily add philanthropic revenue to UNICEF, unless they involve forward funding solutions or partnership agreements (e.g., portions of asset management fees donated to UNICEF). ROI for IF4C will therefore need to be measured based on impact that results from both funding and financing sources that IF4C helps leverage, including from first-time partners engaged through IF4C initiatives.



Obtaining authorization to utilize certain financing instruments. In order for UNICEF to utilize some financing instruments under this Strategy, especially those involving a debt component, this will require a significant change to the current legislative directives governing the financial management of the United Nations and UNICEF, for which special authorization from the United Nations General Assembly would be required. In May 2022, the Advisory Committee on Administrative and Budgetary Questions recommended the UNICEF Executive Board seek approval from the General Assembly to carry out a three-year pilot project to utilize certain innovative financing instruments. Successful implementation of these instruments relies on obtaining such approval.