



ECW Financial Update

For Information

- 1. Financial Report: Update on ECW's financial position and forecast.**

For Decision

- 2. First Response Reserve: The Executive Committee's no objection to the proposal to reduce the First Response Reserve to US\$15 million up to April 2018.**

FINANCIAL REPORT

- 1. Contributions:** By the end of 2017, ECW had mobilized pledges of approximately US\$172.2 million, all of which have been formalized through signed contribution agreements. Since the Executive Committee meeting in July 2017, ECW received pledges from new donors Australia, Germany and Bulgaria (additional funding to the Ukraine First Response), and additional pledges from existing donors Denmark, the European Commission, and Dubai Cares (additional funding to the Rohingya refugee First Response in Bangladesh). Contributors have disbursed US\$138.2 million, with a net total of US\$134.3 million received into the ECW account (after deducting the administrative agent fee for UNICEF).

Table 1: Contributions summary

Contributor	Agreement Amount (USD Equivalent)	Contribution through SCA or Bilateral	Earmarking summary	Contributions Received (USD)	Net Contributions Received (USD)	Contributions Receivable
Netherlands	7,430,998	SCA	N/A	7,430,998	7,356,688	-
UK (DFID)	37,116,090	SCA	N/A	22,797,819	22,569,841	14,318,271
Australia	7,633,588	SCA	N/A	1,527,973	1,512,694	6,105,615
Denmark	10,500,378	SCA	UN Agencies	10,500,378	10,395,374	-
US State/PRM	10,000,000	SCA	Refugee context(s)	10,000,000	9,900,000	-
USAID	10,000,000	SCA	Not for Syria Investments	10,000,000	9,900,000	-
Dubai Cares	2,500,000	SCA	Secretariat	1,500,000	1,485,000	1,000,000
France	2,275,313	SCA	Lebanon	2,275,313	2,252,560	-
Dubai Cares	500,000	SCA	Rohingya crisis	500,000	495,000	-
BMZ	18,723,407	SCA	Not First response nor countries where EU sanction go beyond UN Sanctions	18,723,407	18,536,173	-
Bulgaria	118,483	SCA	Eastern Ukraine	118,483	117,298	-
Norway	14,018,521	Bilateral	Syria, Chad, Yemen, Secretariat/FSO	14,018,521	12,980,112	-
Canada	15,037,594	Bilateral	Ethiopia, Chad, Yemen, IASC Cluster, Secretariat	15,037,594	14,387,077	-
USAID	1,000,000	Bilateral	Secretariat	1,000,000	925,926	-
EC	18,957,346	Bilateral	N/A	18,957,346	17,717,146	-
Denmark	16,408,080	SCA	N/A	3,821,656	3,783,439	12,586,424
Total	172,219,798			138,209,488	134,314,328	34,010,310

2. **ECW Commitments:** ECW has approximately US\$111.8 million in commitments (see Table 2), which includes:
 - US\$57.5 million for the Initial Investments in Chad, Ethiopia, Syria, Yemen and with the Global Partners (IASC Education Cluster, UNHCR and Inter-Agency Network for Education in Emergencies).
 - US\$26.5 million for First Response (92% disbursed), comprising US\$19.5 million for the seven First Response investments agreed by the HLSG last April (Peru, CAR, Somalia, Madagascar, Ukraine, Uganda and Afghanistan); and US\$7 million for rapid response to emerging crises from September 2017 (Bangladesh, Nepal and Palestine), funded from the First Response Reserve.
 - US\$22.9 million remaining in the First Response Reserve (from the \$30 million agreed by the HLSG in April 2017).

Table 2: ECW financial forecast

Forecast (in US\$)		
Assets and Pledges		
Assets received - Net	134,314,328	
Outstanding value of signed contribution agreement - Net	33,670,207	
Total projected assets - Net (estimated)	167,984,535	
Commitments		
	Allocated	Disbursed to recipient
Operational design work and 2016 cost	925,294	925,294
Recurrent costs 2017 (Secretariat and Funds Support Office budget)	3,886,521	3,886,521
Initial Investments in Yemen, Syria, Chad, Ethiopia and Global Partners (IASC Education Cluster, UNHCR and Inter-Agency Network for Education in Emergencies)	57,500,000	27,368,787
First Response Window (Peru, CAR, Somalia, Uganda, Afghanistan, Madagascar, Ukraine, Bangladesh, Nepal, and Palestine)	26,527,931	24,444,940
First Response Reserve (for new emergencies)	22,932,482	-
Total commitments and total	111,772,228	56,625,542

3. **Available for new commitments:** With total approximate ECW assets (net) of US\$167.9 million, and commitments of US\$111.8 million, ECW has approximately **US\$56 million** available for new commitments at the start of FY 2018. As set out in the Secretariat budget paper, ECW requires US\$5.2 million in 2018 to finance the Secretariat and FSO operating costs, and to support financial and programmatic monitoring of grantees. This means approximately **\$50.8 million** will be available for new programme commitments in 2018. The Secretariat workplan sets out the ambition to develop ten new, multi-year programmes in 2018; development towards these programmes is underway in Uganda, Lebanon and Afghanistan. We will require additional contribution agreements from donors in place over 2018 to enable us to commit to the number of new programmes envisaged in the 2018 workplan and the draft ECW Strategy.
4. **Earmarking:** Of the US\$172.2 million in signed commitments to ECW, **US\$87.5 million (51%) is unearmarked and US\$84.7 million (49%) includes earmarking**. Earmarking ranges from narrower earmarking to one specified country only, to broader earmarking such as to UN agencies or to any country except Syria (see Table 1). Of the **US\$50.8 million** available in uncommitted assets, the earmarking for this funding is approximately:
 - US\$2.25 million for Lebanon (all received into the ECW account)
 - US\$7.5 million not for First Response or for countries where EU sanctions go beyond UN sanctions (all received into the ECW account)
 - US\$41 million unearmarked (US\$8 million received into the ECW account)

5. Given the current proportion of unearmarked assets, ECW is currently able to manage the earmarking. But given only US\$8 million of contributions received into the account (and unallocated to existing commitments) is unearmarked, there may be a challenge this year with ensuring sufficient funding in the account to enable timely disbursements to new grant recipients, in line with earmarking requirements.
6. Unearmarked funding allows for the most efficient use of finances and staff resources in support of the ECW Strategy. Narrow earmarking to particular countries risks diverting ECW towards individual donor priorities, rather than to the priorities set out in the agreed ECW Strategy. But we recognize that earmarking can attract important additional financing and that some donors have political constraints or organizational policies which require earmarking. We propose that the Executive Committee monitors donor earmarking to ECW going forward, and reviews the current earmarking policy in future if the constraints of earmarking threatens the ability of the Secretariat to implement the ECW Strategy (the current Corporate Risk Framework also reflects this potential risk).
7. **Financing through SCA and Fund:** We also encourage donors to fund through the ECW Fund governed by the Standard Contribution Agreement, where possible, rather than bilaterally through UNICEF. This allows for fewer transaction costs and more streamlined management of donor payments and reporting, and of disbursements to grantees. It is also better value for money for programme implementation, given that most of the administrative fees through the SCA are for grantee programme implementation, whereas the UNICEF bilateral administrative fees are held by Headquarters.

FIRST RESPONSE RESERVE

8. The policy for use of the First Response Reserve up to April 2018 (see Annex) states that the Secretariat would update the Executive Committee on the First Response Reserve, along with any recommendations for its amount and use. As set out above, there is currently US\$22.9 million remaining in the First Response Reserve up to April 2018.
9. **We now recommend that this Reserve be reduced to US\$15 million up to April 2018.** Our analysis suggests that an average of US\$15 million per year would be required for ECW to respond to urgent, rapid-onset education appeals at 25% of the appeal. From September 2017 to January 2018, we have disbursed US\$7 million from the First Response Reserve. A First Response Reserve of US\$15 million should therefore be sufficient to cover the likely need for ECW response for the three months up to April 2018, and still leave significant margin for us to respond to a higher-than-normal requirement for emergency response.
10. Reducing the First Response Reserve to US\$15 million will free up US\$7.9 million of (mostly unearmarked) contributions received to commit to new, multi-year programmes and to support timely payments to grant recipients. The level of the First Response Reserve from April 2018 onwards is being agreed through the ECW Strategy process.

ANNEX - ECW Financial Update

Use of ECW First Response Reserve (interim proposal from November 2017 to cover up to April 2018)

Summary

The ECW Secretariat has set aside a \$30 million reserve, as agreed by the Executive Committee and High Level Steering Group in April 2017. It is proposed that this reserve be used to finance allocations through the First Response window up to April 2018. ECW will use this reserve to support flood response in Nepal (\$1.9 million) and refugee response in Bangladesh (\$3 million). After these responses, there will be \$25.1 million remaining in the First Response reserve. We do not envisage further funding to the First Response window outside of the reserve, since other ECW financing will be focused on multi-year programs.

The Secretariat will provide an update and any further recommendations to the Executive Committee in January on the First Response window and use of the reserve. The ongoing process of developing the ECW Strategy – due to be approved in April 2018 - will define the use and financing of First Response up to 2021.

The Secretariat proposes that until the new ECW Strategy is fully in place in April 2018, the First Response window and reserve be used to respond to sudden-onset crises. This means that the Secretariat will consider First Response support if the crisis is new; if there is a rapid worsening of a pre-existing crisis (as evidenced, for example, by significant increases in displacement, damages to school infrastructure or other factors which would have a serious impact on the number of children unable to attend school); or if interventions are time-critical. Multi-Year plans and funding will be used for protracted crises.

Rationale for holding a First Response reserve

Every year, the world is affected by around 430 natural disasters. While many of these are of limited magnitude, around 30 of them yearly create broad destruction, including of education infrastructures, and generate large levels of displacement (over 100,000 people displaced). Further, over the past 10 years, there have been 10 Flash appeals (in the OCHA financial tracking database) in response to new conflicts or sudden upsurge in existing conflicts. These sudden onset crises are unpredictable in location, timing and, to a certain extent, magnitude. In this context, the First Response reserve can help ECW react to new and rapidly escalating crises in a timely manner.

The ECW Secretariat is currently exploring alternative modalities of financing to help better manage the high variability in yearly needs for sudden-onset crises, which – in time - would not require us to hold an amount in reserve. But until these alternative arrangements are in place, dedicated financing from with ECW's budget will enable ECW to respond quickly and flexibly, anywhere in the world - a key element of ECW's added value for education in crises.

Financing level and feasibility

It is proposed to fund on average 25 percent of the education need, though each response will be tailored to the specific context and needs. The indicative share for CERF is 10 per cent. A higher indicative share was chosen for education because on average education appeals are less funded than appeals for other sectors. While total amounts funded as compared to amounts requested are on average of 68 per cent when all appeals are considered, only 39 per cent of education amounts requested are funded, on average¹. Funding

¹ OCHA financial tracking database.

25 per cent of an appeal through ECW’s First Response window could go a long way toward reducing the gap between the funding level of education appeals and that of other appeals².

The average yearly education appeal “ask” for natural disasters and new or rapidly worsening conflict/refugee crises has been around \$58.8 million –with large variations between \$6.4 and \$215.9 million a year³. If 25 percent of these (approximately) is covered by ECW, then total yearly ECW expenses for sudden onset crises will vary from barely a couple of millions to \$54 million, with an average of around \$15 million. For a period of 7 months, from beginning October to end April, the largest education appeal amount was \$141.7 million. Twenty-five per cent of this amount is \$35 million. This means that if ECW funds 25 per cent of all education appeals for sudden-onset crises, \$30 million dollars may not be sufficient for the coming 7 months should there be unusually large/numerous sudden-onset crises during that period. This risk can however be managed satisfactorily by agreeing in advance that any single appeal exceeding \$40 million should only be 15 per cent funded⁴.

First Response operations and approvals

The approvals and operations of the First Response window – funded through the reserve - will proceed in general according to the existing governance and operational frameworks for ECW. However, we propose that First Response now be used only for rapid-onset crises, which may impact some of the operations of the First Response Window, including which modality is used.

We judge that one-year, rapid funding is best suited to emerging crises, where urgent response is required to support children’s protection and minimize the disruption to children’s education. But – in line with the outcomes of the World Humanitarian Summit – multi-year funding is more suited to protracted crises, in order to build resilience and the link between humanitarian and development approaches more effectively. Only multi-year funding will fully achieve ECW’s core objectives, including political commitment, joint planning and response across humanitarian and development actors, and strengthening capacity. Where ECW undertakes First Response investments in protracted crises (or likely protracted crises), we will also plan for a multi-year program to build on this, as in the current case of Uganda.

Crisis selection: As set out in the operational framework, the Secretariat will actively monitor classifications by the IASC, UNICEF and UNHCR and where there are escalations, we will approach coordinating partners to ensure awareness of ECW and to test the demand and need for ECW support. ECW will also respond to demands emanating from in-country stakeholders regarding emerging or escalating crises. This will usually be the Resident Coordinator /Humanitarian Coordinator, though ECW may also be approached by the government, clusters, local education group or other main local aid coordination body dealing with education in country. The Secretariat will use the criteria set out in the operational model for assessing crises. We will no longer use the methodology for country selection developed for the initial set of First Response allocations in April 2017, given we are now focusing on rapid-onset crises only. This methodology will be more suited to support our selection of multi-year protracted crisis countries.

Working with partners and improving coordination: Incentivising and supporting improved in-country coordination will be a key priority for ECW First Response funding. Our implementation of First Response to date has shown that in-country coordination can often be improved, and that the ECW Secretariat and stakeholders have a key role to play in supporting this. We will ensure that ECW funding is allocated only after an inclusive, in-country process of prioritization and selection of projects and grant/implementing

² Assuming everything else remains the same, then amounts funded post-ECW grant would be $39\% + 25\% = 64\%$ of the total, almost the same as for all sectors taken together (68%). Even though other donors’ behaviors will likely be influenced by ECW’s presence, such an amount of funding would provide a substantial help to the country’s education in emergency response. On the other hand, a grant of 10% of the appeal as CERF provides, may be too limited given the magnitude of education financing gaps.

³ The period considered is 2007 to 2016.

⁴ Peaks in education funding needs tend to be dominated by one or two very large appeals.

partners, in line with country-level response plans and building on existing in-country coordination mechanisms⁵. We will seek to achieve a diversification of partners across our First Response investments. ECW funding will only be allocated to HACT-assessed organizations, as previously agreed.

Advocating for education in rapid-onset crisis response: The ECW Secretariat will continue to engage with RC/HCs to advocate for education as a priority in humanitarian response plans and appeals, and with all partners to advocate for a greater share of humanitarian funding (e.g. CERF applications) for education. We ask all ECW stakeholders to advocate within their own organizations and beyond for the prioritization of education in emergency response.

Approvals: As set out in the ECW governance framework, the ECW Director will approve investments up to \$3 million, and will recommend to the Executive Committee for approval investments above \$3 million or where UNICEF is the grant agent.

**ECW Secretariat
November 2017**

⁵ eg. government-led working group, Local Education Group, Humanitarian Country Team, inter-cluster coordination mechanism, etc.