

**Statement by Diane Kepler,
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to the ECW Executive Committee**

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Introduction

UNICEF is very much interested in continuing to host the ECW fund. We believe that we have met, and hopefully exceeded, ECW's expectations and hope to have an opportunity to further improve our services, in consultation with ECW, going forward.

Regarding the financial hosting, as already confirmed in our written responses to the review, UNICEF will essentially "match" the fees that UNDP/MPTFO has indicated that they will charge for financial hosting. Specifically, should UNICEF be selected as the financial host, we will (1) credit interest income on the fund balance back to the fund and (2) charge the 1% trustee fee on a "sliding scale".

We are not comfortable with splitting of the hosting function, between physical and financial, and we believe that it will result in higher combined hosting costs for ECW. While we fully appreciate the need to carry out a hosting review, we never contemplated a scenario where the hosting might be split, going forward, between "financial host" and "physical host". We are concerned that having two "hosts" will make it challenging for donors and stakeholders to understand the respective roles of the ECW Secretariat, UNICEF and UNDP/MPTFO.

I will provide further detail on the cost implications, as I see it, but first some background the regulatory environment in which UNICEF provides hosting services, which is virtually identical to that of UNDP, and the rationale for the current cost recovery structure applied by UNICEF to hosting services.

Background on the regulatory environment in which UNICEF provides hosting services

The vast majority of contributions to UNICEF (and to UNDP) are contributions to the programmes and consist of unearmarked and earmarked contributions. In both cases the funding, whether earmarked or unearmarked, **is spent in accordance with the strategic plans, integrated budgets and country programmes approved by the Executive Board, as well as our respective financial regulations and rules and policies.**

So while our overarching responsibility is to deliver on the UNICEF programme, our financial regulations and rules also allow us to act as "trustees" – i.e. to accept contributions "in trust" and disburse them in accordance with instructions from a third party, as long as the overall intent of the funding is consistent with our mandates. Where we are a "trustee" we

are not required to comply with any of the above requirements because the contribution is to UNICEF “in trust” -- not to the UNICEF programme. For example, we are not required to apply HACT to the assessment, monitoring and financial reporting of implementing partners. Rather, the assessment and monitoring of implementing partners will be governed by the TOR of the fund. Depending on the risk appetite of the governing body of the fund, these procedures may be less rigorous, or more rigorous, than HACT.

Also, we are not required to apply the UNICEF/UNDP Executive Board decision on cost recovery. We are required, however, to ensure that our costs of acting as a trustee are fully covered.

For UNICEF, and I believe UNDP as well, this trustee role can take many forms. An example is provision of procurement services: UNICEF, through our Supply Division, acts as a procurement agent in that we accept orders from clients and place orders from supplies. For this service we charge a “handling fee”, which can range from 3-5% depending on the complexity. Another example is where we act as the Administrative Agent for a UNDG joint programme. In this case we receive contributions from donors to the JP, place them in trust, and then transfer to participating UN agencies in compliance with the instructions of the JP steering committee. For this service we charge an administrative agent fee of 1%, as per the approved United Nations Development Group (UNDG) guidance which applies to all joint programmes and MDTFs.

Cost recovery structure where UNICEF is a host

So now we come the case where UNICEF is hosting a fund. In 2016, the UNICEF Executive Director agreed to provide “hosting services” to ECW fund, as well as to the End Violence Against Children (EVAC) fund, and we **invested considerable time in defining and documenting the governance for the fund and UNICEF’s responsibilities as “host”**. The end result was the Standard Contribution Agreement, which was signed by donors who wished to contribute to the funds.

While there are some similarities between the scope of the “hosting services” and those of an Administrative Agent for a UNDG joint programme or MDTF, the key differences are:

- (1) the recipients of the ECW fund include national CSOs as well as UN entities.
- (2) Given that the grantees could include national CSOs, we needed to precisely define UNICEF’s responsibility with regards to the assessment and monitoring of the CSOs.
- (3) The scope includes physical hosting of ECW secretariat staff. Physical hosting includes providing office space, HR services (recruitment, payroll, performance

management), travel services, procurement services, and internal audit services amongst others.

In 2016, at the time we were defining UNICEF's role, we did not know the likelihood for future growth of either ECW or EVAC and so **in setting our "cost recovery" rates we simply sought rates that were similar for comparable services**. We decided on a 1% trustee fee given that the scope of the responsibilities was reasonably comparable to that of an Administrative Agent.

We also realized that, in order to provide the full scope of hosting services to both ECW and EVAC that we would need to supplement our existing staff capacity. And so, in early 2017 we created a new two person unit, located within the Division of Finance and Administration and reporting to the Deputy Director, referred to as the Funds Support Office (FSO). We made the decision to split the costs of the FSO 50/50 between the two funds.

In addition to the 1% trustee fee, **UNICEF charges ECW for the cost of the physical hosting services**. In 2016, when it was unclear as to the future growth of the ECW and EVAC secretariats, we decided that a fair reimbursement was **8% of the cost of the ECW and EVAC secretariat budgets**. Given that most of the support provided by UNICEF is directly linked to the number of secretariat staff, using the ECW and EVAC secretariat budgets as the basis for calculating the UNICEF cost recovery seemed fair, and 8% seemed a reasonable percentage given that 8% is the amount charged by UNICEF on earmarked contributions to programmes. But, honestly, at the time, we really had no idea the extent of the support services that we would be providing. And now that the ECW secretariat has expanded to 22 staff in 2018 from 9 in 2017, UNICEF needs to reassess the actual cost of physical hosting.

If we are no longer the financial host going forward, then **UNICEF will need to very precisely assess the real cost of providing physical hosting services**. Until now we have not been too concerned about possible "under charging" for physical host services given that we were also receiving a 1% trustee fee. As indicated in our response, if we are no longer the financial host then we will charge ECW the full "market value" of the office space which until now, has been provided free of charge.

Finally, there is a statement in the presentation that was made to the Executive Committee that there will be a saving of 1% on the cost of physical hosting, (reduction from 8% to 7%) in the event that the financial hosting will be moved from UNICEF to UNDP. This is not correct.

Country Based Pooled Funds (CBPFs)

The presentation to the Executive Committee also indicates that **keeping UNICEF as "financial host" will mean higher trustee fees for the CBPFs**. Again I think there is a

misunderstanding. To my understanding, a CBPF is created when donors to ECW choose to earmark their contributions to individual countries. Assuming that these donors sign SCAs with UNICEF (or slightly modified SCAs to accommodate the requirements of a CBPF), then **UNICEF will charge the usual 1% trustee fee**, which will be charged on a sliding scale going forward.

I would expect that MPTFO would have the same approach but, again, if my understanding is incorrect, UNICEF will match the MPTFO fee structure.

Cost of assessments of NGOs

The presentation to the Executive Committee states that UNDP charges \$3,000 for each NGO eligibility review and that ECW uses UNICEF providers for assessments, at costs between \$7,000- 9,000 per NGO.

Let me clarify the UNICEF fees. ECW uses UNICEF's existing HACT assessments at zero cost to ECW. To date ECW has relied on UNICEF HACT assessments to transfer funds to 31 NGOs. For UNICEF, an assessment fee would apply only where the grantee identified by ECW does not have an existing partnership with UNICEF, or if ECW chooses to do an assessment outside of the planned process of a UNICEF country Office. In these cases, UNICEF can make available to ECW, assessments with national level companies which are much less expensive (around \$1,500 - \$3,000 per NGO) as compared to the assessments with a global company (\$7,000-\$9,000 per NGO).

Bilateral agreements

For three donors, Canada, Norway and the EU, **UNICEF signed a “bilateral” agreement rather than the SCA**. While UNICEF's very **strong preference was for all donors to sign the SCA** these three donors advised us that while they very much wanted to contribute to ECW there were certain clauses that they had problems with and, until the problems were resolved, asked if UNICEF would be willing to sign a standard bilateral agreement with an “earmarking” to the ECW fund.

This request was very problematic for UNICEF, and for me specifically, because UNICEF's responsibilities are significantly different between accepting a contribution to the UNICEF programme and accepting a contribution to ECW with UNICEF as “host”. Given that the form of the bilateral agreement was one of a contribution to a UNICEF programme, UNICEF has no choice but to account for and manage the contribution in compliance with the regulations, rules, and policy that apply to UNICEF programmes. We did our best to find a pragmatic compromise that satisfied UNICEF regulatory requirements while, at the same time, **respected the donors' intent**, which was that the contribution was to the ECW Fund.

One consequence is that, on the “hosted funds” site of the UNICEF transparency website, you will see only contributions to the ECW fund that were signed using the SCA. But we understand the need for stakeholders to see all contributions, whether made using the SCA or the bilateral agreements, and so just this week have agreed to implement an enhancement to the website so that it shows the funding received, and distributed, via bilateral agreements.

Norway has since confirmed that it will sign the SCA and I am **following up with Canada,** and the UNICEF legal office, to better understand the remaining issues and how we can resolve them. **For the EU** there is no absolutely no difference in the legal status between UNDP and UNICEF. And so if the EU is unable to sign the SCA with UNICEF then, similarly, it will be unable to sign the SCA with UNDP. That said, I know that the EU does sign a slightly modified version of the UNDG SAA, and has with UNICEF and other UN entities. So perhaps the solution is to develop a modified SCA, for the EU, that is closer to the SAA.

Conflict of Interest

Lastly, I want to address the COI issue. I understand that donors and stakeholders are concerned that **UNICEF is not perceived as impartial host** given that much of the ECW funding is allocated to UNICEF country offices to implement.

I want to reassure you that the UNICEF FSO faithfully acts on all allocation instructions communicated to us ECW. I have very little knowledge of the process leading up to an allocation decision and I am mindful that, should I ask questions about the process, even if simply to further my understanding, the questions could be perceived as an intent to influence the process.