

# INNOVATIVE FINANCING FOR THE ELIMINATION OF HARMFUL PRACTICES

## GLOBAL ENDOWMENT AS A TOOL TO ELIMINATE HARMFUL PRACTICES



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### 01 | BACKGROUND

UNICEF has conducted scoping exercises to explore promising innovative financing models that would support gender equality and the empowerment of girls. These exercises were undertaken in collaboration with the female genital mutilation (FGM) Donor Working Group (DWG) and a global advisory group of experts

from institutions, such as The Wallace Global Fund, World Bank, Swiss Agency for Development and Cooperation, Better Finance, UBS Optimus Foundation and the Swedish International Development Cooperation Agency (Sida). One of the options that emerged during the scoping exercises and ensuing consultations was to develop a special purpose fund to support the global efforts in ending harmful practices (FGM and child marriage). This note provides an analysis of the special purpose fund mechanism and outlines how UNICEF may use this instrument in financing efforts in ending harmful practices in line with the UNICEF Child Protection Strategic Plan 2021–2030.

## 02 | INTRODUCTION AND CONTEXT

Endowments (or endowment funds) are legal entities entrusted with financial resources whose proceeds are used for funding charitable activities. Endowments enjoy full legal subjectivity and are legally and financially separated from the organizations/institutions whose charitable activities they financially support. Endowments are traditionally present within social sector institutions in the United States (US) and have only recently been emerging in other countries. In the US, universities and hospitals usually have endowments set up to support their work, where privately owned non-profit entities are often highly dependent on the endowments and their performance. Endowments have traditionally been successful in generating funds, even in years when financial markets have underperformed, due to the effective investment strategies utilized. For instance, US education endowments' net annualized average returns over 25 years were 7.7 per cent in 2020, with 2021 being the best year with returns for many endowments going up to 20 per cent.

Endowments provide financing flows for defined periods of time or perpetuity and usually compliment other financial flows, providing an additional financial buffer in case of high volatility of other financing sources. They usually manage restricted funds which may only be invested in financial market products, and whose returns are used for the purposes that are clearly stipulated by the donors. In some cases the purpose may be unrestricted, so the beneficiary may use the resources without conditions attached to them.

## 03 | TAXONOMY OF ENDOWMENTS

In its pure form, an endowment receives funds that it invests in financial markets and the returns are used to fund the charitable activities of the beneficiary organization (institution). In the case of time-limited endowments, the funds are provided for a limited period of time, and the proceeds over that period of time are used to fund charitable activities, where the principal will be returned to the donor upon the expiration of the contact. Finally, there are endowments that are considered quasi-endowments, used as reserve funds, unrestricted gifts, or financial windfalls within

the endowment fund which may be used to finance charitable operations. As the decision to use these funds may be a one-off from the current board of trustees and may be reverted in the future, it influences the classification of the endowment. Endowments are usually linked to social sector organizations, although there may be examples where the government and/or legislature may be a founder or co-founder of the endowment. For instance, the (US) National Endowment for Democracy is funded largely by the US Congress, although registered as a non-profit organization.


## 04 | GLOBAL ENDOWMENT FOR THE ELIMINATION OF FGM AND CHILD MARRIAGE

Elimination efforts for both FGM and child marriage have largely been supported through the two UNFPA-UNICEF global programmes<sup>2</sup> as well as the EU-UN Spotlight Initiative, with the EU financial commitment of €500 million, to address gender-based violence (GBV). Both programmes were delivered in phases that were given positive evaluations. The programmes have shown that there is a small group of international donors who are committed to ending FGM and child marriage, and have regularly contributed to the programmes, although the annual commitments have varied year-on-year. The EU remains the single largest donor so far, followed by the US, Canada and the Nordic countries. In the recent years, some other donors have been showing more interest in supporting the elimination agenda for harmful practices.


The experiences of the two global programmes and their attractiveness to the established bilateral donors, suggests that the global endowment financing option may be viable. Whilst the global programmes must manage and spend the allocated resources within an agreed time frame, a global endowment would be able to invest resources and direct proceeds into the elimination of FGM and child marriage projects. In the case of global endowment for ending FGM and child marriage, there are two possible organizational forms that can be instituted: a. true endowment; and b. hybrid endowment.

### 4A. A TYPICAL ENDOWMENT FUND

A typical or 'true' endowment exists when a donor provides funds for an endowment, which will be invested and whose proceeds will be used for funding



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charitable purposes, outlined in the endowment's by-laws. A true endowment is set-up as a perpetual vehicle whose returns are to be used, whilst the principal remains untouched. In other words, the investment proceeds have to cover the operational and other costs and provide a hefty surplus that will be used to invest in achieving the stated goals.

## 4B. PROPOSED HYBRID ENDOWMENT

The Global Endowment may be incorporated as a **hybrid endowment**, where a defined proportion of annual funding is added to the endowment investable funds and a part used for the operational purposes and invested immediately into ending FGM and child marriage projects, and contributing immediately to the desired positive outcomes. The global endowment should be established as a perpetual undertaking, following the eradication of FGM and child marriage, it would then focus on eliminating other harmful practices and (hazardous) social norms and ultimately be devoted to strengthening general child protection efforts.

### 05 | ESTABLISHING A HYBRID ENDOWMENT FOR ELIMINATION OF FGM AND ENDING CHILD MARRIAGE

To establish Global Endowment the first step would be to:

- Approach the existing or contributing donors including the bilateral, multilateral, public and

private. Based on the current funding of global initiatives, between US\$30 and 70 million may have been spent by the donors on the elimination of harmful practices programmes. Public bilateral donors are most active, although there are opportunities to explore with the international philanthropic donors, as well. The hybrid model can be elaborated offering the donors not only to support the endowment growth and ensure the long-term support for ending the harmful practices, but also to support immediately the larger projects through the syndicalization mode, as the dual nature of the Global Endowment allows. Following the collected support pledges, the major industries may be approached to explore opportunities for building a long-term relationship where the Hybrid Global Endowment may be facilitated through the long-term Corporate Social Responsibility (CSR) relationship. Financial and fashion sector companies may be a natural partner, although the experience of some other industries suggest that any multinational company may, in fact, be a very good partner.

- In parallel with the securing additional commitments and support, activities should be undertaken to legally register the Global Endowment, ensuring that it meets all the requirements of the host country.
- Also, to facilitate further activities and growth the Global Endowment, efforts to ensure that it is a data-driven operation is needed, as well as to see that FGM and child marriage activities data are regularly collected, analysed, disseminated and utilized in reprogramming to support the overall ability of the Global Endowment and its founders to lead evidence-based policies and see that outcomes may be developed, to support the engagement with other IF mechanisms (products).



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## 06 | POTENTIAL AND NATURAL PARTNERS FOR THE HYBRID ENDOWMENT FUND

The most natural and best potential partners for the global fund would be: (1) International public sector donors (starting with the members of the FGM and child marriage DWG); (2) Private sector (through their CSR activities); and (3) Foundations and charities (international, regional and national).

- The most natural (founding) partners may be **international public sector donors** who have shown a high level of commitment to supporting the agenda to end FGM and child marriage. As already stated, the major contributors have been the EU, US and the Scandinavian countries. France, Italy, Ireland and other traditional OECD DAC donors have shown intermittent interest in FGM and child marriage in the past, although may be active in supporting the general gender equality (and/or GBV) agenda. Although non-DAC member countries have not been active in gender equality, it may be worth exploring their interest and offer them an opportunity to contribute with defined annual contributions commensurate with their financial capacity and programme priorities. Securing the commitment

from the FGM and child marriage DWG and scoping other potential donors should provide initial seed funding and annual revenues that would ensure minimum functionality of the fund.

- A second important partner is the **private sector**. At present over 90 per cent of Forbes 500 companies report on CSR, and they spent over US\$20 billion on CSR in 2017.<sup>3</sup> Financial and fashion sector companies may be a natural partners, although the experience of some other industries suggest that any multinational company may, in fact, be a very good partner (e.g., Coca-Cola, MasterCard, Nike and so on). The fashion industry has traditionally been geared towards women and women are the major customer group. Support for other, less fortunate women who are subjected to harmful practices, may make an appealing CSR investment case. The financial industry being usually very active in CSR/impact investing is also a very good partner, but at the same time is approached by other UN agencies and areas of development focus (climate change, environmental protection, etc.).
- A third natural partner may be **grant giving charities**, which may wish to improve their own impact footprint by contributing to the global revolving fund, either through a one-off donation or through the recurrent annual contribution. Some of those most committed are members of FGM and child marriage DWG, and they may also serve as advocates and approach other potential foundations/charities on behalf of the Fund.