

Discussion Paper: CHF Cash Management

During the 12 November 2008 CHF Advisory Group (AG), the UNDP Fund Management Unit (FMU) was given the task of developing a discussion paper to report on the cash management arrangement of CHF for UN agencies and NGOs.

Excerpt from the 12 November 2008 CHF AG Minutes

1. Fund Management Unit Update, CHF 2008 Financial Update, Cash Advance

The Deputy Humanitarian Coordinator for the South (DHC-S) proposed that NGOs as a rule receive 80% of the total allocation in a first installment rather than using quarterly disbursements reflecting absorption capacity as is currently the practice.

UNDP FMU reported that 80% to 100% cash advance is currently given to NGOs with a six-month implementation period and an overall allocation that does not exceed US\$150,000. This issue was addressed and agreed by the Advisory Group and NGOs following the 2006 external evaluation of the CHF and has been in use and the practice since 2007.

Arguments were provided by FMU not to extend this to all NGO allocations, aiming at demonstrating that the current practice ensures sound cash management of the fund. It also ensures a constant cash reserve to respond to sudden emergency needs arising throughout the year.

Among the reasons mentioned to keep the current arrangement were the following:

- ✓ *While in 2006-2008 UN agencies have received 100% advances of their allocations, evidence has shown high unspent balance at the end of each fiscal year for the said UN agencies. The Advisory Group has already deliberated during the ToRs revision discussions that UN participating organizations should forecast their cash absorption capacity and receive corresponding funds on a six-month basis.*
- ✓ *The current NGO disbursement policy has meant a reduced cash need at the beginning of the year; enabling CHF to proceed with allocations despite late donor contributions to the fund. If all allocations are to be disbursed in full upfront donors would need to provide contributions to the fund earlier in the year. An unlikely structural change.*

The HC confirmed that cash advance of 80%-100% can be disbursed to NGOs for allocations of less than US\$ 150,000 with an implementation timeline of less than six months. She also noted that efficient cash flow management is important to allow CHF flexibility in providing emergency response. UN agencies can utilize the CERF loan window to cover any gaps resulting from late donor contributions to the fund.

The DHC-S requested further study and for FMU to draft a paper for discussion on this issue to better align NGOs with UN agencies and whether the 100% UN agency cash advance should be decreased.

Action Point: *FMU to draft a paper for discussion for the next Advisory Group meeting.*

2. Administrative Agent Input UNDP Fund Management Unit

This paper will present five issues that arose during the lifespan of the CHF to-date and the resulting responses to increase standardization of fund management, in particular related to disbursing funds in multiple installments for both UN Participating Organizations and NGOs.

Background: While CHF can allocate funds directly to NGOs, "NGO partners and other designated institutions or entities will have access to the Fund through UNDP performing an additional oversight function"¹. In addition to acting as the Administrative Agent (AA) for the CHF, UNDP also acts as the Managing Agent (MA) for NGO fund disbursements. The AA disburses funds to UNDP MA based on two criteria: one, written instruction from the Humanitarian Coordinator to disburse funds to NGO CHF recipients; and two, an acceptance letter from the MA. Since 2006, the MA has disbursed funds to NGOs based on the NGO's indication of their quarterly absorption capacity as they outlined in their quarterly budget forecast. This method is based on the HC's guidance, prudent AA cash withdrawals in coordination with the CHF AG.

¹ CHF Memorandum of Understanding, p. 3.

Since 2006, the AA has disbursed 100% of funds in one installment to CHF UN Participating Organizations (UN POs) that match the value of the HC's allocations.

Organization	Allocated in 2006	Income received in 2006	Committed in 2006	Disbursed in 2006	Commitment capacity ratio vs. allocated in 2006	Expenditure capacity ratio vs committed funds in 2006	Implementation on capacity ratio vs allocated in 2006	Cash Opening 2007
	A	B	C	D	C/A %	D/C %	D/A %	
OCHA	8,768,074.00	8,768,074.00	8,768,074.00	8,768,074.00	100.00%	100.00%	100.00%	-
UNHCR	16,834,773.00	16,834,773.00	16,834,773.00	16,834,773.00	100.00%	100.00%	100.00%	-
UNMAS	1,843,750.00	1,843,750.00	1,656,049.13	1,656,049.13	89.82%	100.00%	89.82%	187,700.87
UNICEF	36,580,874.00	36,580,874.00	25,256,710.76	24,300,731.46	69.04%	96.21%	66.43%	12,280,142.54
FAO	14,995,337.00	14,995,337.00	14,095,929.00	9,832,886.00	94.00%	69.76%	65.57%	5,162,451.00
UNFPA	2,560,000.00	2,560,000.00	2,560,000.00	1,633,139.00	100.00%	63.79%	63.79%	926,861.00
WHO	7,074,484.00	7,074,484.00	4,058,108.00	3,719,033.00	57.36%	91.64%	52.57%	3,355,451.00
ORCHC	3,041,581.00	3,041,581.00	2,859,803.00	1,542,142.27	94.02%	53.92%	50.70%	1,499,438.73
UNDSS	1,000,000.00	1,000,000.00	1,000,000.00	493,699.79	100.00%	49.37%	49.37%	506,300.21
ORCHC/M&E	1,811,373.00	1,811,373.00	926,316.96	887,908.96	51.14%	95.85%	49.02%	923,464.04
WFP	36,839,483.00	36,839,483.00	34,980,254.27	17,867,917.00	94.95%	51.08%	48.50%	18,971,566.00
UNAIDS	200,000.00	200,000.00	81,075.21	78,075.21	40.54%	96.30%	39.04%	121,924.79
CHF UN Agencies total	131,549,729.00	131,549,729.00	113,077,093.33	87,614,428.82	85.96%	77.48%	66.60%	43,935,300.18
CHF UNDP (IOM&IIGO)	33,608,494.56	21,881,422.00	31,291,939.00	21,641,791.56	93.11%	69.16%	64.39%	239,630.44
CHF Total	165,158,223.56	153,431,151.00	144,369,032.33	109,256,220.38	87.41%	75.68%	66.15%	44,174,930.62

Table 1: Final Financial Report on Status of Allocations, Commitments and Disbursements CHF 2006. Carry-over credits for CHF 2006 into 2007

Issue 1: Need for Improved Cash Management of the CHF

- UN POs remain with high unspent cash balances in project implementation at the end of each fiscal year. In 2006, overall cash balance on hand of UN POs was reported at US\$43.9 million. This resulted in no-cost extensions for all the CHF allocations and a carry-over credit for the UN POs of over 33% of the US\$131.5 million allocated to UN POs.
- On the other hand, the unspent cash balance of NGO project implementation remaining with the MA at the end of each fiscal year is acceptable. In 2006, overall NGO cash balance for the MA was reported at US\$234,000 which resulted in a limited carry-over credit for 2007. It is worth noting that NGO absorption capacity of the US\$33.6 million allocated by the HC was recorded at 64.4%. Had 100% been transferred to the MA, UNDP would have had a 35.6% cash carry-over from 2006 into 2007.

Organization	Allocated in 2007	Income received in 2007	Committed in 2007	Disbursed in 2007	Commitment capacity ratio vs. allocated in 2007	Expenditure capacity ratio vs committed funds in 2007	Implementation on capacity ratio vs allocated in 2007	Cash Opening 2007
	A	B	C	D	C/A %	D/C %	D/A %	
FAO	15,303,154.00	15,303,154.00	9,858,034.38	5,988,155.00	64.42%	60.74%	39%	9,314,999.00
OCHA	6,650,000.00	6,650,000.00	6,650,000.00	6,650,000.00	100.00%	100.00%	100%	0.00
RC SO	1,300,000.00	1,300,000.00	1,300,000.00	1,063,534.00	100.00%	81.81%	82%	236,466.00
ORCHC/ M&E	2,273,447.00	2,273,447.00	1,367,031.04	1,367,031.04	60.13%	100.00%	60%	906,415.96
UNDSS	940,000.00	940,000.00	940,000.00	707,232.35	100.00%	75.24%	75%	232,767.65
UNFPA	2,967,503.00	2,967,503.00	2,967,503.00	2,682,753.16	100.00%	90.40%	90%	284,749.84
UNHCR	10,092,063.00	10,092,063.00	10,092,063.00	10,092,063.00	100.00%	100.00%	100%	0.00
UNICEF	32,910,443.00	32,838,443.00	30,125,033.86	26,257,055.28	91.54%	87.16%	80%	6,653,387.72
UNMAS	4,669,525.00	4,669,525.00	4,669,525.00	4,669,525.00	100.00%	100.00%	100%	0.00
WFP	11,504,402.00	11,504,402.00	11,504,402.00	10,672,816.99	100.00%	92.77%	93%	831,585.01
WFP UNJLC	2,025,000.00	2,025,000.00	2,025,000.00	751,428.00	100.00%	37.11%	37%	1,273,572.00
WHO	5,250,545.00	5,250,545.00	4,932,447.00	3,992,957.00	93.94%	80.95%	76%	1,257,588.00
UNOPS	550,000.00	550,000.00	102,698.00	101,251.00	18.67%	98.59%	18%	448,749.00
UNDP	214,530.00	214,530.00	211,828.86	195,906.40	98.74%	92.48%	91%	18,623.60
IOM	2,100,000.00	2,100,000.00	2,100,000.00	2,100,000.00	100.00%	100.00%	100%	0.00
CHF UN Agencies total	98,750,612.00	98,678,612.00	88,845,566.14	77,291,708.22	89.97%	78.33%	78.27%	21,458,903.78
CHF UNDP (IIGO)	49,583,227.55	46,000,000.00	47,271,485.55	44,248,281.07	95.34%	96.19%	89.24%	5,334,946.48
CHF Total	148,333,839.55	144,678,612.00	136,117,051.69	121,539,989.29	91.76%	89.29%	81.94%	26,793,850.26

Table 2: Financial Report 2007 on Status of Allocations, Commitments and Disbursement 2007. Carry over credits 2007 into 2008.

- Provisional data on CHF 2007 have demonstrated that UN POs remain with a carry over credit for 2008 of 21.67% of their allocations in 2007, while UNDP in its role as MA reports an unspent balance of 3.81 %.

In November 2007, in light of the above points, the AG called a CHF Working Group (TWG) to propose an improved cash management model for the CHF. The initiative resulted in revised CHF ToRs for 2008, that modify the cash management approach of the MA vis-à-vis the fund to all UN POs, requesting the AA to transfer funds to UN POs based on a six-month cash needs projection of UN POs. This change will be activated in 2009 and is a step towards quarterly disbursements based on absorption capacity.

Issue 2: Enhanced Capacity of the HC to Meet Emergency Response Needs with Fund Cash Availability

The current arrangement has proven pivotal in providing the HC with an **enhanced capacity to respond to emergency crises, counting on unspent resources not yet transferred to the MA/UN Pos.** The HC able to respond to emergencies during the summers of 2006 and 2007 and 2008 and granted several emergency or *ad hoc* allocations outside the standard allocation rounds. In July 2007 at the request of the DHC-S an Emergency Response Fund for Southern Sudan (ERF) window for UN and NGOs was opened.

Issue 3: Asymmetrical Donor Cash Flow to the Fund

While donor resources are pledged during the first quarter of each fiscal year, actual cash releases to the fund follow winding paths. The graph below, referring to the year 2006, provides a clear example.

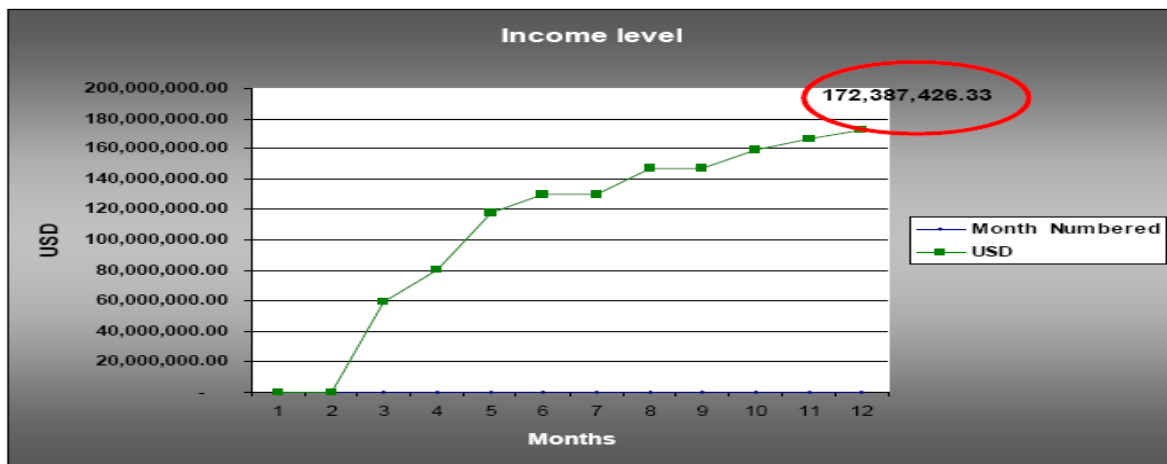


Image 7: Increasing level of income into the CHF during the 12 months of year 2006.

- De facto* donor funding is absent during the months of January and February. Approximately US\$60 million were received in March 2006 against a total first allocation of US\$106 million issued on 22 March 2006. Disbursing 100% of planned allocations to all UN POs and NGOs through the MA would not have been possible unless it was based on the cash requests of implementing partners (i.e. NGO/MA) of the CHF.

To avoid any prioritization of allocations to one agency over the other and **in order to insure disbursements that replenish quick start-up of projects** it is advisable to maintain a sound cash management of the fund as implemented through out the CHF 2006/2007 and 2008 by the MA. As mentioned above, that means: "NGO partners and other designated institutions or entities will have access to the Fund through UNDP performing an additional oversight function". The AA disburses funds to the MA for NGOs based on two criteria: one, written instruction by the HC to disburse funds; and two, an acceptance letter from the MA. Since 2006, the MA has disbursed funds to NGOs based on the NGO's indication of their quarterly absorption capacity as they outlined in their quarterly budget forecast. This method is based on the HC's guidance, prudent AA cash withdrawals in coordination with the CHF AG.

3. Management Agent Input UNDP Fund Management Unit

It is noted that according to the Term of Reference of the CHF Article V.3. "(...)The Humanitarian Coordinator will retain the responsibility for the allocation of funds to a specific NGO and Project included in the Work Plan, in line with the allocation process **and in keeping with UNDP's regulations and rules** (...)"

Issue 4: Project Partnership Agreement (PPA) Developed for CHF Financial Provisions

- Following the external evaluation of CHF 2006 commissioned by OCHA, the MA developed the Project Partnership Agreement (PPA) to enter into grant management with NGOs. In Article VIII, *Financial and Operational Arrangements*:

" In accordance with the Project Budget, (expressed in quarters) UNDP has allocated and will make available to the NGO funds up to the maximum amount of [total amount of Agreement]. The first installment of [amount of first installment] will be advanced to the NGO within [number of working days] working days following signature of the present Agreement. The second and subsequent installments' will be advanced to the NGO quarterly, when a financial report and other agreed-upon documentation, as referenced in Article X, below, for the activities completed have been submitted to and accepted by UNDP as showing satisfactory management and use of UNDP resources".

The MA is **compelled to quarterly disbursements** by the legal provisions of the PPA and its **Programme and Operations Policies and Procedures - National Execution (NEX) Finances and NGO Execution Finances** that in its **harmonized Framework for Cash Transfers to Implementing Partners** outline the quarterly reporting requirement obligation of NGO partners *"in the new harmonized procedure, the FACE form is designed to reflect expenditures accumulated by quarter (Ref:POPP NGO execution Finances, - ATLAS recording of NGO Advances).* **However**, as agreed with the HQ Legal Service, it may decide that **if the project's duration is less than six months and the capacity of the NGO is adequate, the first installment may equal the total amount of the agreement.** The risk UNDP Sudan is willing to take on full advance for NGOs is assessed at US\$150,000 and for a project implementation duration of six months.

Issue 5: Partners' Work Plans

- Quarterly provisions to projects are based on **quarterly work plans of action.** Advancing resources during quarter one for activities forecasted for quarter three or four, would result in:
 - Reduced cash availability for the fund at the disposal of HC;
 - Unnecessary exposure of the MA liabilities vis-à-vis donors/HC and AA. In 2006, the overall NGO portfolio was US\$31 million, in 2007 it was over US\$50 million, in 2008 it was over US\$52 million; and,
 - Increased risk of unspent balance in the hands of partners at the end of each fiscal year, with unpredictable transaction costs of recovery orders to be operated by the MA.

5) PROJECT WORK PLAN

This section must include a workplan with clear indication of the specific timeline for each main activity and sub-activity (if applicable). The workplan must be outlined with reference to the quarters of the calendar year as per example below.

	Q1 / 2008			Q2 / 2008			Q3 / 2008			Q4 / 2008		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Activity 1			X	X	X	X	X	X	X	X	X	X
Sub-activity (1.1)				X	X	X	X					
Activity 2				X	X	X	X					
Sub-activity (2.1)					X	X	X					
Activity 3									X	X	X	X
Sub-activity (3.1)									X	X	X	X
Activity (..)									X	X	X	X
Sub-activity (..)												
Activity (..)												
Sub-activity (..)												

*: TIMELINE FOR EACH SPECIFIC ACTIVITY MUST BE MARKED WITH AN "X" – DO NOT USE SHADING ALONE

Issue 6: The UNDP DRC model

- It has been noted that in UNDP DRC where a similar pool funding mechanism is operating reporting requirements for NGOs are in 2008 streamlined with the **Programme and Operations Policies and Procedures - National Execution (NEX) Finances and NGO Execution Finances** and its **harmonized Framework for Cash Transfers to Implementing Partners.** NGOs are reporting quarterly to UNDP where

the Management Agent is called to *'The Project Officer/Finance Associate must constantly monitor the correctness of the expenditures reported, and the cash flow and balance of advances (Ref:POPP NGO execution Finances, - ATLAS recording of NGO Advances)*

Final Recommendations²:

Based on the above summary of main issues that faced the CHF since 2006 and the management arrangements adopted to successfully tackle them, we wish to recommend that the current set up is kept. Namely:

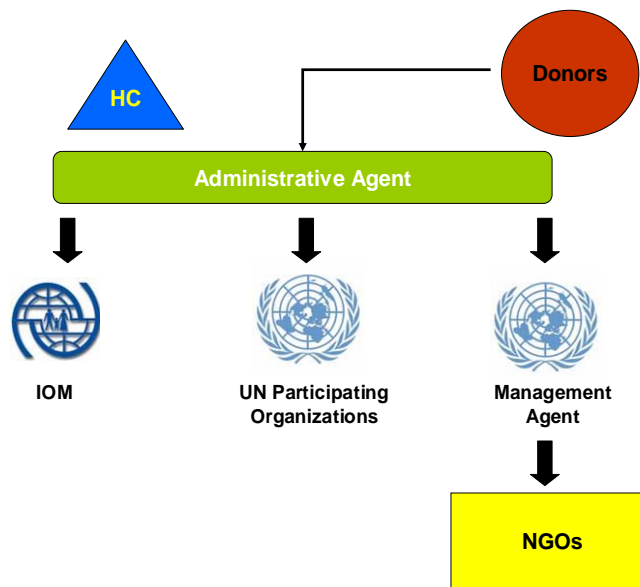
1. AA to operate six-month cash releases to all UN POs.
2. MA to keep quarterly releases with the exception of NGO grants of less than US\$150,000 and a six-month duration.

² These recommendations are applicable and currently in use for the three Sudan – MDTFs in addition to the CHF, same cash management is adopted for the Darfur Peace and Stability Fund and the Sudan Recovery Fund for South Sudan

**Annex 1:
Contracting and Disbursements, Management Agent with NGO's partners Standard Allocations.**

Here below a simplified version of the CHF funding flow circuit. It has to be noted that NGOs receive funds through the Management Agent which in coordination with the Administrative Agent absorbs resources from the CHF account based on NGOs requests of funding. This to minimize unutilized cash in hand of UNDP Management Agent and has allowed the Administrative Agent to generate new income at the disposal of the Humanitarian Coordinator generated by interest accrual in the CHF account.

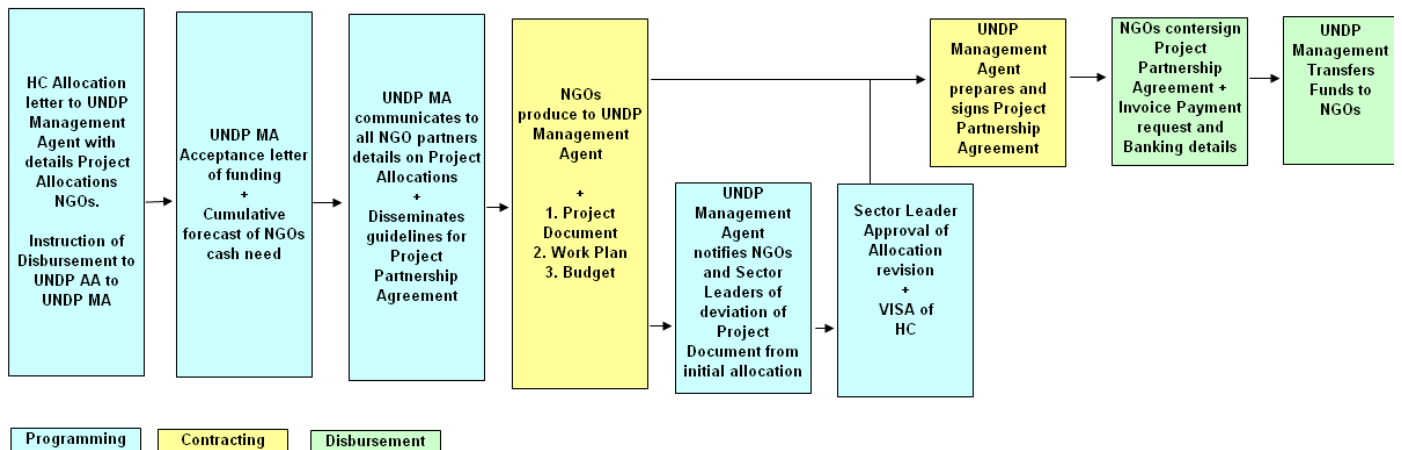
a. Funding Flow and Management Agent & Income Generation into CHF account.



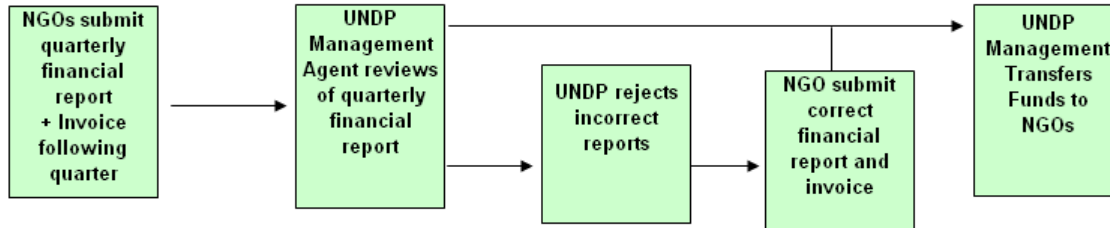
To note that this coordinated UNDP cash management operated by the CHF operations, Administrative Agent and Management Agent, has generated **extra income** to the fund of **USD 974,096.30** between 2006 and 2007, and of **USD 1,910,843.87** in 2008. **The overall General Management Fee pressure in 3 years of UNDP Management Agent set in 2008 for 7% is therefore mitigated down to 4.49%**. Transaction costs of recovering interest from UNDP Management Agent are zero as the funds are booked awaiting utilization based on NGO needs in the Administrative Agent account.

b. Basic steps Management Agent Disbursements to NGOs:

1. First release:



2. Second and following releases:



While the above constitutes the "model" scenario, in practice with late allocation decision, often at the edge of quarter deadlines, first and second installments to NGOs have resulted in a combined transfer.

c. Overall Statistics: Management Agent volume of transactions, 2006 – 2008

Within three years the number of NGOs direct project allocations approved by the HC have increased from 120 in 2006 to 241 in 2008, +101% while for **South Sudan** CHF number of NGO direct allocations have increased over 91%.

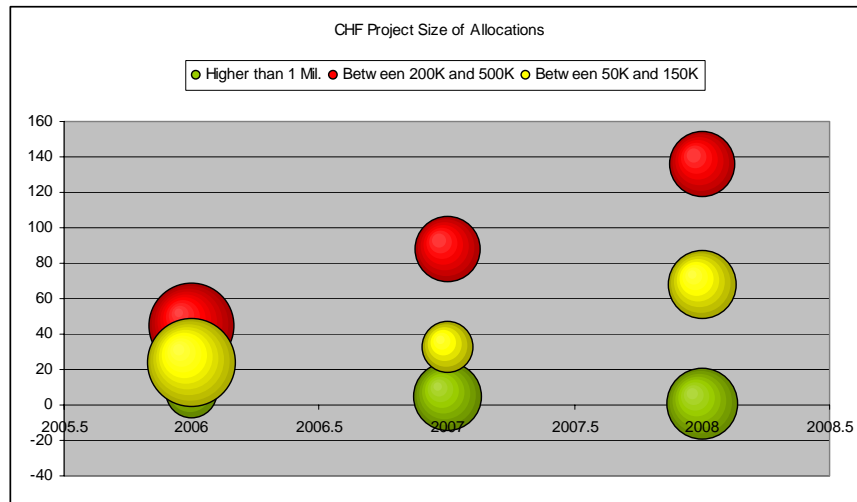
	NGO Allocations		Project Agreements MA/NGOs		Number of Disbursements MA/NGOs	
	CHF	CHF SS	CHF	CHF SS	CHF	CHF SS
2006	120	47	120	47	208	74
2007	156	62	156	62	294	114
2008	241	90	241	90	447	153
Total	517	199	517	199	949	341

UNDP **Management Agent** while in 2006 has operated **208 successful cash transfers** to NGOs partners in 2008 with an increment of **115%** has reached a total of **447 transactions** within its treasury operations. **Southern Sudan** constitutes with its **341** transactions over 3 years **36% of UNDP Management Agent treasury activities** and **38.5%** of its contracting operations.

Management Agent Partners	2006	2007	2008
NGO Partners	44	55	92
NGO Partners South Sudan	25	48	48

UNDP Management Agent has entered into Project Partnership Agreements with an increased number of NGOs. And Allocations over the 3 years had the below distribution in portfolio size.

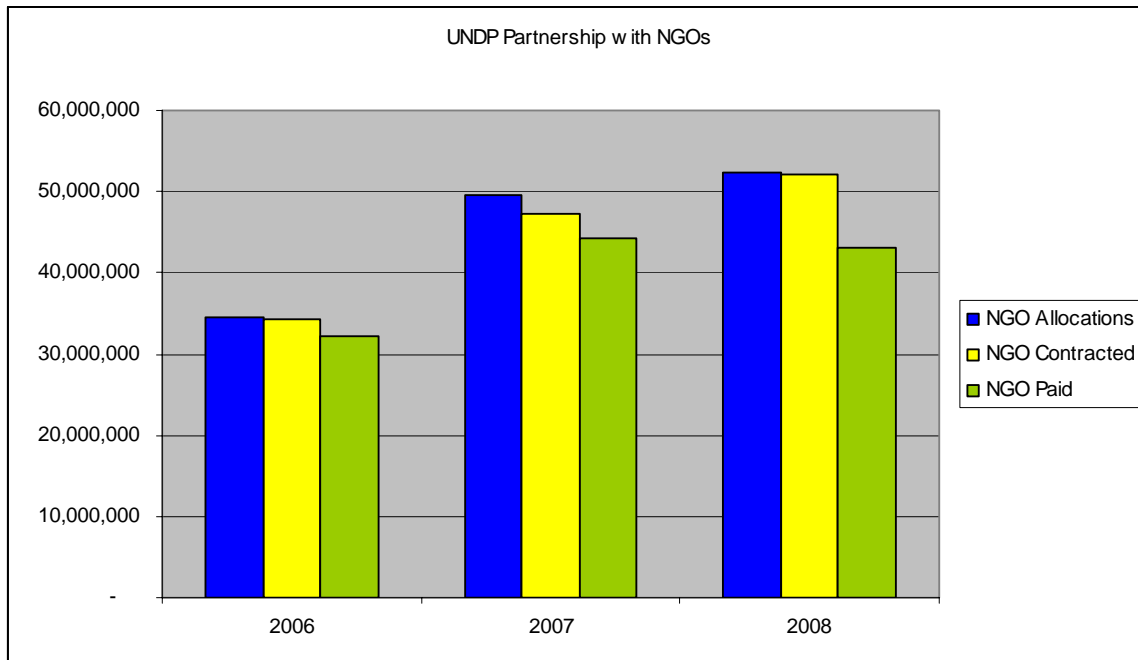
CHF Project Allocation size	2006	2007	2008
NO. OF PROJECTS >1 Mio	7	5	1
NO. OF PROJECTS >500K<1	7	12	13
NO. OF PROJECTS >200<500	45	88	136
NO. OF PROJECTS <150<200	18	11	11
NO. OF PROJECTS >50 <150	24	33	68
NO. OF PROJECTS <50	19	7	12
FUNDING SIZE CHF South Sudan	2006	2007	2008
NO. OF PROJECTS >1 Mio	0	2	0
NO. OF PROJECTS >500K<1	3	5	4
NO. OF PROJECTS >200<500	18	29	40
NO. OF PROJECTS <150<200	8	16	29
NO. OF PROJECTS >50 <150	15	9	14
NO. OF PROJECTS <50	3	1	3



USD volume of funds the Humanitarian Coordinator for Sudan has asked UNDP Management Agent to deliver to WP humanitarian partners for CHF and South Sudan records an increasing portfolio in favor of NGO Partners.

	2006*	2007*	2008	Total
NGO Allocations	34,614,859	49,583,228	52,243,714	136,441,800
NGO Contracted	34,263,284	47,271,486	52,194,664	133,729,433
NGO Paid	32,140,711	44,248,281	43,074,968	119,463,960

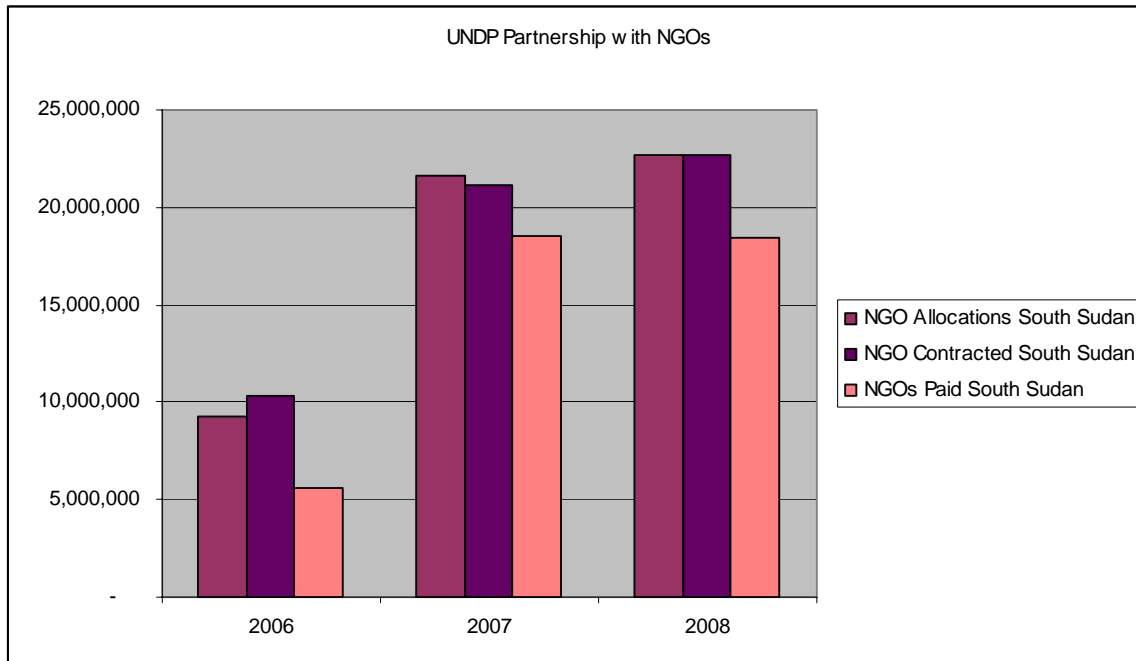
*Includes 2007 and 2008 contracting and disbursement figures on CHF 2006/2007.





	2006	2007	2008	Total
NGO Allocations South Sudan	9,309,359	21,614,349	22,724,158	53,647,865
NGO Contracted South Sudan	10,344,347	21,180,709	22,724,158	54,249,214
NGOs Paid South Sudan	5,579,882	18,525,638	18,402,197	42,507,717

*Includes 2007 and 2008 contracting and disbursement figures on CHF 2006/2007.



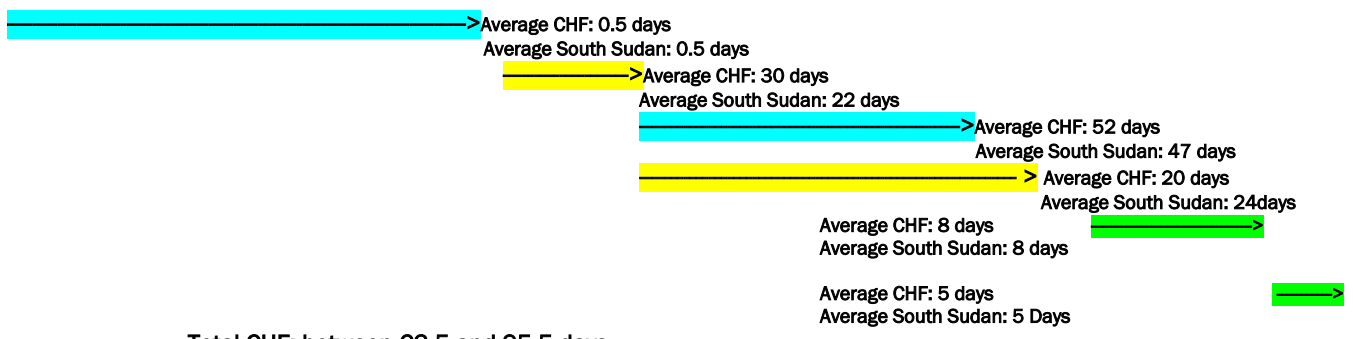
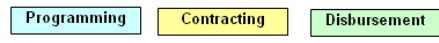
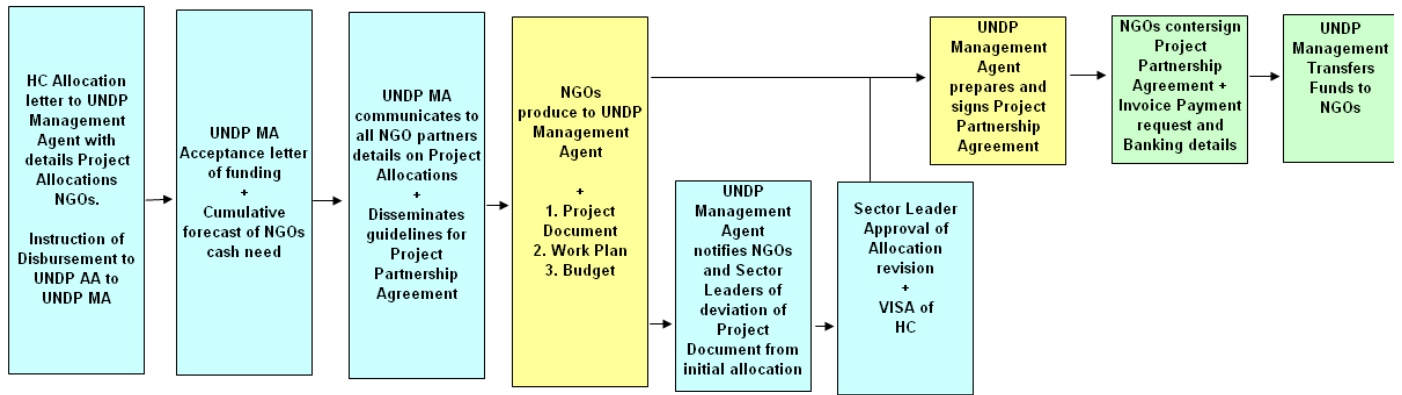
It is to note that while disbursements figures for 2006 and 2007 include cash transfers operated in 2007 and 2008 fiscal year, the 2008 Southern Sudan allocations currently under no cost extension will keep receiving funds within the 2009 fiscal year.

d. Process timing tracking 2008:

Pressing interest is emerging from stakeholders for an analytical **time tracking of Management Agent contracting and disbursement records**. While it is worth noticing that the Management Agent has been responsible in the CHF for **20% of the allocations amount in 2006, 33% in 2007 and 32% in 2008**, it may be useful to have the current financial management records from **other UN Participating Organizations**, contracting several partners within the **NGO communities and private sector**.

However a continuous effort has been made since inception from UNDP/Management Agent to show its own performance records, (i.e. weekly updates on level of contracting and disbursements), this continuous customized scrutiny unlikely to function with other UN Participating organizations, which may refer to the yearly reporting obligations of the CHF Memorandum of Understanding, has produced the positive results of CHF fund management responsiveness amongst partners.

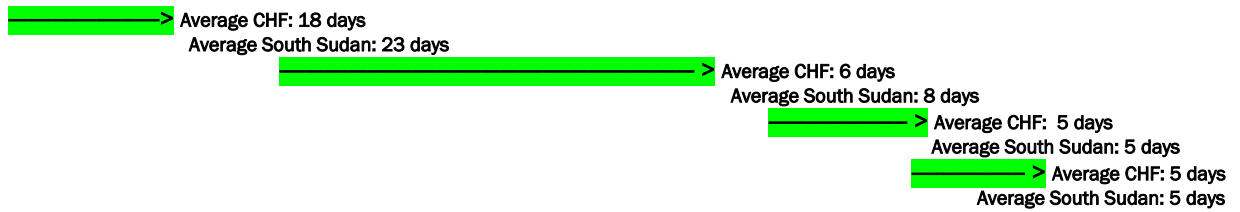
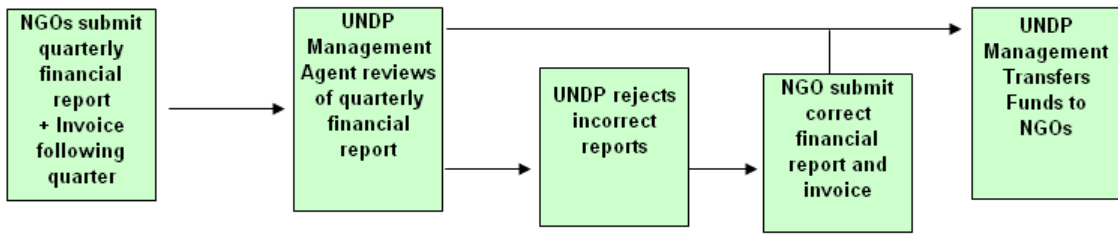
Time tracking data are here below presented for **CHF 2008**.



- **Total CHF: between 63.5 and 95.5 days**
- **Total South Sudan: 59.5 and 82.5 days**

Bottlenecks:

- NGO timely production of Project Documents,
- Deviations from initial Allocation Plan and approval process,
- MA capacity to process 3.5 Project Partnership Agreement a day in average.



- **Total CHF: between 28 and 34 days**
- **Total South Sudan: between 33 and 41 days**

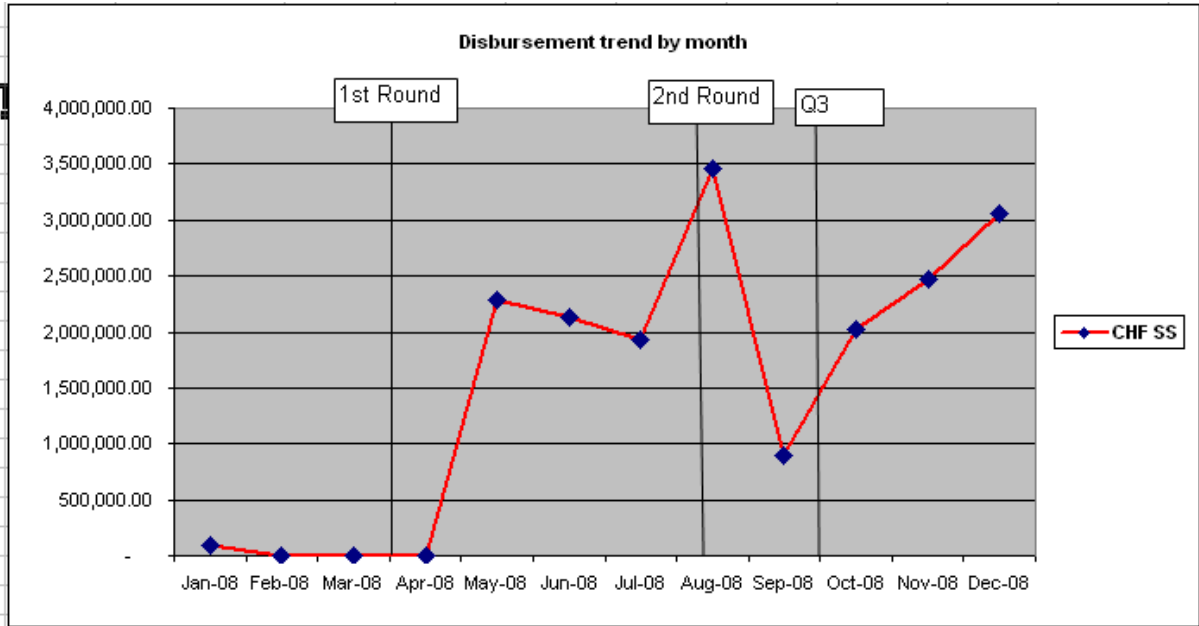
Bottlenecks:

- NGO production of Financial reports beyond the 30 days after completion of the quarter.

However

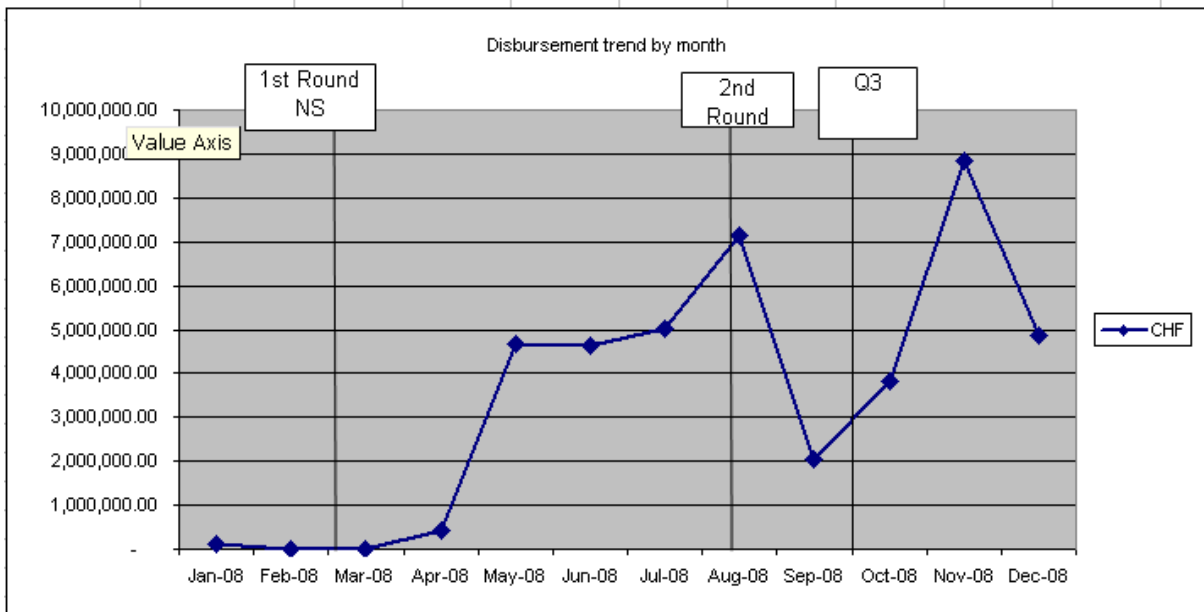
Few interesting data are emerging from a deeper focus on individual Management Agent transactions:

- Despite the quarterly financial reporting requirements and subsequent cash transfers a substantive number of CHF 2008 NGOs received 6 months installment having invoiced after March 2008. This is particularly valid for South Sudan when the first round of allocations was validated after 30th March 2008 (ref. email communication to NGOs of final approved allocations).



- The **income** received by NGOs with the **first transfer of CHF 2008** has constitutes **an average of 46%** of the Project Allocation and in **South Sudan** the first installment to NGOs has covered **48.5%** of the programmed amount.

Below the overall CHF 2008 disbursement trend by month.



- July 2008 has recorded a low disbursement rate, UNDP MA suffered from no access to office due to the Khartoum security situation. A relocation to Juba of FMU staff would have better mitigated the impact of financial report review process discontinued within the month.

Same level of consolidated analytical data are not in full available for CHF 2007 and CHF 2006. The above CHF 2008 tracking has been generated **manually** by the NGO core Management Agent team of the UNDP Fund Management Unit, mainly retrieving data from email correspondence with NGO partners related to **241 Project Partnership Agreements** and **447 disbursement transactions**. *Ad hoc* audit queries for individual allocations for previous years can be addressed to UNDP/MA at FMU Sudan and data provided on a case by case.