

## MODULE 2.ASSESSMENT, DESIGN & PLANNING



- In this module:
  - 2.1 Assessment overview, Finance and ICT
  - 2.2 Market Assessment
  - **2.3 Cash Pipeline & Financial Flows**
  - 2.4 Response Analysis
  - 2.5 Mechanism Selection

**SETTING THE SCENE:** The importance of planning the cash pipeline and financial flows is often overlooked. Maybe because we are so used to funds being available in real time in our on-line bank accounts or ATM cards. Or because Finance is working its magic behind the scenes. However money cannot always flow smoothly and quickly particularly across international borders. Many bank transactions **STILL** require manual input to move the money. The pipeline might have many more steps depending on where the intermediaries physically have their bank accounts and in what currencies. There may be limits to transaction sizes and/or values per day that can be moved.

Finance of course knows this, but they have an important role to ensure that program also knows this, and flag the importance of this activity and having finance in at the beginning to assist with the design and planning.

## CASH PIPELINE

**Objective** Manage the cash pipeline required for program  
: distributions



**R:**

**A:**

**C:**

**I:**

## THE CASH PIPELINE



Programs and finance teams must be aware that, even during emergencies, there are lead times for cash top-up transactions, but with proper planning, delays and inconveniences can be avoided.

- Oxfam – Finance Guidelines on CTP

⇒ WHEN do funds have to be available in order to initiate a disbursement cycle that will disburse on the day you want?

## THE CASH PIPELINE

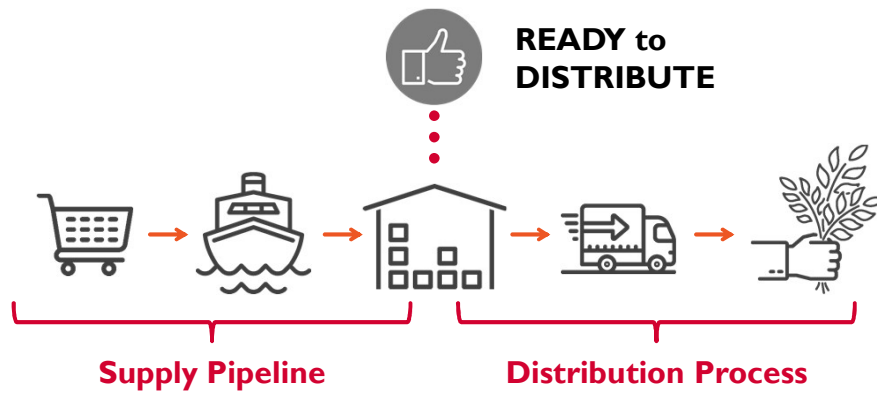


Begins where ever your money comes from!

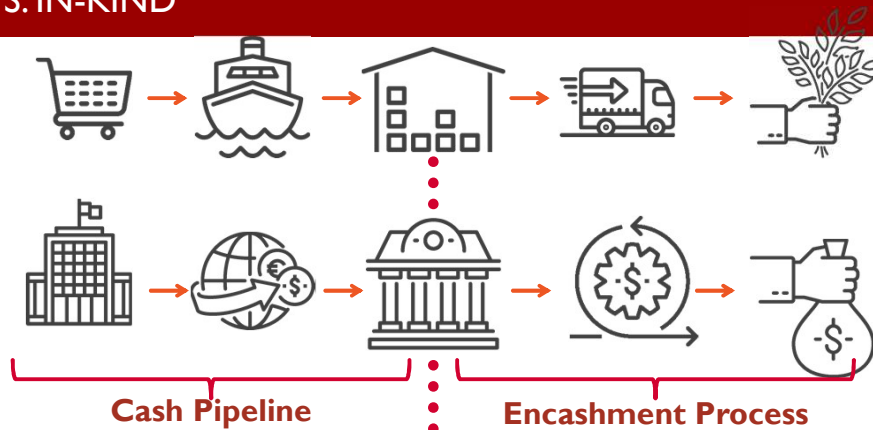


Ends with funds in your Country Office's account(s), ready to use in a disbursement or distribution cycle.

## CASH VS. IN-KIND



## CASH VS. IN-KIND



**READY to  
DISTRIBUTE**

## CASH PIPELINE



### ACTIVITIES

- Plan cash requirements to meet distribution plan
- Confirm availability of upstream funds

### PREPAREDNESS

- *Preposition cash?*
- *Document cash pipeline and financial flows for your delegation/country/region*

Discussion being had on prepositioning cash as we do for goods to speed up the encashment process

## CASH PIPELINE



WHY is it important?

Organizations may have limited amount of cash in country

- Limited reserves and rely on donors funds
- Liquidity risks
- Volatility of the currency

Ask

## WHAT ARE THE BOTTLENECKS (AND SOLUTIONS) TO ACCESS FUNDS IN-COUNTRY

- Understand how money gets from the Donor account / HQ account to country (capital and branch) bank account
- What process triggers the movement of funds?
- What documentation and sign off are needed
- What are the donors' /finance requirements?
- Any timing consideration?
- Foreign currency vs local currency

### Identify pipeline issue and mitigation measures

Ask if they can explain how it works in their NS

Can they identify recurrent issues or any problems from their experiences?

How many donors are you working with, what are the main difficulties?

Open discussion on identified bottle necks and possible solutions

### Questions to help discussions

How does money moves from Donor to Country bank account?

Is there a Foreign currency account and a local currency account to factor into the timing?

How many days does the whole process take?

What process triggers the movement of funds (i.e. cash forecast or other?)

Who has signing authority on your requests given the amount of money requested?

Is there anyone you need to notify or make sure will be available to sign off on requests?

Are there any potential financial pipeline issues to consider

## EXCHANGE RATES & INFLATION

Central management of cash by HQ

- ☐ Conversion to local currencies as needed
- ☐ Holdings in more stable currencies
- ☐ Achieve competitive conversion rate

Therefore, Finance staff must:

- ☐ Track exchange rate fluctuations and inflation
- ☐ Report gains and losses
- ☐ Allow for variance when budgeting and in project proposals

In which currency are your commitments with donors ? Who bears the risk?

What are current measures to limit exchange rate exposure (financial instruments e.g hedges, specific budget lines/budget rate revision every year or more frequently)  
from NS from Donors

How do you monitor fluctuations

## GOVERNMENT SANCTIONS & BANK REGULATIONS

When transferring funds, be clear about destination and use.

### I) Sanctioned Countries

Applicable sanctions may be imposed by:

- ☐ Organization's home country
- ☐ Country of primary bank
- ☐ The UN
- ☐ The project's donor
- ☐ ⇒ **Office of Foreign Asset Control (OFAC) license**

## GOVERNMENT SANCTIONS & BANK REGULATIONS

When transferring funds, be clear about destination and use.

- 2) Countries identified as 'high risk' by banks
  - ☐ Internal regulations & compliance requirements
  - ☐ Require additional detail prior to making transfer

May have implications to beneficiary data protection

## MANAGEMENT OF PHYSICAL CASH

- Avoid/Limit physical movement as much as possible
- Use cash-in-transit insurance to cover risk exposure
- Reconcile before and after movement

## PROCESSES & FINANCIAL FLOWS

**Objective:** Plan the financial flow for program distributions



**R:**  
**A:**  
**C:**  
**I:**

## PROCESSES & FINANCIAL FLOWS



### ACTIVITIES

- Plan, in detail, end-to-end encashment process including:
  - Who is responsible for each action
  - How beneficiaries will receive funds
  - How funds will be tracked and reconciled

### PREPAREDNESS

- none identified -

## PLANNING PROCESSES & FINANCIAL FLOWS

Encashment processes vary based on...

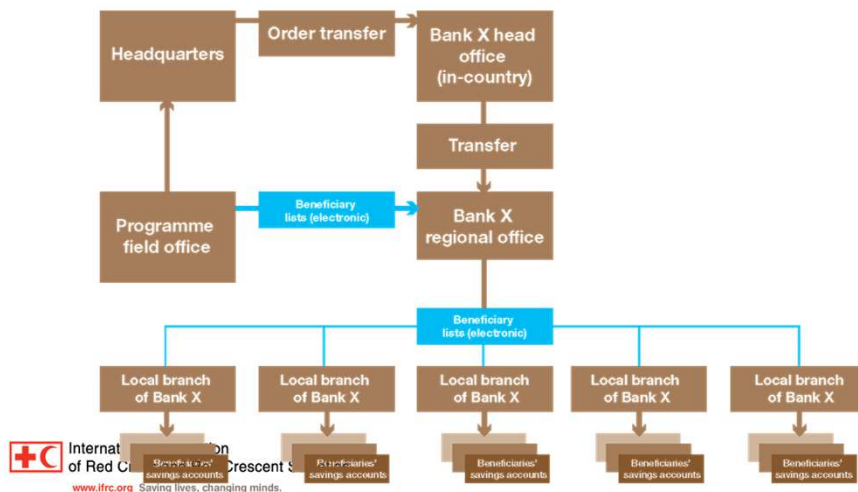
- Mechanisms
- Open vs. Closed Loop Systems
- Suppliers
- Service providers
- Organizations
- Negotiated terms & requirements

*HOWEVER, planning for encashment does not have to vary!*

The first step in planning for the encashment process is to map out the anticipated financial transfer flow chart. Visually depicting how funds and information (including documentation) move through the system(s) helps identify the exact steps required to execute the transfers.

During the mapping process, each movement should be checked for traceability. If any steps are identified as not traceable, corrections will be required. Traceability is critical to meeting compliance requirements.

## STEP 1: MAP THE FINANCIAL FLOW CHART



This is IFRC Guidelines for CTP – Practical Tool 7: Planning Financial Flows

As we have discussed the upstream fund, you have to clarify financial flows to get money out

Ask to explain internal process to get a payment out ?

**Difference between payment done to one FSP or paying multiple invoices from vendors with e-vouchers every month**

**Knowing your financial flow help you as well in negotiating the contract between what can be done and acceptable for all parties or not**

### Questions to help discussion

Understand how money gets from NS bank account to FSP and suppliers

What is needed to trigger the payments (i.e. cash transfer order, invoice)?

Who has authority to sign off on the payments? Are there a delegation of authority?

Is the decision matrix fit for purpose

How many days will it take to transfer the funds to the FSP?

Are there any other factors that may impact the timing or ability to transfer funds to FSP?

Are there any potential pipeline issues to consider?

## STEP 2: DETAIL THE STEPS & ASSIGN RESPONSIBILITY

### ANNEX 11:

#### E-TRANSFER DISTRIBUTION PLANNING TOOL

This tool can be used in pre-distribution planning meetings with your Service Provider to prepare for events and assign clear roles and responsibilities. Some "details" have been filled in, these can be used as guidance but should be changed to match your program context.

Step	Task	Details	Org Responsible	Focal Point MC	Focal Point SP	Timing Considerations	Suggestions and Considerations
1	Funds transfer	Mercy Corps transfers funds to GP's escrow account					
2	Confirmation of funds transfer	GP confirms receipt of funds					
3	Account Creation/SIM Activation Request	Mercy Corps sends participant list with participant names, identifying information, first transfer amount and time of transfer to participant accounts					
4	SIM Activation	Involves linking a SIM card to a specific customer/participant					How and when are SIMs associated with a specific participant?
5	SIM Distribution						How are SIMs assigned/distributed? Does Mercy Corps ever have possession of the physical SIMs?
6	PIN Creation & Distribution						Mercy Corps staff should NOT have access to secret PINs
7	Loading SIM card with e-money						When does this happen, can it be the same day that money is distributed? How do we know when cards are loaded? (usually through GP interface or report from GP.)

## STEP 2: DETAIL THE STEPS & ASSIGN RESPONSIBILITY

By identifying the movement of funds and information, it is possible to identify the specific steps required to execute.

Mercy Corps has a useful distribution planning tool in their Cash Transfer Programming – E-Transfer Implementation Guide. The worksheet is designed for an e-transfer, but can easily be adapted to support all distribution mechanisms. Note: the full tool is 15 lines – this is cropped...

It is important to review these steps with all parties involved in executing them, to ensure all relevant steps and sub-steps are included.

Further, we recommend including all compliance and reporting documentation requirements into this process. This will ensure that records are built as payments are made, which is much easier than trying to reconstruct information later.

### STEP 3: TESTING



Test your process...

- Confirms roles & responsibilities
- Shows how long each step will take

NOTE: Use a small \$ amount!

Once the process has been agreed and effectively documented, it should be tested, provided time allows. Testing will confirm that the process is effectively planned and that everyone involved understands their role.

Using a small amount of money to test the system is advised.

Testing will also provide a basis for understanding the time requirements for executing each step.

## STEP 4: TIMELINE PLANNING



Use testing results to plan  
distribution calendar

### STEP 4: TIMELINE PLANNING

Up to testing the encashment process, the time requirements for execution are estimates only. The results of the testing will provide a baseline for how much time was required to perform each step in the encashment process.

At this point, we recommend revisiting the 'Timing Considerations' column in the planning tool in step 2 and making appropriate adjustments. This will keep all involved aware of actual time requirements and constraints.

The timeline information will also support planning the cash pipeline

## TASK: JIGSAW CASH PIPELINE



This is the Cash-Pipe line jigsaw game

### ASSIGNMENTS:

Two Groups

### TIME:

Group Work: 20 minutes

Discussion: 5 minutes

## KEY TAKEAWAYS

- The up-stream cash pipeline must be planned to ensure availability of funds when needed
- Physical cash and cash equivalents must be handled and managed with extreme care and in close coordination with Security
- The impact of exchange rates and inflation must be tracked and reported, as the small differences in currency movement can quickly add up to be a reconciliation problem

