

FOR INPUT

BM.03/DOC. 09: OBJECTIVES OF FINANCIAL MANAGEMENT AT GCERF

1. PURPOSE

The purpose of this paper is to present initial ideas on the financial management objectives of GCERF and on the Secretariat's plan to measure its progress against those objectives and to seek input on these from the Governing Board (the "Board").

2. PROPOSED FINANCIAL MANAGEMENT OBJECTIVES

Background

2.1 Section 4 of the Financial Management Policy approved by the Board in February 2015 states that the policy "is premised on the principle that GCERF funds shall be used in accordance with sound financial management principles, and in accordance with principles of economy, efficiency and effectiveness." This raises the question of what are the sound financial management principles with which GCERF should comply.

2.2 GCERF's performance is a measure of its capacity to transform the support it generates to carry out its mission into the results that stakeholders expect to see. With regards to financial support, the primary expectation stakeholders have is that GCERF's investments should be relevant and represent value for money; that is GCERF funding should be directed at the appropriate activities and to the appropriate recipient for the right purpose at an acceptable level of risk.

2.3 Because GCERF receives public funds, stakeholders' expectations go beyond the results that funded projects will generate and may also include the following:

- A. Financial resources provided to GCERF are managed and used effectively, efficiently and economically;
- B. Financial resources entrusted to GCERF are safeguarded;
- C. GCERF accounts for the use of the financial resources it receives; and
- D. Financial risks are managed to ensure GCERF's viability (among other purposes)

Those are the aims the Secretariat is integrating into its financial management system and in its daily handling of financial matters.

Operationalisation of the Objectives

2.4 In order to ensure that the Secretariat is actively pursuing these objectives and seeking to improve its performance continuously, it is necessary to translate those general aims into more manageable objectives. These can be articulated around the core business process of GCERF, i.e. the Core Funding Mechanism. More objectives may be added as/if additional funding mechanisms are launched. Proposed current objectives are as follows:

Financial Management Objective	Main Objectives served
1. A predictable and appropriate flow of donor contributions enables GCERF to deliver against its long term and short term goals	A, D
2. Donor contributions are rapidly and optimally committed to grants to serve strategic objectives while responding to evolving priorities, opportunities and risks	A,D
3. Grant disbursements are made in a timely manner, taking into account both the past and potential performance of the grantee and the expected results of the actions the disbursement would fund	A,B
4. Grantees safeguard the funds provided by GCERF and manage them so as to achieve their intended results and comply with the provisions of the grant agreement	A,B
5. Resources provided for funding Secretariat and governance costs are managed and used economically, judiciously and in accordance with the applicable GCERF Policies	A,B,D
6. GCERF limits the risk of loss or misuse of the financial resources it has received	B,D
7. GCERF reports on the use of the financial resource it has received in an accurate, relevant, transparent and timely manner to its stakeholders	C

2.5 The Board is invited to provide input into these objectives.

2.6 Once they are agreed, a way to measure progress against these objectives needs to be established. One way to do this is to identify critical success factors for each objective. Performance indicators can then be developed for each critical success factor in order to measure and track GCERF's performance. For instance, the following critical success factors could be developed in relation to Objective 6:

- a) GCERF safeguards its cash resources;
- b) GCERF mitigates the risk of foreign exchange loss;
- c) GCERF optimises the level of outstanding advances;
- d) GCERF effectively controls its liabilities;
- e) GCERF's administrative systems are effective to control the risk of loss or misuse at Secretariat level; and
- f) GCERF has an effective system in place to ensure that funding recipients effectively limit the risk of loss or misuse.

Relevant performance indicators for critical success factor a) could be:

- Percentage of GCERF's cash resources maintained in financial institutions ranked in the most robust group (Fitch ratings, CAMELS rating)
- Cash management practices of GCERF are not the subject of recommendations made by the external auditors

2.7 While being able to benchmark results would be ideal, it would practically be difficult as most indicators would not be standard indicators that could be calculated from externally available information. Even if that information were available, it may not be useful as the business model of each organisation is so specific. Targets could be set based on an initial estimation of what constitutes good performance and refined over time.

Limitations to the performance management system

2.8 Measuring progress against the objectives in order to correct course or improve performance may not always produce an immediate effect because while GCERF aims to be an agile organisation, financial cycles at GCERF tend to be of a long term nature, as outlined below:

- Preparation of a round of funding takes approximately one year. The grant duration is three years. Five years may elapse between the time a dollar is committed by a donor to GCERF and the time that same dollar has been used and is fully accounted for.
- It is expected that commitments to a country would be made for a minimum of three rounds resulting in an overall presence in country of seven years.
- Many financial decisions are made within the context of the commitments to countries and grantees. Financial performance is already pre-conditioned to a significant extent.
- Non-grant related financial matters include the Governance and Secretariat budgets. Staff costs represent a large portion of the Secretariat costs. While certainly flexible, human resources should be managed with a long-term view in mind.
- As any other organisation, GCERF faces a number of contingent risks for which it must protect itself through the development and maintenance of minimal but sufficient financial reserves.

3. NEXT STEPS

3.1 Within a year, the Secretariat will build a data set of success factors and performance indicators it will monitor for each of the seven proposed objectives subject to modifications suggested by the Board. The pace of implementation will vary with the complexity involved in developing an appropriate set of success factors and indicators, measuring those indicators and in some cases identifying appropriate target measures.

4. FINANCIAL IMPLICATIONS

There will be no implication on operating expenses except for the staff time spent on developing and maintaining the dataset.