Central Emergency Response Fund
Options for Reform of the Loan Element

CERF Secretariat

22 September 2011

A. Background

At its November 2010 meeting, the CERF's Advisory Group (AG), discussed the lack of use of the CERF's loan element and requested the Fund's Secretariat to provide a review of the use of the loan element for its next meeting. Reviewing its records, the CERF Secretariat found that utilization of the loan element varied widely between agencies and over time. In addition, it had been used intensively by only a few agencies. Responses to a brief questionnaire distributed to selected CERF focal points revealed that while no agency had explicit internal rules forbidding use of loans, the loan element appeared to be of limited utility given that several of the larger agencies had their own advance facility and that CERF rapid response grants were readily available.

Based on agency responses as well as the CERF Secretariat's own analysis, three main policy options for the reform of the loan element were outlined in a paper for the April 2011 meeting:

1. **Retain the loan element in its current form:** Keeping the CERF loan element as it is would have the advantage of maintaining a significant emergency response reserve at almost no cost. Several agencies had stated that it could be useful for responding to large-scale emergencies. On the other hand, this approach would entail continuing to tie up a large sum of money, $75 million as of writing, for only very occasional use.

2. **Close loan element and transfer balance:** The opposite approach would be to close the loan element altogether and transfer the remaining funds to another purpose, such as the grant element. However, a disadvantage would lie in the loss of flexibility offered by the loan element. This stems from two main sources. First, loans can typically be issued quite rapidly without the need for a full project proposal. Second, loans can be used by recipient agencies for a range of purposes, including activities beyond those outlined in the guidelines on the life-saving criteria.

3. **Decrease the balance in the loan element:** A compromise between options one and two, this approach would reduce funds held in the loan account, possibly by half. This would align the size of the loan element closer with its anticipated utilization over the coming years. The approach would have the benefit of achieving the benefits of the first two options outlined above without having to incur their costs. This option would also allow for the flexibility to decrease or increase the size of the loan element in future, depending on whether there is a continued decline or a resurgence in the use of the loan. It would also be possible to combine this approach with other adjustments to the working of the loan, such as revisiting the provision in GA resolution 48/57 whereby OCHA may only borrow from the interest accrued in the loan account, but not the principal.

Following a discussion of the review, the Group recommended a reduction in the size of the loan element but agreed more analysis and discussion would be needed before this recommendation could be implemented. In particular, the relevant findings of the Five-year Evaluation would have to be considered. The CERF Secretariat was asked to provide an update on the loan facility at the next CERF Advisory Group meeting, including options for decreasing the size of the loan facility.

B. The CERF Five-year Evaluation

The Five-year Evaluation of the CERF examined the loan facility. Reviewing CERF Secretariat data and interviewing staff from recipient agencies, the evaluators reached conclusions similar to those of the CERF Secretariat in that "many of the larger UN agencies have their own internal loan mechanisms, and interviewees stated that it was easier to use these than to access CERF loans, and so are less interested in loans". The evaluators further argued that:

> *"The CERF loan component has fallen into disuse, despite being twice as fast as the grant window. This suggests that the CERF grant facility is a closer match to what agencies really need and that this reflects the real needs of the humanitarian system. Although the loan envelope is no longer used, it can serve as a useful reserve during disaster-prone years when grant funds and agency reserves are under strain."*

Based on the above, the evaluators recommended that "**The CERF loan fund should be reduced to US$30 million and the balance transferred to the grant window."** (Evaluation recommendation 12)

In its response to the recommendations of the evaluators, the CERF Secretariat agreed with the usefulness of a reduction in the size of the loan element as this was in line with its own study. Consultations would be undertaken to determine the exact size of the reduction as well as the use of the funds thus set free.

The CERF Secretariat proposed three specific follow-up actions:

- Develop policy proposal on reform of the loan element for presentation to AG at October 2011 meeting;
- Conduct research and consultations on legislative steps, including possible General Assembly (GA) authorization, necessary for reform of loan element; and
- Provide input into draft GA resolution for reform of loan window at request of Member States.

In addition, the Emergency Relief Coordinator stated in her response to the evaluation that the above discussion around the size of the loan window should be informed by actions under evaluation recommendation 19, which stated that "**UN agencies that do not use internal advance mechanisms in conjunction with CERF funding should establish interactivity and complementarities between these and the CERF, in order to speed up the start up of projects."**

In particular, it was suggested to explore whether the CERF loan facility could be used to frontload Rapid Response (RR) allocations and thereby reduce disbursement times for CERF grants. This would entail possible annual prepositioning of CERF funds with key agencies in order to bridge the interval between the approval of projects and the disbursement of funds for Rapid Response grants. The prepositioned CERF funds would serve as an internal pipeline from which agencies could draw funds when they are certain or confident that a CERF grant is forthcoming. The prepositioned amount could be based on a percentage of Rapid Response allocations over the last three years). Loans would be made on an annual basis and would be settled (paid back) at the end of the year. Agencies with prepositioned funds would commit to refund any interest gains at the end of the year to the extent that their financial regulations allowed.

The CERF Secretariat will undertake an internal review and launch an inter-agency consultation process via the IASC Sub-Working Group on Humanitarian Financing to better gauge demand for such a facility and identify any UN Secretariat or agency constraints that would prevent its utilization.

C. The Way Forward

Based on the recommendation of the five-year evaluation and taking into account the discussion in the Advisory Group, the Government of Sweden is discussing with Member States the possibility of including the reduction of the CERF's loan element to $30 million in a draft humanitarian resolution to be adopted at the fall 2011 session of the General Assembly. The CERF Secretariat stands ready to provide information to support the preparation of this resolution if requested.

In addition, the CERF Secretariat will launch inter-agency consultations on the possibility of using CERF loans as agency frontloading mechanisms. If this proves feasible and is met with sufficient demand by the agencies, the CERF Secretariat would establish CERF-specific advance mechanisms for those agencies that do not yet have them, using the reformed loan element.

The CERF Secretariat would like to seek the views of the Advisory Group on the course of action proposed above. This would be useful in informing the CERF Secretariat's discussions with the Member States during the General Assembly debate, and with agencies. The CERF Secretariat will report on the outcomes of these consultations as well as the GA resolution at the next meeting of the Group in the first half of 2012.

CERF Secretariat
New York, 22 September 2011