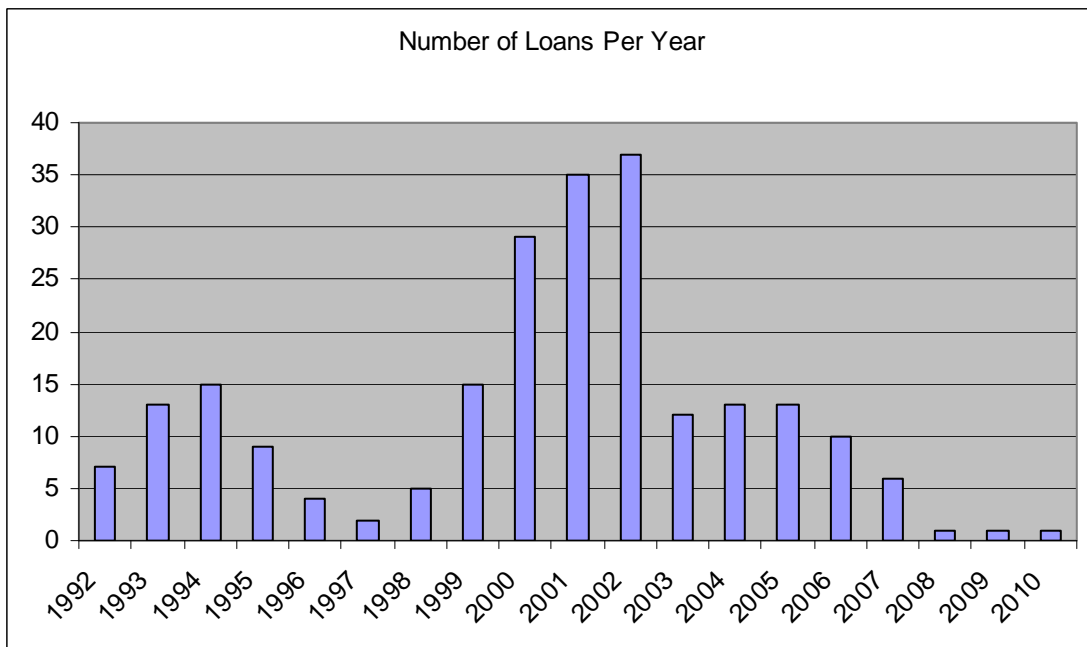


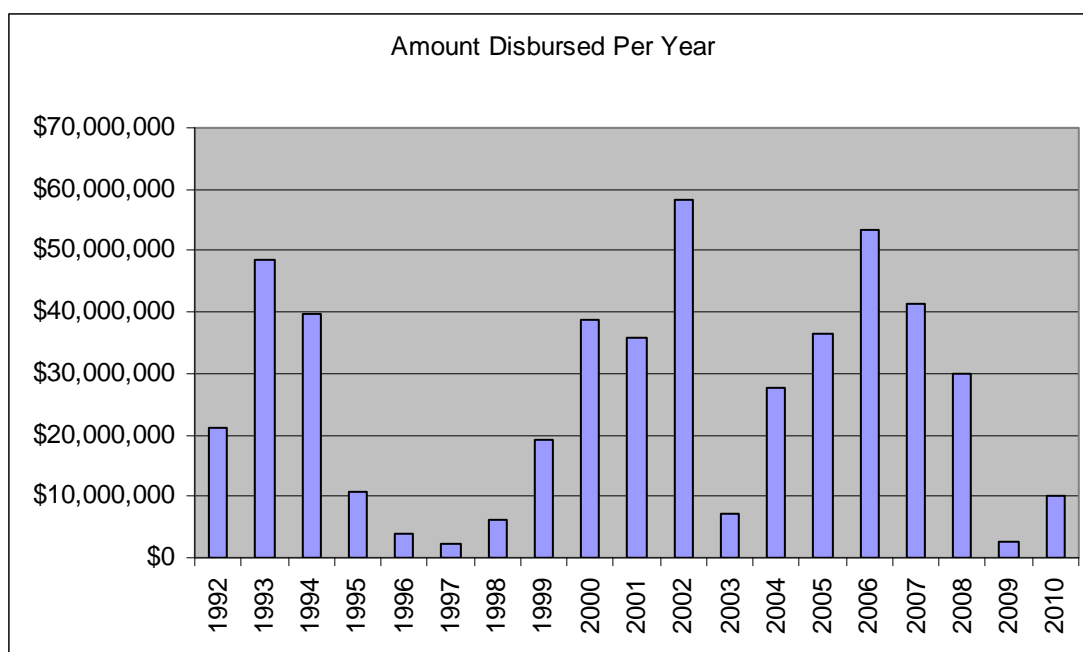
Review of the Loan Element of Central Emergency Response Fund (CERF)

General Assembly (GA) resolution 46/182, adopted on 19 December 1991, requested the Secretary-General to “establish under his authority a central emergency revolving fund as a cash-flow mechanism to ensure the rapid and coordinated response of the organizations of the system.” The GA further called for the Fund to be “put into operation with an amount of 50 million United States dollars.” Following an appeal for funds and the development of a Secretary-General’s Bulletin on the CERF (ST/SGB/251), the Fund disbursed its first loan in August 1992. Since then, the CERF has made 229 loans totalling approximately US\$493 million. However, since the introduction of a grant element in the upgraded Central Emergency Response Fund called for in GA resolution 60/124 adopted on 15 December 2005, there has been a sharp decline in the utilization of the loan element.

At its November 2010 meeting, the CERF’s Advisory Group (AG), discussed the lack of use of the CERF’s \$50 million loan element, the assets of which stood at \$75 million having accrued interest of some \$25 million. The members of the Advisory Group acknowledged that the development of internal emergency funding mechanisms within the UN agencies and the International Organization for Migration (IOM) during the intervening years had allowed them to borrow against internal reserves to kick-start emergency operations. This had been a factor in the decline in the number of applications to the CERF’s loan element. The Group requested the Fund’s secretariat to provide a review of the use of the loan element for its next meeting.

Annual utilization of the loan element has fluctuated since inception. However, both the number of loans made per year and the amounts disbursed peaked in 2002. There had also been a steady decline in the number of loan applications period since the introduction of the CERF’s grant element in 2006. There has been only one application per year in 2008, 2009 and 2010, and the last disbursement to an entity other than OCHA took place in 2008.





The table below provides additional information regarding the number of loan approved per agency since inception of the original CERF as well as the date of the last loan made to that recipient. The loan window was used intensively by only a handful of agencies. FAO made by far the most frequent use of this modality with a total of 103 loans (or 45 per cent of all loans) with UNICEF and WFP in distant second and third places with 39 and 14 loans respectively. It should be noted that even the most regular users have not applied for new loan in the last three to four years.

Agency Use of CERF Loans Since Inception		
Recipient	Number Of Loans	Date Of Last Loan
FAO	103	22-Mar-07
UNICEF	39	10-Mar-07
OCHA	18	22-Dec-10
WFP	14	7-Jul-08
WHO	12	12-Dec-05
UNHCR	11	30-Nov-05
DPKO	10	22-Jan-07
UNDP	6	16-Aug-07
UNMAS	4	18-Feb-04
IOM	3	25-Nov-05
UNHCHR	3	9-Sep-99
UNHABITAT	2	9-Sep-93
UNDSS	1	24-Feb-03
UNOG	1	25-Feb-05
UNREO	1	28-Apr-94
UNRWA	1	20-Nov-00

To gain a better understanding of the factors underlying the decline the utilization of the loan element and prospects for its future use, the CERF secretariat disseminated a brief questionnaire to CERF focal points at FAO, WFP, UNICEF, UNFPA, WHO, IOM, UNHCR and UNDP. The questionnaire asked which features of the loan element were considered most useful, under which circumstances agencies might consider a loan, what obstacles to the use of the loan element existed, whether there were any rules against the use of the loan element, whether the agency had any internal loan or cash advance arrangements and, finally, what changes would make the loan element more useful. Please see Annex 1 for a list of questions in

detail.

Several agencies stated that the loan element could possibly be used to rapidly provide funds to jump-start activities in response to emergencies where donor pledges might have been issued, but no actual funds yet disbursed. This could be particularly useful if the scale of the disaster overwhelmed agencies' internal advance mechanisms. It should also be noted that both FAO and UNICEF borrowed from the Fund in 2007, against anticipated contributions from the Sudan Common Humanitarian Fund. It is possible that in the set-up phase of future Common Humanitarian Funds, the loan element could provide a similar bridging service.

On the other hand, 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. Examples of this included FAO's Special Fund for Emergency Rehabilitation Activities (SFERA), UNICEF's Emergency Programme Fund (EPF), WHO's Rapid Response Account (RRA), UNHCR's internal loan mechanism, and a WFP mechanism that allowed for borrowing of funds against likely contributions.

Another impediment to the increased utilization of the loan cited by one agency was the requirement that loan be backed by pledge letters. Furthermore, it was pointed out that most of the delay in securing funds actually stemmed from negotiating contributions from donors, rather than the gap between approval and disbursement of funds that the CERF loans sought to address. Additional information on agencies' responses is contained in Annex 1.

While there was no consistent theme to recommendations made by agencies, a number of possible improvements and modifications to the loan element were suggested. Examples included the possibility of accessing the loan element without formal donor pledges, the possibility of issuing loans to bridge the gap between the approval and disbursement of CERF grants as well as a reduction in the balance of the loan account in favour of the grant element. In addition, further guidance on what purposes the loan element could be used for, regular updates on the cash balance in the loan account along recently approved loans were also requested.

Based on agency responses, an increased use of the loan element appears unlikely in the short to medium-term. This largely stems from the introduction of the grant element to the CERF as well as the creation and development of internal advance mechanisms among those agencies historically most likely to use the CERF's loan element. However, the loan element could retain some utility in the case of large-scale disasters, which can overwhelm the internal mechanisms of agencies.

Therefore, there are three main policy options for the reform of the loan element:

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. While utilization of the loan element has greatly diminished since the introduction of the grant element, several agencies did state that it could be useful for responding to large-scale emergencies. Indeed, the most recent loan to WFP, a \$30 million advance for operations in DRC and Ethiopia in 2008, would be an example of this. 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. In addition, the fact that loans were not requested for Haiti or Pakistan would also weaken this argument.
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. However, a disadvantage would lie in the loss of flexibility offered by the loan element. This stems

from two main sources. First, loan 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, provided that acceptable pledge letters are provided to assure repayment.

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 likely 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.

Annex 1 – Responses to Questionnaire by Agency

Agency	Useful features of Loan?	Circumstances for use of Loan?	Obstacles to using Loan?	Rules Against use of Loan?	Internal Loan mechanisms?	Possible changes to CERF Loan?
FAO	Enables FAO to respond to large-scale emergencies where \$15 to \$20 million are required to quickly respond, demands which outstrip FAO's own advance mechanism, the SFERA.	FAO would need a CERF loan mainly when the FAO SFERA advance mechanism will not have the capacity to advance funds for major or mega emergency responses (i.e. above USD20 million within a month.)	One idea could be to better articulate or connect the CERF "loan" and CERF "grant", i.e. a "loan" could become a "grant" if no donor has been identified.	No.	As mentioned above under question 1, since its creation in 2004, the SFERA mechanism is the crucial internal loan mechanism for emergency and rehabilitation efforts in FAO.	The loan element could be linked to the grant element by providing cash advances top bridge the gap between the approval of a grant and disbursement of funds.
WFP	Not applicable as WFP does not regularly access the loan element of the CERF. The last time was in 2008 during the high food price crisis.	As WFP has its own internal systems of loans, whose capacity is gradually increasing, it would be unlikely that the organization would need to request outside loans, at least on a regular basis. Should WFP encounter any challenges in the implementation of its own internal loan capacity, an option would be to turn to the CERF loan element.	There is no factor that prevents the organization from using the loan element. However, the organization has internal loan mechanisms, which are well integrated into our emergency response.	There are no such internal rules.	WFP has a regularized internal mechanism that allows for borrowing of funds based on the probability of contributions.	N.A.

UNICEF	The ability to jump start activities before emergency contributions are received.	When internal loan mechanisms and fund-raising are stretched for immediate action	Use of Emergency Programme Fund (EPF), increased use of Flash appeals and other funding mechanisms (thematic).	Not applicable	UNICEF has had the Emergency Programme Fund (EPF) for many years. In 2006 the Executive Board increased the expenditure level from USD 25 million to USD 75 million over a biennium.	Increased flexibility in use of loan window to allow use for preparedness activities Increased flexibility in use of loan in the absence of concrete donor pledges.
WHO	Ability to respond to exceptional circumstances when firm pledges take time to materialize and country operations have to be implemented without delay.	Situation outlined above.	Lack of funds to back up the reimbursement of the loan or soft pledges that would not eventually translate into contributions.	Not in the case of emergency operations.	WHO has a Rapid Response Account (RRA) to kick-start field operations. In addition, some WHO regional offices have established their own Emergency Funds.	Regular updates on cash available throughout the year, as well as a list of loans approved similar to grants. Clarification on the maximum amount of funds to be given through single loans.
UNFPA	No use of loan window to date.	N.A.	Until 2010, UNFPA rules did not allow implementation to start in advance of funding received. In addition, most	See above.	Yes. Limited internal mechanism to address cash-flow issues.	None.

			delays stem from the project approval stage, not the disbursement stage which the CERF loan aims to address.			
IOM	IOM has only used the loan element of the CERF prior to the addition of the grant element.	Since 2003, IOM has not made a request for a CERF loan. Funding from other donors would not only have to be verified at the time of the request, but also the amount ensured by other donors would need to fill all funding gaps.	As a project-based organization with a limited core budget, IOM relies more on the grant element of the CERF. In several situations, not all of the funding requirements for an emergency response are met thereby making it difficult to repay a loan.	No. As noted above, IOM has used the loan facility in 2003.	Since 1993, IOM has an Emergency Preparedness Account (EPA) to enhance IOM's institutional emergency response capacity. It is a loan that is used in circumstances where there is a clear need for immediate assessment and operational expenditure prior to actual receipt of external operational funding.	As mentioned above, IOM is a project based organization with limited core budget. As not every emergency response receives adequate funding, this limits IOM's use of the loan element
UNHCR	Since UNHCR has not been using the CERF loan facility, it is difficult to answer this question	UNHCR has its on internal "loan facility", described below, and would therefore use this first. The only time we could foresee a use of an external loan would be if the	No, but as described above, it is of limited use.	No internal rules prohibit the use of such loans.	UNHCR has an internal arrangement in the form of an operational reserve (budgetary space) approved by EXCOM. During any emergency, the	Would recommend that the CERF decrease the loan facility and increase the grant option.

		cash-flow of the agency is extremely low. This is however unlikely to happen as the carry over allows for UNHCR to start each year with some funding.			High Commissioner has the authority to release a certain amount from this reserve to the operation.	
UNDP	UNDP is not using the CERF loan element. In only two instances it has been used (Sudan), and it was in support of the RCO.	At this stage, the use of the CERF loan facility by UNDP is not envisioned.	UNDP rules generally do not allow expenditure until the receipt of funds from donors.	Same as before.	UNDP country offices have limited funds at their direct disposal that can be used to kick-start an action; moreover the Regional Bureau and BCPR may provide emergency funds. No internal loan facility has been established.	N.A.

Annex 2 – CERF Loan User Questionnaire

1. Please describe which features, if any, of the current CERF loan element are most useful for your agency.
2. Under what circumstances would your agency make a request for a CERF loan?
3. What factors prevent an increased or more regular use of the CERF's loan element by your agency?
4. Does your organization have any internal rules against the use of this type of loan facility?
5. Please describe any internal loan or cash flow management facilities that your agency uses to speed up or improve field response. Please highlight those that have been created or expanded since the original CERF was created in 1991.
6. What changes could we make to the current CERF loan element that would increase your agency's willingness to make more frequent use of the loan element?