

Oxfam International
Tsunami Fund Final
Evaluation: Funding
and Finance Review
Executive Summary

An evaluation of funding and finance issues in Oxfam International's response to the 2004 Indian Ocean tsunami

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Oxfam
International

Tsunami Evaluation series

As part of its ongoing aims to learn from experience and to hold itself accountable for its actions, Oxfam has commissioned a wide-ranging evaluation of its response to the Indian Ocean tsunami of 2004. This comprises 14 thematic evaluations, 12 of the 14 studies have been conducted by independent consultants, while this and one other study have been conducted by members of Oxfam International Tsunami Fund secretariat (*)

Recurring issues and key themes from the 14 individual evaluations are brought together in this evaluation summary report 'In the Wake of the Tsunami'.

The reports available in this series are:

Evaluation summary report: 'In the Wake of the Tsunami'

Thematic evaluations:

1. Livelihoods Review (Rajan Alexander)
2. Public Health Review (Pradeep Bharwad & Wim Klassen)
3. Shelter Review (Sarbjit Singh Sahota & Dave Hodgkins)
4. Gender Review (Annette Salkeld)
5. Downward Accountability Review (Ravinder Kumar & N. Raghunathan, Catalyst Management Services)
6. Corporate Accountability Review (John Chilver*)
7. Advocacy Review (Alasdair Collins)
8. Disaster Risk Reduction Review (Man B. Thapa)
9. Partners and Partnerships Review (Stuart Kenward)
10. Monitoring and Evaluation Programme Review (Catherine Lowery)
11. Communications Review (Alex Wynter)
12. Funding and Finance Review (Clive Surman & John Chilver*)
13. Management Issues Review (Simon Harris)
14. OITF Architecture and Structure Review (Geoffrey Salkeld)

The evaluation summary report and the executive summaries for the individual reviews can be found on the Oxfam website at www.oxfam.org/emergencies/tsunami. Full versions of the individual reviews are available on request from the Oxfam International Secretariat via www.oxfam.org/contact

Philip Horgan,
Oxfam International Tsunami Fund Monitoring and Evaluation
Coordinator, December 2009

Cover image: The women in Leelawathi Hewawisenth's community make coir from rope coconut husks to earn a living for their families. The pits in which the husks are soaked were flooded by the tsunami, but Oxfam has paid the women an income to rehabilitate their pits and restart the coir production process. Credit: Tori Ray/Oxfam

Executive summary

Introduction

The OITF's financial policies and procedures were developed to cover issues such as investments, exchange rates, cash transfers, and external audit requirements. The Fund Framework provided the agreed structure for the day-to-day running of the Fund. The main responsibility for handling the OITF's finances lay with the Fund Financial Controller, based in the Oxfam International Secretariat, assisted by the Fund Senior Accountant and with the advice of an audit committee which met three or four times a year.

This funding and finance review identified four areas to focus on:

- Investment policy
- Management of donor funds
- Foreign currency issues
- Partner financial reporting and audit compliance.

In each area, the review examined the Fund's policies and procedures, asked to what extent they were appropriate and worked in practice, and how any future similar fund could be better planned. The main sources of information were questionnaires and interviews with affiliate finance staff, as well as internal discussions in the OITF secretariat.

The main findings in each of the four component studies making up the review are set out below. While in general the finance and funding policies and practices of the Tsunami Fund met the key objectives as set out in the Framework, a number of recommendations have been made for any similar future OI response. There are some common themes running through these recommendations, such as the need for more OI-wide strategic thinking in these areas, the fact that many of the areas are interconnected (e.g. the impact of multiple currencies on investment strategies), and the need to establish clear and practical policies and procedures at the outset of the response and then adhere to them.

Investment policy

The priorities for investment policy set out by the Fund procedures were risk, liquidity, and return (in that order). The Fund's investment advisers were largely relied upon to monitor risk, through the credit ratings of the investment vehicles used. They successfully warned the Fund Manager of the risk of collapse of the Icelandic banking sector in early 2008, at a time when the Fund had \$9m in Icelandic bank deposits, and the Fund was able to withdraw its investments on maturity, without penalty. It is suggested that in order to reduce risk in any future OI response, the maximum amount permitted to be held in any one institution should be limited to \$5m, and an appropriate geographical spread of accounts should be considered.

The liquidity of the Fund was set at a deliberately high level (maximum three-month-term deposits) in order to provide funds to affiliates for programme activities as and when they were required. Return on investments averaged 4 per cent for 2006 and 5 per cent for 2007 and 2008, which is slightly below the UK LIBOR rates for the same period (but since investments were in US dollars it is difficult to make a direct comparison).

It is recommended that in a future OI response the audit committee (or equivalent body) should exercise a more detailed review function to ensure that credit ratings, geographical spread of investments, ethical acceptability of institutions, etc. are being properly monitored and acted upon. The impact on investment policy of holding funds in different currencies should also be considered.

Managing donor funds

The tsunami response was exceptional in that 90 per cent of the funding came from public donations and only 6 per cent from governments, the EU, and the UN. By far the largest single donor was the UK-based Disasters Emergency Committee (DEC).

There needs to be greater strategic thinking across OI in managing donor funds in a future major emergency. OI needs an efficient system for tracking income from all affiliates when a large humanitarian crisis begins, and OI affiliates need to be able to estimate the scale and costs as soon as possible after the crisis occurs. As a general rule, affiliates should spend restricted (time-bound) funds first and keep unrestricted public money in reserve if possible.

Oxfam was not able to claim its full DEC allocation due to DEC time constraints. A mechanism should be created whereby other affiliates as well as OGB can access DEC funds that OGB is unable to utilise (and for other joint agency appeal funds). Any future OI response management body should be kept informed by OGB about DEC meetings and decisions, and should have the opportunity to give input into DEC discussions and decisions that affect the programme strategy for OI as a whole.

There needs to be OI-wide strategic thinking about which funding sources to accept when there is an abundance of public money available. Greater co-ordination is also needed between affiliates on when to open and close public appeals.

Review of foreign currency issues affecting the OITF

Foreign currency management was a problematic issue for the Tsunami Fund. During 2006 there were changes in the procedures relating to foreign currency that were not reflected in the revision of the Fund Framework, which led to confusion for affiliates. It was fortunate that there were sufficient unallocated funds available to cover the exchange rate exposure of affiliates in 2007 and 2008 due to the weak dollar, as the exchange rate

contingency reserve created in 2006 had been released due to the strength of the dollar at that time. A greater spread of currencies in the Fund (the great majority of which was held in US dollars) would have reduced risk.

Any future Fund framework should be able to manage exchange rate risks centrally, and a reasonable contingency reserve should be maintained to cover losses that arise during the life of the Fund. To minimise exchange losses, funds should be held in a portfolio of currencies (US dollar, GBP, euro, Australian dollar) based on the projected currency requirements of affiliates.

Policies relating to exchange rates need to be carefully thought through and agreed at the start of the response, and clearly communicated to all involved.

Partners and audit compliance

In general, affiliates followed their existing arrangements and procedures for partner selection and appraisal. For some affiliates, e.g. OGB in Aceh, the tsunami response provided an incentive for developing and implementing new partner appraisal guidelines and procedures. There are reservations among affiliates about the benefits of attempting to develop either standard OI partner appraisal and selection tools or standard OI partner financial reporting formats. The latter in particular were seen as adding to the already demanding reporting requirements placed on partners. It was commonly agreed that financial capacity building of partners was important, although again there were reservations about the possibility of doing this on an OI-wide basis.

It is generally agreed that the sharing of good practice in partner financial appraisal, reporting and stocktaking between affiliates, and joint partner capacity-building workshops, such as happened between Oxfam Novib and Oxfam Australia in India, was a good example that should be replicated.

On audit compliance, it was generally felt that the level of accountability (90 per cent of all expenditure to be externally audited) set in the tsunami response was an extremely high one,

and the administration expense incurred in arranging these audits was considerable. While some affiliates found the discipline of these audits helpful, others felt that they did not highlight anything that would not have been identified through internal processes.

The development of a central OI audit function to provide advice, guidance, country-specific information (e.g. database of recommended auditors), and case studies of good/bad practice, should be considered.

remitted to partners, the amount spent by partners to date, and the balance of unspent funds held.

Oxfam Novib stated that these reports were helpful in monitoring the rate of spend by partners, and planning the timing of cash transfers. O Aus also said these reports were helpful in tracking spend. They felt that monthly rather than quarterly reporting might be more helpful, despite the additional reporting burden. On the other hand, OGB said that their existing internal systems and reports enabled them to monitor partner spend closely, and this merely created additional reporting requirements with no benefit.

See below for the report summary by affiliate as at June 2008; this table also shows that the vast majority of partner spend by \$m was by Oxfam Novib partners.

Oxfam International is a confederation of fourteen organizations working together in more than 100 countries to find lasting solutions to poverty and injustice: Oxfam America, Oxfam Australia, Oxfam-in-Belgium, Oxfam Canada, Oxfam France - Agir ici, Oxfam Germany, Oxfam GB, Oxfam Hong Kong, Intermón Oxfam (Spain), Oxfam Ireland, Oxfam Mexico, Oxfam New Zealand, Oxfam Novib (Netherlands), and Oxfam Québec. Please call or write to any of the agencies for further information, or visit www.oxfam.org

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Linked Oxfam organization.

Oxfam International and Ucodep Campaign Office (Italy)

Email: ucodep-oi@oxfaminternational.org

Oxfam observer members

The following organizations are currently observer members of Oxfam International, working towards possible full affiliation:

Oxfam Japan: www.oxfam.jp

Oxfam India: www.oxfamindia.org

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