




Guidelines

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Treasury Policy & Guidelines

ADRA Austria and its Partners

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Revision 2		
Revision 3		
Revision 4		

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The present treasury policy and guidelines are a binding board decision. It applies to all financial transaction within ADRA Austria and its partners.

All previous handed out guidelines concerning Treasury are no more relevant.

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1 Introduction

1.1 Rationale

The highest risk of ADRA Austria's financial resources occur when exchanging, transferring and depositing funds. ADRA Austria treasury management procedure needs to have plans in place to help manage and mitigate all the identified treasury risks.

1.2 Objectives

- Compliance with internal- and external laws and regulations, including sanctions laws
- Maintain and refine a culture of stewardship at the system level
- Manage and reduce risks in the following areas:
 - Cash flow and liquidity management
 - Maintain a treasury metrics dashboard (exchange fluctuation, inflation rates, cash flow, budgeting...)

1.3 Responsibilities

Responsibilities are shared among finance and program department at ADRA Austria and extended to its project implementing partners.

1.4 Reporting

Responsible for monitoring and reporting performance against treasury policy. Performance is monitored against the targets and benchmarks set out in the policy document.

1.5 Risk Management

A detailed risk management process, including the following steps, is being exercised regularly (at least once per year) or revised after each lesson learned (see separate risk matrix).

Risk chapter	Explanation	Risk management process
Risk description (sources)	Exchange losses Local currency inflation Unreliable financial institution Foreign currency transfer costs	Identify risk per owner Map the risk Categorize the risk (significance and likelihood)
Risk exposure	Risk exposure for ADRA Austria and Partners involved before and after existing risk mitigation	Assess risks (quantify & qualify)
Risk appetite	Residue risks ADRA Austria takes to achieve its objectives	Quantify risks Contingency planning
Risk response (the policy)	Minimize risks in the following areas: cashflow, liquidity, investment, foreign exchange, banking services, compliance.	Respond (avoid, transfer, reduce, accept)
Risk owner	ADRA Austria, implementing partners, third parties	Sensitize, monitor, respond
Risk triggers	To be sensitized, informed and determined for each risk	Communicate and control
Key risk indicators (KRI)	Define KRI that measures the risk exposure, risk triggers and risk appetite	Monitor and reporting
Reporting	All stakeholders to report based on KRIs and the performance of the associated controls	Report and monitor
Assurance	System defined to ensure policies are implemented and reviewed/updated	Report, monitor, formulate lessons
Update of policy	Process to update the policy based on lessons learned (update frequency and approval process)	Monitor and update

2 General

2.1 Treasury management practice

Policy:

The ADRA Austria treasury practice outlines in details:

- a) cashflow forecasting
- b) liquidity management
- c) investment management
- d) foreign exchange management and procurement
- e) use of banking services

Practice: The following procedures are in place to ensure good treasury practices:

Policy implementation

- 1) Monitor transaction fees, exchange- and inflation rates
- 2) Collect information and reports consistently
- 3) Summarize and learn lessons
- 4) Discover risks and enter into risk map

Risk mitigation:

- 1) Outline risk classification followed by listing the key risk indicators
- 2) Classify risk with category, significance and likelihood
- 3) Quantify and qualify individual risk and risk clusters
- 4) Risk treatment with action steps, responsibilities and deadline
- 5) Regular risk mitigation tracking

3 Cashflow forecasting

3.1 Cashflow forecasting at partner level

Policy:

The implementing country cash requirements cover a fixed (safe) time period, based on the current in-country financial risks (political and operational) as well as the currency risks.

Practice:

Each new project implementing country is to perform an assessment of current treasury practices. With this information the team is to evaluate political and operational risks and determine safe practices for money transfers (questionnaire see Annex A). ADRA Austria's liquidity, the currency and inflation risk together with the cash request for a specific project implementation time will determine the amount of money transferred.

The implementing partner submits the money transfer request with the cash flow projection at least 3 weeks in advance to ensure finding a good transfer time with a favorable exchange rate.

3.2 Cashflow forecasting ADRA Austria

Policy:

ADRA Austria cash requirements are calculated quarterly to ensure sufficient contingency for pre-financing and the coverage of unexpected requirements.

Practice:

Project finance reports with cash projection to be received quarterly and entered into ADRA Austria project tracking list. Project expense forecast to be updated in project list quarterly.
Cash flow forecasting to be compiled quarterly and compared against income from private and public sources.

4 Liquidity management

4.1 Reserve planning

Policy:

Buildup, maintain and adjust financial reserves depending on the project volume to ensure its continuation.

Practice:

ADRA Austria reserve consists of free donations and thematic earmarked donations. Upon approval of a project, thematic funds are booked into the project own-fund-liability based on budget lines. If specific funds are missing, non-restricted funds are added, that could be exchanged later on against earmarked donations once project donations come in.

Financial reserves for multiyear projects must be available for the entire project period on application.

Reserves for projects with pre-financing of last installment, funds for pre-financing must be available.

4.2 Contingency planning

Policy:

Assess and minimize contingency risks and plan for residue risks.

Practice:

Contingency risks include exchange fluctuation, unexpected fluctuation, donor's inability to fulfill their commitment.

Project management risks are to be assessed, mapped and treated to verify residue risks, which are being quantified in a percentage allocated, based on the kind of donor and on the project volume.

5 Investment Management

5.1 Reserve management

Policy:

ADRA Austria monitors a possible financial surplus and decides how to invest it.

Practice:

Priority to invest surplus funds is given to the current needs in the global south by establishing new projects. If the capacity of ADRA Austria is at its limit, funds are being used to co-finance network projects.

ADRA Austria's held reserves increase with the project volume as part of its risk management and liquidity planning. These funds are to be invested in a way that they remain accessible at any given time.

5.2 Reserve allocation

Policy:

The reserve volume changes with the amount of administrative fix costs (salaries, office rent and utilities). Administrative reserves are needed to ensure its continuation for a minimum of 1 year.

Practice:

Administrative reserves to be booked and earmarked as administrative contingency.

6 Foreign Exchange Management and Procurement

6.1 Foreign exchange rate

Policy:

ADRA Austria follows a clear procedure to determine the foreign exchange rate when elaborating project budget and forecasts.

Practice:

Privately financed projects: taking into account the average rate from the past 12 months, the budget exchange rate is being agreed with ADRA Austria. A reference and history of a specific exchange rate can be taken from OANDA: www.oanda.com

Publicly financed projects: exchange rate is set according to donor guidelines.

6.2 Inflation rates

Policy:

ADRA Austria follows a clear procedure to determine inflation rates in the implementing country and reflects the risk in the project budgets.

Practice:

Prior to a multiyear budget, the inflation rate must be monitored, and the individual budgeted costs planned for accordingly.

If ADRA implementing partner operates in local currency only, inflation rate is being monitored every 3 months and the rate is reported with the quarter financial report. Reference of inflation rate can be taken from Trading Economics: <https://de.tradingeconomics.com/country-list/inflation-rate>

If a budget revision becomes necessary, the new inflation rate shall be projected and considered until the end of the project. In countries with a regular inflation rate, budgets need to be planned with annually increasing prices, also for salaries.

6.3 Expenditure reporting

Policy:

All project related expenditure incurred in local currency are to be reported in Euro based on the actual exchange rate given in the bank voucher when money received

Practice:

All financial reporting by the implementing partner outlines expenses in project operating currency and Euro. The real exchange rate obtained during the transfer is used. After the second transfer, the weighted exchange rate of the transfers is used in reporting.

6.4 Money transfers offers

Policy:

ADRA Austria proactively procures foreign currency based on a minimum of 2 foreign exchange offers. The time of money transfer is based on exchange fluctuation monitored and the cash flow projection, provided by the implementing office.

Practice:

ADRA Austria to receive indicative rates from 2 foreign exchange suppliers and chooses the institution with the better rate. The indicative rate is being compared with the actual offered rate which applies for the transaction. A deviation that goes beyond the rate offer from the other institution requires stopping the transaction and initiating the transaction with the other institution.

6.5 Money transfer volume

Policy:

The transfer volume of foreign currency is based on an updated in-country potential and risk assessment and the availability of Euro or USD bank accounts.

Practice:

Potentials are interest rate and/or more favorable exchange rates to be considered with the safety of currency deposited in country.

6.6 Local currency risk map

Policy:

ADRA Austria transfers a certain amount to a fixed maximum amount stored in country based on a country specific currency risk map.

Practice:

If the implementing partner does not hold a FEC license and operates projects in local currency only, ADRA Austria will conduct a currency risk assessment, rate the risks and define with the partner a maximum amount to hold in country.

Risk rating on: <https://www.spglobal.com/ratings/en/products-benefits/products/foreign-currency-credit-rating-local-currency-credit-rating>

7 Use of banking services

7.1 Money institution risks

Policy:

ADRA Austria only works with money institutions in an implementing country whose credibility has been checked and approved.

Practice:

The ADRA implementing partner conducts a risk assessment, seeking an official rating of the bank. The 3 major international rating agencies are:

- Standard & Poors: <https://www.spglobal.com/ratings/en/sector/financial-institutions/banks>
- Moodys: https://www.bvdinfo.com/de-de/unsere-losungen/daten/international/bankfocus?gclid=EAlaIQobChMI8c-L3MmT7gIVk_93Ch0LOgiTEAAYASAAEgLvxfD_BwE
- Fitch Ratings: <https://www.fitchratings.com/banks>

The following minimum criteria must be fulfilled: AA (S&P/Fitch) or Aa2 (Moodys) not older than 12 months or last annual report.

7.2 Money institution selection

Policy:

ADRA Austria has clear criteria to decide if a global or local bank is chosen in an implementing country.

Practice:

Selection criteria are based on bank ratings outlined in 7.1

8 Compliance

8.1 Sanctions control

Policy:

ADRA Austria has a sanctions policy to check its partners, suppliers, subcontractors and other stakeholders who will receive funds from ADRA (see separate document "ADRA Sanctions Policy ADRA Austria & Partners")

Practice:

ADRA Austria shares its sanctions policy with all its implementing partners. The sanctions policy is part of the partnership agreement.

Sanctions policy is being reviewed regularly and after each incidence its content revised accordingly.

Annexes

Annex A – Partner Assessment Checklist

Project Implementing Partner (ADRA NAME)**Name:****Date:****E-mail:**

Bank Details	Bank Name: International Bank: Yes___ NO___ Webpage: Approximate interest rate for deposits: ___ In local currency ___ In USD/Euro Bank reputation: Bank rating: Bank fees:
Bank Accounts	ADRA (Partner) maintains: ___ Local currency account -> local currency is: ___ ___ USD account ___ Euro account
Money Flow	ADRA (Partner) receives funds: ___ In local currency only ___ In USD ___ In Euros ADRA (Partner) requests funds: ___ In local currency only ___ In foreign currency to be converted upon arrival Reasons: _____ Is your Bank exchanging foreign currency upon arrival? If yes: do you track the exchange rates in advance? Do you request more frequent and smaller instalments when the exchange rate is favourable?

Exchange Fluctuation	<p>ADRA (Partner) monitors exchange fluctuation:</p> <p> <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Yearly <input type="checkbox"/> Not </p> <p>The source of information for exchange fluctuation is:</p> <p>Are you requesting funds when the exchange rate is good or based on fund request schedules?</p>
Inflation rate	<p>ADRA (Partner) monitors Inflation rate:</p> <p> <input type="checkbox"/> Quarterly <input type="checkbox"/> Yearly <input type="checkbox"/> Not </p> <p>The source of information for the inflation rate is:</p>
Security measures	<p>ADRA (Partner) has the following security measures in place to safeguard funds:</p> <p>Limited amount in local currency</p> <p>The Bank's reliability is checked</p>
Compliance	<p>ADRA (Partner) has a sanctions policy and has a verifying process in place to check new partners who receive funds</p> <p> <input type="checkbox"/> Yes <input type="checkbox"/> No </p>
Other	<p>Other work the ADRA (Partner) does to safeguard funds:</p> <p> <input type="radio"/> ... <input type="radio"/> ... <input type="radio"/> ... </p>

1. The first part of the report is a general introduction to the subject.

2. The second part is a detailed description of the methods used.

3. The third part is a discussion of the results obtained.

4. The fourth part is a conclusion and a summary of the findings.

5. The fifth part is a list of references.

6. The sixth part is a list of figures and tables.

7. The seventh part is a list of appendices.

8. The eighth part is a list of acknowledgments.

9. The ninth part is a list of footnotes.

10. The tenth part is a list of symbols and abbreviations.

11. The eleventh part is a list of references.