ICRC: Payments on the Front Line

The ICRC is part of the Red Cross & Red Crescent Movement comprised of the International Committee of the Red Cross (ICRC), the International Federation of the Red Cross & Red Crescent (IFRC) as well as National Red Cross/Red Crescent societies present in each country. Interventions in the wake of natural disasters – something the Red Cross is widely known for and that often features in the media – are conducted by IFRC and National Societies. The ICRC (in line with their charter) focuses on assistance in war-torn zones or areas with political unrest or military conflicts.

ICRC is a non-profit organisation that pursues humanitarian and social objectives. As part of the "We love treasury – and we love to help" programme, BELLIN supports them with a free of charge tm5 licence.

The ICRC is headed by the Assembly, its supreme governing body. This is a committee made up of up to 25 members who are not paid for their services. The committee elects a President who in turn appoints a General Director. The latter appoints various sub-directors for specific portfolios.

Fundraising, project planning and how this affects treasury

The ICRC strategies are defined by the governing board and set the tone for the work of the treasury department. The ICRC is neither a for-profit business nor a financial organisation which aims to maximise year-end profit. It is a non-profit organisation which offers protection to those most in need, affected by conflicts. The balance sheet only reveals restricted and/or unrestricted positions, and there is no shareholders' equity. Financial organisation starts with a budget created for ICRC activities in conflict situations. It contains the required spending, for example in connection with food or medications. These plans are created by local units – so-called Operations or Delegations.

Once all data has been collated, the Fund Raising Division takes over and approaches potential sponsors in order to raise the necessary funds. The lion's share of donations comes from state governments – but also from a small but growing number of private donors. Since 2012, ICRC has been focusing more on these private sponsors, and they currently account for around 5% of ICRC's total budget. With potential donors pledging funds, ICRC distinguishes between 'hard' and 'soft' commitments. Only if there's a binding (hard) commitment can funds actually be recognised as revenue. This happens when funds are committed (even before any money is received) and leads to foreign exchange exposure. The 'soft' commitments neither have a specific date nor do they guarantee a specific sum. Such a vague commitment cannot be recognised as revenue but is part of the income forecast. Funds are integrated into the plan before the actual cash transaction. The foreign exchange risk exposure mitigation is where the treasury becomes active: its job is to hedge this exposure and to check when donations have been paid. This mechanism based on pledged funds (and not incoming payments) means that the ICRC pre-finances operational activities, as the money is often needed and used straightaway, before the donation has actually come in.

The treasury duty of care

The repercussions of the financial crisis and the current geopolitical environment have a more and more drastic impact on the ICRC and on how the organisation delivers its services. More stringent financial regulations, an increase in bank (and other) compliance requirements as well as higher currency and financial volatility directly impact the work of the treasury department. Since the ICRC makes transactions in more than 100 currencies (where it is either long or short), it is very susceptible to foreign exchange rate fluctuations which directly influence the budget and with it the treasury department.

While the treasury department is not directly in contact with beneficiaries, its work is a valuable and important contribution to ICRC humanitarian action by ensuring funds provided by donors are made available for those in need of protection. The treasury mandate is to ensure that funds are available for operations in an increasingly complex and unpredictable environment through transparent and robust treasury processes. Along the corridors at headquarters, this is illustrated by the many pictures. Everyone is aware of the consequences their work has, fostering identification with the motivation and fundamental principles behind the Red Cross and Red Crescent Movement. This knowledge also accompanies every step the treasury department takes, down to the smallest detail. The team draws motivation from ICRC's mission and the fact that they're one vital piece in an international jigsaw. So even though their work essentially doesn't differ much from that of other treasury departments – they are truly special.

The art of managing earmarked donations

Incoming cash flows and outgoing cash flows can be far apart, and there is no direct correlation between receiving funds and expenses, i.e., the treasury function is not project-oriented. All donations go through ICRC headquarters in Geneva. In general, 80% of funds are allocated to the around 80 different Operations. They serve to provide humanitarian assistance in war-torn countries around the world, while 20% are used to keep the overall global organisation running. This covers for example HR spending, including employees abroad whose salaries are paid from Geneva but who work in the field (so-called 'mobile' resources), ICRC's central warehouse in Geneva where medical items, orthopaedic instruments, IT equipment, etc. are purchased centrally and stored until they're needed.

In some cases, donations can be made for a specific (i.e., earmarked) purpose, e.g., to be used in a specific country where ICRC runs a refugee camp or for freshwater supply. The ICRC is then obliged to ensure full compliance with the donor's expectations. Conversely, some donations are provided 'without restrictions' (i.e., are not earmarked), and the ICRC decides where to allocate these funds. This flexibility is highly valued by the ICRC. For example, some donors provide funding for an entire continent (say Africa), leaving the final allocation to the ICRC.

Each planned incoming cash flow represents a voluntary donation and can never be completely guaranteed. Every once in a while, specific budgets are exceeded and require additional funding. This can be as much as 10-15% of the budget and needs to be solicited independently. Moreover, it cannot always be guaranteed that supplementary funds will even be granted. At the same time, the treasury department's core function is to ensure field operations have sufficient liquidity and provide the necessary funds, often in problematic regions.

How does the money reach the war zones?

Ensuring ongoing operations receive the financial resources needed to implement their objectives can be challenging in some contexts. Some countries are under embargo, and banks cannot transfer funds since they could be subject to prosecution. While international regulations make ICRC exempt from sanction lists, they need to provide a specific reference to the exact purpose of each payment. Electronic payments often don't even allow for that, so old-school paper-based processes are needed in order to send suitable payment instructions to ICRC's three main banks for them to process. In Sudan for example, only USD payments are subject to sanctions, so transfers are done in EUR. In extreme and rare instances, it has been necessary to send a courier who personally transports cash. This is a method no one is really comfortable with, but could be unavoidable in order to keep up humanitarian assistance in embargo situations. The treasury department with their payments responsibilities plays a key role here – they're 'on the front line' and need to find pragmatic and agile solutions for such complex scenarios.

FX hedging based on the 'accounting approach'

ICRC's treasury department combines planned expenditure provided by operations with binding and non-binding funding commitments from the fundraising department. This overall plan is checked and verified every quarter. These updates combined with a record of actual data allow the treasury to make a relatively accurate monthly plan of the cash flows for the next four weeks – this is a time period that still allows for more or less precise forecasts. The operations' requirements for the coming month are split up to avoid large cash positions positioned in specific countries they operate in to reduce financial loss and foreign exchange (FX) exposure risk. The treasury team is also responsible for FX hedging, which is based on the accounting requirements. This 'accounting approach' to hedging aims at reducing the impact of foreign exchange exposure and 'covers' only positions recorded in the balance sheet, thus tends to reduce the holdings of foreign currency positions. As soon as a sum in foreign currency has been recorded, it should be hedged within a reasonable time frame to avoid losses resulting from exchange rate differences. Currently, negative interest rates in Switzerland on cash holdings make it more complex to manage these and find ways of reducing the impact on donor contributions.

Revenues are hedged as soon as there's a binding funding commitment. Hedging for outgoing payments (in connection with a monthly review) can be based on the requests from delegations. The combined sum of incoming and outgoing payments results in a conversion volume amounting to over CHF 2.5bn a year. Banks are also involved in payments processing and occasional short-term financing.

Treasury professionalisation

The ICRC treasury department is really not new but has become firmly established in the organisation in the last 10 years since 2007. While framework conditions have become more complex, the treasury setup has become more and more professional. One of the most important challenges was the introduction of treasury software to support the complex planning and monitoring of funds. There's still room for optimisation when it comes to a number of processes and structures in order to ensure added value and efficiency gains through the system. In fact, this was one of the prerequisites for the approval of the investment.

The first focus was on managing payments from the central treasury department – and the ensuing entire cash management process and the organisation of short-term funding of up to one year. Moreover, the treasury team also focuses on liquidity planning, the electronic collection of account statements and their integration in the planning, resulting in a plan/actual comparison. Capturing FX deals is also an important issue. As soon as the implementation will be completed at headquarters, the system might be rolled out to regional entities – but this is currently still more of an abstract plan. ■

ICRC Organisation

The International Committee of the Red Cross (ICRC) is an independent, neutral organisation ensuring humanitarian protection and assistance for victims of armed conflict and other situations of violence. It takes action in response to emergencies and at the same time promotes respect for international humanitarian law and its implementation in national law. The ICRC was founded in 1863. Its mission is to ensure humanitarian protection and assistance for victims of armed conflict (inter- and inner-state). ICRC is based in Geneva (Switzerland) and employs around 14,000 people in over 80 countries. ICRC's main source of funding is donations, for example from governmental and non-governmental organisations, national Red Cross and Red Crescent societies as well as public and private sponsors. In 2015, ICRC had a budget of just over CHF 1.7bn – around 200m of which were needed at headquarters, with the remaining 1.56bn spent on victims affected by conflicts around the globe. The global geopolitical situation has seen a drastic increase in humanitarian needs in many conflict zones in recent years – matched by ICRC's budget which has grown by 55% in the last decade.