

Financial management of the KfW grant

A preliminary note for discussion during the session of the Trust Board Meeting with the FS Mission on February 1, 2018

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1. INTRODUCTION

This note was elaborated by the FS Mission with assistance of Kathy Mikitin (FS backstopper) and Richard Diggle (WWF). Feedback of Marcus Stevens, KfW HQ was incorporated.

Illumination in green means focus of discussion required with KfW and Yellow with the Board.

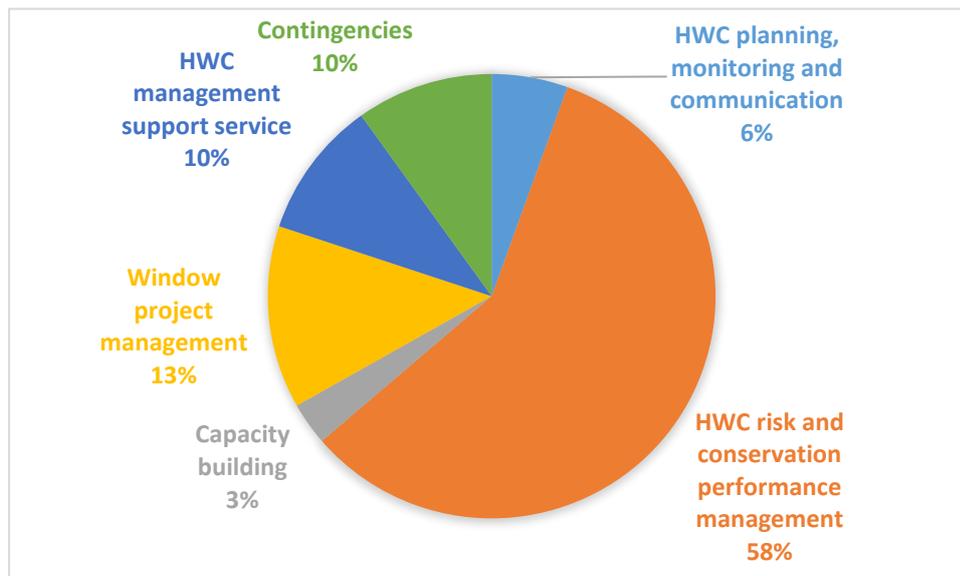
2. PROJECT BUDGET

Summary of estimated breakdown of project budget

#	Description	Total cost		
		Total		% of tot. Cost
		NAD	EUR	
1	HWC planning, monitoring and communication	4,125,000	275,000	5.5%
2	HWC risk and conservation performance managem	43,635,000	2,909,000	58.2%
3	Capacity building	2,325,000	155,000	3.1%
4	Window project management	9,970,000	664,667	13.3%
5	HWC management support service	7,500,000	500,000	10.0%
6	Basic cost 1 (1-5)	67,555,000	4,503,667	90.1%
7	Contingencies	7,445,000	496,333	9.9%
8	Grand total (6-7)	75,000,000	5,000,000	100.0%

1 Euro equivalent to 15 NAD

Breakdown of cost of tentative proposed project budget



Project management costs following procedure has been applied:

- Staffing costs of Project Management Unit (PMU) will be paid based on the estimated time for each position working exclusively for the Project;
- Transport costs can be covered by direct disbursement or included into the project management fee; later would be easier to administer;
- The management fee of 8% as applied by the Environmental Investment Fund of Namibia for similar international grants is in line with environmental Trust Funds and seems a good reference.

Referring to the KfW policy. Instead of a fixed x% management fee, KfW would refer to sum up the PIU staff and operational costs needed and budget them. Would increase transparency and flexibility. However, 6-8% can be used as an orientation. In the budget 6% was applied plus PMU staff.

3. FINANCIAL MANAGEMENT

3.1 CCFN Guidelines for financial management and procurement of goods and services:

The first draft of the CCFN Operations Manual is available (likely this week). The manual includes procurement rules for acquisition of goods, works and services that the CCFN will procure for its own use. As a grant-making institution rather than an executor of projects, the CCFN will procure very few goods and services itself - like office equipment and services (audit, various consultant services, legal services, professional investment). The principles and processes for carrying out International Competitive Bidding (ICB), National Competitive Bidding (NCB) and local shopping for goods and works are outlined in the general Operations Manual as well as the method for selecting individual consultants and firms (international and

national). This general manual will state that any donor-financed programs may require special procedures or changes to the standard procedures for the specific program, which opens the door for any specific requirements KfW wishes to be applied. Usual thresholds for direct assignment, 3 quotations, and international tenders is required. Examples can be provided on request by KfW.

It was proposed/ agreed with the Board (verify in Board Meeting) that specific guidelines for financial management and procurement for the KfW-supported Grant Window complying to KfW regulation. They must be agreed in principle in the Grant Agreement and can be specified in the inception phase in the operational manual.

3.2 Flow of German Grant Funds

KfW usually has its own regulations but can adapt to World Bank Regulations if advantageous and good arguments apply (e.g. adaption to World Bank guidelines can ease acquisition with other international donors). Usually KfW guidelines suggest that the German grant will be disbursed as a disposition fund (special account) with an initial deposit (pre-financing by KfW) based on a four-month's forecast of future disbursement requirements. The special account will be replenished after 50% of funds are used, latest after 4 months, based again on a four-month forecast. Six months. A longer period (e.g. every 6 months **might be considered, but there must be strong arguments that there is a need for longer intervals (see above)**). The FS will only project an annual cash forecast. **Discussion of this issue with the Board and WWF**

The tranches will be based on the cash forecast for the upcoming request for disbursement. The following procedure for disbursement of German Financial Contribution was proposed **(agreed) with the Board (verify)**

- KfW → CCFN special forex project account of its commercial bank (**name**) → change from Euro to NAD in Special NAD Project Account → Bank account of conservancy special project account and accounts of beneficiary groups and project service providers (**needs verification by KfW**).

According to KfW requirement, the commercial bank has to sign a special Bank confirmation. KfW can provide more details if necessary.

There are no restrictions from the GRN to open a Forex Bank Account. It is dependent on the Articles, etc of the organisation that is opening the account. Once opened and once payment in forex is received the forex funds can be kept if wanted before converting to the NAD account. There is no reporting requirement to the regulators of the use of forex funds. The only complications would be that the funds cannot be transferred back offshore without permission from the Bank of Namibia.

3.3 Financial management of the CCFN

The Mission understands that the CCFN will consider using the Acumatica enterprise resource planning software. The advantage of this system would be that "Cost centres" will be established for each business line of the CCFN with the ability to track funds from a given source. There will be a need to configure the accounting software according to the requirements as to be set out in the financing and accounting system of the KfW grant. This could be done from the budget line for staff training.

Planning and approval: The project PoO will provide a structured framework for the implementation of the Project. The PoO is formulated on the provisions of the project financial agreement, and a separate agreement (in latter the project details will be agreed on).

The project will be implemented as an “open project”, involving the active and, voluntary and participation of project stakeholders. Therefore, the detailed operational planning will be adjusted during project implementation. The Trust Board will approve the Plan of Operations (PoO) of the Project and annual work and budget plans.

The PoO will also require the non-objection of KfW. Whether the **annual work and budget plans need a no objection from KfW will be** agreed on during appraisal (Minutes of Meeting).

3.4 Auditing

With regard to auditing, the CCFN was required to declare an auditor at the time of registration. Grant Thornton Neuhas was selected and a letter of engagement was signed on August 18, 2017. The letter confirms that work will be performed in accordance with International Standards on Auditing and the Operational Manual states the following principles: (The FS Mission has a copy of this letter).

The scope and components of the audit of the CCFN will be defined in the Terms of Reference that will form the basis of the work performed by the auditor; the Terms of Reference will be approved each year by the Board. KfW will require the inclusion of KfW Standard Terms for the Auditor. Details can be provided on request.

The scope of the annual financial audit is expected to cover:

1. The financial statements of the CCFN;
2. Use of funds originating from any donor-financed program in line with the donor's requirements;
3. Any specific concerns of the Board of Directors

The audit will be carried out in accordance with International Standards for Auditing, taking account of the laws of Namibia (*Note: audit requirements are set by the Companies Act 2004 under which the CCFN was created*) and the mandate, operations and systems and procedures of the CCFN.

The audit report will include an audit opinion on the financial statements and a Management Letter. The Management Letter will contain the auditor’s findings and recommendations with regard to the CCFN systems and procedures and internal controls. The CCFN's response to the auditor’s findings and recommendations will be included in the Management Letter.

Assuming the KfW grant agreement will require an audit, the audit can be financed by the donor’s funds. Any auditor applying standards of the profession will also, as part of the audit, review the legal agreements into which the entity has entered to ensure legal obligations that affect financial management are being met.

Provision will be made in the project budget for annual audits. Grant Thornton Neuhas has an office in Windhoek and according to its staff the annual cost of auditing might vary between USD 5000 to 15,000 depending of the requirement of KfW. Usually KfW requires three price quotations for the auditor. However, since the auditor has been already agreed this needs to be discussed during the Appraisal Mission.

According to the CCFN Operational Manual the following procedure will apply: The Board will each year review the TOR (i.e. the Engagement Letter), make certain the audit covers all funds under management and any special concerns, and then it will approve the letter for signature. The current Engagement Letter is for standard audit services. It will need to be amended to include any KfW requirements once the funding is available. If a donor wants, for example, an audit that includes all transactions of the segregated bank account through which its funds flow, that requirement must be incorporated into the audit TOR. The language "is expected to" is used because bullet points 2 and 3 may not be relevant at some point in time. If the previous explanations do not give sufficient assurance, then the separate manual for this programme can spell out what KfW wants and refer to the language in the general manual which accommodates donor requirements

If we have an estimate for a standard audit of a small enterprise, the auditor would add 50% to 75% depending on how much additional testing you think KfW will require. An important question here is does KfW want the funds tested all the way down to the grantee usage? What audits, if any, do conservancies already have and would auditors be willing to rely on those perhaps supplemented by some testing of their own. KfW need information on this. If the conservancies are audited independently KfW could discuss how to integrate the usual audit procedures at conservancy level with the project ones. This needs to discuss in the feasibility, and to be agreed during appraisal (Minutes of Meeting)

Additional testing to give KfW assurance and any special requirements such as the audit of all transactions on a segregated account, will increase the cost of a standard audit. I assume that the KfW-supported programme would allow a contribution to the cost of the audit to cover the incremental cost of any special requirements it has (Marcus Grant Thornton Neuhas *pers. comm.*).

In general: **KfW Procurement Guidelines/Regulations** are applied for all NamParks projects. TOR for the auditors are included in the separate agreement as well as a draft/guideline for Direct Disbursement Procedures and Withdrawal Applications (Attachment C&D&E), the audits take place annually focusing on compliance of the management of the funds (allocation& monitoring based on approved budget plans and timely submission of financial reports). Financial reports, payments out of the Disposal-fund and statements of expenditures are being audited in accordance with the financing agreement. (The audits are also included in an indicator in the log frame under M&E). A final audit has to be conducted after 6 months of the last disbursement and can be done during the warranty period of a project, if required.