

Reserves Policy

Functional Area:	Finance
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Related Policies and Procedures	Authorization policy - Cost Recovery Policies and Guidelines - Capitalization Policy - Accounting Policy - Investment Policy
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Key points	Purpose – Definitions - Structure and levels - Use – Funding - Accounting - Draw-down on reserves – Approval – Reporting – Monitoring

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1. PURPOSE

The purpose of Reserves (or Unrestricted Net Assets) for AfricaRice is to ensure the stability of the mission, continuation of Research Areas and Programs, bridging of key research staff employment contracts, and ongoing operations of the organization. It is Management’s responsibility to maintain an appropriate level of reserves and, in case of drawdown, to replenish reserves within a reasonably short period of time.

The Reserves Policy is intended to function in concert with other relevant governance and financial policy and is intended to support goals and strategies contained in such related polices and in strategic and business plans.

2. RESERVES DEFINITIONS, STRUCTURE AND LEVELS

Reserves

Reserves are a pool of unspent/unallocated financial resources set aside over a period of time to ensure the short, medium and long term financial stability of the Center. Reserves are also referred to as "unrestricted net assets". Unrestricted reserves are not subject to any legal or third party restriction and can be applied as the Center's Board of Trustees sees fit. Unrestricted reserves maybe designated by the Board of Trustees for specific purposes to meet future obligations or risks. Unrestricted reserves are sub-divided into designated and non-designated reserves.

- Designated reserves are those unrestricted reserves that have been allocated by the Center Boards for particular purposes. They include reserves set aside for the acquisition, replacement and investment in fixed assets that are, therefore, not available for other purposes.
- Undesignated reserves are funds which are available to the Center to apply for the purpose of the Center as set out in the founding documents. These reserves represent the accumulated surplus which have not been earmarked for a specific purpose. At the most basic level they provide working capital to meet short term liquidity needs

Restricted funds

Restricted reserves are contributions restricted by donors which are earmarked for a specific usage. These are usually agreed through bilateral agreements which clarify the purpose, deliverables, tenure and budget. At the end of the financial year, any such funds which have not been spent are recorded under this heading. In cases where the funds cannot be used the Center either obtains agreement for an allocation of funds to a different usage or reimburses them to the donor, in which case they are recognized as a liability before the effective payment takes place.

After an in-depth literature search and taking into consideration salient factors, the Board of Trustees has established the following targets:

- Days of operating reserves should allow the center to operate for a period of 120 days.
- AFRICARICE, at any time, should aim to have a net asset value of at least US\$10 million, excluding capital invested in fixed assets.

Reserves or “unrestricted net assets” are reported as “Designated” or “undesignated” reserves.

- Designated reserves are comprised of a) Net book value of property and equipment, b) Capital funds and c) other designations. Endowment and restricted funds are excluded.
- Undesignated reserves are not earmarked for any specific purpose and provide working capital to meet short term liquidity needs.

3. USE OF RESERVES

The appropriately structured Reserves for Center like AfricaRice would be used as a buffer under many circumstances such as:

- Unanticipated loss or delays in donor funds
- Strategic growth plan of AFRICARICE
- Working capital requirements and donor funded commitments
- Pre-financing of large infrastructure investments
- Noting the geographical dispersion of AfricaRice’s research activity and the potential risk of political instability of its host countries in various countries in Africa, reserves can serve as a buffer to finance potential security-related or evacuation plans during such periods of instability
- Reserves are a last-resort buffer in meeting net liabilities to third parties in the event that the center ceases to function as a going concern and closes down its operations.
- Unexpected increase in expenses, due to events such as:
 - significant variations of the exchange rate compared to budget assumption,
 - one-time occurrence of unanticipated and unbudgeted expenses,
 - contingency fund buffer for emergencies or uninsured losses,

- one-time, nonrecurring expense or investments that will build long-term capacity such as pre-investment in infrastructure.

4. THE FUNDING OF RESERVES

In the CGIAR Consortium environment, the absence of unrestricted funds and payback of CSP charges to CGIAR Research Programs (CRP's) and tight restrictions on certain bilateral projects, it is increasingly more difficult for AFRICARICE to generate or replenish reserves. Therefore, it is paramount for Management and the Board of Trustees to carefully evaluate and decide how a drawdown on reserves should be replenished and over what period of time. It is also important to recognize that a growing research agenda will require increased reserves (higher daily burn rate) just to maintain constant number of days of operating reserves.

AFRICARICE options to the generation of reserves are limited to the following funding sources:

- Interest generated from the investment of its accumulated cash reserves
- Interests generated from short term highly liquid investment (bank account, CD's or similar) of projects funds if the grantor of a multiyear project disburses funds upfront without the obligation to reimburse generated interest to the project
- Internally or self-generated income such as:
 - Rent or service income (fields, office, guesthouse, consultancies)
 - Recovery of fees which cannot easily be attributed to a specific project
 - Sale of assets, products or technology generated and funded by the center
 - Royalty income from products or technology generated and funded by the center
- Donors providing unrestricted funds to AFRICARICE
- Member State contributions

Full Cost Recovery (FCR) is not considered an income generator as by default established rate are meant to recover 100% of AFRICARICE's annual direct and indirect cost. This is also the reason why such direct and indirect cost rates vary from year to year, depending on project revenues and budgeted operating expenditures.

5. ACCOUNTING FOR RESERVES

AFRICARICE will not keep reserves in a separate bank account. While AFRICARICE calculates unrestricted net assets on a monthly basis, when closing its books, the calculation is not very accurate because of the nature of its undertaking (projects). AFRICARICE will provide estimate to the Board of Trustees in its Quarterly Financial Reports and accurate unrestricted net asset and days of operating reserves at year end, after the Financial Statements are audited. These values are also availed to the Consortium and donor community with the year-end results.

6. DRAW-DOWN OF RESERVES

Drawdown of reserves requires the following steps:

Identification of needs

Generally, the need to drawdown reserves is a result of the annual budget process and would obtain approval from the Board of Trustees during the budget approval process.

If during the calendar year an unbudgeted need arises to access reserves which are unlikely to be replenished by yearend, measured against the approval budget target, the Director of Corporate Services (DCS) or the Head of Finance will inform the Director General (DG). The DG will identify the need to access reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this policy, check if no alternate funding source is available and establish the period in which the reserve fund will be replenished.

Reporting and monitoring

The DCS together with the Head of Finance will report regularly to the Management Team (EMC) and Quarterly to the Board of Trustees (Quarterly Finance Report) on progress of replenishment of reserves and progress to restore the reserve fund to its target level.

7. REVIEW AND APPROVAL OF POLICY

This policy and any of its modifications shall need Board of Trustees approval. The established targets shall be reviewed and adjusted if needed every 2-3 years by the Board of Trustees.