

Nepal Skill Initiative Project (NSIP)

Reserve Fund Policy

January, 2024

Document Properties

Document Name	NSIP Reserve Fund Policy
Version & Date	January, 2024
Status	Current
Created By	NSIP Nepal
Next Review Date	Annually
Document Owner	NSIP BoD

Version History

Date	Version	Details
Jan, 202e	1.01	NSIP Nepal



1.0 PURPOSE

NSIP is committed to using all its funds appropriately, prudently and lawfully. This document sets out an 'Operational Reserve Fund Policy' which aims to strike a balance between maintaining all funds for current programs including day to day running costs of the organisation (as defined in the annual operating budget), and on developing and maintaining a financial reserve to reduce the risk of potential interruptions to operations into the future.

NSIP is also committed to building long-term capacity in the communities in which we operate. To support this goal, NSIP believes that a well-planned financial reserve, developed more formally over time, will assist in providing long term financial sustainability, will help expand current and future programs, give a robustness to NSIP financial systems and help mitigate unforeseen risks.

2.0 MECHANISM

The 'NSIP Operational Reserve Fund' will hold sufficient funds to deal with unexpected budget constraints such as cash flow variation, an unexpected reduction in funding or an unforeseen emergency such as COVID-19, earthquake, landslide, etc. The 'Operational Reserve Fund' will equate to approximately 3 months of any Financial Year's actual operational expenses plus 3 months of operational payments to programs. This will be for both NSIP and donors. The reserve funds will be kept in a 'Standard Chartered Bank Account of Nepal'.

3.0 MANAGEMENT

3.1 Building and Maintaining the Reserve Fund

To establish or maintain the reserve fund, it is important to plan out incremental payments:

1. To establish the reserve fund, the Board and CEO will agree to an amount from the cash at hand which will be placed into a separate NSIP management account.
2. The Reserves Funds will be held in Nepalese currency in a Standard Chartered Bank account but are for the benefit and purpose of both NSIP and community.
3. To maintain the fund, set aside a portion of the unrestricted surplus year end funds each year. The amount is agreed by the Board at the end of the financial year when the new year's financial budget is being reviewed.

3.2 Accounting for Reserves

The 'Reserve Funds' will be recorded in the accounting system and financial statements as 'Operational Reserve Fund'. Reserves will be maintained in a dedicated separate bank account in accordance with the NSIP 'Financial Management Policy'.

3.3 Authority to use Reserves

The Chief Executive Officer (CEO) will submit a request to use the reserves to the NSIP Board. The request will include the analysis and determination of the use of funds and plans for replenishment. NSIP's goal will be to replenish the funds as soon as possible. If the use of reserves will take longer than 12 months to replenish, the request will be considered more carefully.

3.4 Reporting and Monitoring

The CEO is responsible for ensuring that the 'Operational Reserve Fund' is maintained and used only as described in this Policy. Upon approval of the use of reserve funds, the CEO will maintain

records of the use of funds and plan for replenishment. She/he will provide annual reports to the Board of progress to restore the fund.

3.5 Review of Policy

This Policy will be reviewed by the Board every 12 months at minimum, or sooner if warranted by internal or external events. Changes to this policy will be recommended to the Board by the Finance and Audit Committee and/or the CEO.

3.6 Reinvestment

The funds are to be invested in the highest return / lowest risk option and management as agreed by the NSIP Board. Details of the investment and return are to be reported by the CEO at each quarterly Board meeting.

3.7 Other relevant policies to review in conjunction with this one:

Financial and Procurement Policy