

Cash Management Policy

1. This policy is effective from 1 June 2015 in line with the Umoja deployment date. Prior to this date, the special form, attached is used to request pre-financing for projects. The policy is in compliance with UN financial rules and regulations including UN financial rule 105.7.
2. This policy is guided by the need to take urgent or emergency measures to disburse, whether in a humanitarian situation or where UN-Habitat faces reputational risk. It is not a replacement for planning in the disbursement and management of project funds. Under Umoja, the stricter limits require more efficient cash management, and all new projects require a negotiation with the donor to take this issue into account.

A. Requirements for cash management:

3. Under Umoja, there is a requirement for availability of funds before resources can be disbursed yet project implementation is often required to start before funds are received on UN-Habitat bank accounts. This includes the following cases:
 - a) European Union / Commission and other contribution agreements where remittance of funds is provided by the donor only after demonstrating that agreed outputs have been delivered for a particular phase e.g. last phase for the EU phases of the project;
 - b) USAID agreements – where the donor reimburses the organizations after delivery of funds;
 - c) Situations where there is delay between signing of contribution agreements and remittance of funds by donors and where it is necessary for project implementation to proceed for operational reasons and for compliance with the conditions of the contribution agreements;
 - d) Situations where the Executive Director has the authority and decides to provide funding for initiatives, prior to receipt of core or earmarked contributions, for strategic, operational, mandated or investment purposes.

B. Request and payback of funds advanced via Internal Orders

4. Umoja provides a facility of internal orders to advance bridging funds to cover cases where expenditure is incurred before funds are received. In order to use the internal order facility:
5. Heads of the office / branch requesting funds are required to make a formal request for an internal order [if possible within Umoja, if not need PAAS tool]
6. The request for an internal order must have the following minimal details:
 - a) Name of the project
 - b) Amount of bridging funds required in US\$
 - c) Period for which bridging funds are required: start date – end date (*not to exceed 3 months*)

- d) Link to contribution agreement in Umoja for the project as evidence that funds will be made available and details of when funds will be remitted
 - e) Link to project budget in Umoja
 - f) If no contribution agreement, memorandum from Executive Director (ED) authorizing allocation of funds to the project
 - g) Repayment schedule, aligned to the contribution agreement terms or ED memo, specifying the amount of each tranche to be paid back by the project and date by which each tranche will be paid
 - h) Evidence that amount specified in b) can be repaid within timelines in c) (e.g., based on past agreements with donor)
 - i) Likelihood of risk of not receiving funds (Low, Medium, High)
 - j) Mitigation of risk if level of risk is either of f),g) are Medium or High
 - k) Division Director's endorsement of the request
7. Bridging funds using the internal orders mechanism in Umoja will be made for the period specified in 5.c) above. This period shall not exceed 6 months. Exceptions will require authorization by the Executive Director.
8. The maximum amount that can be advanced:
- a) Cannot exceed the lower of 25% of the annual project budget and US\$250,000
 - b) Will depend on the level of unrestricted funds available in the appropriate fund balance and/or reserve which is providing the bridging fund;
 - c) Will depend on the outstanding commitment from the donor on all agreements with that donor.
9. Authorization for advances will be made by the Office of Management if they are within the limits outlined in paragraph 7. Exceptions will be approved by the Executive Director.
10. Bridging funds will be made available from unrestricted fund balances and/or reserves of:
- a) Technical Cooperation fund in case of projects funded by contribution agreements under technical cooperation fund
 - b) Foundation Special Purpose in case of projects funded by earmarked contribution agreements under the Foundation Special Purpose account
 - c) Foundation Special Purpose in case of projects are normative in nature that do not have associated contribution agreements where requests fall under category 5.f
 - d) Technical Cooperation fund in case of projects at the regional and / country level that do not have associated contribution agreements where requests fall under category 5.f
11. Once an advance is approved the Office of Management will effect the transfer of funds from the appropriate fund balance and/or reserve to the appropriate project.
12. As soon as funding is received in line with the appropriate contribution agreement, or from another funding source in case of 5.f) , the Office of Management will:

- a) inform the relevant Head of Office / Branch of the receipt of funds
 - b) credit the funds received to the project
 - c) effect the transfer of the amount owing or maximum amount possible to the extent of the cash received from the project back to the appropriate fund balance / reserve in line with the schedule agreed in 5.g) that does not result in a negative project balance
 - d) update the amount still owed to the appropriate fund balance / reserve
13. In the event that projects are not able to repay the full amount agreed amount in line with the schedule agreed in 5.f)
- a) Managers will also be required to provide updated details for 5.c) – to 5.j) above
 - b) Further advances under the same agreement will not be granted if the initial advances have not been fully paid
 - c) Any new authorization for advance on new contributions agreements from the same requesting manager will reviewed closely and authorization referred to the Executive Director if :
 - i. the outstanding amount is greater than 50% of the total loan, or
 - ii. repayment is late by over 3 months
14. The requesting manager is accountable for making all efforts to recover advances in line with the repayment schedule specified in paragraph 5.
15. The Office of Management will make recommendations to the ED on action to be taken in the event that projects are not able to repay advances.

C. Management and monitoring of advances

16. The Office of Management will send alerts to the relevant Heads of Office/ Branch 15 days before repayment is due according to the schedule in agreed in 5.g) reminding them to follow up on provision of funds to repay bridging funds provided to the projects.
17. The Office of Management will maintain a database of advances– [if possible tool in Umoja; if not tool in PAAS] and repayments. The Office will also produce a monthly report on the status or repayment at the project, cost center, fund and organizational levels.

Glossary of terms

Advance	Funds advanced to a project based on a signed agreement or letter from the Executive Director
Bridging funds	Funds required for early project implementation for a temporary period in waiting for receipt of donor contributions on UN-Habitat bank account
Cash management	Policy and procedures for ensuring the management of pre-financing of projects in a manner that is consistent with UN financial rules and regulations
Contribution agreement	Agreement between UN-Habitat and a donor to finance the activities of one or more projects
Cost center	Organizational unit responsible for the execution of one or more projects
Internal Order	Mechanism in Umoja enterprise resource planning system to facilitate cash management
Negative project balance	Project balance where expenditure exceeds income
Unrestricted fund balance / reserve	Amount of funds in a major fund e.g. Technical Cooperation or Foundation Special Purpose, that is part of the accumulated surplus or operating / statutory reserve and is not earmarked for a particular project, and can be used for cash management purposes in line with UN financial rules and regulations