

14 November 2022

**Note to the ad hoc working group on programmatic, budgetary, and administrative matters  
on financial reserves as requested during the meeting of the working group held on 9 November  
2022**

1. Definition and purposes

Financial reserves address risks or serve purposes related to funding or liquidity in pursuit of the implementation of the organization's objectives. The risks or purposes may be categorized as follows:

- A. *Short-term liquidity*: funds for planned immediate expenses during an unplanned shortfall in income, e.g., monthly staff salaries during periods of uneven voluntary contributions
- B. *Medium-term surge*: funds for unplanned expenses due to unforeseen requirements, e.g., crisis response
- C. *Long-term investment*: funds set aside for planned future non-recurrent expenses, e.g., construction projects or other assets
- D. *Long-term liabilities*: expenses due upon drawdown or closure of the operation, e.g., staff termination indemnities

2. Governance and precedent

In the governance of reserves, due consideration should be given to balancing *transparency and accountability* with *efficiency and effectiveness*. To ensure transparency and accountability, the governing body may define the purposes, levels, and decision-making authorities of reserves. To ensure the efficient and effective use of reserves, certain decision-making authorities may be delegated to senior management.

The common practice in the UN system is to delegate authority to senior management on the use of reserves at least for *short-term liquidity*, as is the case for the following precedents, some of which also delegate authority for *medium-term surge*:

- A. Working Capital Fund for the regular programme budget of the UN Secretariat
- B. Peacekeeping Reserve Fund of the UN Secretariat
- C. Working Capital Fund of the UN Children's Fund (UNICEF)
- D. Financial Reserve of the Environment Fund of the UN Environment Programme (UNEP)
- E. Financial Reserve of the Central Emergency Response Fund (CERF) of the UN Office for the Coordination of Humanitarian Affairs (OCHA)

### 3. Existing policy

As per [ST/SGB/2015/4](#), Supplement to the Financial Regulations and Rules of the United Nations, Annex II on the non-earmarked Foundation of UN-Habitat (page 19 of the English version):

#### Rule 304.2

The following accounts shall be established:

(b) A *General Financial Reserve* to ensure the financial liquidity of the Foundation's General Fund to compensate for uneven cash flows and to meet such other requirements of prudent management of the General Fund. The level of the reserve and its composition shall be determined from time to time by the Governing Council [now Executive Board] upon the recommendation of the Executive Director;

### 4. Alternative decision language

11 Alt: [*Recalls* Decision 2020/4 on the level of the financial reserve in the non-earmarked Foundation, and *decides* to set the minimum level of the reserve at \$3 million or 20 per cent of the approved budget for the following financial period, whichever is higher];

12 Alt bis: [*Decides* that the Executive Director, to compensate only for short-term requirements in liquidity due to uneven cash flows, is authorized to enter into planned commitments in accordance with the approved work programme and budget from the available balance of the financial reserve and *requests* that such commitments be reported to the Executive Board];

12 Alt ter: [*Decides* that all other commitments from the available balance of the financial reserve for unforeseen requirements, long-term investments, or long-term liabilities require the prior consent of the Executive Board];