Reserves and Investment Policy

A. Purpose and scope

This policy shall be applicable for Light for the World International and its core members. Its purpose is to guide the management with regards to the following areas:

1. Criteria for building, managing, and using reserves (‘Reserve Fund’)
2. Criteria for the investment of funds of the organisation
3. Criteria for borrowing funds, taking out loans, managing credit lines

The purpose of this policy is to help ensure the long-term ability of the organization to meet its mission, implement its strategy, and manage financial risks.

The Board of Trustees, as well as national boards of core members, shall receive a report on all three areas as part of the regular financial reporting once per year.

The management of reserves, provisions, investments, loans, and liquidity shall respect the legal context, as well as requirements of the donation quality seals that the respective international or national entity has decided to follow (e.g. Austrian Donation Quality Seal, INGO accountability charter).

B. Reserve Fund

The organisation maintains a Reserve Fund to achieve the following objectives:

- ✓ To create an internal line of credit to manage cash flow and maintain financial flexibility.
- ✓ To enable the organization to sustain operations through delays in payments of committed funding.
- ✓ To pay for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, organizational development, or investment in infrastructure

The Reserve Fund does not intend to replace a permanent loss of funds or eliminate an ongoing budget gap. The intention of the organization is to use and replenish the reserves within a reasonable period.

Any changes of the Reserve Fund – allocation as well as release of reserves – are subject to approval by the Board of Trustees or the respective national board, based on a proposal presented by the respective management [L-INT: CEO / core members: CEO together with national director] as a part of the budgeting and financial reporting process.

Minimum level of reserves

The minimum amount designated for the reserve will be an amount sufficient to maintain ongoing operations and programmes for a period of 3 months. The reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes on a yearly basis. The calculation of the Reserve Fund target minimum happens each year as part of the annual financial planning process.

The calculation of average monthly operating expenses includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, average programmes commitments, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

Allocating funds to the reserves and using funds from the reserves

At the end of the financial year, the generated and audited surplus of unrestricted funds is allocated to the Reserve Fund.

Any proposal of the management to take out funds from the reserves shall
be accompanied by a justification and explanation:

- how the funds taken from the reserves will be used, and what kind of purpose, impact or need shall be achieved or covered by the resources taken from the reserves (including indicators)
- why this is important for the implementation of the strategy of the organisation
- what are the expected implications regarding the minimum level of reserves;
  how and when the fund will be replenished - in case the minimum level could be fallen below.

Shortfalls

If the reserve is and has been less than 75% of the target reserve minimum for two consecutive years, the management shall prepare an operational budget with a projected surplus sufficient to rebuild the Reserve Fund to its targeted reserve level within a period of maximum five years.

Accounting

The reserve fund will be listed separately in the unrestricted net assets section of the organizations financial statement, and the status of the reserve will be reported in separate financial reports to the board as part of the budgeting and financial reporting process.

C. Investing financial means of the organisation

The investment of reserves, working capital and any other financial means is managed either by internal finance specialists, or by external advisors, under the supervision of the CEO and the International Management Team.

Cornerstones of an investment strategy, including key aspects of risk management, are presented to the board as part of the overall strategy, following the following investment objectives and criteria:

- Highest priority is to ensuring liquidity and preserve the value of the capital through balanced risk management
- Furthermore, the following criteria are to be considered:
  - Income from the invested funds and costs of managing the investment
  - Ethical criteria: Prioritizing instruments that follow the criteria of Environmental, Social and Governance-based investment (ERG) and Socially Responsible Investing (SRI). Strictly avoiding investments related to the weapons industry, drugs, sex or gambling, or fossil fuel production, as well as investment that are detrimental to human rights.

D. Borrowing funds, taking out loans, managing credit lines

Any borrowing of funds, taking out of loans, managing of credit lines, needs approval by the respective board, based on a proposal by the management, including a justification in line with our strategy:

- individual transactions
- a scheme for a certain, specific type of transactions that may occur regularly,
  e.g. using loans from donors as a fundraising instrument

Proposal, approval, and reporting shall be integrated in the regular planning, budgeting, and financial reporting process, wherever possible. In extraordinary situations, e.g. unforeseen financial crisis situations, extraordinary board resolutions may be needed.