

# Evidence Action Reserves Policy

## FINAL

### I. Introduction and Rationale

Evidence Action was founded in 2013 with the intent to fill the gap between promising research into interventions that could help the world's poor, and the ability of those findings to reach millions through translating evidence into action and impact. Evidence Action is a registered 501(c) 3 organization in the US, and additionally operates through registered offices in three<sup>1</sup> countries, in India through a close partnership with a for-profit entity, and through partnerships with third parties in other geographies. Evidence Action's work encompasses a portfolio of programs that vary in their sector focus and operational model, however all of our work is funded by donors to whom we have responsibility for good stewardship of their monies. As a result, and as a function of our organizational needs and structure, we require a strong operational and financial infrastructure to support our programs. This infrastructure is spread across our offices to provide support to programs where they are implemented.

Evidence Action's programs have direct and tangible impact on the lives of the poor in the geographies where we work; given the diverse settings where we operate and the fact that all of our financing comes from external donors, our work is subject to potential shocks and uncertainties that require significant risk mitigation planning. One of the key risk mitigation measures is to ensure that Evidence Action has sufficient funding reserves available to account for and cover unforeseen events, in particular with a view towards achievement of long-term impact. Reserve funds shall be established and maintained in order to:

- assure continuity of operations,
- fulfill fiduciary and contractual obligations, and
- protect the assets, reputation and brand of Evidence Action.

This Evidence Action Reserves Policy details our approach to

- a) detailing the circumstances where reserves are desirable,
- b) establishing an appropriate reserves level,
- c) outlining the process for deciding when and how reserves funding is used, and
- d) developing guidelines for reserves accumulation and replenishment over time.

These measures and approaches are applicable both to specific programs within the organization, and the organization itself. Given that the nature of expenses can and often do differ between programs and supporting functions, the Reserves Policy details similar yet separate guidelines for programmatic reserves and operational reserves.

Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.

### II. Approval and Reporting Requirements

The Reserves Policy is a key policy document for the operations of the organization and its programs. This policy is approved by the Evidence Action Board of Directors. Any amendments or modifications

---

<sup>1</sup> Kenya, Uganda, Malawi; registration is in process in Nigeria

to the policy must also be approved by the Board of Directors. This policy takes effect immediately upon approval by the Board.

Evidence Action's Chief Financial & Administrative Officer will be responsible for reporting the reserve targets, the utilization of reserves over the last 3 years (including amount utilized by program and the reason for any utilization) and the reserve fund availability to the Board on an annual basis, as part of the regular financial reporting to the Board.

### **III. Use of Reserves**

Reserve funds are considered as contingency in nature, and discretion is warranted in approving their use, whether reserves are programmatic or organizational.

"Programmatic" refers to costs that are attributable to a specific flag-ship program or the Beta portfolio and incurred specifically for that purpose. Programs and Beta are responsible for direct personnel and billed program costs, regional/country-specific costs allocated to the program, MLIS / monitoring and evaluation costs allocated to the program, and contributions to the organization's indirect cost recovery.

"Organizational" refers to general costs that benefit the entire organization and are not directly attributable to a specific program. These are also referred to as Global Support Costs and include communications, fundraising, and MGA (management and general administration) expenses such as the CEO's office, and the global finance, HR and IT teams.

The global nature of Evidence Action means that it receives funding from donors in several currencies and deploys these funds to several countries where costs are incurred in different currencies. There is therefore an inherent foreign currency risk in the operations.

Suitable currency risk mitigation measures will be taken to limit the currency exposure and risk. This will include a hedging strategy to be implemented on a case by case basis – the costs of such hedging will be covered from the program or operating budget and if there is no available budget, the costs of the hedge can be covered by reserves. In the event that unforeseen currency fluctuations occur and where losses arise in excess of the hedging strategy, any such losses can be covered by program reserves in the first instance and thereafter organizational reserves.

#### **A. Programmatic**

In general, we see four types of scenarios under which the use of programmatic reserves could be warranted. These include filling gaps or providing bridge funding for:

1. Unexpected, unplanned events that are required to ensure that a program can fulfil its obligations (e.g., a strike causes programmatic delays that result in additional costs that are otherwise unfunded; or an anticipated revenue source such as carbon revenues or contracted grant revenues is unexpectedly reduced)
2. Bridging a gap for the closeout or transition of a program, to include a) ensuring continuity of a program in between funders, and b) providing a "runway" to enable responsible closeout of a program that is no longer needed and/or funded
3. Unfunded opportunities or needs of the program that could have measurable value to programmatic objectives and/or strategy, in line with the organization's mission, vision, and values

4. Programmatic contributions to organizational indirect costs for unplanned discrepancies, including for example if indirect cost rates change over the course of a grant cycle.

#### B. Organizational

The scenarios under which the use of organizational reserves could be warranted include:

1. Unexpected, unplanned events or activities related to organizational operations
2. To serve as a stop gap for a scenario outlined in III.A. above, where the program does not have a sufficient reserve
3. To fill an unanticipated gap in indirect cost recovery (e.g., when programs do not spend at anticipated levels, creating an indirect funding shortfall)
4. To fill/bridge a gap when programs are changing size/transitioning/closing out, specifically to ensure that support services can facilitate such changes

It is important to note that organizational reserves can be applied to fill programmatic gaps; conversely, programmatic reserves can be applied to fill organizational gaps. Organizational reserves are not intended to be used to maintain a certain level of support staff over the longer-term if/when programs shrink; the operational structure must retain a degree of flexibility to right-size to the needs of programs.

### **IV. Level of Reserves**

The level of reserves required by programs and the organization is a function of a number of factors, including: the risk tolerance that the organization is prepared to accept; the availability of funds to contribute to a reserves fund; and, the base and timeframe used to calculate the reserves. The formulation below will require annual reassessment of the level of reserves with respect to the most recent annual expenditure, to be assessed upon closure of each financial year. Recognizing that the intended reserves level requires significant set-aside and funds accumulation for programs and the organization, it is anticipated that attaining the target is a multi-year process. More detail regarding reserves accumulation and replenishment is in Section VI.

#### A. Programmatic

Programmatic reserves are intended to be set at a level that can sufficiently absorb unforeseen program shocks, with the understanding that programs we support are often providing critical services to underserved populations and we therefore would ideally like to have a significant cushion to maintain program delivery, either to fill a gap while more funding is found, or to responsibly wind down a program (or portions thereof). This is particularly relevant for our “flagship” programs that operate at large scale and typically across multiple geographies.

Programmatic reserve targets are further defined for a) flagship programs and late-stage Beta projects, whereby the target is equivalent to one year of the prior year’s annual program expenditure, and b) the remaining Beta portfolio, whereby the target is equivalent to six months of the prior year’s annual expenditure. All targets include the amount of any contributions that the program makes to the organization such as indirect costs, and regional costs where applicable

## B. Organizational

Organizational reserves are intended to safeguard the organization as a whole against shocks that could undermine program objectives and impact, including the support services required for program delivery. The target for organizational reserves is equivalent to six months of non-program operating costs for the organization, related to global support costs based on the prior year's annual operating expenditure.

## V. **Process for Reserves Deployment**

Deployment of reserves shall be carefully considered by organizational leadership, with sufficient scenario planning and analysis conducted to ensure that the use of reserves is as a last resort and warranted by the situation. Any use of reserves exceeding \$500,000 shall be reported to the Board of Directors at its next meeting – this is in addition to the regular reporting of reserves in II above.

### A. Programmatic

Program leads will have discretion for use of programmatic reserves below the lesser of \$50,000 and one month of reserves (calculated by dividing the balance of reserves at the beginning of the fiscal year by the 12).

Recommendations regarding the use of programmatic reserves above this threshold:

- The lesser of three month's reserves and \$200,000 will be initiated by the relevant program lead, and presented to the CEO and CFAO for a decision. Where the use of the reserves relates to a specific region, the relevant regional director will be consulted.
- Recommendations regarding the use of programmatic reserves above three month's reserves and \$200,000 shall be initiated by the relevant program lead, and presented for discussion by GLT and then to the CEO for a decision.

### B. Organizational

The CFAO leads will have discretion for use of organizational reserves below the lesser of \$50,000 and one month of reserves.

Recommendations regarding the use of organizational reserves above this threshold and the lesser of three month's reserves and \$200,000 will be initiated by the CFAO, and presented to the CEO for a decision. Where the use of the reserves relates to a specific program or region, the relevant program lead or regional director will be consulted.

Recommendations regarding the use of organizational reserves above three month's reserves and \$200,000 shall be initiated by the Chief Financial & Administrative Officer, and presented for discussion by GLT and then to the CEO for a decision. For organizational reserves allocations to programs, the recommendation shall be subject to agreement by the program lead.

## **VI. Reserves Accumulation and Replenishment**

Developing sufficient programmatic and organizational reserves will take time, and the ability to reach the targets will vary across the programs and the organization. Funds that can be designated as reserves are not often readily available from donors, particularly institutional donors.

As a result, Evidence Action will work over time to accumulate reserve funding, aiming to systematically build these funds while reflecting the need for donors to see the impact of their funding through programmatic activities. When reserves are drawn upon for programmatic or organizational needs, it is likely that replenishment of reserves will be needed except in the event of significant program contraction. Reserves targets for a particular year will account for these fluctuations in the base amount.

All accumulated reserves will be invested in line with the Investment Policy.

### **A. Programmatic**

Programmatic reserve targets, in dollar terms, will be adjusted annually following the close of the financial year, given that expenditure may vary from year to year. However, the intent of the organization is to build reserves over time and as quickly as is feasible. Specific targets will be developed annually for each program, taking into account the fundraising pipeline and revenue expectations. The program lead will be responsible for recommending a program-specific reserves target, for discussion by the Global Leadership Team and adoption by the CEO. Importantly, programs are not limited by the targets, and are encouraged to build reserves sooner if the opportunity arises.

*Minimum suggested reserves allocation, by program:*

- Year 1: 10% current year's budget
- Year 2: 3 months current year's budget
- Year 3: 6 months current year's budget
- Year 4: 9 months current year's budget (programs other than Beta)
- Year 5 and beyond: 12 months current year's budget (programs other than Beta)

### **B. Organizational**

Organizational reserve targets, in dollar terms, will be adjusted annually following the close of the financial year, given that expenditure and operating costs may vary from year to year. The CFAO will be responsible for recommending an organizational reserves target, for discussion by the Global Leadership Team and adoption by the CEO.

*Organizational reserves allocation*

- Year 1: 2 months current year's Global Support budget
- Year 2: 4 months current year's Global Support budget
- Year 3 and beyond: 6 months current year's Global Support budget