**Policy on Reserve Funds at the Open Society Foundations in 2014**

***This policy is in effect from March 1, 2014, and will be revised periodically based on experience. Suggestions for revision can be sent to Greg Taylor, Budget Director for OSF, or to Marine Buissonniere or Goran Buldioski, co-chairs of the Reserve Funds Policy Committee***

1. **Why Reserve Funds?**

The Open Society Foundations seek to maintain the vitality, agility, and flexibility that have characterized George Soros’s philanthropy since its earliest days, even as we institutionalize this large, complex network of operating and grant-making foundations. As part of that effort, we are holding about 15% of the 2014 budget in reserve, unallocated to any specific program, office, department, or foundation. These funds will be available throughout the year to pursue new opportunities and respond to unexpected crises or threats. Our hope is that these reserves will allow us to respond boldly to unanticipated events and to take up new ideas quickly, outside of the annual budget process.

To fulfill this purpose, reserves must be available quickly. Those requesting reserves will need decisions made promptly, and in extreme cases will need the money delivered to recipients within a few days. This *Policy on Reserve Funds* is designed to fulfill the first need: to allow us to reach decisions on the allocation of reserves as quickly as possible. A separate Policy on Rapid Payment Procedures, being prepared by the Finance Department, is designed to get money to our grantees as quickly as in 24 hours when necessary, regardless of the source of the funds within the Open Society Foundations. The Rapid Payment Procedures will also contain guidance on a streamlined eligibility assessment that can follow, rather than precede, a grant when there is a particular need to move funds quickly.

1. **How can Reserve Funds be used?**

Any program, department, or foundation within the Open Society Foundations can request reserve funds. Funds can be requested to enlarge an existing category of work in the approved budget, to create a new category of work, or to add funds to any other budget line. Reserve funds can be used for grants or for our own operations. Reserve funds are no more restricted than the funds allocated during the annual budget process.

Reserve funds are allocated on a one-time basis only. An allocation of reserve funds does not change the base budget of the program, office, department, or foundation receiving the allocation. For example, a program with a 2014 approved budget of $10 million might receive an allocation of an additional $500,000 from reserves in July 2014, but this would be a one-time allocation. The starting point for discussion of the 2015 budget would remain $10 million. If the new work requires further allocations in 2015 and future fiscal years, the program will have to accommodate those needs within its annual budget in future years, reducing expenditures on work of lower priority.

The one-time allocations of reserve funds will be made for a specific period up to the end of the fiscal year following the allocation. The reserve funds will not be available beyond the fiscal year following the allocation. In the example above, the allocation of $500,000 in July 2014 would be made available over a specified period, but the maximum permissible period could not extend beyond December 2015.

1. **Who makes decisions to allocate Reserve Funds?**

In order to respond quickly to requests for reserve funds, we have created several different reserves, each with its own purposes and limits. For modest requests, individual directors of programs, departments, and foundations can allocate funds held in the Director’s Reserve. Here is a detailed list of the different Reserve Funds with the specific managers responsible for allocations:

* Director’s Reserves – Most programs, offices, departments, and foundations have a Director’s Reserve within their 2014 budgets. Directors can allocate these funds at their own discretion to any category of work or other budget line within their approved budgets by notifying the Budget Unit of the allocation, and they can propose a new category of work for these funds to the OSF president. Directors remain accountable to the OSF president for the allocation of these funds after the fact, but no approvals are required for allocations by directors to existing lines.
* General Reserves – There are eight general reserves for unanticipated needs that require funds between $100,000 and $1 million. Seven of the eight reserves are dedicated to efforts focused on, or based within, one or another of the seven large regions in which OSF works, and the eighth reserve (the Global Reserve) is available for work that is unrelated to any particular region or cuts across many of them. Allocations made by those listed below must be approved by a member of the Global Board’s Committee on Strategy, Budget, and Performance or its designee, except in the case of the United States General Reserve, where the “approvers” are the chairs of the US Programs Board. The eight General Reserves and those allocating them are as follows:
  + *Africa General Reserve, allocated by Akwe Amosu*
  + *Asia General Reserve, allocated by Binaifer Nowrojee (from April 2014)*
  + *Eurasia General Reserve, allocated by Lenny Benardo*
  + *Europe General Reserve, allocated by Jordi Vaquer*
  + *Global General Reserve, allocated by Jim Goldston and Darius Cuplinskas*
  + *Latin America and Caribbean General Reserve, allocated by Pedro Abramovay*
  + *Middle East, North Africa, and Southwest Asia General Reserve, allocated by Anthony Richter*
  + *United States General Reserve, allocated by Ken Zimmerman*

All eight General Reserves are available to any program, office, department, or foundation, and the lines between the reserves are not meant to be strict. We want to make it as easy as possible to request funds and allow for flexibility in the use of funds. For example, if China and Uganda unexpectedly announced a trade agreement on minerals compromising the rights of many Ugandan citizens and opening new doors to unjust enrichment of a small number of officials, and if OSIEA, the China Program, the Justice Initiative, and the Fiscal Governance Program wanted to respond quickly in a new, joint effort that would require additional support from the IT department, those five units (one foundation, one geographic program, two thematic programs, and one operations department) could present a request to the Africa Reserve.

* Shared Framework Reserves – Each approved shared framework is allocated an annual reserve fund to supplement funds previously budgeted in the participating programs, advocacy offices, and foundations. The coordinator of each shared framework has authority to allocate these reserves in amounts between $20,000 and $1 million to participating programs, foundations, and offices to encourage collaboration or respond to unanticipated opportunities and threats.
* President’s and Chairman’s Reserves– This single reserve is managed jointly by the president and the chairman, and can be requested by any program, office, department, or foundation when other reserves are insufficient to meet a need or respond to a crisis. These reserves are also deployed on the initiative of the president and the chairman.

1. **What principles will guide the allocation of reserves?**

The expansion of reserve funds across the Open Society Foundations should allow us to respond to crises, take up unexpected opportunities, and embrace genuinely new ideas without requiring simultaneous reductions in previously approved activities or delay until the next budget cycle. When making requests for reserves, you should therefore focus on the unexpected nature of the need or the originality of the idea as well as the possible value of the response proposed. Reserves should not be requested or used to increase funds available for activities that were (or easily could have been) considered as part of the annual budget process.

In the case of the General Reserves, the SMC members allocating the reserves are making decisions guided by their understanding of the best use of resources across OSF as a whole. There is no expectation that any particular fraction of the reserves, or indeed any at all, will be allocated to the programs directed by those making the allocations. Other than in the case of reserves for shared frameworks, there is no requirement that requests involve collaboration across OSF programs, offices, and foundations; nevertheless, collaboration is encouraged where useful and those making requests are expected to make the best possible use of capacity within OSF and across the wider network. Finally, there is no requirement that the proposed activities have a high probability of success. Reserve funds are available, when appropriate, to support activities with very low chances of success but that are nonetheless important to attempt.

When considering requests for Reserve Funds, those making the allocations should ask themselves:

1. Is this an unforeseen opportunity or a genuinely new idea to advance core open society commitments to rights, justice, democratic practice, good governance, and/or respect for human dignity? Is the subject central to our mission?
2. Is the need time-sensitive? Will the opportunity be less promising or our efforts less effective if we wait until the next budget cycle?
3. Are we proposing to do something that others are not doing? If we do not take up this opportunity, will the work be left undone?
4. Is the plan compelling? Does it stem from a persuasive insight? If it succeeds, is it likely to have significant effect beyond the immediate context? Is there potential for this work to make substantial change?
5. Does the planned activity take good advantage of OSF capacity? Are we using multiple tools at our disposal and engaging members of our network of networks?
6. Is the team leading the work up to the task? Do the principal OSF staff and grantees have the experience and judgment to carry out a rapidly conceived project in a changing environment?

Timing will also matter. Those allocating reserves, including the Director’s Reserves, will need to take account of the pace at which they are making allocations, although there will be no fixed schedule or proportion of reserves to be allocated each quarter. Spending out a reserve fund is not a goal in itself, and it is important that the same standards be applied at year end as are applied early. Responsible and effective allocation is more important than spending all available funds.

1. **How can reserves be requested?**

We want to keep these requests as simple as possible, while still collecting all of the information necessary to allow decisions to be made quickly. Requests for Director’s Reserves and Shared Framework Reserves should follow the procedures established by the individual directors or the coordinators of the shared framework.

A request for General Reserves or President’s and Chairman’s Reserves need not be submitted on any particular form, but can be made by e-mail to the person allocating the particular General Reserve, or, in the case of President’s and Chairman’s Reserves, to the president of OSF. Requests for General or President’s and Chairman’s Reserves should include: (1) the amount requested, (2) a brief statement (up to 250 words) of the unforeseen opportunity or need, (3) a brief statement (up to 500 words) of the activities proposed, (4) a brief statement (up to 250 words) of the contributions expected from various units within OSF and essential partners or grantees, and (5) a statement of who within OSF would lead the work. A request in this form will be followed by a conversation to expand on the request.

The request need not specify the individuals and organizations that would receive grants as part of the effort, but may refer to particular grantees deemed essential to the effort or whose involvement is part of what makes the request compelling. Decisions on particular grants would be made by programs, offices, and foundations after the reserve allocation is approved.

1. **How will these new policies affect the existing US Program Reserve?**

Many of these policies are based on the experience with the US Programs reserve in 2013, and we look forward to continuing to use the US experience with reserve funds as a basis for experimentation more widely. Many thematic programs within the network have not worked in the United States before now, and the new reserves provide an opportunity for some to do so. While the U.S. Programs will continue to use its budgeted reserve fund for its own strategies in consultation with its board, the United States General Reserve is expected to be used for requests from programs and other entities other than U.S. Programs. We will see how this works in 2014 and 2015 and adjust our practice in future years based on experience.

1. **What are the mechanics for allocating Reserve Funds to budget lines?**

In order to provide for transparency and accountability in the use of reserves, funds that have been allocated from reserves must be transferred to specific charge codes, which include Categories of Work, as part of the budget modification process. In most cases, this must be done before they are spent, though in cases of great urgency the use of Rapid Payment Procedures (see separate policy) allows the recoding to be done following disbursement rather than beforehand. The Budget Modification Policy establishes the guidelines for the submission of budget changes outside of the annual budget process.

1. **How will these policies be monitored and changed over time?**

All formal requests for reserves and the allocation decisions will be available for review by interested staff members. Short summaries of the reasons for allocation decisions will be made available, at first on KARL.

In addition, a Reserve Funds Policy Committee will meet quarterly in 2014 and 2015 to discuss possible adjustments and improvements to the structure and policies guiding the allocation of reserve funds. The committee, co-chaired by Goran Buldioski and Marine Buissonniere, will be able to make recommendations to the president, the SMC, and the Board Committee on Strategy, Budget, and Performance informed by experience across the network. Members of the committee will be drawn from across the network, including national and regional foundations and administrative departments. Based on experience in 2014, we may alter the frequency of the committee’s meetings and the scope of its work in later years, and its members will rotate frequently so that a wide array of OSF staff are able to participate in shaping these policies and guidelines over time.