BFMS SOP 106 – INTERNAL LOANS PROCESS
(Rev June 2016)

1.0   SCOPE OF THIS SOP

Sections:

A. Loans Process Definition
B. Request for Loan
C. Processing of Loan requests
D. Loan Repayment
E. Quality Assurance Requirements

2.0   REFERENCES IN CONJUNCTION WITH THIS SOP

UN Financial Rules and Regulations

Umoja Job Aid Guide

BFMS Procedures Manual

3.0   ROLES INVOLVED IN THIS SOP

Loan Request Creator- Substantive Office

Loan Request Certifying Officer - Divisional Director for UN-Habitat & FMO for UNEP

Loan Request Reviewer- Office for Operations UNEP (OfO) / Management and Operations Division UNHABITAT (MOD)

Loan Request Approver- Chief Budget & Finance, OFO for UNEP; Office of Executive

Director, Office of the Executive Director for UN-Habitat (OED)

Loan processer in Umoja – UNON Accounts Section Finance Assistant

Loan approver in Umoja- UNON Accounts Section Finance Officer

Section A: Loans Process Definition

1. It is normal practice for a grant to have cash available before budget is issued and any commitments are engaged. With Umoja implementation, this now becomes a technical requirement, without which transactions cannot be enabled.

2. As some donors pay in instalments or on a reimbursable basis (e.g. the EU, USAID), there is sometimes a need to facilitate cash to start the implementation of a project before donor payment is received.

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3. To enable this in Umoja, a loan process has been implemented where, following an internal procedure in UNEP or UN-Habitat, loans can be facilitated within a fund between grants.

Section B: Request for Loan

4. For UN-Habitat, a specific Cash Management Policy has been issued (Annex A).

5. Offices requesting the borrowing prepare the justifications and initiate the request in the Loan portal or adjustment portal in Lotus Notes. The request must include:

    a. Details/coding block of borrowing and lending grant.

    b. Amount to borrow.

    c. Attachment of justification and any prior approval.

6. The certifying, reviewing and approving officers are responsible for review of loan justification, repayment plan and loan administration. The request is submitted to UNON for processing by the loan request approver.

Section C: Processing of Loan Requests

7. Upon receipt of Loan request by UNON in the Lotus Notes Portal, Accounts Service Unit (ASU) is to review the request and confirm that it is duly authorized and the coding block specified is appropriate.

8. If the request is not duly authorized or there is insufficient cash in the lending grant, the request is to be returned to the Certifying Officer as it is not possible to proceed in Umoja without these conditions being met.

9. The Finance Assistant in UNON ASU is to process the authorized loan request by 'checking out' the request for processing in the Lotus Notes portal and raising an SA document in Umoja (it is a requirement to attach the loan approval and justification document in Umoja SA document). The transaction should be created with the following:

    - Debit Lender Coding Block, General Ledger No.16201317
    - Credit Borrower Coding Block, General Ledger No. 36201327

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10. The Finance Assistant should then send the SA document for approval through Umoja workflow by saving the document as complete. Additionally, the Finance Assistant should update the lotus notes request and route it to the Finance Officer responsible for approval.

11. The Finance Officer UNON ASU will receive automatic notification of the approval request from lotus note and the SA document available in Umoja inbox. The Officer is to review the authorization of borrowing coding block used in the SA document and, if appropriate, approve the SA document and mark the request in lotus notes as complete.

12. The creator and Certifying officer get a lotus note notification that the transaction is approved.

13. If the request requires modification or clarification, the finance officer will return the document and lotus notes request to the appropriate level. Subsequent re-submission will follow the same work flow.

14. On approval of the SA document in Umoja, cash movement between the lending/borrowing grants cash is automatically generated. Final posting entries will be as follows:
    - Debit Lender Coding Block, GL 16201317
    - Debit borrower Coding Block Cash, GL 11701010
    - Credit Borrower Coding Block, GL 36201327
    - Credit Lender Coding Block Cash, GL 11701010

Section D: Loan Repayment

15. It is the responsibility of the Substantive Office to monitor outstanding loan balances and request for the repayment through the adjustment/loan portal. Office of Operations UNEP and Management and Operations Division UN-Habitat should monitor the outstanding balances and follow up with substantive offices for timely settlement.

16. The workflow for the repayment is identical to borrowing workflow detailed in steps 5-13, except the postings are in reverse.

17. On approval of the SA document in Umoja, cash movement between the lending/borrowing grants cash is automatically generated. Final posting entries will be as follows:
    - Debit Borrower Coding Block   GL 16201317
    - Debit Lender Coding Block Cash   GL 11701010
    - Credit Lender Coding Block   GL 36201327
    - Credit Borrower Coding Block cash   GL 11701010

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Section E: Quality Assurance Requirements

18. The key Quality Assurance (QA) Requirements for the proper maintenance and control of Loan processing are as follows:

    a. BFMS, UNON is to ensure that all Borrowings requested by UNEP and UN-Habitat are properly authorized and processed.

    b. Certifying Officers are to ensure that there is appropriate justification for borrowing and effective monitoring to ensure compliance with the repayment plan.

Annex:

A. UN HABITAT Cash Management Policy

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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)*

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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.

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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

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MEMORANDUM

To:	Dr. Joan Clos Executive Director		Reference:	FIN/ADV/150427
Through:				
From:			Date:	**Dd MMM 2015**

Subject: **Request for advance of US$xxx to pre-finance project XXX in <Office Name>**

Please find the following request for an advance to pre-finance activities for the project below for your approval.

1	Project Title	
2	Project Name	
3	Project Value	
4	Project allotment for 2015	
5	Amount of advance required	
6	Purpose of advance e.g. salaries, travel, consultancies, etc.	*Specify amount for each expenditure category*
7	Previous advances on project	*Specify any advances that have been taken on this project*
8	Contribution Agreement	*Name / code of signed agreement; If no signed agreement, written evidence that funds will be repaid*
9	Value of contribution agreement	
10	Dates of contribution agreement	Start date:_____ End date:_____ 　　　　　dd/mm/yyyy　　　　　　　dd/mm/yyyy

| 11 | Status of contribution agreement | Contribution received to date in USD | |
| | | Amount pending later than income schedule in USD | |

12	Repayment schedule (not to exceed 3 months)	Amount1 to be paid		Date to be refunded	
		Amount2 to be paid		Date to be refunded	
		Amount 3 to be paid		Date to be refunded	

13	Likelihood of not reimbursing advance - (put X against appropriate risk level) – give reason	Low		Medium		High	

14	OoM Risk level rating - give reason	

	Requested by: (Head Office/Branch)	Name:_____Signature:_____: Date:_____
	Reviewed by: (Division Director)	Name:_____Signature:_____: Date:_____
	Reviewed by: (OoM)	Name:_____Signature:_____: Date:_____
	Approved by: (OED)	Name:_____Signature:_____: Date:_____