**Management of Local Investments**

1. All investments are held in U.S. Dollars. On an exceptional basis, Treasury may grant authority to an Office to invest excess local currency on a short-term basis.

1. Principles for Managing Working Capital

* 1. ***Preserving principal*** – this means to protect UNDP cash and investment asset in US$ term against sovereign risk, credit risk, foreign currency exchange risk (see definitions below).
	2. ***Liquidity*** –to ensure that the cash and investment asset investment periods are structured in such a way as to meet on-going disbursement requirements. Alert: too much liquidity results in loss of interest income; too little liquidity causes emergency replenishments and possible delays in meeting financial obligations.
	3. ***Earn interest income*** – this means to generate maximum interest income provided that the 1st and 2nd cash management principles are met. This also means to manage the inflation and interest rate risks.

1. Criteria for Granting Office Local Investment Authority

* 1. Compelling business needs
	2. Slight timing mismatch between contribution received and project spending – disbursing funds (within the 45 days window)
	3. Risk assessment (see below)
	4. The invested funds can be utilized within 45 days
	5. Competency of the Finance function of the country office

1. Risk Assessment

# Sovereign Risk

1. Is the country politically stable?
2. Is the country economy policy sound? Is the country in economic expansion or recession?
3. What is the country’s sovereign risk rating and foreign currency rating? (if available)

**Credit Risk**

The risk that an issuer of fixed income securities (also known as the borrower or debtor) will not repay the obligation as promised.

1. Are the bank/financial institution with which UNDP banks financially sound?
2. What is the deposit size of the bank/financial institution?
3. How are the bank/financial institution ranked vs. its peers in the same country?
4. What are the bank/financial institution’s credit rating?

**Foreign Currency Risk**

The risk of devaluation. The exchange rate is highly influenced by:

1. Political stability of the country
2. Technical factors
3. Economic fundamentals

**Liquidity Risk**

The risk that an asset cannot be converted easily and rapidly into cash without a substantial loss of value. A security (i.e. investment) is deemed to be liquid if the spreadbetween bid (buy side) and asked (sell side) prices is narrow and reasonable amounts of purchases and sales can occur at those prices.

# Inflation Risk

1. The risk of erosion in the value of asset and income as higher inflation leads to higher interest and lower currency value.

# Interest Rate Risk

#  a. The risk of decline in value of a fixed-rate investment as result of rising interest rate.