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Mini MBA Finance and Grants: managing donor money and financial health

Complete manual

A programme of exactly 3 months (12 weeks, 144 hours) to manage the finances of a humanitarian organisation and donor funds: NGO accounting and restricted funds, budgets and shared costs, cash and foreign exchange, budget monitoring and forecasts, eligibility rules, the grant cycle, partner funding, audits and fraud, financial health, full cost, reserves and diversification, governance and turnaround. Corrected numerical exercises, three monthly exams with case studies, and a verifiable diploma from the Humanitarian Academy.

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Contents

1. Week 1 : NGO accounting: principles, restricted funds and financial statements
2. Week 2 : Building budgets: project, shared costs and organisational budget
3. Week 3 : Managing cash: forecasts, pre-financing, foreign exchange and cash in hand
4. Week 4 : Managing budgets: variances, forecasts at completion and decisions
5. Week 5 : Donor rules: eligibility, procurement, equipment and visibility
6. Week 6 : Managing a grant end to end: contract, reports, modifications and closeout
7. Week 7 : Funding partners: assessment, agreements, advances and localisation
8. Week 8 : Audits and internal control: prepare, prevent, detect
9. Week 9 : Measuring an organisation's financial health
10. Week 10 : Full cost: knowing and recovering the true cost of each project
11. Week 11 : Reserves, unrestricted funds and funding diversification
12. Week 12 : Financial governance, cash crisis and final project

Week 1 : NGO accounting: principles, restricted funds and financial statements

Objectives

- Understand the accounting principles that apply to an NGO: accruals, matching, prudence, and the distinction between restricted and unrestricted funds.
- Read and interpret the balance sheet, the income statement and the cash flow statement of a humanitarian organisation.
- Spot warning signs in financial statements: an unrestricted funds deficit, tight cash, restricted funds used for other purposes.

Why accounting matters for a manager

A country director or programme coordinator does not need to be an accountant, but they must be able to read the accounts: they are the ones who commit expenditure, sign reports to donors and answer auditors. Most NGO financial crises do not come from spectacular fraud, but from an accumulation of uncovered costs, unreimbursed pre-financing and ineligible expenditure that nobody saw in time.

Accounting has three purposes: **accountability** (to donors, the board, the authorities, the public), **management** (knowing where you stand and deciding) and **protection** (preventing errors and misappropriation through an audit trail). NGOs follow the accounting framework of their country of registration (for example the ANC regulation in France, the SORP in the United Kingdom, US standards for not-for-profit organisations, or the revised SYSCOHADA and its system for non-profit entities in the OHADA area).

> Basic rule: an undocumented expense is an expense you may have to pay back. An invoice, proof of payment, proof of receipt and authorisation are the minimum for any supporting document.

Accruals, cash and matching

In **cash accounting**, a transaction is recorded when money comes in or goes out. In **accrual accounting**, it is recorded when the right or obligation arises: an invoice received in December and paid in January is a December expense. Official financial statements are kept on an accruals basis; many field offices work on a cash basis day to day and post adjusting entries at year-end.

The **matching principle** requires expenses to be linked to the period they relate to. An annual rent of 24,000 USD paid in advance on 1 October for a financial year ending 31 December: 6,000 USD is an expense of the year, 18,000 USD is a **prepaid expense** (an asset) on the balance sheet.

For grants, the usual rule is to recognise income as eligible expenditure is incurred. If a donor pays 500,000 USD in November for a project that has spent 120,000 USD by 31 December, the income for the year is 120,000 USD and 380,000 USD appears as **deferred income** or deferred funds, that is, a liability towards the project. This money is in the bank, but it does not freely belong to the organisation.

Prudence. Probable losses are recognised as soon as they are known (for example an expense the donor will very probably disallow), but uncertain gains are not. A provision for ineligible costs protects the organisation from a nasty surprise at the final audit.

Restricted and unrestricted funds

The most important distinction in an NGO's accounts is between **restricted funds** and **unrestricted funds** (free funds).

- **Restricted funds**: given for a specific purpose (a project, an area, an activity). They can only be used for that purpose; using them elsewhere, even temporarily without agreement, is a breach that can lead to repayment and loss of the donor's trust.
- **Unrestricted funds**: free donations, membership fees, recovered indirect costs, miscellaneous income. They fund what donors do not pay for (part of headquarters, business development, ineligible costs, pre-financing) and make up the **reserves**.
- **Designated funds**: unrestricted funds that the board has decided to set aside for a purpose (for example an emergency response fund). The board can reverse this decision; they remain legally unrestricted.

A common trap: an organisation can show comfortable cash while its unrestricted funds are negative. If it has 900,000 USD in the bank, including 1,100,000 USD of restricted funds received in advance, its free resources are in fact −200,000 USD: it has already used donors' money to cover other expenses.

> Key indicator for a board: the unrestricted funds balance and how it changes. A negative or steadily falling balance is a warning, whatever the cash position shown.

Reading the balance sheet

The **balance sheet** is a snapshot at a given date: what the organisation owns (assets) and what it owes, plus its funds (liabilities and funds). Typical items for an NGO:

Assets	Liabilities and funds
Fixed assets (vehicles, buildings, equipment)	Funds: unrestricted funds (reserves) and restricted funds
Receivables from donors (expenditure incurred but not yet reimbursed)	Deferred funds or deferred income (grants received but not spent)
Advances to partners and staff	Trade payables, payroll and tax liabilities
Inventory (goods to be distributed)	Provisions (disputes, end-of-contract indemnities, probable ineligible costs)
Cash (banks, petty cash)	Any loans

Three quick readings:

- **High receivables from donors**: the organisation is pre-financing its projects; you need to check that reports are sent on time and that the amounts will be accepted.
- **Old advances to partners**: advances unjustified for more than six months are a risk of loss or fraud.
- **Provisions for end of contract**: in many countries, labour law provides for indemnities; if they are not provided for, the end of a large project can create an unexpected liability.

Income statement and cash flow statement

The **income statement** (or statement of financial activities) presents the income and expenditure of the year, often by nature (salaries, purchases, transport) and, in NGOs, also by **function**: charitable activities, fundraising, administration. The **programme expense ratio** (share of expenditure devoted to programmes) is closely watched by the public, but it must be read with caution: an organisation that underinvests in its support functions shows a fine ratio and takes great risks.

The result is read by fund. An overall surplus can hide an unrestricted funds deficit offset by restricted funds received but not yet spent. The accounts therefore normally present a **statement of movements in funds** by category.

The **cash flow statement** explains how cash has changed: flows from operating activities, investing activities (vehicle purchases) and financing activities (loans). An organisation can be in surplus and short of cash, if its donors pay late; or in deficit and have plenty of cash, if it has received large advances.

Reading example. Income 8.2 million USD, expenditure 8.4 million: a deficit of 200,000 USD. Unrestricted funds: opening 650,000, closing 410,000. Cash, however, rose by 300,000 USD thanks to an advance of 1.5 million received in December. Conclusion: the underlying situation is deteriorating (free reserves fell by 37%), even though the bank balance is healthier.

Closing and dialogue with the finance team

The **monthly close** is the basis of reliable information. At a minimum it includes: entry of all the month's documents; bank reconciliation of each account (statement balance = book balance, differences explained); a cash count signed by two people; follow-up of advances to staff and partners; checking of coding (right project, right budget line); and sending the accounts to headquarters within a set deadline (often 10 to 15 days).

The **bank reconciliation** is the simplest and most powerful control. A difference unexplained for several months, cheques issued but not cashed for a long time, or unknown transfers are signals to deal with immediately.

For a non-finance manager, three habits are enough to change the quality of management: read the budget monitoring of your projects with the accountant every month; check that coding matches the reality of the activity; and ask the question "what might the donor disallow?" before signing off an unusual expense.

> Coding "to balance" (charging an expense to the project that still has budget rather than to the one that actually consumed it) is falsification, even if the intention is good. Auditors detect it through timesheets and evidence of activity.

Exercise: reading an NGO's financial position

Situation. At 31 December, an NGO shows: cash 1,300,000 USD; receivables from donors 700,000 USD; advances to partners 260,000 USD, of which 140,000 are more than 9 months old; fixed assets 400,000 USD; trade and payroll payables 350,000 USD; deferred funds (grants received but not spent) 1,650,000 USD; provisions 0. Its annual expenditure is 6,000,000 USD. It employs 140 people in a country where the law provides for an end-of-contract indemnity estimated at 180,000 USD in total.

Tasks. 1) Calculate the funds (total assets minus payables, deferred funds and provisions). 2) Recalculate them with a provision for indemnities and a provision of 50% of the old advances. 3) Assuming fixed assets are entirely financed by the funds, how many months of expenditure do the free resources represent?

Answer. Assets: 1,300,000 + 700,000 + 260,000 + 400,000 = 2,660,000. Funds: 2,660,000 − 350,000 − 1,650,000 = 660,000 USD. With provisions: 660,000 − 180,000 − 70,000 = 410,000 USD. Free resources excluding fixed assets: 410,000 − 400,000 = 10,000 USD, i.e. 10,000 / 500,000 = 0.02 months of expenditure. The organisation has practically no available reserves: its apparent cash rests on donors' money. It must make provisions, recover or obtain justification for the old advances, and build a plan to rebuild its reserves.

Key takeaways

- Accrual accounting: you record when the obligation arises, not when the money moves.
- A grant received but not spent is a liability towards the project (deferred funds), not free wealth.
- The key indicator is the unrestricted funds balance, not cash.
- Provide for what is probable: end-of-contract indemnities, ineligible costs, irrecoverable advances.
- Monthly bank reconciliation and coding that reflects reality: two non-negotiable controls.

Quiz

1. An annual rent of 36,000 USD is paid in advance on 1 July; the financial year ends on 31 December. The expense for the year is:
   A. 36,000 USD
   B. 18,000 USD
   C. 0 USD
   D. 12,000 USD

2. An NGO has 1,000,000 USD in the bank, including 1,200,000 USD of grants received but not spent. Its free resources are:
   A. Negative: −200,000 USD
   B. 1,000,000 USD
   C. 2,200,000 USD
   D. 200,000 USD

3. Funds "designated" by the board are:
   A. Funds restricted by a donor
   B. Public funds
   C. Liabilities
   D. Unrestricted funds set aside by a board decision, which the board can reverse

4. Charging an expense to the project that still has budget rather than to the one that actually consumed it is:
   A. Good management practice
   B. Mandatory at year-end
   C. Falsification, even with good intentions
   D. Acceptable if the amount is small

5. An organisation in surplus can be short of cash because:
   A. That is impossible
   B. Its donors reimburse late and it pre-finances its projects
   C. It has too many reserves
   D. It has no bank account

Quiz answers : 1. B · 2. A · 3. D · 4. C · 5. B

Week 2 : Building budgets: project, shared costs and organisational budget

Objectives

- Build a complete and defensible project budget, line by line, with justified unit costs.
- Allocate shared costs fairly and verifiably, and understand indirect costs and their recovery.
- Assemble an organisation's annual budget from its projects, and spot funding gaps.

The project budget: from activity to amount

A project budget translates the workplan into money. Each line follows the formula **quantity × unit cost × duration or frequency × share charged**, with a justification note (quotation, salary scale, history, market price). A budget without a basis of calculation is the first reason for rejecting a proposal and the first source of overspending.

The usual headings: **staff** (salaries, employer contributions, insurance, allowances, with the percentage of time on the project); **activities** (transfers, inputs, training, works); **equipment** (vehicles, IT, often subject to rules on ownership and disposal); **travel**; **office and running costs** (rent, communications, supplies); **monitoring and evaluation**; **audit**; **indirect costs**.

Example of a staff line. A project manager paid 2,400 USD a month, with 22% employer contributions, at 60% on the project for 12 months: 2,400 × 1.22 × 0.6 × 12 = 21,082 USD. You also need to plan for scheduled annual increases, end-of-contract indemnities due by law and the cost of recruitment.

> The most expensive mistakes: forgetting social charges, inflation on a project lasting more than a year, the exchange rate, bank charges, the final audit and closure costs (indemnities, asset transfer).

Direct costs, shared costs, indirect costs

Three categories, whose definitions vary slightly from donor to donor:

- **Direct costs**: clearly linked to a single project (the project's transfers, staff working 100% on it).
- **Shared costs** (or direct support costs): country office costs that serve several projects (rent, guarding, logistician, accountant, shared vehicles). They can be charged directly to projects, provided they are allocated using a fair and documented method.
- **Indirect costs**: costs of headquarters and central functions that cannot be attributed to a project (executive management, central finance, IT systems, audit of the organisation's accounts). They are covered by a flat percentage or a negotiated rate.

Common flat rates: often 7% with several European institutional donors, up to 15% as the minimum (de minimis) rate in the US federal rules since their 2024 revision (10% previously), higher negotiated rates for some organisations, and very low rates, sometimes zero, with some funds or foundations. The difference between these rates and the real cost of headquarters is a gap the organisation must fill with unrestricted funds.

The cardinal rule: **no double charging**. A cost covered by the indirect cost rate cannot also be charged as a direct cost to the same project.

Allocating shared costs

The **allocation key** must reflect actual use of resources, be applied consistently to all projects and all donors, and be verifiable. The usual keys:

Key	Suited to	Limitation
Staff time (timesheets)	Salaries of shared staff	Requires actual timesheets, not theoretical ones
Share of direct expenditure	Rent, security, office overheads	Projects with large transfers pay a lot
Number of project employees	Premises, IT, HR	Ignores differences in intensity
Kilometres or vehicle days	Shared fleet	Requires reliable logbooks

Example. Office shared costs: 30,000 USD a month. Direct expenditure for the month: project A 120,000 USD, project B 60,000 USD, project C 20,000 USD (total 200,000). With the direct expenditure key: A 18,000, B 9,000, C 3,000 USD. If project A includes 90,000 USD of cash transfers that hardly use the office, a key excluding transfers is fairer: base A 30,000, B 60,000, C 20,000 (total 110,000), giving A 8,182, B 16,364, C 5,455 USD.

The common problem is not the method, it is the **gap**: if a donor caps its share of shared costs or refuses a line, the uncovered share must be funded by another project (if its contract allows it and the key justifies it) or by unrestricted funds. It is never charged to another donor beyond that donor's actual share.

The organisational budget

The **organisation's annual budget** brings together three layers:

- **Secured funding**: signed contracts, with their share of expenditure planned for the year (a 24-month project started in July only brings part of its budget to the current year).
- **Probable funding**: proposals in advanced negotiation, weighted by their probability.
- **The organisation's fixed costs**: headquarters, country offices, core staff, systems, governance.

The key question is **fixed cost coverage**: do the shared and indirect costs recovered from projects, plus unrestricted funds, cover the fixed costs? **Example.** Headquarters fixed costs:

1,200,000 USD. Direct costs of secured projects: 9,000,000 USD, with an average indirect cost rate of 7.5%: 675,000 USD recovered. Expected unrestricted donations: 300,000 USD. Gap: 1,200,000 − 675,000 − 300,000 = 225,000 USD. The budget must show how to fill it (new contracts, cost reductions, fundraising) or decide to draw on reserves, and say so to the board.

The organisational budget is built in **scenarios**: base (secured contracts only), probable, and downside (loss of a major donor). For each scenario, the decisions to be taken and their deadline are identified: a cost reduction plan is decided months before the money runs out.

The budget in the donor proposal

The proposal budget is both a management tool and an argument. Donor reviewers look at:

- **Consistency** with the logical framework: each activity has its cost, each significant line serves an activity.
- **Realism** of unit costs (compared with market prices and other proposals).
- **Proportion** of staff and running costs relative to activity costs, which should be explained rather than hidden (a protection project has a lot of staff; a cash project a lot of transfers).
- **Compliance** with the rules (headings, ineligible costs excluded, indirect rate respected, co-financing if required).
- **Value for money**: cost per person and per result, economy measures.

The **budget narrative** explains the significant lines, the assumptions (exchange rate, inflation), the method for allocating shared costs and the co-financing. A good narrative avoids weeks of questions and later serves as a reference in the event of an audit.

> Never "inflate" a budget in anticipation of a cut by the donor: if the cut does not happen, you end up with overestimated lines that will be underspent, which damages credibility and can be interpreted as a lack of honesty.

Exchange rates and inflation in the budget

Most projects are funded in one currency (euro, dollar) and spent in another (local currency). The **exchange rate risk** is twofold: a depreciation of the local currency creates exchange gains (more local currency per dollar); an appreciation, or a rise in the contract currency against the accounting currency, creates losses.

Example. Budget of 500,000 EUR, accounts kept in USD. At the proposal rate (1 EUR = 1.10 USD): 550,000 USD. If the euro falls to 1.02 USD when the instalments are paid, the organisation receives 510,000 USD: 40,000 USD is missing to deliver the same programme. Many donors do not accept exchange losses as an eligible expense; you need to build in a prudent margin, monitor the rate and, if the gap becomes significant, renegotiate activities.

Inflation must be built in for any project lasting more than 12 months and in high-inflation contexts: year 2 prices are budgeted with a realistic rate (data from the central bank, the IMF or the cash working group). In countries with very high inflation, you can budget in a hard currency and plan a mid-term revision of unit costs.

The conversion rules (rate to be used for reporting: rate of the transfer received, weighted average rate, the donor's official monthly rate) are set by the contract. Ignoring them creates differences that become ineligible costs.

Exercise: allocating shared costs and measuring the gap

Situation. A country office has 45,000 USD of monthly shared costs. Projects (monthly direct expenditure excluding cash transfers): A 50,000 USD; B 30,000 USD; C 20,000 USD. Project B's donor caps its contribution to shared costs at 9,000 USD a month. At headquarters level: fixed costs 900,000 USD a year; annual direct costs of all projects 7,200,000 USD; average indirect cost rate 7%; expected unrestricted donations 150,000 USD.

Tasks. 1) Allocate the shared costs using the direct expenditure key. 2) What is the monthly gap caused by donor B's cap, and how should it be handled? 3) Calculate the headquarters' annual gap.

Answer. Base 100,000: A 50%, B 30%, C 20%, i.e. A 22,500, B 13,500 and C 9,000 USD. With the cap, B only pays 9,000: a gap of 4,500 USD a month, or 54,000 USD a year. It is not passed on to A and C beyond their actual share: it is funded by unrestricted funds, and better coverage is negotiated with donor B for the next contract. Headquarters: 7% × 7,200,000 = 504,000 USD recovered; 900,000 − 504,000 − 150,000 = 246,000 USD annual gap, to be filled by higher negotiated rates, new contracts, savings or unrestricted fundraising.

Key takeaways

- Each line: quantity × unit cost × duration × share charged, with a justification.
- Shared costs allocated using a fair, consistent and verifiable key; no double charging with indirect costs.
- A donor cap on shared costs creates a gap to be funded by unrestricted funds, never by another donor.
- Organisational budget: secured funding, weighted probable funding, fixed costs, in several scenarios.
- Plan for exchange rates, inflation, social charges, audit and closure costs.

Quiz

1. A salary of 3,000 USD a month, 20% social charges, 50% on the project for 10 months costs the project:
   A. 15,000 USD
   B. 18,000 USD
   C. 36,000 USD
   D. 30,000 USD
2. A cost already covered by the indirect cost rate is also charged as a direct cost to the same project. This is:
   A. Good practice
   B. Double charging, ineligible
   C. Mandatory
   D. Acceptable if the amount is small
3. A budget of 400,000 EUR planned at 1 EUR = 1.12 USD; instalments received at 1.05 USD. Amount missing in USD to deliver the same programme:
   A. 28,000 USD
   B. 20,000 USD
   C. 48,000 USD
   D. 7,000 USD
4. Headquarters fixed costs 800,000 USD; direct costs 6,000,000 USD at 8% indirect costs; unrestricted donations 200,000 USD. The gap is:
   A. 120,000 USD
   B. 0 USD
   C. 600,000 USD
   D. 280,000 USD
5. Inflating a budget in anticipation of a cut by the donor is:
   A. A recommended strategy
   B. Bad practice that damages credibility and creates underspends
   C. Mandatory for large donors
   D. Of no consequence

Quiz answers : 1. B · 2. B · 3. A · 4. A · 5. B

Week 3 : Managing cash: forecasts, pre-financing, foreign exchange and cash in hand

Objectives

- Build a 6- to 12-month cash forecast and anticipate pressure points before they block operations.
- Manage exchange rates in line with donor rules and limit losses.
- Organise fund transfers and cash management in high-risk contexts, with proportionate controls.

The cash forecast

An NGO does not go bankrupt because it is in deficit on paper, but because it can no longer pay its salaries and suppliers. The **cash forecast** sets out, month by month, the opening balance, expected receipts (donor instalments with their realistic dates, donations, reimbursements) and planned payments (salaries, suppliers, transfers to partners, cash transfers to households, taxes and social charges).

The rules of a useful forecast:

- It is **prudent**: donor instalments are forecast on the date they actually arrive on average, not the contract date (often 30 to 90 days later, because they depend on report approval).
- It is **updated every month** with actual data.
- It distinguishes restricted funds: one project's cash cannot fund another project on a lasting basis without agreement.
- It sets a **minimum threshold** (for example one month of expenditure) below which measures are triggered.

Example. Balance at 1 March: 420,000 USD. Monthly expenditure: 380,000 USD. An instalment of 900,000 USD expected in March will only arrive in May, because the interim report is late. March: 420,000 − 380,000 = 40,000. April: 40,000 − 380,000 = −340,000. The organisation cannot pay in April unless it sends the report immediately, negotiates an advance, postpones purchases or draws on reserves. A late report becomes a liquidity crisis.

Pre-financing and its limits

Many contracts provide for **payments in instalments** (for example 40% on signature, 40% after the interim report, 20% after the final report), or for **reimbursements** after the fact. In these cases, the organisation advances the money: this is pre-financing. The final balance, often 10 to 20%, is only paid after acceptance of the final report, sometimes six months to a year after the end of the project.

Example. A project of 1,000,000 USD over 12 months, payments of 50% at the start, 30% after the month 6 report (received on average in month 8), 20% after the final report (received

on average 6 months after the end). Even expenditure: 83,333 USD a month. In month 8, before the 2nd payment, the organisation has spent 666,667 USD against 500,000 received: it is pre-financing 166,667 USD. At the end of the project, it has spent 1,000,000 USD against 800,000 received: it pre-finances 200,000 USD for about six months.

Pre-financing has a **cost**: reserves tied up, sometimes bank charges or interest, and the risk that expenditure is disallowed and never reimbursed. An organisation must know its total pre-financing at all times, and the board must set a ceiling.

> Ways to reduce pre-financing: send reports on time, negotiate a higher first instalment, request advances based on cash forecasts, and diversify towards donors who pay in advance.

Exchange rates

Foreign exchange management follows the contract rules and the organisation's policy. The usual methods for converting expenditure into the donor's currency:

- **Transfer rate**: the rate actually obtained when converting the donor's funds is used. This is the fairest method, but it requires rigorous tracking.
- **Weighted average rate**: an average rate is calculated from successive conversions, weighted by the amounts.
- **First in, first out** (FIFO): expenditure first uses the funds converted first, at their rate.
- **Official monthly rate** published by the donor or the central bank (for example the InforEuro rate for some European funding).

Weighted average rate example. Conversion 1: 100,000 USD at 600 local units per dollar = 60,000,000. Conversion 2: 50,000 USD at 630 = 31,500,000. Average rate: 91,500,000 / 150,000 = 610 units per dollar. An expense of 6,100,000 local units is reported as 10,000 USD.

In countries with **multiple rates** (official rate very different from the parallel rate), exchanging at the official rate can sharply reduce purchasing power, and exchanging at the parallel rate can be illegal. This is a decision to be taken at management level, with the donor, in compliance with the country's law and anti-money laundering rules, never by a staff member in the field.

Moving funds into difficult areas

Getting money to the field is often a challenge: banks absent or under sanctions, withdrawal limits, insecurity. The options, from the safest to the riskiest in terms of control:

- **Bank transfer** to an account of the organisation in a regulated local bank.
- **Electronic money** and mobile payment, for salaries, suppliers and transfers to households.
- **Licensed money transfer companies**.
- **Informal value transfer systems** (hawala or equivalents), used in some contexts for lack of an alternative: they require enhanced due diligence (identification of the provider,

screening against sanctions lists, contracts, systematic receipts, reconciliations), prior agreement from management and often from the donor.
- **Cash transport**: a last resort, with strict rules (capped amounts, varied routes, two people, discretion, insurance).

International sanctions and counter-terrorist financing rules apply to the whole chain: banks, providers, suppliers and partners. Donor contracts often require counterparties to be screened against sanctions lists. Humanitarian exemptions exist (for example Security Council resolution 2664 of 2022 for UN sanctions regimes), but they do not remove the need for due diligence.

Petty cash: simple and essential controls

Cash is the resource most exposed to theft and errors. The basic controls:

- **Cash ceiling** set per office (for example the equivalent of two weeks of small expenses); the surplus is deposited at the bank.
- **Safe** with limited access and a register.
- **Segregation of duties**: the person who holds the cash does not approve expenditure and does not do the reconciliation.
- **Cash count** by two people at the end of each month and unannounced, with signed minutes; any difference is explained.
- **Supporting documents** for every payment; where there is no invoice (market purchases), a statement of expenditure signed by the buyer and a witness, with a ceiling.
- **Staff advances** accounted for within a set deadline (for example 7 days after the mission); no new advance until the previous one has been accounted for.

Cash count example. Theoretical cash balance: 1,840,000 local units. Count: 1,790,000 in notes and coins, plus two unrecorded supporting documents of 30,000 and 15,000. Unexplained difference: $1{,}840{,}000 - 1{,}790{,}000 - 45{,}000 = 5{,}000$. A small isolated difference is recorded and analysed; repeated differences, even small ones, are a warning sign.

The organisation's treasury policy

At organisational level, a **treasury policy** approved by the board sets:

- The minimum liquidity level (in months of expenditure) and the measures if the threshold is crossed.
- The ceiling on total authorised pre-financing.
- The authorised banks and selection criteria (soundness, presence, compliance), with deposits spread to limit the risk of a bank failing.
- The rules for investing reserves: security and liquidity first, no speculative investments.
- Account signatories, with dual signature above a threshold.
- Foreign exchange and hedging rules.

The finance director presents a quarterly **treasury dashboard** to the board: balances by currency and by bank, 6-month forecast, current pre-financing, receivables from donors by age. Receivables more than 6 months old deserve specific analysis: report not accepted, expenditure disputed, donor in difficulty.

> Diversifying banks is real protection: organisations have lost access to their funds during banking crises or account freezes. Never keep all your cash in a single institution.

Exercise: forecasting cash and converting expenditure

Situation. Balance at 1 June: 300,000 USD. Monthly expenditure: 250,000 USD. Receipts expected under the contracts: 400,000 USD in June (donor A's instalment, but the report has not yet been sent; average approval time 60 days after submission), 150,000 USD in July (donor B, regular). Conversions for the month: 120,000 USD at 2,500 local units per dollar, then 80,000 USD at 2,650. Minimum threshold: one month of expenditure.

Tasks. 1) Assuming donor A's report is sent on 1 June, build the cash position from June to August. 2) Calculate the weighted average rate. 3) Propose three measures.

Answer. Instalment A arrives around 1 August. June: 300,000 − 250,000 = 50,000. July: 50,000 + 150,000 − 250,000 = −50,000. August: −50,000 + 400,000 − 250,000 = 100,000. The balance is below the threshold from June and negative in July. Average rate: (120,000 × 2,500 + 80,000 × 2,650) / 200,000 = (300,000,000 + 212,000,000) / 200,000 = 2,560 units per dollar. Measures: send the report immediately and ask donor A for fast-track approval or an advance; postpone non-urgent July purchases; temporarily draw on unrestricted reserves with management's agreement, informing the board if the threshold is crossed.

Key takeaways

- Organisations go bankrupt for lack of liquidity, not because of an accounting deficit: the cash forecast is monthly and prudent.
- Pre-financing has a cost and a risk; it must be known, capped and reduced.
- Exchange rates: apply the method set by the contract (transfer rate, weighted average, FIFO, official rate).
- Informal transfers and cash transport: last resorts, with enhanced due diligence and prior agreement.
- Petty cash: ceiling, segregation of duties, unannounced counts by two people, advances accounted for before a new advance.

Quiz

1. Conversions: 50,000 USD at 1,000 and 150,000 USD at 1,100 units per dollar. Weighted average rate:
   A. 1,050
   B. 1,025
   C. 1,100
   D. 1,075

2. A project of 600,000 USD, 50% paid at the start, expenditure of 50,000 USD a month. In month 9, before any other instalment, pre-financing amounts to:
   A. 300,000 USD
   B. 450,000 USD
   C. 150,000 USD
   D. 0 USD

3. A field staff member wants to exchange money at the very advantageous parallel rate without telling anyone. The right response is:
   A. Encourage it, it increases purchasing power
   B. Refuse: it is a management decision, to be taken with the donor and in compliance with the law
   C. Let them do it for small amounts
   D. Do it yourself

4. Which cash rule is most important for preventing misappropriation?
   A. Segregation of duties and unannounced counts by two people
   B. A neat register
   C. A high ceiling
   D. A wooden safe

5. Security Council resolution 2664 (2022):
   A. Prohibits humanitarian aid
   B. Only concerns European banks
   C. Removes all sanctions
   D. Provides a humanitarian exemption in UN sanctions regimes, without removing the need for due diligence

Quiz answers : 1. D · 2. C · 3. B · 4. A · 5. D

Week 4 : Managing budgets: variances, forecasts at completion and decisions

Objectives

- Produce and read a budget monitoring report (budget versus actuals) line by line and by period.
- Build a realistic end-of-project forecast and draw decisions from it: accelerate, reallocate, revise or extend.
- Organise a useful monthly budget review between programmes and finance, with alert thresholds.

The budget versus actuals report

The **budget versus actuals report** (BvA) is the basic tool for a project's financial management. For each budget line, it shows: the total budget, the budget planned to date (according to the spending plan, not a straight line), cumulative actual expenditure, commitments (orders placed but not yet paid), the variance and the burn rate.

Reading a BvA means asking three questions for each significant variance: **why** (activity delay, different prices, coding error, unbudgeted expense); **is it temporary or lasting** (a delay that will be caught up or a real saving); **what decision** (nothing, acceleration, reallocation, revision).

Example. "Hygiene kits" line: total budget 120,000 USD, budget to date 80,000, actual 30,000, commitments 45,000. The gross burn rate (30 / 80 = 38%) is worrying; taking orders placed into account, execution is (30 + 45) / 80 = 94%. Commitments completely change the reading: never analyse a BvA without them.

> Usual analysis threshold: any variance of more than 10% and more than a set amount (for example 5,000 USD) on a line must be explained in writing every month.

Price variances, quantity variances

A variance on an activity line can be broken down into two parts, which tells you whom to ask:

- **Quantity variance** = (actual quantity − planned quantity) × planned price. It is a programme matter: more or less was distributed than planned.
- **Price variance** = (actual price − planned price) × actual quantity. It is a procurement and market matter: the kits cost more or less.

Example. Planned: 2,000 kits at 45 USD = 90,000 USD. Actual: 1,800 kits at 52 USD = 93,600 USD. Total variance: +3,600 USD (overspend). Quantity variance: (1,800 − 2,000) × 45 = −9,000 USD (an apparent saving, because less was distributed). Price variance: (52 − 45) × 1,800 = +12,600 USD (extra cost). Check: −9,000 + 12,600 = +3,600. The real problem is not

a 4% overspend: it is a price 15.6% higher than planned and 200 kits not distributed. If the remaining 200 kits are distributed at the new price, the line will be overspent by 14,000 USD.

The same logic applies to staff (headcount variance versus salary variance) and to cash transfers (variance in number of households versus variance in transfer value).

The end-of-project forecast

The BvA tells you where you are; the **forecast at completion** tells you where you are heading. For each line: actual expenditure + commitments + estimate of what remains to be spent until the end, based on the updated workplan (not the initial budget). The forecast is compared with the total budget.

Example of a 12-month project, end of month 7.

Line	Budget	Actual + committed	Estimated remaining spend	Forecast	Variance
Staff	300,000	182,000	130,000	312,000	+12,000
Transfers	500,000	210,000	220,000	430,000	−70,000
Vehicles and transport	80,000	61,000	34,000	95,000	+15,000
Total	880,000	453,000	384,000	837,000	−43,000

Reading: the project will underspend by 43,000 USD overall, but two lines are overspent. Possible decisions: request a reallocation from transfers to staff and transport within the contract's flexibility; use the transfer balance to reach more households (which serves the objective); or propose a no-cost extension if delays prevent useful spending.

Reallocations, revisions and flexibility

Each contract sets the **budget flexibility**: the percentage that may be transferred between lines or headings without prior approval (often 10 to 20% of a heading or of the total), protected lines (for example salaries or equipment, which always require approval), and the procedure for larger changes (amendment, budget revision).

Flexibility calculation. A contract with 15% flexibility between headings, calculated on the amount of the receiving heading. "Transport" heading: budget 80,000 USD. Up to 12,000 USD can be transferred to it without approval. In the previous example, 15,000 USD is missing: the 3,000 USD beyond the flexibility requires a formal request.

Good practice:

- Request revisions **early** (as soon as the forecast at completion shows a lasting variance), with a justification linked to activities and results, not just to figures.
- Never spend first and ask afterwards: an unauthorised overspend beyond the flexibility becomes an ineligible cost.

- Keep a written record of every donor approval, including by email, in the grant file.
- Update the reference budget in the accounting system after each approved revision, so that subsequent reports compare against the right budget.

The monthly budget review

The **monthly budget review** (BvA meeting) brings together, for each project, the project manager, the finance manager and often the logistics manager. Duration: 30 to 60 minutes per project. Agenda:

- Significant variances and their explanations.
- Coding errors to be corrected (an expense of one project charged to another).
- Updated forecast at completion and decisions.
- Upcoming commitments (large orders, recruitments).
- Eligibility: unusual or risky expenditure to be checked before the report.
- Dates of the next financial reports and documents to be prepared.

The minutes record the decisions, who is responsible and the deadline. Recurring variances are escalated to country management, which consolidates the situation of all projects: total underspend, overspends, pre-financing, and the shared cost gap.

> A budget review in which the project manager discovers the figures during the meeting is a wasted review. The report is sent three days in advance, and everyone comes with their explanations.

Country portfolio indicators

At country or organisational level, management tracks a few portfolio indicators:

- **Execution rate** of each project against plan, and projects underspent by more than 20% less than six months before the end.
- **Project end dates** within six months, with their effect on funding for staff and shared costs (the "funding cliff").
- **Shared cost coverage**: amount recovered by projects against the office's actual costs.
- **Pre-financing** and receivables from donors by age.
- **Costs at risk**: expenditure whose eligibility is doubtful, provided for.

Funding cliff example. An office has 40 employees, 70% funded by two projects ending in June. If no new funding is signed by March, a staff reduction will have to be prepared in April, with the indemnities required by law and notice. Good management anticipates these dates six to nine months ahead.

Exercise: analysing a line and deciding

Situation. "Cash transfers" line of a 10-month project, end of month 6: planned 1,500 households × 6 months × 90 USD = 810,000 USD; actual 1,300 households × 6 months × 100 USD = 780,000 USD (the transfer value was raised by the cash working group). Total budget of the line: 1,350,000 USD. The contract provides 10% flexibility per heading.

Tasks. 1) Calculate the total variance, the quantity variance and the price variance. 2) Forecast the end of the line if 1,500 households receive 100 USD for the remaining 4 months. 3) What decision?

Answer. Total variance: 780,000 − 810,000 = −30,000 USD. Quantity: (1,300 − 1,500) × 6 × 90 = −108,000 USD. Price: (100 − 90) × 1,300 × 6 = +78,000 USD. Check: −108,000 + 78,000 = −30,000. Forecast: 780,000 + 1,500 × 4 × 100 = 1,380,000 USD, i.e. an overspend of 30,000 USD (2.2%), within the 10% flexibility if another line in the heading has a balance. Decision: document the increase in transfer value (cash working group decision), inform the donor, reallocate within the flexibility, and check why 200 households were not enrolled in the first six months.

Key takeaways

- A budget versus actuals report without commitments gives a false picture of execution.
- Quantity variance = (Qa − Qp) × Pp; price variance = (Pa − Pp) × Qa.
- Forecast at completion = actual + committed + estimated remaining spend based on the updated workplan.
- Beyond the contract's flexibility, the donor's written approval is mandatory before spending.
- Anticipate project end dates six to nine months ahead to avoid the funding cliff.

Quiz

1. Budget to date 100,000 USD, actual 40,000, committed 50,000. Real execution is:
   A. 40%
   B. 90%
   C. 50%
   D. 10%

2. Planned 1,000 units at 20 USD; actual 1,200 units at 18 USD. The price variance is:
   A. −2,400 USD
   B. +4,000 USD
   C. +1,600 USD
   D. −2,000 USD

3. Same case. The quantity variance is:
   A. +4,000 USD
   B. +3,600 USD
   C. −2,400 USD
   D. +1,600 USD

4. A 50,000 USD heading with 15% flexibility can receive without approval:
   A. 7,500 USD
   B. 15,000 USD
   C. 5,000 USD
   D. No amount

5. Two projects funding 70% of staff end in 5 months with no follow-on funding. The priority is:
   A. Wait
   B. Prepare scenarios now: new funding, orderly staff reduction with notice and indemnities
   C. Lay everyone off tomorrow
   D. Extend contracts without funding

Quiz answers : 1. B · 2. A · 3. A · 4. A · 5. B

Week 5 : Donor rules: eligibility, procurement, equipment and visibility

Objectives

- Apply the general eligibility criteria for a cost and spot the most common ineligible costs.
- Understand the requirements of the main families of donors (European institutional donors, US federal rules, UN agencies, pooled funds, foundations).
- Comply with the rules on procurement, ownership of equipment, VAT and visibility, and organise compliance within the team.

What is an eligible cost?

Donors use different wording, but the eligibility criteria for a cost are similar everywhere. A cost is generally eligible if it is:

- **Necessary** for implementing the project and planned in (or compatible with) the approved budget.
- **Reasonable**: a prudent buyer would have paid this price (principle of sound financial management: economy, efficiency, effectiveness).
- **Incurred during the implementation period** of the contract (not before the start date, unless agreed, nor after the end date, except authorised closure costs).
- **Actually incurred**, recorded in the accounts, identifiable and verifiable, with original supporting documents.
- **Compliant** with local law (tax, social) and the contract rules (procurement, nationality, origin).
- **Consistently charged**: the same method for all projects, without double funding.

Common ineligible costs: debts and interest, provisions for future losses, exchange losses (often), fines and penalties, extravagant expenditure, gifts, costs already funded by another donor, recoverable VAT, purchases made outside procedure, expenditure without supporting documents, and expenditure outside the period.

> An expense can be useful, honest and ineligible. Eligibility is checked before spending, not at reporting time.

The main families of donors

Each donor has its own rules; you must always read the contract and its annexes. Some general characteristics:

- **European institutional donors** (the European Commission and its humanitarian aid service, national agencies): detailed rules on procurement, visibility, interim and final

reports, audit or expenditure verification; indirect costs often capped at 7%; framework partnerships with prior vetting of the organisation.

- **US federal rules** (2 CFR 200, the "Uniform Guidance") for organisations receiving federal funds: principles of reasonable, allocable and consistent costs; a negotiated indirect rate or the minimum rate (15% of modified total direct costs since the 2024 revision); a single audit above a threshold of annual federal expenditure for US organisations; strict rules on equipment and procurement.
- **UN agencies** as donors to partners: partnership agreements with their own rules, the HACT approach (partner assessment, payment modality adapted to risk, spot checks, audits), support costs often limited.
- **Pooled funds managed by OCHA** (country-based pooled funds): partner capacity assessment, a risk level that determines instalments, checks and audit; they fund many national NGOs.
- **Foundations and private donors**: rules often more flexible, but transparency commitments and sometimes restrictions on overhead costs.

The same project may be co-funded by several donors: each expense must then follow the rules of the donor it is charged to, and you must be able to prove that no expense is funded twice.

Procurement rules

Procurement accounts for a large share of disallowed costs. Contracts impose **thresholds** that determine the procedure: direct purchase below a small amount, comparison of at least three quotations above it, restricted or open tender for large amounts. The exact thresholds vary by donor and by internal policy, which must be at least as demanding as the donor's.

Common requirements:

- A **complete procurement file**: approved purchase request, quotations or bids, comparative analysis signed by a committee, purchase order or contract, delivery note, invoice, proof of payment.
- A ban on **split purchasing**: dividing a purchase into several orders to stay below a threshold.
- Screening of suppliers against **sanctions** and debarment lists.
- Rules on the **nationality and origin** of goods for some donors, with waivers to be requested.
- A **conflict of interest declaration** by members of the procurement committee.

Example. Three-quotation threshold: 5,000 USD. Over two months, an office orders 6 batches of office supplies from the same supplier at 4,200 to 4,900 USD each, 27,600 USD in total. An auditor will consider this a single split requirement: the purchases are at risk of being declared ineligible, and the question of possible collusion will be raised. Good practice is to plan the annual requirement and set up a framework agreement after competitive bidding.

Equipment, assets and disposal

Goods bought with funding (vehicles, generators, computers, medical equipment) are subject to rules on **ownership** and **use**:

- They are recorded in an **asset register** with a number, original funding source, date, value, location and person responsible.
- They serve the project for its duration; use for other activities must be limited, documented and, where possible, recharged.
- At the end of the project, their **disposal** follows the contract: transfer to beneficiaries, partners or the authorities; retention by the organisation for a project of the same nature; sale with the proceeds refunded to the donor; or return to the donor. A disposal without approval, where approval is required, may lead to repayment of the asset's value.
- A **physical inventory**, at least annual, compares the register with reality (tags, serial numbers).

Vehicles deserve particular attention: logbooks (mileage, trips, driver, fuel), maintenance, insurance, and allocation of costs between projects according to actual use. Abnormal fuel consumption relative to kilometres is a classic indicator of misappropriation.

VAT, taxes and social charges

VAT and indirect taxes are eligible only if the organisation cannot recover them. In many countries, NGOs benefit from exemptions provided for by a host country agreement or by law: requesting, documenting and applying them is part of good management. VAT paid when an exemption was available may be judged unreasonable.

Payroll taxes and **social charges** are eligible and mandatory. Not paying them (for example by employing staff as "consultants" or "volunteers" to avoid charges) exposes the organisation to reassessments, disputes and ineligible costs. Donors increasingly require proof that tax and social obligations are met.

Example. An office paid 18% VAT on 200,000 USD of purchases although an exemption was provided for in the agreement with the state and a refund was possible. VAT paid: 36,000 USD. The donor may disallow these 36,000 USD as an avoidable cost; the organisation must request a refund from the tax administration and put the exemption procedure in place.

Visibility, records and organising compliance

Visibility obligations (logos, acknowledgements in publications, communication) are part of the contract, with possible exceptions where display creates a security or protection risk: the exception is requested and documented.

Other obligations are often forgotten: **record retention** (often 5 to 10 years after final payment depending on the donor and the law), reporting suspicions of fraud within a set deadline, personal data protection, safeguarding policies (protection from sexual exploitation and abuse, child protection), and conditions relating to sanctions.

To organise compliance, mature organisations use:

- A **grant summary** written at signature: dates, amounts, instalments, flexibility, indirect rate, procurement and nationality rules, equipment, visibility, reports (dates and formats), audit, retention, contacts.
- A **kick-off meeting** with programmes, finance, logistics, HR and MEAL, so that everyone knows their obligations.
- A **tracking table** of all grants with their deadlines.

> Most costs disallowed during audits stem from a rule that field staff did not know about. The grant summary and the kick-off meeting are the two most cost-effective controls.

Exercise: sorting risky expenditure

Situation. Before the final report of a project (period: 1 March to 28 February), you review seven expenses: 1) a generator bought on 15 February for 9,000 USD after three quotations; 2) plane tickets bought on 10 March for the closing workshop; 3) 12,000 USD of VAT paid when the exemption was available; 4) 4 batches of fuel at 2,900 USD each from the same supplier in one month (three-quotation threshold: 3,000 USD); 5) a parking fine of 150 USD; 6) February rent paid on 5 March; 7) a computer charged 100% to the project and 50% to another project.

Task. Classify each expense: eligible, at risk (to be justified or regularised), ineligible.

Answer. 1) Eligible in principle (within the period, procedure followed), but equipment bought two weeks before the end attracts attention: justify why the project needed it and plan its disposal. 2) Ineligible unless the contract authorises closure costs after the end date. 3) At risk, probably ineligible: an avoidable cost; request a refund from the tax administration. 4) Obvious split purchasing (11,600 USD in total for a single requirement): high risk, probably ineligible, and to be analysed as possible fraud. 5) Ineligible (fine). 6) Eligible: the expense relates to February, even if it is paid after the end, if the contract allows this for liabilities of the period. 7) Ineligible for the duplicated part: 150% of the cost is charged; correct the coding immediately.

Key takeaways

- Eligible: necessary, reasonable, within the period, actually incurred, documented, compliant, consistently charged.
- Always read the contract: rules vary by family of donors.
- Splitting a purchase to stay below a threshold makes the purchases ineligible and signals possible fraud.
- Recoverable or avoidable VAT is not eligible; request and apply exemptions.
- Grant summary and kick-off meeting: the most cost-effective compliance controls.

Quiz

1. An honest expense that is useful to the project, but incurred two weeks after the contract end date, is in principle:
   A. Eligible
   B. Ineligible, except closure costs authorised by the contract
   C. Eligible if the amount is small
   D. Eligible if the donor is European

2. Three-quotation threshold: 5,000 USD. Five orders of 4,800 USD from the same supplier in three weeks for the same requirement constitute:
   A. Split purchasing, at risk of ineligibility and fraud
   B. Efficient management
   C. A normal procedure
   D. A framework agreement

3. A vehicle bought under a project is sold at the end without the donor's approval, although the contract required it. The main risk is:
   A. None
   B. An increase in indirect costs
   C. A parking fine
   D. Repayment of the asset's value to the donor

4. Under the US federal rules revised in 2024, the minimum (de minimis) indirect cost rate is:
   A. 7%
   B. 10%
   C. 15%
   D. 25%

5. The most cost-effective control to avoid disallowed costs is:
   A. A very detailed final audit
   B. A grant summary and a kick-off meeting with all functions
   C. Expensive software
   D. Proofreading of the final report by the director

Quiz answers : 1. B · 2. A · 3. D · 4. C · 5. B

Week 6 : Managing a grant end to end: contract, reports, modifications and closeout

Objectives

- Negotiate and read a grant agreement, spotting risky financial and legal clauses.
- Produce accurate financial reports that are consistent with narrative reports, and manage contract modifications.
- Organise the closeout of a grant: final expenditure, assets, staff, final report, balance and archiving.

Before signature: reading and negotiating the contract

A grant agreement legally binds the organisation. Before signature, a cross-reading by programmes, finance, logistics and management identifies the risky clauses:

- **Payment schedule** and the pre-financing it implies.
- **Indirect cost rate and base**, excluded costs, required co-financing (and where it will come from).
- **Budget flexibility** and protected lines.
- **Procurement rules**, nationality and origin rules, and waivers to request right away if the local market does not allow compliance.
- **Sanctions and vetting clauses** for counterparties (including, sometimes, beneficiaries: to be refused or negotiated if they contradict humanitarian principles).
- **Reports**: frequency, formats, deadlines.
- **Audit**: who chooses the auditor, who pays, whether it is budgeted.
- **Liability and repayment**: conditions under which the donor can demand repayments, including for a partner's misconduct.
- **Early termination** and costs covered in the event of suspension.

> An impossible clause signed "so as not to lose the funding" sooner or later becomes an ineligible cost or a dispute. It is better to negotiate or walk away.

Start-up: grant summary, codes and kick-off

From signature, three actions prevent most later problems:

- **The grant summary** (one to two pages) that sums up all obligations and key dates.
- **Setting up the codes** in the accounting system: project code, budget lines matching the donor's, a mapping table between the internal chart of accounts and the donor budget. If the codes do not match, every report requires manual adjustments that are a source of errors.

- **The kick-off meeting** with all functions: objectives, budget, rules, reporting calendar, responsibilities (a matrix showing who prepares, who reviews and who approves each report).

The **reporting calendar** for all projects, shared by country management, shows peaks in workload (often at quarter-end) so they can be prepared for. Late reports delay payments (week 3) and damage the relationship with the donor.

Finally, the **grant file** is opened from the outset (electronic and, if necessary, paper), in which the contract, amendments, all approval correspondence, reports and supporting documents for significant expenditure will be filed.

Financial reports

A financial report presents expenditure for the period and cumulatively, by line of the approved budget, in the contract currency, with the exchange rates applied. Depending on the donor, it comes with a transaction list, supporting documents for certain expenses, a statement of any interest earned and an asset statement.

Checks before submission:

- Total expenditure in the report matches the project's **general ledger** (no expenditure entered outside the system).
- Variances by line against the budget are **within the flexibility** or covered by written approval.
- Expenditure is **within the period** of the contract.
- The **exchange rate** applied follows the prescribed method.
- The financial report is **consistent with the narrative report**: if the narrative reports a delay in distribution, the corresponding line must be underspent; if the narrative reports 3,000 households, the transfers must correspond to 3,000 households.
- Risky expenditure has been **checked** item by item.

Example of an inconsistency. The narrative report states that 12 of 20 training sessions have taken place; the financial report shows 95% of the "training" line spent. Either the remaining 8 sessions will not be funded, or expenses have been miscoded, or costs were underestimated. The donor will ask the question: the answer must be ready and true.

Modifying the contract: amendments and no-cost extensions

Contexts change; contracts provide for **modification** procedures:

- **Minor modifications** (within the flexibility or by simple notification): limited reallocations, change of address or bank account, adjustments to activities that do not change the objectives.
- **Amendments**: modification of the objective, areas, total budget, headings beyond the flexibility, or duration.
- **No-cost extension** (NCE): extending the duration without increasing the budget, when delays prevent activities from being completed. It must be requested before the end, often

at least 30 to 60 days before depending on the contract, with a revised workplan and budget.

A convincing request explains: what has changed (facts, dates), the consequences for activities and results, the proposed solution, its effect on the budget and on the people assisted, and why it is the best option. It does not request an extension solely to spend a remaining balance: a donor accepts it if it serves results.

Hidden cost of a no-cost extension. Staff, offices and vehicles keep costing money during the additional months. A 3-month extension of a project whose monthly fixed costs are 25,000 USD uses up 75,000 USD of the balance, which will no longer be available for activities. It must be costed before requesting it.

Closing out a grant

Closeout is planned **three to six months before the end** with a checklist:

- **Activities**: complete or formally abandon, in agreement with the donor, what cannot be done.
- **Commitments**: stop placing orders that will not be delivered before the end; receive and pay for what has been committed.
- **Staff**: contract terminations, notice, indemnities required by law, transfers to other projects.
- **Partners**: final reports, accounting for all advances, repayment of unused balances.
- **Assets**: inventory, disposal plan in line with the contract, signed transfer documents.
- **Accounting**: last coding, corrections, reconciliations, list of risky expenditure.
- **Final audit** if planned, and preparation of documents.
- **Final report**, narrative and financial, then request for the balance or refund of unused funds.
- **Archiving** for the required period.

Refunding the remaining balance is not a failure: it is an obligation when funds have not been spent in an eligible way. What damages reputation is hasty, useless last-minute spending.

The grant tracker

An organisation managing more than a few grants needs a single **grant tracker**, kept by the grants team, with for each grant: donor, reference, amount and currency, start and end dates, indirect rate, instalments received and to be received, execution to date, dates of the next reports, status of modifications, planned audit, special conditions, and programme and finance leads.

It feeds management decisions:

- **Grants ending** in the next six months and coverage of staff and shared costs after those dates.
- **Underspends** requiring a decision (acceleration, revision, extension).

- **Late reports** and their effect on cash.
- **Amounts at risk** (disputed expenditure, ongoing audits).

> The quality of grant management is one of the first criteria in capacity assessments by donors and pooled funds. It determines access to larger and less restrictive funding.

Exercise: deciding on a no-cost extension

Situation. An 18-month project, 1,200,000 USD. In month 15, cumulative expenditure: 850,000 USD. A road was cut off for 4 months, delaying construction of 12 of the 30 water points (estimated remaining cost: 180,000 USD). Monthly fixed costs (staff, office, vehicles): 28,000 USD. The other remaining activities will cost 60,000 USD. The contract requires any extension request 45 days before the end.

Tasks. 1) What amount will remain at the end of month 18 without an extension, if the water points are not built? 2) Can a 3-month extension be funded within the budget? 3) By when must the request be sent and what must it contain?

Answer. Without an extension: expenditure for months 16 to 18 = 3 × 28,000 + 60,000 = 144,000 USD; total 994,000 USD; remaining balance 206,000 USD (the 180,000 USD for the water points plus 26,000 USD). With a 3-month extension: 994,000 + 180,000 + 3 × 28,000 = 1,258,000 USD, i.e. 58,000 USD more than the budget. A 3-month extension therefore cannot be funded as it stands: fixed costs must be reduced during the extension (staff reduced to the construction team), the number of water points reduced, or additional funding requested. For example, with fixed costs reduced to 9,000 USD a month: 994,000 + 180,000 + 27,000 = 1,201,000 USD, to be adjusted by 1,000 USD. The request must be sent at the latest 45 days before the end of month 18, with the facts (road cut, dates), the revised workplan, the revised budget and the effect on the people assisted.

Key takeaways

- Before signing: payments, indirect costs, flexibility, procurement, sanctions, reports, audit, repayment, early termination.
- Grant summary, accounting codes aligned with the donor budget and kick-off meeting from signature.
- Financial report: reconciled with the general ledger and consistent with the narrative report.
- A no-cost extension consumes fixed costs: cost it before requesting it, and request it in time.
- Closeout planned three to six months before the end; refunding a balance is better than spending uselessly.

Quiz

1. The narrative reports 40% of training sessions delivered; the financial report shows 90% of the line spent. What should be done before submission?
   A. Send it as it is
   B. Change the narrative to report 90%
   C. Explain and correct the inconsistency: coding, underestimated costs or unfunded activities
   D. Delete the line

2. A 4-month no-cost extension with fixed costs of 20,000 USD a month. Cost of the extension itself:
   A. 0 USD, since it is no-cost
   B. 80,000 USD taken from the budget balance
   C. 20,000 USD
   D. Paid by the donor on top

3. When should the closeout of a grant be planned?
   A. Three to six months before the end
   B. On the last day
   C. After the final report
   D. At the start of the audit

4. An impossible contractual clause is signed so as not to lose the funding. The risk is:
   A. None
   B. A better partnership
   C. An automatic increase in the budget
   D. An ineligible cost or a later dispute

5. Why align the accounting codes with the donor's budget lines from start-up?
   A. To please the donor
   B. It is forbidden
   C. To avoid error-prone manual adjustments at every report
   D. To reduce indirect costs

Quiz answers : 1. C · 2. B · 3. A · 4. D · 5. C

Week 7 : Funding partners: assessment, agreements, advances and localisation

Objectives

- Assess a partner's financial capacity proportionately and derive a risk level and suitable modalities from it.
- Draft and manage a sub-grant agreement: payments, accounting for funds, checks and closeout.
- Reconcile risk control and localisation: sharing indirect costs, capacity strengthening and an equitable relationship.

Why and how to fund partners

A growing share of aid flows through **national and local partners**: NGOs, associations, women's organisations, Red Cross and Red Crescent national societies. They often have better access, better acceptance and a lasting presence. The Grand Bargain commitment (2016) aimed to channel at least 25% of humanitarian funding as directly as possible to local and national actors, a target that is still far from being met.

Legally, the organisation that receives the grant (the **prime recipient**) generally remains responsible to the donor for all expenditure, including partners' expenditure: if a partner makes a mistake or commits fraud, it is the prime recipient that repays. This responsibility explains the control requirements; it does not justify transferring all risks to partners without giving them the means to manage them.

> An equitable partnership is judged on three things: the share of decisions the partner really takes, the share of indirect costs it receives, and how risks (security, financial) are shared.

Capacity assessment and risk level

Before signing, a **capacity assessment** (due diligence) is carried out, proportionate to the amount and the risk. It covers:

- **Governance and legality**: registration, statutes, an active board, no unmanaged conflicts of interest, screening against sanctions lists.
- **Financial management**: accounts kept in software or a reliable system, bank reconciliations, segregation of duties, procurement policy, recent audited financial statements.
- **Human resources**: contracts, compliant payroll, safeguarding policies (protection from sexual exploitation and abuse, child protection).
- **Programme capacity**: experience, access, quality of reporting.

The result is a **risk level** (low, medium, high, very high) that determines the modalities, modelled on the HACT approach of UN agencies or the pooled funds managed by OCHA:

Risk	Payments	Accounting for funds	Controls
Low	Large quarterly advances	Quarterly financial report	Annual spot check, audit depending on the amount
Medium	Advances in instalments	Report and transaction list	Six-monthly spot checks
High	Small instalments, or direct payment of certain expenses	Monthly reports with supporting documents	Quarterly checks, close monitoring

The risk level is not a final judgement: it should fall as capacities are strengthened, which requires a concrete, funded plan.

The sub-grant agreement

The agreement with the partner **flows down the donor's obligations**: eligibility, procurement, visibility, sanctions, safeguarding, record retention, audit and right of access. It also specifies what is specific to the partnership:

- The partner's **budget**, built with the partner, including its actual staff and overhead costs.
- The **payment modalities** according to the risk level, and the prime recipient's payment deadlines (a partner that waits three months for its instalments is financing the international organisation).
- The format and calendar of **reports**, aligned with the donor's deadlines with a margin.
- The planned **checks** and the right of access to documents.
- The procedure in the event of **disallowed expenditure**: discussion, opportunity to justify, and risk sharing.
- The **prime recipient's commitments**: capacity strengthening, coverage of indirect costs, partner participation in decisions and in exchanges with the donor.

Instalment example. Partner budget: 240,000 USD over 12 months, medium risk, quarterly advances. First instalment: 60,000 USD. The next instalment is paid when at least 70% of the funds received have been accounted for: after 42,000 USD has been accounted for, the 2nd instalment is paid. This mechanism limits exposure to roughly one instalment, without blocking activities.

Monitoring and checking partners' expenditure

Financial monitoring of partners combines:

- **Review of reports**: consistency with the budget, activities and narrative reports, exchange rates applied.
- **Spot checks** on site or remotely: a sample of expenses is checked down to the supporting documents and proof of delivery, with a check of bank reconciliations and petty cash.

- Joint **programme monitoring**: visits to activities, checking that the goods bought are there and in use.
- **Audits** of the partner or the project depending on the amounts.

The findings of a check are ranked by severity and followed up by an **action plan** agreed with the partner. **Spot check example.** A sample of 40 expenses totalling 58,000 USD: 34 fully supported (49,500 USD), 4 with incomplete documents (6,300 USD, which can be supported within 15 days), 2 without documents (2,200 USD). Rate of unsupported expenditure in the sample: 2,200 / 58,000 = 3.8%. The missing documents are requested, the 2,200 USD is provisionally withheld, and training on supporting documents is stepped up; the result is not automatically extrapolated to all expenditure without analysis.

> Old, unaccounted-for advances are the main warning sign: a partner that received an instalment six months ago without accounting for it may have a capacity, cash or integrity problem.

Localisation and sharing indirect costs

Many local partners receive budgets strictly limited to the direct costs of their activities, with no coverage of their overhead costs. They can then neither pay a qualified accountant, nor build reserves, nor invest: their financial weakness, which justifies the controls, is perpetuated by the way they are funded.

Sharing indirect costs has become a recognised good practice: several international organisations and the Inter-Agency Standing Committee (IASC) published guidance in 2022 recommending that local and national partners receive a fair share of indirect costs. **Example.** A grant of 1,000,000 USD with 7% indirect costs (65,421 USD on direct costs of 934,579 USD); 40% of the direct costs are implemented by a partner. Proportional sharing would give the partner 40% of the indirect costs, about 26,168 USD, to be added to its budget.

Other practices strengthen equity: budgets built with the partner, local staff salaries aligned with fair scales, partner participation in meetings with the donor, visibility of its name, multi-year funding, and a capacity strengthening plan requested by the partner itself rather than imposed.

Managing difficulties with a partner

Problems with a partner often follow a progression: late reports, then incomplete documents, then unaccounted-for advances, then suspicion of fraud. An early, proportionate response prevents escalation:

- Rapid **dialogue** to understand the causes (departure of the accountant, cash problem, insecurity).
- Targeted **support**: training, temporary secondment of a finance officer, an accounting tool.
- **Adjusting the modalities**: smaller instalments, direct payment of certain expenses, more frequent checks, explained in writing.
- **Suspension** of payments in the event of persistent non-compliance, with a recovery plan.

- **Reporting** in the event of suspected fraud, according to the organisation's and the donor's procedure (week 8).

The prime recipient must also look at its own practices: late payments, changes to the reporting format during the project, contradictory requests from several international organisations funding the same partner. Harmonising assessments and reports between the donors of the same partner reduces its workload and improves quality.

Exercise: setting modalities and sharing indirect costs

Situation. You are going to fund a national NGO for 360,000 USD over 12 months. The assessment shows: registration and board in order; accounts kept in a spreadsheet, irregular bank reconciliations; no external audit for 3 years; good field capacity and strong acceptance. Your grant: 1,500,000 USD including 7% indirect costs on direct costs. The partner will implement 360,000 USD of direct costs.

Tasks. 1) What risk level and what modalities? 2) How much indirect cost can you share proportionally? 3) What strengthening plan do you propose?

Answer. Medium to high financial risk (fragile accounting system, no audit), despite good programme capacity. Modalities: quarterly instalments of 90,000 USD, or monthly at the start; accounting for funds with a transaction list; spot check in quarter 1 then six-monthly; project audit at the end of the period. Direct costs of the grant: 1,500,000 / 1.07 = 1,401,869 USD; indirect costs: 98,131 USD. Partner's share: 360,000 / 1,401,869 = 25.7%; shared indirect costs: about 25,200 USD. Plan: accounting software and training, supported monthly reconciliations, a funded external audit of the organisation, a written procurement policy, with the aim of moving to medium or low risk within 12 to 18 months.

Key takeaways

- The prime recipient remains responsible to the donor for partners' expenditure.
- Proportionate capacity assessment → risk level → modalities for payment, accounting for funds and control.
- The agreement flows down the donor's obligations and sets out the prime recipient's commitments.
- Spot checks and action plan; old, unaccounted-for advances are the main warning sign.
- Localisation: share indirect costs, build the budget with the partner, fund capacity strengthening.

Quiz

1. A partner commits fraud on a project funded through a sub-grant. Towards the donor, repayment generally falls on:
   A. The partner alone
   B. Nobody
   C. The donor
   D. The prime recipient, which can then seek recovery from the partner

2. Instalment of 50,000 USD; rule: new instalment when 70% of the funds received are accounted for. Amount to be accounted for to obtain the next one:
   A. 50,000 USD
   B. 15,000 USD
   C. 35,000 USD
   D. 70,000 USD

3. Grant: direct costs 800,000 USD and 56,000 USD of indirect costs; the partner implements 200,000 USD of direct costs. Proportional sharing of indirect costs:
   A. 56,000 USD
   B. 14,000 USD
   C. 20,000 USD
   D. 7,000 USD

4. Spot check sample of 80,000 USD: 3,200 USD without documents. The best response is:
   A. Request the documents, provisionally withhold the 3,200 USD, train and follow up with an action plan
   B. Treat 4% of all expenditure as fraudulent
   C. End the partnership immediately
   D. Ignore it, the amount is small

5. Why does funding limited to direct costs perpetuate the weakness of local partners?
   A. It does not
   B. It reduces their controls
   C. It increases their reserves
   D. It prevents them from paying for their support functions, building reserves and investing

Quiz answers : 1. D · 2. C · 3. B · 4. A · 5. D

Week 8 : Audits and internal control: prepare, prevent, detect

Objectives

- Distinguish the types of audit (statutory, project, donor, internal, expenditure verification) and prepare for an audit without surprises.
- Design a proportionate financial internal control system: segregation of duties, delegations of authority, reconciliations, audit trail.
- Recognise the most common financial fraud schemes, the red flags and the right course of action.

The different audits of an NGO

An NGO that manages donor funds lives to the rhythm of several audits, which have neither the same purpose nor the same audience:

- **Statutory audit** (or legal audit): an external auditor certifies the organisation's annual financial statements. The opinion covers the whole, not each project.
- **Project audit**: required by the grant agreement (often above a threshold, for example 100,000 or 500,000 USD), it covers the project's financial report and the eligibility of expenditure.
- **Expenditure verification**: agreed-upon procedures on a sample of transactions; the verifier does not give an opinion but reports findings.
- **Donor audit** or on-site check: carried out by the donor itself or a firm it appoints, sometimes at short notice.
- **Internal audit**: a function of the organisation that assesses its own processes and reports to the board or audit committee.

The possible opinions of an external auditor: **unqualified** (the accounts give a true and fair view), **qualified** (except for a specific point), **adverse** (the accounts are not reliable) or **disclaimer of opinion** (insufficient evidence). A qualified opinion on a project almost always results in costs being declared ineligible.

Preparing for a project audit

An audit is won during the life of the project, not in the week the auditors arrive. Preparation follows a stable checklist:

- **Project general ledger** reconciled with the financial report submitted: every figure in the report must be traceable in the accounts.
- **File of supporting documents** for each transaction: request, authorisation, competitive bidding, purchase order, delivery or goods received note, invoice, proof of payment, and for distributions, the signed lists.

- **Staff**: contracts, signed timesheets, payslips, proof of payment of social charges and taxes withheld.
- Signed monthly **bank reconciliations**, cash count records, calculation of exchange gains and losses.
- **Equipment**: fixed asset register, tags, evidence of physical inventory.
- **Correspondence with the donor**: approvals of reallocations, extensions, waivers of origin rules.
- **Follow-up of previous audits**: action plan and evidence of implementation.

Auditor sampling. On a project of 2,000 transactions, the auditor often tests 60 to 120, focusing on large amounts, cash payments, period-ends and unusual suppliers. If 3 transactions in the sample, totalling 18,000 USD, have no supporting documents, the auditor may extrapolate the error to the whole population: an error rate of 2% on 1.5 million of expenditure represents 30,000 USD potentially ineligible.

> Rule of thumb: a file that cannot be understood by an outsider without oral explanation is not an audit file.

Financial internal control

Internal control is the set of rules and practices that give reasonable assurance that transactions are authorised and correctly recorded, and that assets are protected. The COSO framework distinguishes five components: control environment (the tone set by management), risk assessment, control activities, information and communication, monitoring.

The key control activities in finance:

- **Segregation of duties**: the person who requests, the one who approves, the one who pays and the one who records and reconciles are not the same. In a small office, where this is impossible, a compensating control (monthly review by the director, dual signature) is required.
- **Delegation of authority matrix**: who can commit what amount, by type of expenditure.
- **Reconciliations**: bank, cash, staff advances, supplier accounts, inter-office accounts.
- **Access controls**: rights in the accounting software, safe, bank signatories, online banking passwords.
- **Analytical review**: comparing expenditure month on month and between offices to spot anything abnormal.

Matrix example. A field office of 4 people: the logistician requests, the head of office approves up to 2,000 USD, the accountant pays and records. Weakness: the accountant also holds the cash and does the reconciliation. Compensating control: a monthly surprise cash count by the head of office and a review of the reconciliation by the finance team in the capital.

Financial fraud: common schemes

The "fraud triangle" (Cressey) brings together three elements: **pressure** (debt, family, social pressure), **opportunity** (weak control) and **rationalisation** ("I'm underpaid", "everyone does it"). The organisation acts mainly on opportunity.

The most common schemes in the sector:

- **Fictitious suppliers** or collusion between suppliers (cover bids, quotations written by the same hand, same addresses or phone numbers).
- **Kickbacks**: the supplier overcharges and pays a share back to the buyer.
- **Ghost employees** or fictitious day labourers on payment lists.
- **False expense claims**, per diems for missions not carried out, fuel claimed for vehicles that were off the road.
- **Cash theft** concealed by fabricated documents or by postponing reconciliations.
- **Fictitious beneficiaries** or duplicates in distributions and cash transfers.

Red flags: late reconciliations, photocopied rather than original documents, amounts just below the approval threshold (1,990 USD for a 2,000 threshold), suppliers who always win, an employee who refuses to take leave, rising expenditure without rising activity, consecutively numbered invoices for the same customer.

Data analysis and Benford's law

Simple data analysis tools detect many anomalies: searching for duplicates (same amount, same supplier, same date), weekend payments, suppliers whose bank account is that of an employee, and split orders.

Benford's law describes the expected frequency of the first digit in many series of naturally occurring amounts: 1 appears about 30.1% of the time, 2 about 17.6%, and 9 only 4.6%. Formula: P(d) = log10(1 + 1/d). A marked deviation (for example too many amounts starting with 4 or 9 in expense claims) does not prove fraud, but it guides testing.

Split purchasing example. Tender threshold at 5,000 USD. Over a month, the same supplier receives four purchase orders of 4,800, 4,900, 4,750 and 4,950 USD for the same item, a few days apart: a total of 19,400 USD. The purchase should have been formally put out to competition. Even without fraud, the expenditure is at risk of being ineligible for non-compliance with procurement rules.

> An anomaly is a question, not an accusation. Document it, check it, then pass it on through the designated channel.

Responding to suspected fraud

The course of action is set by the organisation's anti-fraud policy and by donor contracts, almost all of which require **prompt reporting** (often within 48 to 72 hours or "as soon as known") of any suspected fraud or misappropriation of their funds.

- **Do not investigate alone** or confront the suspected person: you risk destroying evidence and compromising the procedure.
- **Report** through the designated channel (whistleblowing line, compliance officer, management), with protection for the whistleblower.
- **Preserve the evidence**: copies of files, blocking of access, safekeeping of original documents.
- **Investigation** carried out by a designated team, independent of the line management concerned.
- **Inform the donor** within the contractual deadlines, then send the final report and the measures taken.
- **Recover** funds where possible, and repay the donor the share lost, often from the organisation's own funds.
- **Fix the control** that failed: this is the most useful part of the case.

The cost of fraud goes beyond the amount misappropriated: repayment, investigation time, reputation, and sometimes suspension of funding. That is why donors assess an organisation on its ability to **detect and report**, not on the apparent absence of fraud.

Exercise: a field office under the microscope

Situation. A field office with 6 employees. The accountant holds the cash, enters the transactions, and prepares and signs the reconciliations. The last bank reconciliation was four months ago. Competitive bidding threshold: 3,000 USD. Over the quarter, the fuel supplier "Station X" received 11 payments between 2,700 and 2,980 USD, a total of 31,200 USD, although two of the four vehicles were off the road for a month. The project is due to be audited in three months.

Tasks. 1) Identify the control weaknesses. 2) What red flags do you see? 3) What immediate actions, and what actions within three months?

Answer. 1) No segregation of duties (cash, entry and reconciliation by the same person); late reconciliations; no control of fuel consumption per vehicle. 2) Payments systematically just below the threshold (probable split purchasing); fuel expenditure that does not fall even though half the fleet is off the road; concentration on a single supplier. 3) Immediately: report the suspicion through the designated channel without confronting the accountant; have the overdue reconciliations done by the finance team in the capital; surprise cash count; match fuel vouchers against logbooks (mileage, consumption per vehicle). Within three months: remove the cash from the accountant (or a compensating control), a competitively tendered fuel framework contract, a monthly review of consumption per vehicle, and preparation of the audit file with a documented action plan. If the suspicion is confirmed, inform the donor within the contractual deadline.

Key takeaways

- Statutory audit, project audit, expenditure verification and internal audit have neither the same purpose nor the same audience.
- An audit is prepared throughout the project: reconciled general ledger, complete documents, signed reconciliations.
- Request, approve, pay, record: four tasks that must be segregated, or offset by a compensating control.
- Fraud = pressure + opportunity + rationalisation; the organisation acts first on opportunity.
- Suspicion: do not investigate alone, report, preserve the evidence, inform the donor within the deadlines.

Quiz

1. A verifier performs agreed-upon procedures on a sample and reports findings without giving an opinion. This is:
   A. An expenditure verification
   B. A statutory audit
   C. An internal audit
   D. An analytical review

2. According to Benford's law, the expected frequency of the first digit 1 is about:
   A. 11%
   B. 4.6%
   C. 50%
   D. 30%

3. An auditor finds a 2% error rate in the sample and extrapolates it to 900,000 USD of expenditure. The amount at risk is:
   A. 1,800 USD
   B. 180,000 USD
   C. 18,000 USD
   D. 9,000 USD

4. You suspect a colleague of fraud. The first thing to do is:
   A. Confront them to obtain a confession
   B. Report through the designated channel and preserve the evidence
   C. Wait for the audit
   D. Check all their files alone overnight

5. In a small office, a single person holds the cash and does the reconciliation. The best response is:
   A. A compensating control: surprise cash count and review of the reconciliation by a third party
   B. Accept the risk
   C. Abolish petty cash
   D. Request a statutory audit

Quiz answers : 1. A · 2. D · 3. C · 4. B · 5. A

Week 9 : Measuring an organisation's financial health

Objectives

- Calculate and interpret an NGO's key ratios: liquidity, months of reserves, dependency, overhead rate, shared cost coverage.
- Read an organisational financial dashboard and spot the signs of an approaching cash crisis.
- Explain why a low overhead rate is not an indicator of quality, and defend the true cost structure.

Why ratios?

An NGO's financial statements (balance sheet, income statement, cash flow statement) contain a lot of figures. **Ratios** make them comparable over time and between organisations, and allow the board, donors and auditors to ask the right questions quickly.

Three families of questions:

- **Can we pay our short-term debts?** Liquidity and cash.
- **Can we absorb a shock?** Unrestricted reserves, months of operation covered.
- **Is our model sustainable?** Dependency on donors, shared cost coverage, result on unrestricted funds.

An isolated ratio says nothing; a three-year trend and a comparison with similar organisations say a lot.

Liquidity and cash

Current ratio = current assets / current liabilities. Below 1, the organisation cannot, in theory, cover its short-term debts with its short-term assets.

Quick (cash) ratio = (cash + short-term investments) / current liabilities. It excludes receivables, which may be slow to come in.

Beware an NGO-specific feature: a large part of cash often consists of **donor advances** not yet spent, recorded as liabilities as deferred income (funds received to be returned or used). This cash does not freely belong to the organisation.

Example. Current assets 2,400,000 USD (including cash 1,500,000, receivables from donors 800,000, other 100,000). Current liabilities 2,000,000 USD (including unspent donor advances 1,300,000, suppliers and salaries 700,000). Current ratio = 2.4 / 2.0 = 1.2. Quick ratio = 1.5 / 2.0 = 0.75. "Free" cash = 1,500,000 − 1,300,000 = 200,000 USD, to be compared with the 700,000 USD of current liabilities excluding advances: the organisation depends on prompt payment of its 800,000 USD of receivables from donors.

Reserves and months of operation

Free reserves (or available unrestricted funds) are the share of funds that is neither restricted to a project, nor tied up in equipment, nor blocked by a board decision.

Months of reserves = free reserves / (total annual expenditure / 12). Some organisations use only overhead costs as the denominator, which gives a more flattering figure: the definition must always be stated.

Example. Funds 1,100,000 USD, of which 300,000 tied up in fixed assets (vehicles, buildings) and 200,000 designated by the board for an emergency fund. Free reserves = 600,000 USD. Annual expenditure 9,600,000 USD, i.e. 800,000 a month. Months of reserves = 600,000 / 800,000 = 0.75 months. On overhead costs alone (1,440,000 USD a year, i.e. 120,000 a month), the result is 5 months.

Common benchmarks aim for 3 to 6 months of overhead costs, but the right target depends on risk: frequent pre-financing, contracts in volatile currencies, end-of-contract indemnity obligations.

Dependency and income structure

A fragile organisation depends on few sources. Useful indicators:

- **Share of the largest donor** in total income. Above 40 to 50%, the loss of this donor threatens the organisation's existence.
- **Concentration index** (Herfindahl-Hirschman): the sum of the squares of each source's share. Close to 1 = a single source; close to 0 = highly diversified sources.
- **Share of unrestricted funds** in total income: these are the only funds that give strategic freedom.

Example. Income: donor A 50%, donor B 30%, donor C 10%, private donations 10%. HHI = 0.25 + 0.09 + 0.01 + 0.01 = 0.36. Another organisation with five sources of 20% each has an HHI of 5 × 0.04 = 0.20. The first is clearly more exposed.

> Diversifying does not mean multiplying small contracts: each contract has a management cost. The aim is to avoid a single external decision putting the organisation in jeopardy.

The myth of low overheads

The **overhead rate** (overheads / total expenditure) is often used by the public as a measure of efficiency. It is misleading. The nonprofit starvation cycle is well documented: donors expect low overheads, NGOs under-report their true costs, underinvest in systems, staff and security, and then weaken.

What matters is that overhead costs are **necessary, controlled and covered**. An organisation with 6% overheads that has no internal auditor, no reliable accounting system and no security manager is not more efficient: it transfers the risk to its teams and its beneficiaries.

Shared cost coverage rate = shared costs recovered from projects (indirect costs and budgeted shared costs) / actual shared costs. **Example:** actual costs of headquarters and country offices 1,440,000 USD; recovered 1,152,000 USD. Coverage = 80%; the shortfall of 288,000 USD must be covered by unrestricted funds, or it will consume the reserves.

The organisational financial dashboard

A dashboard presented to the board every quarter fits on one page. It combines:

Indicator	Value	Target	Trend
Months of reserves (overhead costs)	2.5	≥ 4	falling
Quick ratio	0.8	≥ 1	stable
Share of largest donor	47%	≤ 35%	rising
Shared cost coverage	86%	≥ 100%	rising
Donor receivables over 90 days	410,000 USD	< 150,000	rising
Result on unrestricted funds	−95,000 USD	≥ 0	falling

Reading: reserves are melting because shared costs are not fully covered and the unrestricted result is negative; at the same time, old receivables are squeezing cash. It is not yet a crisis, but it is the typical configuration that leads to one within 12 to 18 months. Decisions: chase and escalate old receivables, review indirect cost rates in new proposals, freeze non-essential overhead spending, and present the board with a plan to rebuild reserves.

Exercise: diagnosing a national NGO

Situation. A national NGO, annual expenditure 3,000,000 USD, of which overhead costs 360,000 USD. Funds 270,000 USD, of which 90,000 USD in vehicles. Cash 520,000 USD; unspent donor advances 430,000 USD; supplier and salary payables 140,000 USD; receivables from donors 210,000 USD; other current assets 20,000 USD. Income: donor A 60%, donor B 25%, donor C 15%. Shared costs recovered: 270,000 USD.

Tasks. Calculate: 1) current and quick ratios; 2) free reserves and months of reserves on overhead costs; 3) HHI; 4) shared cost coverage. 5) Diagnosis and three recommendations.

Answer. 1) Current assets = 520,000 + 210,000 + 20,000 = 750,000; current liabilities = 430,000 + 140,000 = 570,000. Current ratio = 1.32; quick ratio = 520 / 570 = 0.91. 2) Free reserves = 270,000 − 90,000 = 180,000 USD; monthly overhead costs = 30,000; months of reserves = 6. 3) HHI = 0.36 + 0.0625 + 0.0225 = 0.445. 4) Coverage = 270,000 / 360,000 = 75%, i.e. a shortfall of 90,000 USD a year. 5) Diagnosis: reserves adequate today (6 months) but an annual shortfall of 90,000 USD would halve them in a year; heavy dependency on donor A. Recommendations: negotiate a realistic indirect cost rate and budget shared costs as direct costs in every new proposal; diversify with at least one new institutional donor within 18 months; set a reserves policy at board level (target and rules for use) and monitor shared cost coverage every quarter.

Key takeaways

- An NGO's cash often contains donor advances that do not freely belong to it.
- Months of reserves = free reserves / monthly expenditure; always state the denominator.
- HHI = sum of the squares of the shares of income sources; the higher it is, the more dependent the organisation.
- A low overhead rate is not proof of efficiency; what matters is that necessary costs are covered.
- Shared cost coverage below 100% = erosion of reserves, year after year.

Quiz

1. Current assets 900,000 USD, current liabilities 750,000 USD. The current ratio is:

   A. 0.83

   B. 1.2

   C. 1.5

   D. 150,000

2. Free reserves 240,000 USD, annual overhead costs 960,000 USD. Months of reserves on overhead costs:
   A. 3
   B. 4
   C. 2
   D. 0.25
3. Three donors at 50%, 30% and 20%. The HHI is:
   A. 0.33
   B. 0.50
   C. 1
   D. 0.38
4. Actual shared costs 500,000 USD, recovered 400,000 USD. Coverage is:
   A. 125%
   B. 20%
   C. 80%
   D. 100%
5. The nonprofit "starvation cycle" refers to:
   A. Food crises
   B. Chronic underinvestment in overhead costs caused by the expectation of low overheads
   C. The end of projects
   D. Late payments

Quiz answers : 1. B · 2. A · 3. D · 4. C · 5. B

Week 10 : Full cost: knowing and recovering the true cost of each project

Objectives

- Calculate the full cost of a project by allocating shared costs using justifiable keys.
- Compare recovery methods: indirect cost rate, shared costs budgeted as direct costs, negotiated rate.
- Build the case for negotiating a realistic rate with a donor, and for a national partner.

Direct, shared and indirect costs

Every organisation classifies its costs into three groups:

- **Direct costs**: clearly attributable to a project (project staff, inputs, distributions, dedicated vehicles).
- **Shared costs** (or common field costs): country office, security, shared logistics, finance, human resources, country IT. They serve several projects and can be allocated using a measurable key.
- **Indirect costs** (or headquarters costs): executive management, audit, compliance, global systems, fundraising. They are recovered through a percentage.

The principle of **full cost**: a project must bear its fair share of all the costs necessary to deliver it. If projects recover only their direct costs, someone else pays the rest: unrestricted funds, reserves or, worse, other donors (which is prohibited).

Allocating shared costs: the keys

An allocation key must be **measurable, reasonable, documented and consistently applied**. The most commonly used keys:

- The project's **direct costs** (or direct costs excluding large inputs): simple, but penalises projects with high purchase volumes.
- **Headcount** or full-time equivalents: suited to rent, IT, HR.
- **Floor space** occupied: offices and warehouses.
- **Number of transactions** or purchases: finance and logistics.
- **Kilometres** or vehicle days: shared fleet.

Example. Country office, annual shared costs 600,000 USD, three projects:

Project	Direct costs	Share	Shared costs allocated
A (health)	1,500,000	37.5%	225,000
B (cash)	2,000,000	50%	300,000
C (protection)	500,000	12.5%	75,000
Total	4,000,000	100%	600,000

Project B, of which 1,600,000 USD are cash transfers requiring little management, receives the largest share. With a "direct costs excluding transfers" key (A 1,500,000, B 400,000, C 500,000, total 2,400,000), the allocation becomes A 375,000, B 100,000, C 125,000. The choice of key strongly changes each project's full cost: it must be justified and accepted by donors.

Indirect cost rates

Indirect costs are recovered through a **rate** applied to a base. The base matters as much as the rate:

- A rate of 7% on direct costs: most European humanitarian donors and United Nations agencies for their partners.
- A negotiated rate (NICRA in the United States) applied to a base of "modified total direct costs" excluding major equipment, sub-awards above a threshold, and rent.
- A "de minimis" rate of 15% on modified total direct costs for organisations without a negotiated rate (US rules since 2024).

Calculation. Direct costs 1,000,000 USD, of which 200,000 USD in equipment and 150,000 USD in sub-awards above the threshold. Modified base = 1,000,000 − 200,000 − 150,000 = 650,000 USD. At 15%: 97,500 USD. At 7% on total direct costs: 70,000 USD.

Rate "included" or "on top". If the total budget is capped at 1,070,000 USD with 7% indirect costs on top, direct costs are 1,070,000 / 1.07 = 1,000,000 USD and indirect costs 70,000. If, on the other hand, the rate is expressed on the total (7% of the total), indirect costs = 74,900 and direct costs = 995,100 USD.

Calculating your true rate

Before negotiating, an organisation must know its **true rate**: actual indirect costs for the year / the base used for the same year.

Example. Headquarters: 1,800,000 USD of costs. An analysis shows that 300,000 USD are in fact direct project costs (billable technical advisers) and 150,000 USD are ineligible costs (public fundraising, entertainment expenses). Eligible indirect costs = 1,350,000 USD. Base (modified total direct costs of all projects) = 13,500,000 USD. True rate = 10%.

If donors pay only 7%, the shortfall is 3 points, or 405,000 USD a year. Three options: reclassify as direct costs whatever can justifiably be reclassified (technical advisers charged on time spent, shared field costs budgeted as direct lines), negotiate a higher rate where possible, and fund the rest with unrestricted funds decided in advance.

> Never twice: the same cost cannot be both charged directly and included in the indirect cost pool. It is the first thing an auditor checks.

Negotiating with a donor

A successful negotiation rests on figures, not principles:

- **Show the method**: allocation keys, calculation of the true rate, audited financial statements.
- **Link costs to results**: without a security manager, no access; without a beneficiary tracking system, no accountability; without internal audit, a higher risk of fraud on the donor's funds.
- **Use what the donor allows**: many accept shared field costs as direct lines, pro rata, while capping indirect costs.
- **Anticipate the negotiation** from the concept note stage, not at signature.

Donors are increasingly attentive to **full cost** and to the sustainability of organisations, particularly for national partners: several Grand Bargain commitments concern the fair sharing of indirect costs with them.

National partners and indirect costs

National and local NGOs often receive their funds through an international NGO or an agency. Historically, the intermediary kept all of the indirect costs, and the national partner recovered only its direct costs, which prevented it from building reserves and strengthening its systems.

Current good practice (policies of several United Nations agencies and major donors) provides for **sharing** indirect costs: for example, out of 7% received, the intermediary passes half, i.e. 3.5 points, on to the partner, or applies a partner-specific rate on top of its own.

Example. A grant of 2,140,000 USD including 140,000 USD of indirect costs at 7% on 2,000,000 of direct costs. 1,200,000 USD of direct costs are implemented by a national partner. Sharing at 50% on the share implemented: 7% × 1,200,000 × 50% = 42,000 USD passed on to the partner. The intermediary keeps 140,000 − 42,000 = 98,000 USD.

Exercise: the true cost of a project

Situation. Country office: shared costs 480,000 USD a year, allocated pro rata to headcount. Headcount: nutrition project 30, water project 18, education project 12. The nutrition project has 900,000 USD of direct costs. The donor accepts 7% indirect costs on direct costs and allows shared costs to be budgeted as direct lines. The headquarters' true rate is 9% on direct costs.

Tasks. 1) Share of shared costs for nutrition. 2) Full cost of the nutrition project (direct + shared + indirect at the true rate). 3) Amount requested from the donor and shortfall.

Answer. 1) Total headcount 60; nutrition share 30 / 60 = 50%; shared costs allocated 240,000 USD. 2) Direct costs including shared costs budgeted as direct: 900,000 + 240,000 = 1,140,000 USD; indirect costs at the true rate of 9%: 102,600; full cost 1,242,600 USD. 3) Request to the donor: 1,140,000 + 7% × 1,140,000 = 1,140,000 + 79,800 = 1,219,800 USD. Shortfall: 1,242,600 − 1,219,800 = 22,800 USD (the 2 uncovered rate points), to be funded from unrestricted funds or reduced. Without budgeting shared costs as direct, the shortfall would have been 240,000 + 102,600 − 7% × 900,000 = 279,600 USD.

Key takeaways

- A project's full cost = direct costs + fair share of shared costs + share of indirect costs.
- An allocation key must be measurable, documented and consistent; the choice of key changes each project's cost.
- The base a rate is applied to matters as much as the rate itself.
- Know your true rate before negotiating; never charge a cost twice.
- Sharing indirect costs fairly with national partners has become a donor expectation.

Quiz

1. Shared costs 300,000 USD; a project accounts for 40% of headcount. Its share is:
   A. 30,000 USD
   B. 180,000 USD
   C. 120,000 USD
   D. 40,000 USD

2. Total budget capped at 535,000 USD, indirect costs of 7% on top of direct costs. Direct costs are:
   A. 497,550 USD
   B. 500,000 USD
   C. 535,000 USD
   D. 465,000 USD
3. Eligible indirect costs 900,000 USD, base 10,000,000 USD. The true rate is:
   A. 9%
   B. 7%
   C. 11%
   D. 90%
4. Direct costs 800,000 USD including 100,000 of equipment excluded from the base. At 15% on the modified base, indirect costs are:
   A. 120,000 USD
   B. 135,000 USD
   C. 15,000 USD
   D. 105,000 USD
5. The same cost is charged directly to the project and included in the indirect cost pool. This is:
   A. Good practice
   B. An allocation key
   C. Double charging, ineligible
   D. A negotiated rate

Quiz answers : 1. C · 2. B · 3. A · 4. D · 5. C

Week 11 : Reserves, unrestricted funds and funding diversification

Objectives

- Write a reserves policy: target, composition, rules for use and replenishment.
- Assess a diversification strategy (private funds, foundations, pooled funds, private sector, earned income) according to its cost and return.
- Understand the sector's innovative financing (country-based pooled funds, anticipatory financing, insurance, blended finance) and their financial requirements.

The reserves policy

A **reserves policy**, adopted by the board, answers four questions:

- **Why**: to cover late payments by donors, fund end-of-contract indemnities, respond to an emergency before any funding arrives, absorb an exchange loss or a cost declared ineligible.
- **How much**: a target calculated from the risks, not an arbitrary figure.
- **Who decides on use**: authorisation thresholds (management, treasurer, board).
- **How to replenish**: a 2- to 3-year plan when the reserve is used.

Risk-based calculation. Example of an NGO with 12 million USD a year:

Risk	Calculation	Amount
Average pre-financing	2 months of expenditure of projects paid in arrears (4 M USD/year)	667,000
End-of-contract indemnities	calculated legal obligations	350,000
Potential ineligible costs	1% of expenditure	120,000
Initial emergency response	board decision	200,000
Total		1,337,000

That is about 1.3 months of total expenditure. A target reserve justified in this way is much easier to defend before the board, donors and private supporters than a "three months" taken from a manual.

Unrestricted funds, a strategic resource

Unrestricted funds (free private donations, membership fees, earned income, some flexible multi-year institutional funding) are scarce: often less than 10% of a humanitarian NGO's

income. Yet they are the only funds that make it possible:

- to respond in the first 72 hours of a crisis;
- to cover the costs donors do not pay for (fundraising, innovation, preparedness, shared cost shortfall);
- to enter a country or a sector before a donor commits to it;
- to build and rebuild reserves.

The golden rule: unrestricted funds must be **allocated by explicit decision**, in the organisation's annual budget, and not consumed by default to fill gaps. An organisation that "discovers" at year-end that its free funds have covered project overspends has lost its strategic freedom without deciding to.

Diversifying: costs and returns

Each funding source has an **acquisition cost** and a **return**. The useful ratio: cost of fundraising / amount raised (or its inverse, the return on investment).

- **Institutional donors**: large amounts, high cost of proposal writing and compliance, restricted funds.
- **Foundations**: medium amounts, often more flexible, long-term relationship.
- **Individual donations**: high start-up cost (the first gift often costs more than it brings in), but regular donors are profitable over several years.
- **Private sector**: sponsorship, technical or logistics partnerships, sometimes in kind.
- **Earned income**: services (training, studies, warehouse rental), to be checked against the organisation's tax status.

Example. A regular giving recruitment campaign costs 60,000 USD and recruits 1,000 donors at 15 USD a month. 30% stop in the first year; thereafter, assume 1,000 × 70% = 700 active donors on average over 3 years. Income over 3 years ≈ 700 × 15 × 36 = 378,000 USD. Return: 378,000 / 60,000 = 6.3 dollars per dollar invested, but with a first year that is probably loss-making. Funds are therefore needed to invest before reaping the returns.

Pooled funds and anticipatory financing

Several humanitarian funding mechanisms have particular financial requirements:

- **Country-based pooled funds** (CBPFs, managed by OCHA): open to national and international NGOs after a capacity assessment that sets a risk level. The level determines the maximum project size, the pace of instalments and the frequency of controls.
- **CERF** (Central Emergency Response Fund): funds United Nations agencies, which then sub-grant to partners.
- **NGO emergency start-up funds** (networks such as the Start Network): decisions within 72 hours, lighter reporting but very short spending deadlines.
- **Anticipatory financing**: funds released before a foreseeable shock (drought, flood) on the basis of trigger thresholds; procurement and payment procedures must be ready in

advance.

Risk level example. An NGO rated "high risk" by a country fund receives its funds in three instalments (for example 40%, 40%, 20%), with a financial check before each instalment. Rated "low risk", it can receive 80% on signature. The cash stakes are considerable: investing in its systems to improve its rating is often the best financial investment a national NGO can make.

Innovative financing

Beyond grants, the sector is experimenting with several instruments:

- **Parametric insurance**: a payout is triggered by an index (rainfall, wind speed) rather than by loss assessment. Example: African regional drought insurance mechanisms.
- **Impact bonds**: investors pre-finance a programme; the outcome payer repays with a return if the agreed results are achieved. Requirement: rigorous measurement of results and high structuring costs.
- **Blended finance**: combining grants with loans or guarantees to attract private funds, more common in recovery than in emergencies.
- **Islamic social finance**: zakat, waqf, sukuk with a humanitarian purpose, with their own eligibility rules on beneficiaries and investments.
- **Payment by results**: the donor pays per verified result (for example per child vaccinated), which transfers performance risk to the organisation.

> Before adopting an innovative instrument, ask: who bears the risk if the results are not achieved, and does the organisation have the reserves to absorb it?

Investments and managing surplus cash

An organisation holding significant reserves or advances must have a prudent **investment policy**, adopted by the board:

- **Priorities**: security of capital, then liquidity, then return, in that order.
- **Acceptable instruments**: interest-bearing accounts, term deposits in sound banks, short-term government securities. No speculative investments.
- **Diversification of banks**: do not concentrate everything in a single bank, especially in a fragile country.
- **Interest on donor funds**: many contracts require interest earned on advances to be declared and used for the project, or returned.
- **Ethical and religious considerations**: exclusion of certain sectors, preference for products compliant with Islamic finance depending on the context.

Example. 1,000,000 USD of reserves: 400,000 in a current account and an interest-bearing account (immediate liquidity), 400,000 in staggered 3-month deposits, 200,000 in 12-month deposits. At 4% a year on term deposits and 1% on the interest-bearing account (with 300,000

placed in it), income is about 600,000 × 4% + 300,000 × 1% = 24,000 + 3,000 = 27,000 USD a year, without compromising the ability to respond.

Exercise: a reserves policy for a national NGO

Situation. A national NGO, annual expenditure 4,800,000 USD. One third of expenditure comes from donors who pay in arrears, with average pre-financing of 3 months. Legal end-of-contract indemnities: 180,000 USD. Historical ineligible costs: 0.5% of expenditure. The board wants to be able to launch an emergency response of 100,000 USD without waiting. Current free reserves: 250,000 USD. Planned net unrestricted funds: 60,000 USD a year.

Tasks. 1) Calculate the target reserve. 2) In how many years would the target be reached at the current pace? 3) Propose two levers to speed things up.

Answer. 1) Pre-financing: 4,800,000 / 3 = 1,600,000 USD a year, i.e. 133,333 a month, × 3 = 400,000 USD. Indemnities 180,000. Ineligible costs: 0.5% × 4,800,000 = 24,000. Emergency 100,000. Target = 704,000 USD. 2) Gap = 704,000 − 250,000 = 454,000 USD; at 60,000 a year, about 7.6 years, i.e. 8 years: too long. 3) Levers: reduce the need (negotiate advances or quarterly payments with the donors who pay in arrears, which reduces the pre-financing component); increase unrestricted funds (better indirect cost coverage, sharing of indirect costs with the intermediary, earned income, a donation campaign); and have the board approve an interim 3-year target.

Key takeaways

- A reserves policy says why, how much, who decides and how to replenish.
- A target reserve calculated from risks is more defensible than a standard number of months.
- Unrestricted funds are allocated by explicit decision, not by default to fill gaps.
- Each funding source has an acquisition cost; diversification requires investing before reaping.
- Investments: security, liquidity, return, in that order; check the rules on interest earned on donor funds.

Quiz

1. Projects paid in arrears: 3,600,000 USD a year, average pre-financing 2 months. The reserve needed for this risk is:
   A. 300,000 USD
   B. 1,200,000 USD
   C. 720,000 USD
   D. 600,000 USD

2. In an NGO investment policy, the order of priorities is:
   A. Return, liquidity, security
   B. Liquidity, return, security
   C. Security, liquidity, return
   D. Return only

3. A campaign costs 40,000 USD and brings in 160,000 USD over 3 years. The return per dollar invested is:
   A. 2
   B. 4
   C. 0.25
   D. 120,000

4. In parametric insurance, the payout is triggered by:
   A. A measurable index (rainfall, wind)
   B. Assessment of actual losses
   C. The donor's decision
   D. The final report

5. An NGO rated high risk by a country-based pooled fund generally receives:
   A. The full amount on signature
   B. An interest rate
   C. No funding
   D. Smaller instalments with more frequent controls

Quiz answers : 1. D · 2. C · 3. B · 4. A · 5. D

Week 12 : Financial governance, cash crisis and final project

Objectives

- Organise financial governance: the role of the board, the treasurer, the audit committee and finance management.
- Choose and upgrade financial systems (accounting software, ERP, digital payments) according to the size of the organisation.
- Lead an organisation through a financial crisis, and complete the programme's final project: a financial recovery plan.

Financial governance

Financial governance divides responsibilities so that no one decides alone on the organisation's money:

- **Board**: adopts the annual budget, the reserves policy, the investment policy and the financial statements; appoints the external auditor; sets delegations of authority to management.
- **Treasurer** (board member): follows the financial position between meetings, presents the accounts to the board and the general assembly.
- **Audit and risk committee**: oversees external and internal audit, the risk register and fraud reports. Its members must be independent of management.
- **Executive and finance management**: manage day to day within the limits of their delegations, produce the information, implement the controls.

Signs of weak governance: a board that sees the accounts only once a year, no audit committee, audit recommendations not followed up year after year, a chief executive who is also the sole bank signatory.

Financial information for the board

The board does not need the general ledger; it needs to understand the situation and decide. A useful quarterly pack contains:

- a one-page **dashboard** (the ratios from week 9: reserves, liquidity, dependency, shared cost coverage, old receivables);
- the **income statement**, distinguishing restricted and unrestricted funds, compared with the budget;
- the 6- or 12-month **cash forecast**;
- the status of major **financial risks** and audits;
- the **decisions requested**, clearly worded.

> A good board pack ends with decisions to be taken, not with "for information".

Financial systems and digital transformation

Systems must keep pace with the size and complexity of the organisation:

- **Under 1 million USD, one office**: simple accounting software with cost accounting by project and by donor, online banking with dual approval.
- **1 to 20 million, several offices**: multi-site software, a single chart of accounts, monthly consolidation, a grant management module (budgets, forecasts, reports by donor).
- **Beyond that**: an ERP integrating procurement, inventory, HR and payroll, and finance, with electronic approval workflows.

Digital payments (bank transfers, mobile money for salaries, suppliers and transfers to households) reduce cash-related risks, but create new ones: data protection, bank detail change fraud, dependency on an operator. Any change to a supplier's bank details must be verified by a call to a number already on file, never the one shown in the request email.

System change project. Allow 12 to 18 months, a training budget at least equal to the cost of licences in the first year, a period of parallel running, and migration of opening balances verified by the auditor.

Recognising a financial crisis

An NGO financial crisis almost never strikes all at once. It is heralded by a combination of signals:

- a negative cash forecast within 3 to 6 months;
- major projects ending with no follow-on funding (funding cliff);
- significant costs declared ineligible following an audit;
- a negative unrestricted result several years in a row;
- late payments to suppliers, of taxes or of social contributions;
- use of one donor's advances to pay the expenses of another project (which is prohibited and masks the crisis).

Example. Free cash 150,000 USD. Forecast uncovered net outflows: 60,000 USD a month for 4 months (overhead costs after the end of a large project), then 20,000 a month. Cash in 3 months: 150,000 − 180,000 = −30,000 USD. The crisis is less than three months away: action is needed now, not in month 3.

Leading a recovery

A recovery plan combines quick measures and structural measures:

- **Immediate cash**: chase and escalate receivables from donors, request advances, agree payment schedules with suppliers, postpone non-essential purchases, draw on a credit line if one exists.

- **Cost reduction**: freeze recruitment of overhead posts, renegotiate rents, merge offices, reduce staff in an orderly and lawful way (notice, indemnities, consultation).
- **Income**: emergency appeal to private donors, foundations, proposals at full cost, revision of indirect cost rates.
- **Governance**: inform the board without delay, monitor cash weekly, appoint a lead for the plan.
- **Communication**: inform donors transparently; many will help an organisation that anticipates, few an organisation that hides.

What is prohibited, even in a crisis: using one donor's restricted funds for another purpose, withholding staff taxes and contributions without paying them over, presenting inaccurate financial reports. These practices turn a financial crisis into a legal and reputational crisis.

Final project: financial recovery plan

The final project of the Mini MBA Finance and Grants consists of writing, for a real (anonymised) or fictitious but realistic organisation, a **financial recovery plan** of 6 to 10 pages, structured as follows:

- **1. Diagnosis**: summary financial statements, key ratios (liquidity, months of reserves, HHI, shared cost coverage), three-year trends.
- **2. Cash forecast** over 12 months, with a base scenario and a downside scenario.
- **3. Full cost analysis**: allocation keys, true indirect cost rate, shortfall by donor.
- **4. Measures**, quick and structural, costed, with owners and dates.
- **5. Internal control and compliance**: weaknesses identified, action plan, preparation for the next audits.
- **6. Proposed reserves policy** and replenishment trajectory.
- **7. Message to the board and donors**: one page.

Assessment criteria: accuracy of calculations, consistency between diagnosis and measures, realism (timeframes, amounts, donor rules), respect of what is prohibited, clarity of communication. The project is part of the third month's exam.

Exercise: a finance director's first 90 days

Situation. You take over as finance director of an NGO with 8 million USD a year. Findings: free cash 90,000 USD; uncovered net outflows of 45,000 USD a month for the next 6 months; receivables from donors over 90 days: 380,000 USD; two project audits flagged 65,000 USD of ineligible costs not yet repaid; the board has not met for 7 months; a regional office used 120,000 USD of one donor's advance to pay the salaries of another project.

Tasks. 1) How long until free cash runs out? 2) Rank the problems by severity. 3) Propose the actions for the first 30, 60 and 90 days.

Answer. 1) 90,000 / 45,000 = 2 months, even before repaying the 65,000 USD of ineligible costs. 2) The most serious is the use of 120,000 USD of one donor's advance for another project: it is an unauthorised use of restricted funds, which must be regularised and reported; then cash (exhausted in 2 months); then the ineligible costs; then the lack of governance (board not meeting). 3) 30 days: convene the board urgently and present the situation; set up a weekly cash forecast; escalate the 380,000 USD of receivables (collecting half covers 4 months of deficit); freeze non-essential overhead spending; document the cross-use of funds and prepare its regularisation and notification of the donor concerned. 60 days: negotiate a repayment schedule for the ineligible costs with donors; launch a full cost analysis and revise the budgets of pending proposals; overhead cost reduction plan. 90 days: reserves policy and replenishment plan adopted; audit committee set up; audit action plan monitored by the board; strict rules on separating funds by donor in all offices.

Key takeaways

- The board adopts the budget, reserves, investments and accounts; the audit committee oversees audits, risks and fraud.
- A board financial pack ends with decisions to be taken.
- Any change to a supplier's bank details is verified by a call to a number already on file.
- A financial crisis gives warning: negative cash forecast, funding cliff, ineligible costs, late payments.
- Even in a crisis: never cross-use restricted funds, never fail to pay over withholdings, never submit inaccurate reports.

Quiz

1. Who adopts an NGO's reserves policy?
   A. The board
   B. The accountant
   C. The main donor
   D. The external auditor

2. Free cash 200,000 USD, uncovered net outflows of 50,000 USD a month. Cash runs out in:
   A. 2 months
   B. 10 months
   C. 5 months
   D. 4 months

3. A supplier asks by email to change its bank details. You:
   A. Change them immediately
   B. Reply to the email to confirm
   C. Verify by calling a number already on file
   D. Pay in cash

4. In the middle of a crisis, using one donor's advance to pay the salaries of another project is:
   A. Acceptable if temporary
   B. An unauthorised use of restricted funds
   C. Good cash management
   D. A reallocation

5. For a change of accounting software, the realistic timeframe is often:
   A. 12 to 18 months
   B. 2 weeks
   C. 5 years
   D. A weekend

Quiz answers : 1. A · 2. D · 3. C · 4. B · 5. A