HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

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

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

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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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