HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

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

Course handout · Week 5 : Donor rules: eligibility, procurement, equipment and visibility

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.

https://humanitairejobs.org/en/academy/mini-mba-finance-subventions/semaine-5/

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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