HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

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

Course handout · Week 7 : Funding partners: assessment, agreements, advances and localisation

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 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