

## Section 6 — Spending the money

### 1) Knowing your obligations — the agreement (or “financial agreement”)

“We are pleased to confirm that you have been awarded a grant of 15,200 €” – the message that everyone who is trying to raise funds from public sources or independent funders looks forward to receiving. Finally, the money for the project is there. Now we can go and implement our ideas. Straightforward. But is it really?

Read the sentence again. Carefully. In fact, it gives you nothing more, and nothing less, than confirmation of the decision taken by the funding institution on your application. The decision is an offer of financial assistance. You still need to confirm that you accept the offer by signing a financial agreement or a contract, which you will often find enclosed with the letter confirming that you are being offered a grant.

- **What happened?**

You applied for funding for a certain type of activity, which has to obey certain standardised rules. The financial agreement that both you and the funding institution sign is, as it says, “an agreement” between both parties accepting the conditions governing implementation of the project – in other words, the funder will support your project financially provided that you keep to the rules laid down in the agreement and the annexes to it. You, as the beneficiary organisation, will be legally and financially responsible to the funding institution for the results and for contractual and financial aspects of the project.

Consequently you must read the terms and conditions of the financial agreement very carefully. The agreement contains all the main obligations and responsibilities relating to the project, including the deadline for submitting the final report, any auditing and monitoring requirements and the reimbursement and termination conditions. Any financial agreement is a legal document and cannot be altered or modified simply by overwriting parts of the text.

If you notice that there are errors in the agreement or that you need to make changes, inform your funding partner about it and request an amended agreement.

- **Why so formal?**

A public funding institution handles public – taxpayers’ – money and is accountable for how it is spent. Even an independent funder such as a foundation is responsible to the public as the money they spend needs to be used in accordance with the objectives of the foundation. If it is not, they may lose their privileged tax status. Thus the agreement between any funding institution and yourself, as beneficiary organisation, sets out the rules on how the money is to be spent and for what purpose.

Many financial agreements consist of several documents. The agreement itself establishes the general rules. The annexes regulate the more detailed rules on finances, reporting obligations and other technical aspects of your contractual relationship with the funding institution. Annexes are always an integral part of the agreement. You need to read them just as carefully. The financial agreements of public funding institutions like the European Union come with numerous annexes containing frequent references to their financial regulations. It cannot be stressed enough: read them!



Most grants are paid in two or more instalments, so-called “advance” and “balance” payments. Signature of the agreement, and thus acceptance of the conditions, normally triggers release of the first (“advance”) payment into the beneficiary organisation’s bank account.

- **No document-phobia, please**

Many organisations think only of the money they will receive, which will allow them to go ahead with their project. They quickly sign the financial agreement or contract, send it back to the funder, put the copies somewhere deep in their filing cabinets and forget about them until reporting time comes round. Behaving like this has nothing to do with financial management or proper fund-raising: it simply guarantees future trouble, sleepless nights and a lot of extra work.

You should never sign a financial agreement or contract without first reading the document and all the annexes. For most of us, the sight of legal-looking text and a mass of pages has an alienating effect. But as a financial manager and fund-raiser you need to overcome your document-phobia.

It is crucial that you – and your partner organisation(s) - get acquainted with the contents of the financial agreement or contract before starting the project. This is the only way to avoid nasty surprises. The best remedy for document-phobia is taking the time to read all the clauses and think through what they mean in practice. Do this with another person or with the rest of the team so as to get the views of everyone responsible for the different parts of the project.

Secondly, the agreement is signed by the legal representative of the beneficiary organisation, who in many cases is a different person from the one in charge of realising the project. So it is of utmost importance that the project co-ordinator have a full understanding of the implications of the financial and other rules. If any difficulties arise or changes are made to the project the project co-ordinator must immediately inform the person who is legally responsible and who has signed the financial agreement or contract.

- **What is the content basis of the financial agreement?**

Your application is always the basis for the approval of a grant and thus the basis of the financial agreement. If your application is not approved entirely, the items that are considered not eligible or not approved are normally listed. For example, funding institutions may not be in a position to approve certain kinds of project partnership, the number of participants or some budget items.

It may be that your application is approved as it stands, with all budget items eligible or approved, but the funding institution decides to award a smaller grant than you applied for. The reason for this might be that your request disregarded the rules on the maximum possible funding percentage or that the funder had budgetary constraints and could not give more support. It could also be that some of the costs you presented were considered rather high or not reasonable.

- **Timing matters**

The project normally needs to be implemented within a set period of time – the so-called contractual (or eligibility) period. The contractual period tells you when the project can start and when it has to end. However, the contractual period is longer than the actual duration of an activity such as a youth exchange, a training course, a voluntary service activity, the time it takes to produce a publication etc. The reason for this is that the contractual period includes preparatory work, the implementation phase, evaluation and follow-up. The costs relating to these are also covered by the grant – provided, of course, that you included them in the original application and that they were approved.

For some reason you might not be able to implement your project during the agreed time frame. If you realise this may be the case, ask the funding institution formally, in writing, to change the dates of the contractual period. You should ask for an amended financial agreement or contract to be issued to you. The new agreement

Read every document carefully!

Timing



should include the new dates for your project. Of course, you need to explain to your funding institution what difficulties have forced you to request a modification of your agreement with them.

The funding institution will examine your request to modify the original financial agreement and inform you of its decision. If the decision is positive you will be offered a supplementary or new agreement which amends the original agreement or replaces it. For some funding institutions their own signature of any such supplementary agreement is sufficient, while others require the signatures of both parties. It is important that you do not ask for an amendment to your agreement at the eleventh hour, just days before the contract period ends. If there is any risk of delay it is best to ask for an extension in good time. The agreement or contract normally specifies the deadline by when you need to submit your report

Apart from the duration of the project you may need to have other changes made to the financial agreement while you are implementing your project. It is important that you always seek the funding institution's agreement first if there is to be any change as regards, for example:

- the beneficiary organisation or its structure
- the project partners
- the length of the activity
- the participants (e.g. size of group, origin of participants, age structure)
- budget or grant allocation (specify the expenditure items affected).

Youth organisations in particular engage in projects that outlast the membership of the young people active in them. Do not forget to inform your funding institutions (in writing) if the legal representative or project co-ordinator changes. There is often a requirement that both the old and new legal representatives sign the letter informing the funder of the change.

#### COYOTE's hint #10



Also keep your funder/s informed about any changes to your address, including telephone, fax and e-mail. Always let them have this information in writing.

## 2) Agreements with project partners

The financial agreement or contract is signed by you as the beneficiary organisation. In some projects, particularly transnational ones, the money you receive may also cover costs which are not directly yours. Your funding may provide support for some of the activities of a partner organisation: this means that funding is being provided through you to a third party. Nevertheless you will still be financially responsible for the good use of the funding as you are the contracting party with the funding institution.

Because of your responsibilities, you should make a partnership agreement with each of your project partners. A partnership agreement will help you to avoid misunderstandings about the rights and responsibilities of all project partners. The process of negotiating it will itself clarify important management questions. The actual agreement will help successful management of your project.

The partnership agreement is a contractual arrangement between all the partners on how to administer the financial agreement signed by the beneficiary organisation. Such a contractual arrangement will provide a legal recourse if one of the partners does not perform properly. Negotiate and conclude the partnership agreement well in advance of the start of your project. Any partnership agreement should at least include:

- agreement between the project co-ordinator and the project partners to respect the terms of the financial agreement with the funding institution;
- the role and responsibilities of the project co-ordinator and the project partners;

Partners



- times and conditions for advance and balance payments;
- definition of eligible expenditure and expenses;
- termination and reimbursement provisions;
- a timetable for reporting on finances and project delivery;
- dispute resolution (how will disputes be dealt with?);
- which country's law applies if disputes cannot be solved or any other legal problem arises (it is recommended that the law of the country of the beneficiary organisation should apply).

It is important for you to keep in mind that the funding institution is not responsible for dispute settlement between project partners. Therefore you need to devise your own dispute settlement system with your partners and agree the applicable law in case of difficulties you cannot solve by yourselves. However eager you are to start the project and however unlikely difficulties may seem, you need to write the dispute settlement system into the partnership agreement. You will be grateful for it if difficulties arise.

The partnership agreement should make clear the role and tasks of each partner. You should also specify how all project partners are to communicate. Depending on the type of agreement and the type of activity, you may also need to discuss the following points and include specific answers in your partnership agreement (especially important for transnational projects):

- how the grant is to be shared among the partners;
- who is keeping invoices;
- who will be in charge of collecting the participants fees;
- who is reimbursing the participants;
- who is booking and paying for accommodation and paying local costs;
- who is entitled to make the final decision on the level of spending;
- who is responsible for preparation of the participants and how this should be done.

Most importantly, it has to be understood that all changes affecting the contractual relationship with the funding institution must be discussed jointly. Depending on the financial agreement or contract with the funding institutions, even small changes in your activities can make an amendment to the contract necessary. For example:

- changes in activity dates;
- changes in the number of participants;
- changes in budget items.

As the beneficiary organisation, you always need to keep in mind that you are legally and financially responsible for such changes and must notify them to your funder/s.

#### Coyote's hint #11

Once you have drafted your partnership agreement, have it checked by someone from outside your project. This could be the financial or legal managers of your own organisation, external advisors (even a lawyer if it is a large project), a representative of the funding institution or whoever you feel would be appropriate.



Each project partner should have their own copy of the partnership agreement and also, for the sake of transparency, a copy of the agreement between the funding institution and the beneficiary organisation. This will ensure that everybody involved in the project knows their obligations.

### 3) Dealing with (financial) crisis

Crises do happen! If you have the appropriate 'checks and balances' in place then you should be able to anticipate problems with your finances before they become crises.



Cash-flow forecasting is one of the key tools for making sure that money is available to pay for things when they are needed.

Insurance can protect you against many of the things that can lead to financial crisis; deciding the level and range of cover is always difficult and the outcome is most often a calculated risk based on how much you can afford.

Of course, there are things which you cannot insure against and which might only indirectly affect finances; acts of terrorism and what insurers often call ‘acts of God’ (earthquakes, floods etc). In addition it is not always possible to predict the financial implications of changes elsewhere in your organisation or in partner organisations. Even funders are exposed to various risks which can affect your project’s financial viability.

Dealing with crises when they do happen is a matter of clear leadership and effective planning. Organisations should have in place a procedure to be followed in the event a ‘major incident’; in particular, information flow – both within and outside the organisation – should be strictly controlled, ideally by one person. The strength of the relationship with the funder is tested in these situations and it is essential that the funder be provided with appropriate information as soon as possible. Funders have wide experience of financial management in organisations like yours, so be prepared to ask for help. Likewise, many have formal protocols to follow that may protect your money better than keeping quiet about the crisis

#### 4) Ownership

There are no doubts about ownership: the project belongs to the organisation which develops it, creates it and implements it.

However, organised independent funders are coming to treat the relationship between funder and grant recipient as mostly a partnership. The two work together to achieve mutually agreed objectives and the funder may be involved in the project management. The grant recipient then benefits from the expertise of the funder’s staff.

In a few cases an independent funder may come back to you and ask you to re-draft the project proposal around specific criteria. When this happens the independent funder is usually interested in supporting your work but needs you to make changes to the proposal before they can justifiably support it. In such cases it is advisable to listen to their comments, make the changes carefully if acceptable and re-submit the proposal. Here the funders are acting as your partner, sharing their expertise with you.

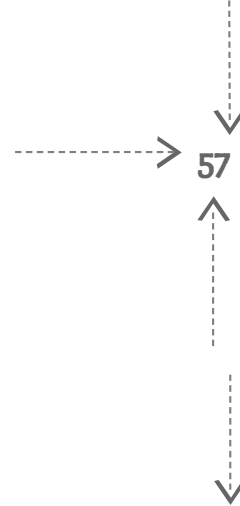
Funders are too often viewed purely as finance providers and venture-capital banks for civil society. But they are above all bodies of knowledge and expertise whose primary purpose is to create added value in society in their respective fields of operations. They should not be seen as gift givers but as “collaborative entrepreneurs” taking part in the life of the project.

#### 5) Handling cash<sup>2</sup>

All control systems in an organisation are meant to provide reasonable security for its finances and assets. Control systems provide checks and balances which help to maintain the overall system and to prevent fraud or misappropriation or deviations from accepted policies and procedures. Control systems are not static: the organisation operates in a dynamic environment, so periodic review is required to keep the control system working effectively. The following controls are generally recommended for any non-profit organisation

- **Separation of cash-handling and accounting.** It is healthy practice to entrust these functions to two different people so as to prevent any collusion in committing fraud. Of course in a small organisation it may not be practical to have two people

<sup>2</sup> This chapter is based on M. Kandasami: “Governance and Financial Management in Non-profit Organisations - a Reference Manual”, Caritas India, New Delhi, India



Crisis  
management



Cash



perform these functions, in which case the organisation has to be vigilant and alert to its own realities. Trust within an organisation is easily breached and it is neither healthy nor sensible to rely on it totally and dispense with adequate controls.

- **Division of cash payments into petty cash and larger payments.** Both for accounting and control purposes it is wise to separate payments into petty cash payments and larger payments. It is advisable to fix limits for petty cash payments. While petty cash can be entrusted to one person, large payments should go through the chief executive of the organisation and should require a special withdrawal from the bank.
- **Bank transfers/cheque payments versus cash payments:** as far as possible make all larger payments by bank transfer or cheque.
- **Cash receipts.** The management should ensure that the cash received by the organisation is promptly deposited in the bank. Its receipt should be attested by pre-numbered receipts which are properly recorded in the cash book. The various functions of receiving, processing and recording should be clearly segregated.
- **Physical verification of cash.** Management should have an in-built system allowing someone in authority to check cash in hand against the balance shown in the book at least once a month and also on surprise visits, but definitely at the end of the financial year.
- **Bank transactions.** It is advisable to have as few bank accounts as possible except where separate bank accounts are required by funding agencies or by law. An organisation's bank account should always be in the organisation's name, not in the name of an individual. All bank transactions should be entered in the book from pay-in slips and cheques.
- **Fixed assets and inventory control.** While an inventory, normally known as a stock register, records assets which are generally consumable or saleable, a fixed-assets register records more permanent assets which provide long-term benefits to the organisation. Both are valuable since they represent a substantial portion of the organisation's net worth. Both types of assets therefore have to be controlled and managed efficiently and used effectively.
- **Audits and reviews.** An audit is meant to check the organisation's accounting standards and compliance with legal requirements. External reviews are independent, objective, critical studies of the organisation's financial management system. They offer suggestions for improving the system.

## 6) Spending plan

Youth organisations must be aware of the laws regulating their method of functioning. If you are a member of a non-formal youth group, you have to keep your own evidence and report back to the other members of the group. This is simpler than the record-keeping and accounting systems compulsory for legally registered entities. In any case, project co-ordinators should have their own instruments for planning and monitoring expenses. This will make their lives easier during the implementation period and later when preparing reports to funders and others. Good planning will also avoid unexpected requests for urgent payments to your treasurer or cashier.

First of all, you can make a table centralising all necessary resources during the whole project period, divided into time units. These units can be weeks or months, depending on the length and complexity of the project and on the financial management procedures practised by the organisation.

The heading of the table might be, for example:

### Plan of necessary resources

Nr.	Budget line	Type of expense/ resource	Time unit 1	Time unit n	...	Total
			Amount	Amount		



The budget lines in the table should be the same as in your original application for funding.

The type of expense must be very specific. For example: dinner at restaurant for 35 people, accommodation in tents for five nights for 12 people, one fund-raising expert for 4 hours, one person on reception duty for 8 hours per day for 2 days, 200 copies of a 5-page document, flipchart for 2 days, transport of 5 people by car 250 km, use of computer 5 days 3 hours/day, etc.

Even though some of the resources are provided by the organisation itself, it is very important to plan them too, otherwise you may find other projects within the organisation needing the same resource as you at the same time, which can cause major frustrations.

Also, no project should use all the organisation's resources without making sure that they can be replaced. If there is no paper left in the office after the project or you cannot pay the phone bill because no restrictions were placed on project phone calls, then financial management of the project has failed and the project has endangered the organisation's existence.

Right from the beginning you should decide how much of the organisation's own resources can be used for a specific project. Here, "beginning" means the launch of the project idea, including the period of preparation and fund-raising, as the costs of this period can be extremely high (visits and phone calls to possible partners and funders, writing, printing out, copying and mailing proposals etc). The decision has to be taken by the board or by the executive body of the organisation and not the project coordinator alone!

For payments made within a certain period of time (up to 1 or 2 months) an expenditure plan should be made. This will help the treasurer/cashier to ensure cash flow at the right time and in the right amount. Frictions (when, say, a requested amount exceeds the legally approved limits for one-day expenditure, or if cash runs short) can also be avoided or more easily handled.

Example:

#### Plan of expenditure for period ...

Nr.	Destination	Amount	Date of payment	Method of payment (cash, bank)	Destination	Who is responsible?

The person who received the money is also responsible for producing the bills and returning any money left over.

- **Evidence of income**

So that you have a complete picture of the project's financial situation, evidence should be kept of all amounts received for the project. Some funders make advance payments, others only pay the contracted amount after receiving the final report. Be careful that the project does not grossly overspend in advance and that all expenses are eligible/recoverable. Evidence will also make reporting easier.

Example:

#### Evidence of the income for project ...

Nr.	Source of income	Amount	Date of receipt	Method of payment (cash, bank, in kind)	Destination	Who is responsible?



## 7) Monitoring the project and maintaining relations

If the encoding process described in the earlier diagram is working, then all stakeholders in the project will understand their obligations to the funder – both in terms of quality and in terms of communication and reporting.

Remember that monitoring is not just for the funder. You need to evaluate the project for yourself and for all stakeholders (including funders), and to do this you need to gather as much information about your project as possible as it is happening.

- **Monitoring**

The kind of items you may be need to monitor include:

- expenditure – weekly, monthly, quarterly, annually – according to the budget lines submitted in your application;
- beneficiaries (who is benefiting from the money and activity?)
  - age
  - gender
  - ethnic group
  - qualifications / experience / achievements when they **joined** the project
  - qualifications / experience / achievements when they **left** the project.

- **Maintaining relations**

Many funders have a clear process of communication and reporting. In some cases you simply need to follow the rules laid out in the financial agreement or contract with your funder. In other cases you need to make a judgement about the type, quantity and frequency of information. Sending updates – even post cards – can be a helpful way of showing your appreciation but be sure that such updates are not discouraged or forbidden by the funder. Make sure too that you use your reference number or code supplied by the funder in all correspondence.

Your relationship needs to be a respectful one – sensitive to the character of the funding organisation and the people within it. You need to develop the ability to strike a balance between distance and over-familiarity. Some funders are keen to discuss the projects they are supporting as they progress – to offer support and keep themselves informed of developments; others prefer to keep their distance and only receive information in the format they specify.

Some funders work on the basis of developing projects together with you; this may require a considerable investment of time before you even finalise your plans for the project. The funder's investment is the same as yours and so they have a greater interest in the project succeeding and are likelier to offer help during its life.

### Coyote's hint #12

#### Value Added Tax in European Union programmes

For some European Union programmes operating in non-EU countries, such as PHARE / TACIS, value added tax is not considered an eligible cost. Check the programme guide to find out if VAT is eligible or not. The reason for this is the agreement between the European Union and national governments that EU money should not cover taxes which are inputs to the national budget. In each country where PHARE / TACIS funding is available, there are regulations on exemption from or recovery of VAT.

This has various consequences which are very important from the point of view of financial management:



– **when budgeting:**

- all expenses to be covered by PHARE / TACIS money should be calculated without VAT, otherwise you will have overestimated by the end of the project and will not be able to spend the whole amount budgeted for;
- expenses to be covered from other sources or by own contributions must be budgeted for with VAT included as the regulations only apply to expenses using PHARE / TACIS money (in any case check the national regulations);

– **when planning and spending:**

- in the expenditure plan all expenses have to be included at their total value (including VAT), except for purchases for which you have obtained official exemption from VAT (often a very long and quite difficult procedure only worth the effort for big expenditure items);

– **when recovering VAT:**

- you must comply strictly with all the regulations on VAT recovery and usually have to have a large file of documents at the ready (such as all legal documents concerning your organisation, a copy of the funding contract in the official language of the country, proof from the bank that you have a separate bank account, proof of money received and copies of relevant bills);
- VAT recovery is a very long procedure and in the time it takes the actual value of the amount paid in VAT can decrease significantly, especially in countries with high inflation;
- if the project is short, you may not even be able to recover VAT during the project implementation period.



Example:

In Romania an organisation can start the VAT-recovery procedure for the January-March period in April, for the April-June period in July and so on. This means that for an expense budgeted at 1.000.000 lei, in January you pay 1.190.000 lei including VAT and then you apply to the financial authorities at the end of April for a refund of 190.000 lei. The request is checked out in May and if there are no problems you might expect to receive 190.000 lei in your bank account in June. But with an inflation rate of 30 % per year 190.000 lei in June is worth 28.500 lei less than in January. So the organisation has actually lost 28.500 lei in real terms. Not to mention the time and money invested in the whole process (making the application and copying documents). So you need to be aware that there could even be a loss to the organisation...

