

Grant Management: End to End

Session Layout

Readiness Roadmap & Takeaways from Sessions 1 to 3, then Grant Management end-to-end.

1. **Readiness Roadmap.** A recap of Sessions 1 to 3 takeaways on readiness for donor due-diligence.
2. **Grant, Grant Management & Lifecycle.** What a grant is and the five-stage lifecycle that governs it end-to-end.
3. **Fund Accounting and Fund Types.** How NPOs record and report restricted vs. unrestricted resources.
4. **Cost, Cost Types & Common Cost Allocation.** Direct vs. shared costs, and the methods used to allocate them fairly.

Part 1: Readiness Roadmap (Recap of Sessions 1 to 3)

Readiness Roadmap

- Understand donor funding landscape: background, status and future direction.
- Strengthen institutional, financial and internal controls pillars learnt in previous sessions, in a phased manner per a defined plan.
- Understand donor category, credentials and applicable regulatory framework.

- Continuous education of key staff and governance members on statutory/regulatory changes and actions required.
- Risk management policy and operational framework.
- Be proactive and manage/mitigate adverse proceedings: organisation, staff and office bearers.
- Use a generic checklist for the due-diligence folder/binder, divided into sections and updated when statutory and regulatory provisions change, to avoid last-minute scrambling.
- Periodic self-assessment: run an internal readiness audit and assign a score/rating.
- Use technology that is scalable and cost-effective.
- Spread your work through social-media platforms: low cost, high impact and reach. Demonstrate your competitive edge.
- Be progressive, innovative and forward-looking as the funding environment and donor expectations keep evolving.
- Internal controls and key policies & procedures: practised and demonstrable.
- Chief functionary/key staff should have clarity on vision, mission and values.
- Reduce undue reliance on the auditor (referring the donor to the auditor, the auditor conveying a message). Ensure proper briefing and dialogue with the statutory auditor.
- Be careful in your working style. Donors need you, but you need to respond to them on time and to their expectations. Build this understanding among key staff who facilitate due-diligence.
- Build an RM team as your organisation grows; until then, keep dedicated staff as the focal point for donor due-diligence.

Key Takeaways

1. **Due diligence is a two-way trust exercise.** Strong documentation doesn't just satisfy donors; it strengthens the NGO's own governance and financial discipline.
2. **Institutional and financial readiness go hand in hand.** A legally sound structure without financial controls (or vice versa) will not pass most donor assessments.
3. **Preparation should be continuous, not reactive.** Keeping registrations, audits and policies current avoids last-minute scrambles when an opportunity arises.

4. **Transparency builds long-term funding relationships.** NGOs that handle due-diligence well are more likely to secure renewed and larger grants over time.

Part 2: Grant, Grant Management & Lifecycle

What is a Grant

- Funds given by an entity to another (usually a charitable entity/NPO) for a public benefit or charitable purpose.
- Not an automatic entitlement. It is given to fulfil an obligation, with time and purpose restrictions.
- Grant is trust money: the grantee holds fiduciary responsibility (trusteeship) for the funds.
- The grantor does not get a direct benefit, and the grantee is not required to repay it if utilised for the intended purpose.
- Reporting is linked to it: both financial and narrative reporting obligations apply.
- Grantors include government (grant-in-aid), retail, corporate, foundation and foreign donors, each governed by different laws.

Grant types: project, program, institutional (core), endowment and emergency. Awarded directly or through a competitive (discretionary) process.

Exchange Transaction vs. Grant

Exchange Transaction (per GST Act)

- Involves supply of goods and services.
- Involves consideration.
- Takes place in course of furtherance of business.

Grant: Not an Exchange Transaction

- There are no specific beneficiaries.
- Nothing is received in return from beneficiaries, or benefit derived from the grant.
- Not for furtherance of business.

This distinction is crucial. Mistaking a grant for an exchange transaction risks GST/TDS exposure and can jeopardise charitable status.

Grant Management

Grant management is the systematic administration and implementation of a grant through its lifecycle: identifying the opportunity, applying for it, securing it, adhering to grant conditions, and evaluating outcomes to ensure funds are used effectively (impact) and accountably.

1. **Grantmakers:** The grantor / donor, creating and awarding grants.
2. **Grantseekers:** The grantee / donee, seeking and applying for grants.

A Grant Management System (GMS) automates and centralises the grant lifecycle for both sides.

Why It Matters So Much for NGOs in India

Strong grant management turns donor funding into lasting, credible impact, and keeps an NGO legally and financially able to operate and sustain.

1. **Regulatory Compliance:** IT, FCRA and CSR rules demand precise fund tracking. Mismanagement risks cancellation and funding freezes.
2. **Funder Trust & Renewal:** Timely, accurate reporting is the single biggest driver of repeat grants from institutional and CSR donors.
3. **Multi-Donor Complexity:** Indian NGOs often juggle government, CSR, foreign, institutional and individual funding, each with different rules and reporting cycles.
4. **Proof of Impact:** Good systems link every rupee spent to an outcome, giving NGOs evidence to scale and attract new funding.

Grant Management Lifecycle

1. **Pre-Award:** Identify, assess, design

2. **Award:** Contract & set up compliance
3. **Implementation:** Deliver, spend, track
4. **Compliance & Reporting:** Monitor, file, report
5. **Closure:** Close, evaluate, learn

A grant is not managed at disbursement or at reporting alone. It is managed continuously, across every stage.

Stage 1: Pre-Award

Identifying & Assessing the Right Opportunity

1. **Donor & Opportunity Mapping:** Track CSR calendars, foundation RFPs, multilateral windows and government schemes aligned to your mission and geography.
2. **Eligibility & Registration Check:** Objects, active 12A/12AB and 80G status, FCRA registration/prior permission (for foreign funds), and CSR-1 filing (for CSR funds).
3. **Strategic Fit Assessment:** Screen every opportunity against mission alignment, organisational capacity, and existing grant concentration risk. Run a SWOT analysis.

Pre-award due-diligence checklist

- Registration certificate & PAN/TAN in order
- 12A/12AB and 80G validity dates, CSR-1
- FCRA registration / prior permission valid
- Board resolution to accept the grant
- Conflict-of-interest screen on the donor
- Capacity to meet donor's reporting cadence

Designing the Proposal & Budget

1. **Theory of Change:** Articulate the problem, intervention logic, building a story and expected outcomes in a clear causal chain.
2. **Logframe / Results Matrix:** Define outputs, outcomes, indicators, baselines and targets that donors can verify.

3. **Realistic Budgeting:** Cost programme and admin lines completely; build in statutory costs (PF, ESI, TDS) and a reasonable indirect-cost rate if permitted.
4. **Risk & Assumptions:** Flag implementation, financial and compliance risks upfront, with mitigation built into the design.

Stage 2: Award

Contracting & Compliance Set-Up

The award stage is where compliance obligations get locked in. Get the paperwork and internal set-up right before the first rupee is spent.

1. **Review the Grant Agreement:** Reporting frequency, permitted variances, IP and data ownership, termination and audit clauses. Negotiate before signing, not after.
2. **Confirm the Funding Route:** Foreign funds: designated FCRA bank account and utilisation account. Domestic/CSR funds: dedicated project bank account.
3. **Set Up Cost Centre:** Create a project-wise cost centre or fund code in the accounting system so every transaction is traceable to its grant from day one.
4. **Brief the Team:** Walk programme and finance teams through donor-specific rules: procurement thresholds, branding, and prior-approval requirements.

Stage 3: Implementation

Fund Flow & Financial Management

Fund flow: Donor Disbursement → Designated Bank Account → Project Cost Centre → Field / Programme Spend → Utilisation Certificate

Every rupee should be traceable from donor disbursement to final utilisation report, with no gaps in the trail.

1. **Segregation of Funds:** Keep restricted grant funds separate from unrestricted/general funds. Never co-mingle across projects.
2. **Budget vs. Actual Tracking:** Review variance monthly; flag and explain deviations beyond the donor's approved re-allocation threshold.

3. **Advance & TDS Management:** Track staff and vendor advances to closure; deduct and deposit TDS on time to avoid disallowance.

Programmatic Monitoring & Field Tracking

- **Build M&E Framework:** Translate logframe indicators into simple field data-collection tools before the project starts.
- **Track Outputs & Outcomes Separately:** Outputs show activity happened; outcomes show it mattered. Donors ask for both.
- **Use a Simple MIS:** Well-structured spreadsheet or low-cost MIS for consolidating multi-site data.
- **Schedule Field Verification:** Plan periodic site visits and spot checks: internal, and where required, joint visits with the donor.

Sample indicator dashboard

Indicator	Value
Beneficiaries reached	92
Trainings held	78
Health camps	105
Livelihoods supported	64

Stage 4: Compliance & Reporting

Donor Reporting & Communication

Good reporting is not a compliance task. It is a relationship tool.

Narrative reports

- Progress against each logframe indicator.
- Delays, deviations and course-correction.
- Human stories that illustrate the numbers.

Financial reports

- Budget vs. actual by line item, with variance notes.
- Supporting documentation for audit sampling.
- Bank reconciliation attached where required.

Good practice

- Match the donor's required frequency & platform: monthly, quarterly, annual.
- Proactive flagging of risks: never a surprise at year-end.
- One named point of contact for donor queries and post-award amendments.
- Share statutory reporting compliances from time to time.

Stage 5: Closure

Grant Closure

1. **Final Utilisation Certificate:** Reconcile total spend against the sanctioned budget and submit the final UC with supporting vouchers.
2. **Asset Disposal / Transfer:** Follow the donor agreement on equipment and asset ownership: transfer, retain, or dispose as specified.
3. **Final Narrative & Evaluation:** Document outcomes achieved, deviations from plan, and an honest assessment against original objectives.
4. **Lessons-Learned Review:** Run an internal debrief with programme and finance teams; capture what should change for the next grant.
5. **Document Archiving & NOC:** Retain agreements, financial records and reports for the statutory/donor-specified period. Obtain NOC for the grant if feasible.

Part 3: Fund Accounting and Fund Types

Fund Accounting

NGOs follow Fund Accounting for grant management.

Fund accounting is an accounting system for recording and tracking project resources (a "fund") whose use is limited or restricted by specific conditions set by the donor in a grant contract. It emphasizes accountability and productivity over profitability, which is the basis for-profits use.

Key Features

- Separate funds (buckets / compartments)
- Restriction on use
- Separate budget established for each fund / project: income credited and expenses debited from the fund
- Transparency
- Accounting software for recording and tracking
- Monitoring and reporting mechanisms ensure fund accounting
- Ensures internal controls

Fund Accounting vs. Commercial Accounting

	Fund Accounting (Grants)	Commercial Accounting
Primary focus	Accountability & stewardship of restricted resources	Profitability & shareholder value
What's tracked	Separate funds: restricted, temporarily restricted, unrestricted	One consolidated set of accounts
Core reports	Statement of Activities & fund/program-level statements	Income statement & balance sheet at org level
Success measured by	Compliance, mission impact, and proper fund use	Net profit and return on investment

Type of Funds for NPOs

Income of NPO as per ITA 2025

- Receipts from charitable or religious activity for which registered.
- Capital/revenue receipts from property/investment held.

- Voluntary contribution.
- Gains of permitted commercial activity in the tax year.

The word "grant" is not comprehensively defined in Indian law. It is referred to as Voluntary Contribution/donation (VC) under Income Tax law, FC under FCRA, and CSR fund under CSR law.

ICAI Classification of Funds for NPOs (Technical Guide on Accounting for NPOs)

A. Unrestricted Funds: funds with no specific restriction on use, purpose or time.

- **a. Corpus** (acknowledged in IT law): non-refundable, non-reducible, reinvestment obligation. Treated as corpus only when: (a) donor specifically directs it be treated as corpus; (b) not income but capital per IT Act; (c) invested in Section 350 modes of investment; (d) considered application when replenished; (e) not application if given to another charity. Corpus income is shown in the I&E.
- **b. Donations:** no obligations attached; a gift.
- **c. Designated / earmarked funds:** appropriated and set aside for a specific purpose/future, self-imposed by management, not binding by law.
- **d. General funds:** surplus/deficit transferred from the I&E which are not designated. Free reserves.

B. Restricted Funds: funds with conditions, restrictions or obligations.

- **Project / program grants:** to be utilized as per the terms and conditions of the award. Restricted by purpose, time and budget; may carry other conditions such as reporting or refund if unutilized. This is the principle of fund-based accounting.
- **Endowment:** the fund amount itself cannot be utilized; only the income is used for a general/specific purpose per donor stipulation. The recipient owns it but does not control it. An endowment may carry:
 - Permanent restriction
 - Temporary restriction: restricts use for a certain period or until objectives are met, after which it becomes unrestricted.

NPO Financial Statements

Format Prescribed by ICAI: Balance Sheet

Sources of Funds (Liabilities)	Schedule	Current Year	Previous Year
Unrestricted Funds: Corpus Fund / General Fund / Designated Funds			
Restricted Funds: Unutilised Grants (Deferred Revenue), Endowment			
Loans / Borrowings: Secured / Unsecured			
Current Liabilities & Provisions			
Total			

Application of Funds (Assets)	Schedule	Current Year	Previous Year
Fixed Assets: Tangible / Intangible / Capital Work-in-Progress			
Investments: Long Term / Short Term			
Current Assets, Loans, Advances & Deposits: Grant Receivable			
Total			

Plus: Significant Accounting Policies and Notes on Accounts.

Net Assets

Net Assets = Total Assets minus Total Liabilities

- In NPOs, net assets is like the net worth (share capital + reserves & surplus) of for-profit entities.
- Net assets means owner funds (capital), although there are generally no owners in charitable institutions.
- In an NPO, net assets mainly include corpus and general funds.

Format Prescribed by ICAI: Income & Expenditure

Income	Schedule	Current Year	Previous Year
Grants & Donations			
Other Income: rent, interest, incidental business income, fee & subscription			
Total (A)			

Expenditure	Schedule	Current Year	Previous Year
Program Expenses			
Administrative and General Expenses, Finance Costs			
Depreciation & Amortisation Expenses			
Total (B)			
Excess of Income over Expenditure (Surplus) / Excess of Expenditure over Income (Deficit) (A minus B)			

Balance being Surplus/(Deficit) is carried to the Balance Sheet: General Fund, Transfer to Designated Fund, Building Fund/Others (specify). Plus Significant Accounting Policies and Notes on Accounts.

Accounting for Grant Recognition by NGOs in India

Practice followed as per convention. There is no legal directive.

1. **Option 1:** Gross grant treated as income.
2. **Option 2:** Gross grant routed through the Balance Sheet only; asset and liability side settled.
3. **Option 3:** Grant treated as income to the extent of expenditure, while unutilised grant is a liability. This is the hybrid/matching method.

AS 9 mentions income recognition to the extent of expenditure for grants, applicable where there is business/commerce. Follow the principle of prudence in selecting the option for recognition.

Recipient, Sub-Recipient and Vendor

1. **Recipient / Prime Recipient:** The organization receiving the grant with full responsibility for the grant funds. The document evidencing this arrangement is the grant contract.
2. **Sub-Recipient / Sub-Awardee:** A nonprofit organization involved in substantive project activities. The recipient passes on some or all of its duties to the sub-recipient; terms and conditions flow down through a sub-grant contract.
3. **Vendor / Service Provider:** Provides goods/services to the recipient so it can accomplish the project's purposes, per specified terms performed by the vendor. The document evidencing this is a goods/service contract.

Part 4: Cost, Cost Types & Common Cost Allocation

Cost: Key Concepts

- **Cost:** amount spent to acquire an asset.
- **Expense:** amount spent on regular operations: staff, materials.

Natural Expense Head: WHAT

- The type of expense the funds are being spent on: salary, rent, hotel accommodation, etc.
- Grouped into heads like HR cost, Travel, Capital cost, Office costs, Legal & professional.
- e.g. Travel group: conveyance, airfare, meals, accommodation.
- e.g. HR group: salary, HRA, PF, gratuity.

Functional Expense Head: WHY

- The purpose the funds are being spent for.
- Program cost: program implementation, MEL.
- Support cost: accounting, admin, fund raising.

NPOs present reports using the functional expense head, the basis for their constitution and work. Broadly, the two functional heads are Program/Service Delivery and Support/Admin & General.

Direct Costs

- 100% direct traceability to a program/support function, to directly service beneficiary as per project design.
- No cost incurred if there is no project.

Common / Shared Costs

- Benefit multiple projects.
- Apportioned based on time, space, number of employees/beneficiaries or number of project locations.

Understanding and computing direct and shared cost is crucial for correct, realistic budget formulation and recovering the true/full cost.

Direct vs. Common Costs

Every allocation exercise starts by classifying two types of cost.

Direct Costs

Traceable 100% to one specific project or funder; no splitting needed.

- Field staff salaries working on a single project.
- Project-specific travel & field visits.
- Training materials for one program.
- Beneficiary transfers / grants-in-aid in a project.
- Equipment bought for one project.

Common (Shared) Costs

Benefit multiple projects at once; must be allocated using a fair basis.

- Office rent, utilities, maintenance, security, housekeeping & internet.

- Finance, HR, RM & leadership (admin) salaries.
- Audit & legal fees, insurance, bank charges.
- Travel, conveyance, shared vehicle costs.
- Office supplies, general communication, capacity building, depreciation.

Total Project Cost

Common cost is allocated as per the organisation's Common Cost Allocation Policy, and should be reviewed every year within the purview of that policy.

Total Cost for a Project = Direct Cost + Common Direct Cost + Common/Shared Cost Apportioned

Institutional/Management cost, overhead or indirect cost (negotiated indirect cost recovery: NICRA), if permitted, is added per the donor's grant management policy to address contingency or create a reserve.

Other Types of Cost

1. **Project/Program-Based:** Program vs. non-program (admin, fund raising).
2. **Nature of Expense:** Personnel vs. non-personnel.
3. **Time Horizon:** Capital vs. Revenue (recurring) cost.

Capital Costs

- One-time fixed-asset purchase costs used for revenue generation over a long period, more than one year.

Revenue Costs

- Operating expenses that are short-term, used in running the daily business operations.

Fixed vs Variable Cost: Fixed cost does not change in total amount over a reasonable activity range, but the fixed cost per unit decreases as volume increases (and vice versa). Variable cost changes in proportion to changes in volume/activity.

More Cost Concepts

1. **Historical Cost:** The original cost of an asset when it was purchased.
2. **Sunk Cost:** Money already spent that cannot be recovered.
3. **Marginal Cost:** The change (usually a decrease) in the cost of producing one more unit or serving one more customer.
4. **Opportunity Cost:** The value of the next-best alternative when taking a decision, given the resource constraint.

Common (Shared) Cost Allocation

The process of dividing a shared cost among the programs, funders or departments that benefit from it.

- **Accurate project accounting:** Funders see the true cost of running the program they funded, not just direct spend.
- **Compliance:** FCRA rules cap or scrutinise how much can sit in "administrative" cost.
- **Fair cost recovery:** Shared resources (staff, office, IT) get charged to the projects that actually use them.
- **Donor trust:** Transparent, defensible allocation keeps audits and donor due-diligence smooth.

A One-Line Example

An NGO's accountant, Priya, spends 40% of her time on a WASH project and 60% on an education project. Her ₹60,000 monthly salary is a SHARED cost. Cost allocation is the rule that splits it:

- ₹24,000 (40%) to the WASH Project
- ₹36,000 (60%) to the Education Project

3 Pieces in Shared (Common) Costs

1. Common Cost Pool / Category: Program staff, Support/Admin staff, Facilities, Leadership & Governance.

2. Allocation Method / Driver / Base

- Direct Allocation Method (percentage of direct costs): simple and easy to implement.
- Time allocated/spent: Program, HR, Finance & Compliance staff (backbone).
- Headcount: Resource Mobilization, IT, Capacity Building, General Comms, Office supplies.
- Square footage: rent, utilities, maintenance.
- Usage: vehicle.

3. Full Cost Recovery: such that $\text{Income} = \text{Expenditure}$.

Revision #1

Created 2026-10-14 06:27:10 UTC by Pooja

Updated 2026-10-14 06:27:41 UTC by Pooja