Grant Management

What is a Grant?

- Funds given from one entity to another for a public benefit/charitable purpose
- Usually given to a charitable entity or NPO
- Is not an automatic entitlement, it is for an obligation to be discharged
- Grant is trust money with 3 actors-grantor, grantee (trustee with fiduciary responsibility to grantor and beneficiary) and beneficiary
- Grantor does not get direct benefit and grantee is not expected to payback if utilised for the intended purpose
- Grant comes in different forms from different sources-govt (grant-in-aid), retail, corporate, foundation
- Are awarded directly or through a competitive process

Exchange Transaction vs Grant

- Exchange transaction (as per GST Act) involves:
  - Supply of goods and services
  - Consideration
  - In course of furtherance of business
- Grant is not exchange transaction since there are
  - No specific beneficiaries
  - Nothing in return from beneficiaries or benefit derived by grantee
  - Not for furtherance of business

Understanding above for grant contract is crucial otherwise contributions maybe considered as exchange transactions inviting GST and TDS implications and also charitable status maybe jeopardised.

Grant Management

- Involves two key players:
  - Grantmakers-grantor/donor
  - Grantseekers-grantee/donee
- Grant management is a system that includes identifying, applying for and securing grants, adhering to grant conditions, evaluating outcomes.
- Grant management process in grant management system (GMS) is the grant management lifecycle.

The Grand Management Process

- Planning
- Opportunity
- Application
- Award
- Execution
- Closeout

Grant Management Life Cycle

- Pre award
  - Planning-need identification, SWOT, due diligence preparatory etc
  - Scout Funding opportunity
  - Grant application & review-eligibility and Qualification
- Award
  - Award Negotiation
  - Award Decision
  - Award Notification/Contract
- Post Award
  - fund request-advance, reimbursement etc,
  - Implementation
  - Reporting-program and finance
  - Post award amendment-key changes and approval, budget realignment, NCE
  - Performance/impact
  - Closeout
- Reapplication

Principles of grant management

- **Accountability, Transparency & Trust** for grant funds
- **Efficiency & Effectiveness** with grant funds
- **Compliance** with laws of the land
- **Adherence** to terms and conditions of Grant Agreement
- **Internal controls** in place
- **Communication & Timely Reporting -** narrative and financial as per grant contract

Fund Accounting

NGOs follow Fund Accounting for managing grants:

- Fund accounting is an accounting system for recording and tracking project resources (fund) whose use is limited/restricted by specific conditions by donor through a grant contract
- This accounting system emphasizes accountability/productively over profitability which is the accounting basis for for-profits

Features:

- Separate funds (buckets/compartments)
- Restriction on use
- Separate budget established for each fund/project and income credited and expenses debited from the fund
- Transparency
- Software for recording
- Good internal controls
- Monitoring and Reporting mechanisms ensures fund accounting

Type of funds for NPOs

Grant word is not comprehensively defined in Indian laws, referred to as Voluntary contribution/donation (VC) in Income Tax law. FC under FCRA and CSR fund under CSR law.

ICAI has classified funds for NPOs in its Technical Guide on Accounting for NPOs:

1. **Unrestricted funds: Funds with no specific restrictions on use (purpose)/time**
   - Corpus (acknowledged in IT law)-non-refundable, non reducible, reinvestment obligation.
   - Corpus only
     - when specific donor direction that it be treated as corpus by donor
     - not income but capital per IT Act
     - to be invested in section 11(5) modes of investment
     - considered application when replenished
     - not application if given to another charity. Corpus income shown in I&E.
   - Donations i.e. no obligations attached, a gift
   - Designated/earmarked funds-appropriated and set aside for specific purpose/future, self imposed by management and not binding in law for NPOs
   - General funds-surplus/deficit transferred from I&E which are not designated. Free reserves
2. Restricted funds: funds with conditions/restrictions
   - Project/program grants-to be utilized as per terms and conditions of award, Restriction-by purpose and by time. There could be other conditions/restrictions. Principle of fund based accounting
   - Endowment: fund amount cannot be utilized, only income utilized for general/specific purpose as per donor stipulation. The recipient owns it but does not control it.
   - Restricted funds maybe
     - Permanent restriction
     - Temporary restriction: restricts use for a certain period or meeting objectives after which it becomes unrestricted.

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BALANCE SHEET AS AT ____

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)

- FIXED ASSETS-Tangible Assets/Intangible Assets/Capital Work-In-Progress
- INVESTMENTS-Long Term/Short term
- CURRENT ASSETS-LOANS, ADVANCES & DEPOSITS-Grant Receivable

TOTAL

Significant Accounting Policies and Notes on Accounts

Net Assets

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

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Name of Entity ______________________________________

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/YEAR ENDED __________

INCOME Schedule Schedule Current Year Previous Year

- Grants & Donations
- Other Income-rent, interest, incidental business Income, Fee & Subscription,

TOTAL (A)

EXPENDITURE

- Program Exp
- Administrative and General Expenses, Finance costs
- Depreciation & Amortisation Expenses

TOTAL (B)

Excess of Income over Expenditure (Surplus) or excess of Exp over Income (Deficit)(A-B) (Net Income in for profit entity)

- Balance Being Surplus (Deficit) Carried to Balance Sheet-General Fund, Transfer to Designated fund, Building fund/ Others (specify)

Significant Accounting Policies and Notes on Accounts

Accounting for grant recognition by NGOs in India

Practise followed as per convention-no legal directive:

Option 1: Gross grant treated as income
Option 2: Gross grant routed through Balance Sheet only-asset and liability side settled
Option 3: Grant treated as income to the extent of expenditurewhile unutilised grant is a liability--hybrid method

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

Recipient, Sub-recipient and Vendor

Recipient is the organization receiving the grant, sometimes called the Prime recipient because it has full responsibility for grant funds. The document evidencing this arrangement is grant contract

Sub-recipient is involved in substantive activities of the award project. The recipient passes on some or all of its duties to the sub-recipient called sub award. All the terms and conditions from the grant award flow down to sub-recipients through a document evidencing it called sub grant contract

Vendor/service provider provides goods/services to the recipient to accomplish project's purposes. Selected terms and conditions might be passed through to the vendor. The document evidencing is a goods/service contract

Cost-Key concepts

Cost-amount spent to acquire an asset

Expense-amount spent on regular operations

- Classification of expense for NPOs

Natural expense head-WHAT (type of expense) the funds are being spent on-salary, rent, hotel accommodation etc

- The natural expenses are grouped into group heads like HR cost, Travel, capital cost, office exp, legal & professional etc
- Group head-Travel-natural expense-conveyance, airfare, meals, accommodation etc
- Group head-HR-natural expenses-salary, HRA, PF, Gratuity

Furcation expense head- WHY (purpose of expense) the funds are being spent

- Program cost (program implementation, MEL)
- Support cost (Accounting, Admin, Fund raising)

Cost - Key concepts

NPOs should follow functional expense head for presenting reports, that is what is the basis for their constitution and work. Broadly the functional heads are two-Program/service delivery and Support/Admin & General

Costs for a project for NGO

- Direct costs (100% direct traceability to a program/support function) to benefit the beneficiary as per project design. No cost if no project.
- Common/Shared costs-benefit multiple projects-shared cost apportionment based on time, space, no of employees/beneficiaries/ no of project locations

Understanding and computing direct and shared cost crucial for correct and realistic budget formulation

- Apportionment method and share of common cost included in common cost policy

Common cost be reviewed every year within the purview of common cost policy

Total cost for a project:

- Direct cost+
- Common Direct cost
- Shared cost apportioned to the project

Institutional/Management cost/indirect cost if permitted basis donor grant management policy to address contingency/create a reserve

Other types of cost

Capital & Revenue cost:

- Capital Costs: Capital costs are one-time fixed assets purchases that will be used for revenue generation over a longer period- more than one year.

- Revenue Costs: are referred to as operating expenses are short-term expenses that are used in running the daily business operations.

Fixed and Variable Costs:

- Fixed cost is one that does not change in total within a reasonable range of activity.Since the fixed cost remains constant in total, the fixed cost per unit of activity decreases when the volume increases and vice versa
- Variable cost or expense is where the total cost changes in proportion to changes in volume or activity.
- Historical cost: original cost of asset when it was purchased.
- Sunk cost: money spent that cannot be recovered.
- Marginal cost: change usually decrease in the cost of producing one more unit or serving one more customer.
- Opportunity cost: value of next best alternatives when taking a decision given the resource constraint.

Cost Principles in grant budgeting for NPOs

Costs budgeted for a project grant should be

- Allowable cost-costs which are not subject to any restrictions/limitations in the grant award.
- Allocable cost-costs which are incurred specifically for the attainment of the objective of the grant.
- Reasonable cost-cost which is generally recognized as necessary to be incurred by a prudent person in the conduct of normal business
- Consistent: cost applied in same fashion throughout the grant
- Unallowable cost-those costs that cannot be incurred and paid under the grant.

Budget basics

A budget is estimation of revenue and expenses over a specified future period, usually the project period for a grant.

It is financial plan (blueprint) of the project plan. One need to budget the plan and not vice versa

Budget is a Planning (align with objectives)Tool, Control (within policy framework) Tool, Compliance (ceiling) Tool and Mirrors the Financial Report

A budget covers quantitative, qualitative and cost aspects.

The purpose of budget is to:

- Ascertain reasonable estimation of costs for interventions/activities in a grant proposal/award.
- Segregates costs-direct/common/indirect or OH costs
- Cost matching/sharing (co-financing) for multi donor grant, in kind match.
- Is a framework for donor-donee in a grant award
- Enables course correction based on measurement of actual achievements versus estimates
- Statement of SOF and Estimated Costs
- Enables Recognition-activity, group, period, income, expenditure, deficit, surplus

Pre requisites

- Organisation structure.
- Data.
- Chart of accounts.
- Managerial support.
- Formal process for formulation.

Types of Budgets: Activity budget

Activity based budget as the name suggests, covers the costs required for implementing a project activity.

In ABB, one looks at resources required for completing an activity and the resources cost

For example, if project strategy is to build capacity of civil society leaders, workshops is an activity. Workshops costs would be towards hiring resource persons, booking a venue, transportation cost, food, lodging and materials and handouts.

Illustration: Activity Budget for Conducting a Workshop

Particular of Expense	Rate per unit	No of Units	Total in Rs
Trainer Fees	@ Rs 1000 per day	3 days	3,000
Venue	@ Rs 500 per day	3 days	1,500
Rental for Furniture	@ Rs 500 per day	3 days	1,500
Rental for Equipment	@ Rs 100 per day	3 days	300
Catering Exp for Lunch and tea two times	@ 100 per person	55 persons X 3 days = 165	16,500
Conveyance paid to attendees	@Rs 50 per person per day	50 attendees x 3 days = 150	7,500
Printing of handouts	@ Re 1 per page	50pages x 50 copies = 2500 pages	2,500
		Grand Total	**32,800**

Line Item Budget

- A Line-item budget presents the budget under broad heads
- It lists income and expenses by category
- Major donors like USAID, European Commission prefer to have their budget templates by line items.
- It helps better tracking for trends in major cost categories

Illustration: Line Item Budget

Expenses	Unit	# of Units	Unit Rate ($)	Costs ($)
Human Resources				
CEO	Per day	3	350	1050

Expenses	Unit	# of Units	Unit Rate ($)	Costs ($)
Trainer Fees	Per day	2	200	400
Subtotal Human Resources				**1450**
Travel				
Trainer Airfare	Per Person	1	300	300
Participant Transportation	Per Person	30	10	300
Subtotal Travel				**600**
Equipment and Supplies				
Materials and hand-outs	Per Person	30	15	450
Subtotal Equipment and Supplies				**450**
Other costs, Services				
Venue	Per day	2	300	600
Catering	Per Person	30	15	**450**
Subtotal Other costs, Services				
Subtotal				3550
Overhead (10%)				355

Expenses	Unit	# of Units	Unit Rate ($)	Costs ($)
TOTAL				**3905**

Other Types of Budget

1. **Incremental budget:** Next year's budget prepared by making marginal changes to the current year's budget. The current budget is used as a base to which incremental assumptions are added or subtracted from the base amounts to determine new budget amounts.
2. **Value Proposition Budgeting** focuses on allocating the ideal amount of financial resources that provides the highest value to the customer. Another name for Value Proposition Budgeting is Priority Based Budgeting or value based budgeting.
3. **Zero-based budgeting (ZBB)** based on efficiency and need at that point rather than budget history. Formulation starts from scratch that only includes operations and expenses essential, no expenses are automatically added to the budget.
4. **Performance based budget (PBB)** considers input of resources and the output of services. The goal is to link funding to results delivered, thus called Outcome based budgeting
5. **Fixed Budget**: not modified for variation in actual activity and costs.
6. **Flexible budget**: budget changes in response to activity level and costs

Budget Justification Note

- Separate word document to explain the budget nos.
- For each line item and activity, provide complete details so that it can be referred for direction and validation during implementation.
- Provides narrative clarification of each budget item demonstrating the necessity of the costs and how they relate to the program activity Provide justification of the calculation of the estimated costs. Note that the estimation should be based on real costs

Balanced, Surplus and Deficit budgets

A balanced budget is a e budgeting process where total expected revenues are equal to total planned spending.

A budget deficit occurs when expenditures surpass revenue.

A budget surplus means there is additional money to spend at the end of the accounting period

Budget Monitoring & Budgetary Control

Budget Monitoring is the process:

- Record actual expenditure versus budget estimates at the line/activity level in books
- Measure variance using a budget variance report to ascertain positive/negative devotions
- The workplan delivered helps budget monitoring at a particular point of time
- Tally software can setup budget and record expenditure. So, the Variance report is real time.

Budgetary Control is the process to:

- Evaluate results of budget monitoring i.e. actual income and expenditure versus original/revised (realigned) budget through variance report
- Deviation/tolerance triggers action
- Budgetary control ensures timely action/approvals i.e. budget realignment, reallocation, NCE

Interest apportionment

1. With a single bank account for multiple projects, interest apportionment for reporting to donor has to be made as per well defined method
2. Interest apportionment not applicable for dedicated bank account
3. Interest can be additive or deductive from grant as specified in grant agreement.

HR cost allocation

- Staff cost for shared HR in a grant should be allocated and charged to donor grants as per project grant in line with common cost allocation policy
- Monthly salary register/sheet with salary allocation of staff to donor projects, deductions/adjustments, variance versus previous month with reasons and banking streams for payout. This is required for donor verification and audit

- Payment of salary out of FC and local funds
- Applicability of time sheets in donor contracts

Robust Grant Monitoring System

Grant monitoring is a process to measure/review performance during grant period. It assesses physical & financial progress, identify risks and corresponding mitigation measures, ensure that funds are used as intended and programs achieve desired outcomes and impact.

Important Tools and Process:

- Complete understanding of terms and conditions of Grant contract
- Budget and LFA clearly known to both finance and programme teams
- Periodic Budget Variance/Deviation Analysis by finance, program team and management review
- Timely course correction through realignment etc through addendum in grant contract.
- Timely reporting-narrative and financial reports as stipulated in grant contract

Grant Contract - General Conditions

- MOU versus grant contract/agreement distinction
- Recitals/Preamble
- Definitions
- Grant amount and purpose (including prohibited/disallowed use)
- No Pledge
- Complementary funding
- Designated contacts-for various aspects of the grant
- Conflict of interest and ethical conduct
- Confidentiality
- Term and termination

Grant Contract - General Conditions

- Notice of Changes
- Compliance with laws

- Indemnity
- Publications and Licenses
- Visibility, Publicity
- Force Majeure
- Relationship of parties
- Governing Laws
- Notice
- Waiver

Grant Contract - General Conditions

- Severability-any clause not enforceable does not make other clauses non enforceable
- Assignment/Delegation
- Acknowledgement-understand and consent
- Counterparts
- Entire agreement
- Arbitration
- Jurisdiction
- Remedies-injunctive relief from court

Grant Contract - Operational Conditions

- Scope of Work
- Deliverables
- Budget
- Eligible Costs
- Grant Disbursement/Reimbursement
- Log Frame and Work Plan
- Basis of accounting
- Separate Books of Account for the project
- Separate Bank Account for Grant Funds
- Bills and Voucher separately and defaced with mention of project
- Limit on Cash Expenditure.

Treatment of interest

- Procurement rules
- Program/Financial reporting-Often there are templates for interim and final reports
- Input Tax credit
- Monitoring/Evaluation Audit
- Recovery
- Treatment of Fixed Assets-templates in case FA are not allowed to be retained automatically
- Income generated from project activity
- Sustainability
- Closure of grant
- Record and retention

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