

# Pre-Funding Appraisal - A Concept Note

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## Pre-Funding Appraisal - A Concept Note

### 1.1 Introduction

Development process is complex in nature since it involves people, resources, formal and nonformal structures etc. Financial resources are integral to any development work. Facilitating a process by which resources reach the implementing organizations, ensuring smooth implementation of the planned activities and complying with the reporting requirements are major links in development cooperation.

The voluntary organizations which facilitate the development process are a result of voluntary efforts. Therefore, they may have very little resources to invest in organizational strengthening which is quite critical to effective implementation of programmes. At the same time, the donors expect highly professional service delivery with efficient systems and structures in place. It is also to be noted that not many donors are willing to invest in institutional development of organizations. Further the funds available at the donors' end for development initiative shows a reducing trend in the recent years. All this put together calls for effective utilization of scarce financial resources for implementation of planned activities and at the same time ensuring that proper systems, processes and structures are in place. This is coupled with irregularities and mismanagement of funds displayed by some organisations that contributes to overshadow the good work being done by many others.

### 1.2 Objective

Objective of the Pre-funding Appraisal is to ensure if the funds that are to be provided to a development organisation will be effectively managed or not and if the organization possesses the required capacities to govern the same before entering into a funding cooperation. This has laid the base for undertaking a Prefunding Appraisal. The outcome of this Appraisal will enable an informed decision about funding the organization.

### 1.3 What is PreFunding Appraisal ?

Prefunding appraisal is a diagnostic tool used to identify the competencies, capacities, skills and limitations an organization may have to undertake the project. It is designed to assess the strength of the organization and also at the same time to identify the areas where it needs to develop capacities. The main focus of the pre-funding appraisal is on sound financial management, administrative structure,

governance and Legal compliances. Such an appraisal helps the donor agencies to make appropriate decisions regarding funding. It also brings out areas where special attention needs to be given while monitoring the project.

#### 1.4 Methodology Followed

Given the nature of the assignment, FMSF has developed a comprehensive methodology to conduct Pre-Funding Assessment. The methodology includes, Desk Review, On Site Visit, Desk Analysis and Reporting. As part of the assessment, a team of Finance Professionals will review the relevant and necessary documents of the organization to have a basic idea about the organization. Followed by the review, the team members will visit the Organization to conduct *Key Informed Interviews* (KII) with the Chief Functionary, Board of Directors and Program and Finance staff of the Organisation to assess the strengths and areas to be improved in the functional areas of Governance, Financial Management, Internal Control and Legal Compliances of the organization.

The team will also have a look into the books of accounts of the organization to understand Finance and Accounting systems as well as issues and process of the Organization. Finally, the team will analyze the findings of Desk review and information collected during the KIIs and submits 15-20 page report with a focus on areas to be improved. Details are as follows:

##### 1.4.1 Desk Study

a. The following information related to organization is obtained :

- Audited Financial Statements for last three years;
- Profile/Brochure;
- List of Governing Body members and the persons involved in the management at Project Sites with their brief profile.
- Board meeting, General Body minutes last three years.
- Society Bylaws, Registration Details, FCRA, 12A, 80G, other relevant statutes
- Copy of annual returns filed with Income tax department, FCRA, Registrar of Societies.
- Activity Report/ Annual Report for the last three years.
- Details of Donor wise funding for the last three years.
- Internal policies regarding administration, finance, staff etc.
- Details of Infrastructure and Staff available.

b. The following Inputs on the proposed Project are asked for:

- Scope of the Project and future direction
- Geographical Areas in which Project operates
- Need of the Project - Number of beneficiaries, section of society which it serves
- Relevant years of experience or efforts put in by the organization in the area.

c. Identify the key budget areas relevant to the project.

d. Analyze how the proposed project fits into the organizations' overall objective.

e. Analyze other projects undertaken by the organization and the possible linkages / overlaps

f. Assess the infrastructural needs for the project.

g. Analysis of the internal policies, financial statements, annual reports and other details.

#### 1.4.2 On site Visit

a. Visits to Project Sites.

b. Visiting the Head office of the organisation

c. Meet the members of Governing Body and those involved in the management of Projects at different locations.

d. Visit a group of beneficiaries and take their view on the proposed project.

e. Evaluation of the strength of field workers, their level of interaction with the target group.

f. Analyze the infrastructural strength of the organization.

g. Verification of Books and records

h. Verify the information provided in the documents and records.

i. Analysis of internal control systems and financial management practices

#### 1.4.3 Desk Analysis and Reporting

Based on the desk study and field study necessary conclusions are arrived at and on the basis of these the report is prepared. The report contains clear recommendation about the possibility to fund the organisation. The matrix in which it is prepared is given below. The report is shared with Donor.

Organization	No Funding Recommended	Funding with Intensive Monitoring	Funding with routine Monitoring
High Risk	X		
Medium Risk		X	
Low Risk			X

## 1.5 Tools Used

To ensure that all the relevant information required for the Prefunding Appraisal has been taken and looked into, a comprehensive checklist has been prepared by FMSF which is used as a toolkit. Further a pre funding diagnostic instrument is also used for this purpose. These are exclusively developed by FMSF on the basis of its previous experience and research.

## 1.6 The Team

FMSF is having in-house finance professionals to take up pre-funding appraisals. The team members are having rich experience and exposure to development sector and involved in the Pre-funding appraisals, Grant Management, Financial Monitoring and Capacity Building in the development sector. The team has been undertaking the appraisals for the International and National level donor agencies. FMSF has developed a resource pool who also work closely with FMSF on various assignments from time to time.

## 1.7 Work plan and Cost - Per Organization

### a. Work plan - Per Organisation

Area	No of Working Days
Desk Review	2-3 Days
On site Visit	2-3 Days*
Desk Analysis and Reporting	2-3 Days
Total No of Days	6-9 Days

\*Depends on the size of the organization

### b. Cost

FMSF charges generally ranges between Rs.7500 to Rs. 10,000 per day for such assignments. In addition to the resource fee, out of pocket expenses to meet Travel, accommodation, food, local conveyance, post processing and reporting expenses will be charged on actual basis.

## **1.8 Agreement**

Before commencing the assignment, FMSF will enter into a formal agreement with the Donor Agency.

## **1.9 Confidentiality and Independence**

This exercise being of sensitive nature, the independence is of utmost importance. Therefore, the prefunding appraisal is generally conducted on behalf of the key stakeholders primarily being donor agencies. The engagement is carried out in confidentiality. Under no circumstances any information of the organisation is shared with anybody not intended to receive such information.