

Standard requirements for financial management capacity

Financial management capacity is the ability of the partner to properly apply and manage procedures relating to budgeting, accounting, internal controls, governance, financial reporting, and auditing.

Adequate financial management capacity is a prerequisite for efficient and effective grant management and the achievement of the agreed results.

During the identification and formulation phase, a capacity assessment of possible partners' financial management should take place to determine whether the potential partners have the necessary financial management capacity to ensure the successful implementation of the activities, and if training, external assistance or other supporting measures may be used to strengthen the capacity.

The purpose of a financial management capacity assessment is to ensure that the partner can provide a trustworthy, timely, and efficient handling of financial information to support the successful implementation of project/programme activities. Furthermore, the aim is to minimize the risk of financial irregularities in project implementation.

The scope and depth of the assessment will depend on the size and complexity of the activity, the nature of the partner and its history of prior cooperation with Danida or other donors.

It is the responsibility of the unit that the assessment is carried out. The potential partner organisation should be part of the process, and if the assessment requires external assistance, included in the elaboration of terms of reference and other relevant parts of the process.

To the extent possible, the assessment should build on existing information. If the information is insufficient, it may be supplemented by further work. This could be an assessment conducted by the unit itself, such as a visit to the partner, or more comprehensive exercises such as a systems-based audit or using external consultants.

If the proposed activity includes the transfer of funds to sub partners, the capacity of these sub partners should be a consideration.

More information on minimum requirements and guidance on carrying out the financial management capacity assessment is available in the Financial Management Guidelines for Development Cooperation chapter 2 and Annex 1 - Guide to financial management capacity assessment.