Balancing impact and overheads

Balancing impact and overheads: Understanding the 80:20 Rule in NGO Funding

Table of contents

01 Key changes from previous NGO law 04

02 Implications of the 20% rule for NGOs 05

03 Strategies that NGOs can use to manage overhead costs 07

The new NGO Law N° 058/2024, Gazetted on July 19, 2024, has replaced the previous Law n° 04/201. The new law introduces significant changes to the governance of non-governmental organizations. One of the key provisions, Article 9, imposes a 20% cap on administrative expenses, requiring that the majority of an NGO's budget directly benefits its intended recipients.

The 80:20 rule has been a common principle for International NGOs (INGOs) for quite some time. The rule aims to ensure that at least 80% of funds go directly toward program activities, while no more than 20% is allocated to administrative and operational costs. The new NGO Law N° 058/2024 reinforces this standard, extending it to a broader range of organizations including the local NGOs.

The NGO Law introduces several changes compared to previous regulations, impacting both local NGOs and International NGOs (INGOs) in distinct ways.

Key changes from previous NGO Law.

1. Consolidation of Laws – The new law repeals two previous laws governing national and international NGOs separately, creating a single framework for all NGOs.
2. Registration process – The law simplifies registration, reducing the process to two months, but also introduces stricter documentation requirements.
3. Financial oversight – NGOs must now submit annual reports and budgets, with transactions managed through licensed financial institutions.
4. Stronger government oversight – The Rwanda Governance Board (RGB) has expanded authority, including audits, compliance checks, and certification processes.
5. Leadership and governance rules – NGOs must notify RGB of leadership changes within 30 days, adding an extra layer of administrative compliance.

01

Implications of the 20% rule for NGOs

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The 20% rule has significant implications for NGOs, affecting their financial management, sustainability, and operational efficiency. Some of the key implications are.

- **Increased financial monitoring and scrutiny to ensure compliance:** To be compliant, NGOs now need to ensure that at least 80% of their budget is allocated to the program expenses, which means greater transparency in financial reporting. There is greater scrutiny from the regulator (RGB) in checking how NGOs allocate their resources.
- **Operational challenges:** Essential administrative expenses such as staff salaries, rent, utilities, and technology must be carefully managed within the 20% limit. Some NGOs may struggle to maintain quality operations if they cannot allocate sufficient funds to administrative expenses hence the need for more innovative ways to curtail the administrative costs.
- **Relooking at the budgeting processes and classification of expenses:** NGOs are now required to restructure their budgets, ensuring that administrative expenses are minimized while maintaining efficiency. Many organizations will consider outsourcing administrative tasks that may now be required inhouse or seek in-kind donations to reduce administrative expenses.
- **Approval by RGB on justification to exceed the 20%:** NGOs are required to obtain approval if they anticipate from the budgeting process to exceed the 20% limit. To seek approvals, the NGOs must provide written justification to RGB, explaining why the additional administrative expenses are necessary for the implementation of the program.

Accordingly, some of the administrative expenses that may be admissible upon approval are:

- **Capacity building and long-term growth expenses** - Investing in staff training, technology, and infrastructure. Such investments require higher administrative expenses necessary during expansion phases, ensuring long-term sustainability.
- **Compliance and accountability -** NGOs may need legal, financial, and governance expertise to meet regulatory requirements and strong monitoring and evaluation systems.
- **Fundraising and resource mobilization expenses -** For donor engagement and proposal writing, the organisations may invest in expanding donor networks to increase funding for direct beneficiary programs in the long run.

02

Strategies that NGOs can use to manage overhead costs

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NGOs can adopt several strategies to manage administration or operational costs effectively while maintaining operational efficiency and compliance with the 20% rule. Some of the approaches to manage administrative expenses efficiently include.

- Administrative expenses optimization through outsourcing some functions such as accounting, IT support, and HR to reduce full-time staff costs.
- Efficient utilisation of office and utility expenses by implementing remote or hybrid work arrangements to reduce office space costs, renegotiating rent and utility fees, or considering co-working spaces as a cost-effective alternative
- Strengthening volunteer and partnership networks through engaging with volunteers for administrative and operational tasks to reduce payroll expenses and partnering with corporations for in-kind donations, such as office supplies, software, or professional services.
- Transparent tracking and categorization of administrative expenses to identify cost-saving opportunities and ensuring efficient utilisation of the administrative expense within the budget lines.

According to the new law, NGOs that need to go beyond this threshold must provide written justification to the RGB, explaining why the additional administrative expenses are necessary and demonstrating how these additional administrative expenses contribute to greater efficiency, sustainability and impact to the programme.

This Law NGO Law N° 058/2024 came into force on19 July 2024 when it was published in the Official Gazette of Republic of Rwanda, and it introduces new regulations that govern the registration, financial management, and operational practices of national and international NGOs. This law emphasizes transparency, accountability, and effective resource utilization, ensuring that funds are directed toward impact-driven initiatives.

Non-compliance may result in suspension or loss of operational status, affecting an organization's ability to continue its valuable work. There is an immediate need for NGOs to take immediate steps to align with these new requirements.

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Thank you