

What are notional expenses? Are notional expenses ethical?

Speaker: Notional expenses are those transactions which one makes with himself or herself.

Audience: For example?

Audience: Where you pay rent to yourself.

Speaker: Suppose you own a building and you run four projects. You charge Rs. 20,000 for running each project. It is your building, you are not paying rent to anybody but you are charging and recovering Rs. 20,000 per project i.e for 4 projects Rs. 80,000 a month. Donor funds are restricted grants, so when you charge the rent to the donors' projects the grant balance goes down. On the other end you transfer the amount to your general reserve and the organization funds go up. You report to the donor that the amount is spent but it is actually a transfer. Another example - you hire a taxi and you pay the driver, a separate entity for the service he has provided. When you use your own car; if you pay yourself say Rs. 19 per km, then there is some amount of notional income.

Audience: But why would you pay yourself?

Speaker: It is like having a transaction with oneself, taking money from one pocket and putting it into the other. The overall analysis of the financial statement - there is no net cash and therefore no net transaction. It is just a journal entry from one project to your general fund.

Audience: It is not a private transaction, the money has not gone into your private pocket but into the organization?

Speaker: Yes

Speaker: Now as this is a prevalent practice in the NGO sector today, we have to deal with the ethics part of it. First of all notional expenses face an issue of transparency - whether the donor is aware or not that this amount has been charged. If the donor has allowed that you can charge 'x' amount for meeting administrative or overhead costs, then it is okay.

Speaker: As a good practice it is important not to make money out of a project. If there are actual expenses incurred for e.g. for upkeep, maintenance, etc you can charge it with the knowledge of the donor. Charging in a camouflaged manner for a particular amount indicates a lack of transparency. So in notional costs, there should be transparency with the donor and the actual expenses should be charged.