

Estimating Financial Reserves: A Practical Tool for NGOs

Introduction

Financial reserves are a key component of organizational sustainability. They provide a financial safety net that helps organizations manage unexpected events, funding delays, or changes in the operating environment without disrupting their core work.

For nonprofit and NGO organizations that often rely on project-based or restricted funding, maintaining appropriate reserves can help ensure continuity, protect commitments to staff and partners, and provide flexibility to respond to emerging opportunities or risks.

This resource provides a simple framework to help organizations estimate an appropriate range for their financial reserves based on their specific risks and obligations.

When to use this tool?

This reserves calculation sheet can help organizations:

- Estimate the minimum and maximum level of financial reserves they should maintain
- Identify different types of financial risks and obligations that reserves may need to cover
- Support financial planning, sustainability strategies, or board discussions about reserve policies
- Review whether current reserves are sufficient for the organization's operating environment

The tool is intended as a practical estimation exercise, not a precise calculation. Organizations should adapt the assumptions based on their size, operating context, funding structure, and risk exposure.

Using this tool

The reserves calculation sheet appears on the following page and can be edited directly to estimate the level of financial reserves your organization may need.

If you prefer to work offline or adapt the tool more extensively, you can download an editable Word version [here](#). The template can be customized to reflect your organization's terminology, structure, or financial planning processes.

Additional notes and tips on how to complete the calculation sheet are provided on the final page of this resource.

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Contingency for:	Calculation notes	Priority level 1*	Priority level 2*
Cash for running costs E.g. for continuity / cashflow purposes, usually a % of general running costs.			
Long-term legal obligations E.g. funds to set aside for long-term commitments, such as leases and legal obligations to employees and suppliers			
Long-term moral obligations E.g. maternity pay, pensions, medical, terminal benefits for casual employees.			
Replacement and premises funds E.g. for vehicles, buildings, project equipment			
Development funds E.g. for research and development of new activities			
Subtotals			
Environmental risk contingency Add a % to the subtotal figures, e.g. for foreign exchange risk, controversial or pioneering areas of work.			
Totals			
Minimum recommended reserves (Priority 1 total)			
Maximum recommended reserves (Priority 1 total + Priority 2 total)			

*All figures rounded

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Notes on how to use the calculation sheet

Contingencies

- There are six different contingencies to assess, including money needed for day-to-day cashflow challenges and long-term legal obligations such as employment contracts.
- See the notes in each section for examples of what might be included.

Priority level

- For each contingency, you need to decide if it is a Priority Level 1 (higher) or Priority Level 2 (lower but still important).
- For the cash flow and legal contingencies, these are automatically Level 1, as you must have these funds as a minimum safety net. For the other contingencies, you have to decide on priority based on your knowledge of the project.

Calculations

- In practice, the calculations are highly subjective, and close knowledge of the organization you are assessing is important. This is not a precise science, so there are no perfect answers – the form just helps us to make a reasonable estimation of how much we need to manage certain risks.
- The Environmental Risk Contingency requires you to assess how stable the operating environment is. Depending on whether you assess the risk as low, medium, or high, you will then add a percentage of the total of all the other risk areas, as indicated on the form.
- As the amounts are estimates, it is best to round up the figures – i.e., do not include cents, just whole numbers.
- For the minimum reserves required, use the total of the Priority 1 column. For the maximum reserves required, add the Priority 1 and Priority 2 columns together.