

Just like with companies, managing cashflow is important for humanitarian organisations, particularly when funding is disrupted. Negotiating payment terms is an important way to help manage cash flow, however, it's important to do it the right way and ensure fair treatment of suppliers. *This guidance is developed based on IAPG members experience. You are recommended to check compliance with internal policies & local regulations.*

1 Why negotiate payment terms ?

This is a simple way that NGOs optimise cashflow (manage when money goes out). Always bear in mind that your negotiation needs to respect suppliers and fairness to them

2 Which suppliers should I negotiate with?

While negotiating payment terms is always a possibility, it is recommended to prioritise suppliers with high value contract commitments (higher impact on organisation cashflow and commitments). Be responsible in negotiation and be aware of supplier's cashflow and impact of unpaid invoices.

3 Preparing your negotiation

Be aware of your power when negotiating with smaller businesses and ensure responsible negotiation practices!

- Start by understanding current and planned procurement commitments (e.g. supplier contracts).
 - What are your key financial commitments towards suppliers?
 - From your experience and knowledge, does the supplier have the financial capacity to accept changes to payment terms?
 - Do you have a strong negotiating position? Are you a reliable customer? Length of relationship with supplier? Value?
 - Understand local market expectations on payment terms.

- Plan potential negotiation options to optimise cash flow:
 - Renegotiate payment milestones
 - Stagger payments
 - Delay payment whenever possible
 - Renegotiate payment penalties clause (if applicable)
 - Check contract for temporary suspension options
- Check whether a contract can be cancelled or refunded?
 - Has the supplier already incurred costs? (e.g. supplier has purchased construction materials for works contract)
- Check applicable law (as defined in the contract /PO) and contract terms
- Prepare arguments to support negotiation
 - Highlight « good customer » status in relation with past payments and the fact that this is a temporary situation
 - Prepare clear wording explaining unexpected cuts of funding contracts, emphasizing that while your organisation has processes that are well set up, it needs support to maintain cashflow.

4 After your negotiation : formalise agreements

- Agree and sign contract amendments with suppliers after negotiation to ensure written explicit, and detailed terms are formalised
- As an organisation, respect the negotiated terms agreed (remain a reliable customer).
- Document in writing why the original payment terms changed in the procurement file. While it seems obvious today, it might be less clear in 2 years during the audit.

5 Future commitments

Consider increasing the weight of payment terms in award criteria, since cashflow has become a more important concern for your organisation.