
Just as human resources are the heart of NGOs, financial resources are the lifeblood. The finances of NGOs make possible how much they can do, and how well they can do it. The NGOs that must obtain their financial support draw sustenance from several components of income—fund raising, government grants, and fees for service, all of which are related parts of financial planning and programs (Bernstein, 1997). New nonprofit leaders and managers have to develop at least basic skills in financial management. Basic skills in financial management start in the critical areas of cash management and bookkeeping, which should be done according to certain financial controls to ensure integrity in the bookkeeping process. Financial analysis shows the "reality" of the situation of a business -- seen as such; financial management is one of the most important practices in management. Now, we need to understand the components of finances of NGOs first.

I. The vital role of financial management

The first role of financial management of NGOs is accountability. Accountability is a pervasive issue and a problem for nonprofits because reliable sources of funds are crucial to survival. Most funding agency grants go to NGOs that can not only demonstrate sound program ideas and capability, but also have the functional credibility that only sound financial management can supply (Olenick & Olenick, 1991). The leadership of NGOs has the know-how to use money wisely and to account for what it does with its funding. And the heart of effective financial management is a good system and process of budgetary control.

The second role is budgetary control. If long-run success of any NGO depends on an effective board, good budgetary control is the key to effectiveness in a more immediate sense. A budget is a projection of the sources and uses of resources. A budget is always a plan expressed in dollars. But Olenick & Olenick (1991) synthesized four kind budgets. 1) Operating budget—the kinds and amounts of planned income and planned expenses for a specific projected period. 2) Grant budget—the budget normally covers a single program, fund, or project. 3) Cash budget—budgeting for cash flow is primarily a short-range planning tool used to make sure you can meet your payroll and other regular bills on time by anticipating and shortfalls. 4) Capital budget—the capital budget plans for major expenditures to add to or replace major equipment, like vehicles, furniture, and computers or buildings.
The third role is accounting. Accounting is a whole body of theoretical and practical knowledge about many aspects of NGOs’ accountability. Accounting relates to such activities as receiving resources, using them, and having custody or control over them by the organization and those who serve it. Accounting for the use of resources is also one objective way its activities are measured is that it uses its money and other resources for. To be an effective NGO leader of any kind, we must understand and be able to use basic accounting and financial management concepts and terms in planning, managing, and decision-making (Fig. 1).

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Fig. 1 The chart shows the relationship of financial management and accounting to the operating functions of NGOs (Olenick & Olenick, 1991).

II. The basic financial management

Financial management involves planning, organizing, controlling and reporting on the financial resources of an organization to achieve organizational goals. NGOs must ensure donated funds and other resources are properly utilized to achieve the organization’s mission and objectives. The financial management is primarily composed of the budgeting and the accounting.

i. The budgeting

From the vital role of financial management, we know the budgeting is a fundamental element of all planning and monitoring. A budget depicts what you expect to spend (expenses) and earn (revenue) over a time period (McNamara, 1999). From the Fig.1, we know that it is necessary for the project’s managers to have an accurate idea of the true cost of the project in the planning stages. This should have an impact on its design. Without a realistic estimate of costs, there is no way of comparing the output of the project to the resources required this prevents senior management from limited resources. The budget is also the basis of all financial negotiations with donors for external funding. Once a project is under way, an accurate budget is essential as a financial control. The basis of financial management is comparing actual expenditure to budgeted
expenditure (Moynihan, 2001). Without an accurate budget, this is impossible. Finally, the budget should form part of the evaluation of a project once it is finished.

A budget is drawn up using a specific accounts structure. An accounts structure is the way in which costs are categorized. The choice of accounts structure may be made by the NGO. It is generally difficult to move from one accounts structure to another, once a project is under way.

ii. The accounting

Accounting’s products are for use in planning, analysis, and decision-making (Olenick & Olenick, 1991). For the financial management process to take place effectively, we should at least understand the basic accounting process (McNamara, 1999). The financial systems and procedures need to cover two aspects of accounting, financial accounting and management accounting. It describes the systems and procedures used to keep track of financial and monetary transactions that take place inside an organization—recording, classifying and summarizing financial data for various purposes.

Financial accounting records can be maintained either using a manual or computerized system. One output of financial accounting is the annual financial statements, which are backwards looking and used primarily for accountability to those external to the organization. The routine output of financial accounting throughout the year must be accurate and up-to-date in order for management accounting to be undertaken effectively and with minimum effort.

On the other side, management accounting takes the data gathered by the financial accounting process compares the results with the budget and then analyses the information to help make decisions about the future management of the organization (Moynihan, 2001). Financial reports for management must be timely, accurate and relevant. They should be produced on a regular basis—usually monthly or quarterly depending on the needs of the organization—and as soon as possible so that figures are relevant to managers’ discussions.

A few basic financial controls can greatly reduce the chance of money going astray, or of funds running out. It may not always be possible to implement all the controls. But, the more that you are able to use, the stronger your system will be. A standard financial control is to make sure that different members of staff have
responsibility for different accounting duties. This introduces a series of checks on all accounting work, and greatly reduces the possibility of fraud. The basic jobs to try to split up are: authorizing payments, handling cash and recording transactions.

III. Fundraising Management

The fundraising is not usually thought of as part of financial management, since that the fundraising function is not included in Fig.1. Idealism and motivation are not enough to set up a good NGO. You need money and you need to plan well ahead. Before embarking on their annual fundraising, the leaders of successful organizations plan and budget their operations. And, the leaders assess their fundraising potential to determine how much they should try to rise.

In a number of organizations, a finance committee that works with the staff through the year maps out fundraising. The governing board gives major consideration to the committee’s analyses and recommendations, modifying or simply approving them, before authorizing the fund. Financial planning should be comprehensive, taking into account all potential applicable resources, especially individual contributions, planned giving, foundations, corporations, government grants, and fee for service. Successful organizations select those resources that are most appropriate and feasible for them. While they set fundraising goals, they avoid impossible goals that are completely unrealistic.

The Grantsmanship Center published an annual catalog, which offers a summary that individuals and their estates represent nearly 82% of all non-governmental funds received by nonprofits (Olenick & Olenick, 1991). NGOs should resist having donors give them money in tranches. If they get the entire grant they can put what is not immediately required on deposit and earn the interest. You can also encourage donors to set up endowment funds as a good way to become gradually more sustainable or at least independent of that donor. Remember that the building of a relationship of trust with your donor is just as important as the amount of money you ask or receive.

Research on any funder's stated program interests is essential. Do not attempt a scatter approach, sending requests to a wide group of organizations. It can damage your organization’s credibility. You are trying to identify the few funders that have interests that are in line with your organizational and project objectives. Here is a guide to research into funding: if you do not qualify, do not apply. Many funding agencies now have websites so look them up and see what they say.

McNamara (McNamara, 1999) provide a two-step process for researching Funder. The first step aims to develop an initial 'prospect' list of some 10 to 15 funders who
have general interests in the subject area of your organization or project. The second step involves further research and refines this list to the 3 or 4 funders you may approach. Sources for funding can be found within your country as well as abroad. Local funding has a number of advantages. The procedures are often easier to follow. And international donors want to know that local sources have been tried first. When applying for funds from abroad, the national registration of your NGO and formal approval of your project by your government is often necessary.

In fundraising management, to building a good trusted relationship with your donor is very important. Often, co-operation is not easy. The donor asks for long and complex reports, and transfers of funds are often delayed. Communication problems are common because of misunderstandings from both sides and because of postal delays. Don't forget that donors are dependent on their own supporters, who in turn will expect reassurance that their money is being well spent. Moynihan (2001) provided some ways to improve co-operation are:

- After receiving funds, write a letter of acknowledgement and thanks.
- Send regular reports as requested by the donor.
- Prepare accurate budgets, and keep costs as low as possible.
- If two or more donors are supporting your project, than the area of support should be clearly defined and communicated.
- Encourage the donors to share a single global report and accept each others' tour reports to reduce the amount of time you spend on their requirements.
- Always give feed-back to the donor on how the money was spent.
- Always stick clearly to the objectives of your NGO.
- If there are any major changes of plan, inform your donor.
- Welcome visitors from your donor agencies.
- Try to reply promptly to letters from your donor.
IV. Case studies

There are two case studies about some part of financial management. One is an example to drawing up a budget, the other is an example to apply for funds.

i. An example to drawing up a budget—Hargeisa Schools development project (Moynihan, 2001)

In this project, their budget concluded the following good characteristics (appendix 1):

- The Budget details include basic information about the project, including the name; the period covered in the project; the currency used; clear labeling of the currency on each costs column.

- The “Description” column has a short description for each type of cost which should be as detailed as possible, and is unique for each item. For example, for staff, it has “School Outreach Officer 1” and “School Outreach Officer 2” on different lines, rather than just one line “Outreach Officers”. A good rule of thumb is to go for more detail rather than less, if you are not sure how to describe a cost. Descriptions are as precise as possible. For example, “electricity for the office” is much more useful than “power”.

- There are “other” lines at the bottom of each section of the budget. This ensures that there are accounts codes for unforeseen expenditure. This means that the accounts codes do not have to be stretched when unexpected things happen—which they surely will.

ii. An example to apply for funds (Moynihan, 2001)

A black woman was from the South, living presently in the Netherlands. She was the founder of an NGO based both in the Netherlands and in Somaliland. In 1995 she came to the Netherlands as a refugee. The civil war had left her unable to stay in her homeland, a bankrupt, her house and small factory burnt to the ground.

During the months she waited in Europe to be either granted residential status or rejected, success in business no longer seemed important. Instead she decided to focus on making a difference. She began talking to other Somalis who shared her passion. The concept of their NGO gradually took shape with the purpose of advocacy for the internally displaced in Somaliland. On 7 November 1997, Doses of Hope was formed. Finding the money, though was a
major problem they were newcomers. They had set up an NGO in the heart of Europe. They started knocking on doors and encountered every obstacle and rejection - one reply said "we have received your letter and understood its contents but unfortunately we think neither our organization nor any other organization in the Netherlands would support your initiative". But they succeeded in finding partners —highly respected partners.

Reference


