PN-ABF-386

ACHIEVING FINANCIAL SELF-RELIANCE

A Manual for Managers of Non-Governmental Organizations Involved in Family Planning

The Enterprise Program

JSI

1100 Wilson Boulevard, 9th Floor
Arlington, VA 22209 USA
Telex: 272896 JSI WUR
Telephone: (703) 528-7474

John Snow, Inc.
In collaboration with
Birch & Davis International, Inc.
Coverdale Organization, Inc.
John Short & Associates, Inc.

This manual was prepared by Eve E. Epstein
under subcontract with The Enterprise Program, John Snow, Inc.

With special appreciation to Gabriel Lopez of the Coverdale Organization, David W. Kahler of World Education, Inc., Glenn Wasek of John Snow, Inc., and representatives of the non-governmental organizations that contributed to this manual.

FUNDED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT CONTRACT NO. AID/DPE-3034-C-00-5072-00.

May 1990

ACHIEVING FINANCIAL SELF-RELIANCE

A Manual for Managers of Non-Governmental Organizations Involved in Family Planning

The Enterprise Program

1100 Wilson Boulevard, 9th Floor
Arlington, VA 22209 USA
Telex: 272896 JSI WUR
Telephone: (703) 528-7474

John Snow, Inc.
In collaboration with
Birch & Davis International, Inc.
Coverdale Organization, Inc.
John Short & Associates, Inc.

This manual was prepared by Eve E. Epstein
under subcontract with The Enterprise Program, John Snow, Inc.

With special appreciation to Gabriel Lopez of the Coverdale Organization, David W. Kahler of World Education, Inc., Glenn Wasek of John Snow, Inc., and representatives of the non-governmental organizations that contributed to this manual.

FUNDED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT CONTRACT NO. AID/DPE-3034-C-00-5072-00.

May 1990

C'

TABLE OF CONTENTS

INTRODUCTION

The Enterprise Program is funded by the United States Agency for International Development (A.I.D.). Its objectives are to:

- improve management and business skills of non-governmental organizations (NGOs), particularly in areas related to sustainability
- develop ways to use the private sector to provide and promote family planning, working particularly with the for-profit sector
- develop different models to transfer a portion of the family planning burden from the public to the private sector
- increase contraceptive prevalence and use within service delivery programs assisted by the program.

Since its inception in 1985, Enterprise has supplied funding and/or technical assistance to some 90 family planning providers in Africa, Asia, the Near East, Latin America, and the Caribbean. The technical assistance program includes a series of manuals to guide family planning providers in improving the quality of both management and program services. The purpose of this manual is to assist family planning NGOs in achieving financial self-reliance.

Ten NGOs, recommended by peer organizations for their creativity and success in moving toward self-reliance, assisted in the manual's development. These organizations are:

Family Planning Association of Bangladesh
Family Planning Association of Trinidad and Tobago
Fundación Mexicana para la Planeación Familiar (Mexican Foundation for Family Planning - MEXFAM)
The Gambia Family Planning Association
Centro Médico de Orientación y Planificación Familiar (Medical Center for Family Health Counseling and Family Planning - CEMOPLAF), Ecuador
Parivar Seva Sanstha (Family Helping Organization - PSS), Marie Stopes, India
The Population and Community Development Association (PDA), Thailand
Population Services Lanka (PSL), Sri Lanka
Sofia Feldman Hospital, Brazil
Yayasan Kusuma Buana (YKB), Indonesia

From April to July 1989, Enterprise staff and consultants refined the manual's objectives and developed a draft text. At the same time, the ten contributing NGOs prepared reports of their experiences in increasing financial self-reliance and submitted the documents for Enterprise review. In August 1989, representatives of the NGOs met for five days in Washington with the manual's developers to review the technical material and offer real-life examples of both successes and problems to strengthen the text. The stimulating discussions and exchange of ideas showed that there was a great deal of diversity in the NGOs' experiences. While there were many commonalities, such as increased attention to financial planning and management, there were also many differences. In many cases, what worked well for one organization was less successful for another. Thus, there is no single way to achieve self-reliance. By incorporating the diversity of the contributing NGOs, this manual suggests a wide range of opportunities. It is up to the reader to assess the fit between these opportunities and the local environment of his or her NGO, and to take advantage of the experiences of others in designing a tailored self-reliance strategy with the greatest potential for success.

THE NEW CHALLENGE: FINANCIAL SELF-RELIANCE

Non-governmental organizations (NGOs) have played a major role in bringing family planning services to millions of people throughout the world. Through the talents and energies of committed workers, both staff and volunteers, many challenges have been met. Sensitive education strategies have reduced cultural resistance to family planning. Workers have been trained in modern methods. Family planning NGOs have developed new linkages with other local organizations, such as medical referral clinics, and increased their stature in the community. Even where government policies are relatively restrictive, creative NGOs have developed feasible, effective programs. In meeting these challenges, NGOs have shown that they are a critical part of the family planning service delivery system. Their continuing participation will be even more essential in the future.

Now there is a new challenge -- to achieve financial self-reliance. This does not mean changing goals, leaving behind the commitment to service, or becoming a for-profit business. It does mean becoming more business-like, adopting improved financial management techniques and income generation strategies that strengthen the NGO's financial viability and enable it to grow and prosper in the new economic environment. This manual will help you prepare to meet that challenge.

The need for financial self-reliance

Until recently, donor support and other contributions to family planning NGOs have been relatively generous. Though budgets have always been limited, NGOs have enjoyed fairly regular funding. However, the environment is changing rapidly. First, international and other donor support can no longer meet as easily the worldwide costs and demands for family planning services. In addition, more and more organizations are competing for increasingly scarce funds. Thus, some NGOs that have enjoyed adequate support in the past now find that they must share those funds with others, and they must look elsewhere to make up the difference.

Second, donor policies are changing. Some donors restrict their support to specific activities or aspects of family planning. NGOs whose goals call for a wider-ranging program must generate additional funds elsewhere. Other donors require a cost-sharing arrangement. For example, the donor will fund 80% of a program's cost and expects the NGO to fund the remaining 20% independently. Still others offer only short-term, start-up support and require the NGO to show how it will sustain operations by itself in the long run. These kinds of policies underline the need for greater self-reliance.

Third, the costs of managing donor relationships and donor funds are increasing. Application, reporting, and accounting requirements have become more detailed and more complex. Meeting them requires a great deal of time and effort, and time and effort cost money. NGOs that are not totally reliant on donor support can **choose** whether or not to incur these kinds of costs, and will be better able to support them.

Finally, virtually all costs are rising. At the same time, as a result of intensive public awareness and education programs, demands for service are increasing in many areas. This means that NGOs are pressed to improve their efficiency, providing more services often for the same amount of money or less, while maintaining quality service standards. The ability to generate additional funds is now essential.

This new environment offers NGOs an opportunity to change. Taking advantage of the opportunity requires a well-planned strategy to achieve financial self-reliance. A self-reliant NGO will be better prepared to meet the needs of its clientele and maintain quality services in the decades to come.

What financial self-reliance means

Financial self-reliance is a new concept for family planning NGOs. There is no single way to define or achieve it. Enterprise invited ten NGOs from Africa, Asia, and Latin America, recommended by their peers and colleagues, to share their experiences with the developers of this manual. The NGOs also assisted in reviewing the material, recommending how to present ideas and self-reliance strategies in a meaningful way, and enriching the text with specific examples of how they have increased their viability and moved toward self-reliance. Their experiences show a variety of successful approaches. They also indicate problems encountered in carrying out self-reliance activities. One of the most important lessons learned is that achieving self-reliance is a gradual process requiring a clear vision of financial objectives, careful planning, and sometimes taking calculated risks.

The strategy you choose to increase your organization's financial self-reliance will depend on the traditions within your NGO, the experience and abilities of your workers, local laws and regulations that govern the operations of NGOs, national policy and prevailing religious climates, and the feasibility of various options within your environment. No matter what the strategy is, the ultimate objective is financial viability -- having stable, sufficient funding to carry out activities in support of the organization's goals.

While approaches differ, NGOs that have increased their self-reliance share three important characteristics:

Characteristics of Self-reliant NGOs

1. Diversity of funding sources
2. Business-like management and operations
3. Entrepreneurship

Diversity of funding sources. Financially self-reliant NGOs do not depend on a single source of funds. Instead, they have a variety of sources. These may include international donors, local donors, government or other subsidies (in the form of free supplies, for example), fees generated from some of the NGO's services, and other income, such as rental of unused space to another organization or interest on investments. This diversity of support and the accumulation of cash reserves reduce the risk of major program disruption when one of the sources fails.

Business-like management and operations. Financially self-reliant NGOs take a business-like approach to managing their money and operating their programs and services. They engage in careful business planning, understand the true costs of all programs and services, know their market, and constantly evaluate the effectiveness of budgeting and the efficiency of operations. They also study the environment, analyze historical trends to understand the past, use available information to forecast the future as best they can, and position themselves to take advantage of new funding opportunities.

Entrepreneurship. Financially self-reliant NGOs are entrepreneurial. They aggressively pursue opportunities for earned income as well as for grants and donations. While remaining true to organizational goals and objectives, they adapt to changes in the environment, taking advantage of these changes rather than allowing them to have an adverse impact on operations. They turn negative situations into positive ones, constantly developing creative ways to remove barriers to progress toward greater financial stability.

How this manual can help you

This manual is for NGO managers seeking to increase the financial self-reliance of their organizations. It introduces two sets of techniques, both of which strengthen financial viability. Part I focuses on **improving financial management**. It shows **internal** changes that every NGO can make in its own operations. The usefulness of the tools and techniques recommended does not depend on characteristics of the local environment. Incorporating the activities described in Part I will result in the following benefits:

Benefits of Improving Financial Management

Clearer understanding of how money flows in and out of the NGO

More accurate picture of how much it costs to deliver services, singly and in total

Greater control over costs

Enhanced capacity to increase efficiency

Improved ability to monitor income and expenditures

Capability to evaluate the feasibility of new programs and ventures

More rational financial decision-making

Increased control over the organization's financial future

Part II focuses on **creating and taking advantage of income generation opportunities**. Based on the information provided by the ten contributing NGOs, it describes six strategies used by NGOs to **earn** money and reduce reliance on grants and donations. The usefulness of the strategies described here, unlike those in Part I, depends to some extent on **external** factors and the kind of environment in which you operate. You may decide that some of the strategies are inappropriate for your market. Others may conflict with local laws and other regulations governing NGOs. However, most of the strategies offer a lot of flexibility, and virtually any environment will permit using at least one or two of them. So think carefully before you rule any of them out. Often, all it takes is a little creativity to turn a seemingly unworkable income generation scheme into a successful source of funds. Incorporating the kinds of activities described in Part II can result in the following benefits:

Benefits of Income Generation Activities

Reduced dependence on donors

More "unrestricted funds" and more flexibility in how you spend those funds

Increased financial stability and viability

Greater control over the organization's financial future

PART I. IMPROVING FINANCIAL MANAGEMENT

This section of the manual describes six areas of financial management that are key to increased financial self-reliance:

1. **Fund accounting** -- organizing separate accounts for different kinds and sources of funds

2. **Budgeting and cash flow projection** -- estimating and tracking income and expenditures

3. **Costing and pricing** -- determining true costs and setting prices

4. **Building a cash reserve** -- figuring out how much cash you need to keep on hand, and how to manage that cash

5. **Creative donor management** -- managing donor funds and reducing reliance on a single donor

6. **Feasibility analysis** -- studying one's local market environment and determining which income generation strategies will work best

It concludes with simple exercises that help you (1) assess how well your organization now carries out its financial management activities, and (2) identify steps you can take to improve financial management practices. Another Enterprise Program publication, entitled Assessing Your Organizational Assets: A Manual for Managers of Private Voluntary Organizations Involved in Family Planning, can help you determine your readiness for improvement. It can also help you identify and take better advantage of your organizational strengths in your quest for greater net worth and financial self-reliance.

This manual does not provide detailed technical instructions on how to carry out financial management tasks. Rather, it provides an overview of methods, demonstrates how **useful** they can be for NGOs striving to increase their financial self-reliance, and suggests practical opportunities for improvement. It assumes that you already have basic accounting systems in place, and that you or some of your staff have basic accounting and financial skills. The Appendix lists a number of publications that provide more technical details. Though developed primarily for a U.S. NGO audience, these publications may help you in strengthening your organization's financial management.

Remember that the management practices and techniques recommended here apply to your **internal** operating procedures. You can control the way your NGO is managed, and you can decide whether or not to adopt them. They will be helpful, regardless of your local environment. In fact, they will help you minimize the financial effects of any environmental barriers that may exist. Also, they will prepare you to take better advantage of the income generation strategies described in Part II.

1. FUND ACCOUNTING

How This Chapter Can Help You

How much discretion does your NGO have in spending its money? Are all of your funds earmarked for particular activities, or can you choose which activities to undertake in order to achieve organizational goals? These are questions of control. Increased control over spending is an important part of financial self-reliance. This chapter helps you understand the usefulness of timely and accurate accounting data and determine how much flexibility your NGO has now. It also suggests ways to increase flexibility, even with earmarked funding.

Most family planning NGOs have two kinds of funds: (1) restricted and (2) unrestricted. The difference lies in how these funds can be used.

The use of **restricted** funds is limited to a designated purpose or activity. The most common limitations are those imposed by donors. For example, a donor may provide funding specifically for family planning services at your two rural clinics. In this case, you could not use these funds for an urban clinic or for a school-based youth education program. Limitations may also be imposed on general or unrestricted funds by the Board, thus making these funds restricted. The effects are similar. For example, if the Board decides to designate a certain amount of funds for an outreach program, these funds could not be used to purchase a new accounting system. A third potential source of restricted funds is independent fund raising efforts. For example, if you collect donations in the community to construct a new clinic, you cannot use these funds to pay for staff travel to an International Planned Parenthood Federation (IPPF) meeting in a neighboring country.

Unrestricted funds allow much more flexibility. In general, they may be used for any purpose consistent with organizational goals, like staff training, equipment purchase, rent, or vehicle maintenance, as well as direct program and service delivery expenses. In some countries, laws and regulations may put some limits on how unrestricted funds are used. For example, NGOs may not be permitted to open interest-bearing bank accounts or make investments. Within these general legal limitations, however, NGOs can choose how to spend unrestricted funds. These kinds of funds usually come from membership dues, fees for service, and other income generation schemes. They may also come from donations given to the NGO for "general purposes," with no strings attached, or from interest earned on bank accounts or other investments (where permitted). Donor funds are rarely unrestricted.

The advantage of unrestricted funds is that they allow you greater discretion and control over spending decisions. The more flexibility you have, the easier it is to increase financial self-reliance. With a sufficient supply of unrestricted funds, you can choose exactly what kinds of programs and services you undertake to achieve your goals, without regard to donor policies or preferences. You can also allocate funds to organizational needs -- staffing, staff training, purchase of office and other equipment, auditing or legal services, market surveys, and promotion -- as you see fit. In addition, it is easy to transfer unrestricted funds from one activity or category to another. For example, if you find that one of your program sites is operating more efficiently than you expected and therefore will cost less, you can transfer the excess funding to another site, or use it for staff training, equipment purchase, or any other purpose. In the case of donor-restricted funds, you would first have to secure permission to transfer, and your transfer options would be more limited. For example, a donor supporting a rural outreach program would rarely permit a transfer of funds to support an urban clinic.

Fund accounting is a simple bookkeeping technique that keeps separate income and expense records for certain designated funds. The number of fund accounts you have depends on local laws, donor requirements, organizational requirements, and the nature of your operation. At a minimum, most family planning NGOs keep separate fund accounts for unrestricted funds and for each donor grant or contract. Separation of the donor accounts is usually required by the contract or grant agreement. Separate accounts are also maintained for any Board-designated funds. For example, if the Board designates $50,000 from unrestricted sources to be used solely for a school youth education program, these funds become restricted, and an account is set up to track their expenditure. Additional accounts may be established to track special projects, such as new ventures. Ultimately, all of your fund accounts can be consolidated in overall financial statements and reports, but each one is maintained separately and used to generate its own reports. Fund accounts help you look at financial performance in individual activities and programs, while the consolidated reports show the organization's total financial picture. An NGO manager needs this total picture to monitor and improve the organization's financial viability.

To see where your NGO stands now, examine the organization's most recent financial statement or other reports to determine the percentages of unrestricted and restricted funds available. Enter your findings here:

Restricted Funds	Unrestricted Funds
%	%

In most family planning NGOs, the percentage of restricted funds is still very high, so do not be alarmed if this is the case in your organization. Look at it instead as an indicator of need for improvement. This section suggests ways to increase your flexibility in using these funds. Part II suggests ways to increase the proportion of unrestricted funds.

Opportunities for improvement

> Improving the quality of fund account information
>
> Making better use of the information available from fund accounts
>
> Finding ways to increase flexibility

As indicated above, the number and format of your fund accounts depends on local laws and accounting standards, donor requirements, and accounting and reporting requirements of your organization. You do not have much control over these factors. But you **can** control the **quality** of the information in the accounts and how well you **use** that information. You can also take steps to increase the amount of **flexibility** you have in making spending decisions. All NGOs share these three opportunities for improvement. Taking advantage of them is an important step toward increased financial self-reliance.

Taking advantage of the opportunities

Here are some practices that will help you:

(1) Improving the quality of fund account information

No matter what internal system you use, fund account information has limited value unless it is up-to-date and accurate. Timeliness is important because the information is used to monitor cash flow as well as budget performance, as described in the next section of the manual. Donor reports must also be submitted on time to meet requirements and prevent interruption in the supply of donor funds. Accuracy is important for both internal and external reasons. Internally, you need to know exactly what each activity costs so that you can compare actual expenses with budgeted expenses. From an external perspective, the organization's accounts are generally audited by each donor as well as local authorities, and failure to comply with regulations can lead to serious penalties. Improving the quality of fund account information has been part of each contributing NGO's strategy to increase self-reliance.

Maintenance of fund accounts is the direct responsibility of your financial staff. You play an important role in selecting and supervising them. It is up to you to review financial operations and, when problems come up, to see that they are resolved. Recognizing the importance of these responsibilities and taking them seriously will help improve the quality of your accounts.

It is also important to understand that basic financial information flows upward. For example, program staff are often responsible for "coding" purchase orders or vouchers, indicating the activity or account to be charged. It is up to you to make sure that these staff provide the finance section with the kind of information needed. Like many of the contributing NGOs, you can initiate and maintain a strong in-house training program to help ensure better accuracy.

(2) Making better use of fund account information

Fund accounting should not be viewed as just a bookkeeping exercise. It produces lots of valuable information that you can use to study all aspects of your organization, both financial and programmatic, especially when you combine it with program information. For example, you might want to compare costs per client visit at two separately-funded sites. You can then look at program information, such as client caseload or the clinic staffing pattern, to analyze any cost differences you find. As another example, you may decide to use CYP (couple-year protection) cost as an indicator of efficiency or cost-effectiveness, as do both PSS (India) and PSL (Sri Lanka) Fund account information will help you determine this cost. PSS also uses fund account information to calculate cost per service and productivity (income generated) per employee. Careful monitoring of productivity statistics and creative management and marketing strategies resulted in a 100% increase in productivity in three years.

How you use the information is up to you. The important point is that it exists, and you should take advantage of what it can tell you and how it can help you get the most out of what you have.

(3) Finding ways to increase flexibility

There are two ways to increase flexibility: increasing the proportion of **unrestricted** funds and improved planning, negotiation, and management of **restricted** funds. The first involves income generation schemes. Part II offers a variety of approaches, at least some of which will be feasible in your environment. The discussion here suggests ways to improve flexibility within your **restricted** funds.

At present, most family planning NGOs rely heavily on donor funds. Although the gradual process of achieving financial self-reliance will create a larger proportion of unrestricted funding through income generation schemes, donor support will continue to be important. Improved donor grant and contract planning, negotiation, and management are needed to maximize your flexibility in using these restricted funds. You cannot change the general purpose for which these funds are used. This purpose is established when the grant or contract is made. What you **can** do is increase the discretion you have in allocating these funds to achieve that purpose. Several techniques are useful:

- **Planning your donor budgets carefully and realistically**

Many NGOs do a good job at estimating the direct costs of service delivery, such as medical and technical staff time, family planning supplies, and clinic site operation costs, such as power and rent. They are often less expert at defining and estimating the administrative costs associated with activities and programs -- accounting services, report preparation, staff development and performance evaluation, general organizational management, and the costs of maintaining the headquarters office. As discussed in Section 3 (Costing and Pricing), every NGO has a number of general operating costs required to support service delivery. These are legitimate costs associated with providing services, and they can easily be built into donor budgets. That section describes options for charging them directly or charging them through a general overhead or administrative fee. The important point here is that when the donor budget for a particular activity supports **all** of the costs associated with that activity, you do not have to use scarce unrestricted funds to pay for related administrative costs. Those funds can then be used for new ventures, market surveys, capital equipment purchase, training, and other activities. When you develop your budget carefully and provide documentation to support your request, you are in an excellent position to persuade the donor to allow the use of its restricted to support related administrative costs.

- **Negotiating "line item flexibility" in the restricted fund budget**

Typical donor agreements contain a statement of activities to be undertaken (scope of work) and a budget. The budget is usually divided into line items, with one expense category on each line. Here is a very simple example using four items in a typical budget:

Line item	Budget amount
Salaries	$50,000
Clinic supplies	10,000
Office supplies	3,000
Transportation	6,000

Some donor agreements prohibit transferring any money from one item to another without prior donor permission. Others allow some flexibility usually expressed as a percentage. For example, 10% line item flexibility means that you can spend up to 10% more or less than the budgeted amount for each line item at your discretion, without prior approval. Following the above example, 10% line item flexibility would allow the following expenditures:

Line item	Least allowed	Budget	Most allowed
Salaries	$45,000	$50,000	$55,000
Clinic supplies	9,000	10,000	11,000
Office supplies	2,700	3,000	3,300
Transportation	5,400	6,000	6,600

You have to stay within the overall budget amount, so if you spend more than you budgeted on one line item, you must spend less on one or more other items to make up for it. However, having at least some flexibility helps you adapt to changing conditions and increases your financial control within the overall funding restriction.

Some donors are more willing than others to permit line item flexibility, and the percentage amounts vary. If you can make a case for it and demonstrate your capacity to manage money well, you may be able to negotiate this kind of arrangement with your donors. It is up to you to ask for it, show how it will help in carrying out the program, and convince the donor you can handle it responsibly.

- **Negotiating more flexible line items**

Some line item categories allow more flexibility than others. Here are several examples:

More flexibility		Less flexibility	
Professional services	$5,000	Accountant	$1,000
		Lawyer	1,500
		Physicians	1,500
		Management	1,000
Staff development	$3,500	Family planning	$1,000
		Management	1,500
		Computer	1,000
Services to other providers	$5,000	Family planning	$1,500
		Marketing	1,500
		Research	1,000
		Medical consult	1,000

In each case, the more "general" item on the left allows you more **choice** and thus more **control**. In the first two, you can decide what your organization needs and purchase the appropriate services. In the third, you can decide how your organization can best serve others.

As with simple line item flexibility described above, some donors are more willing than others to allocate relatively significant proportions of funds to these more general categories. If you can demonstrate how the increased flexibility will help you serve your clients and achieve your program objectives -- and if you can impress the donor with the quality of your financial management -- then you may be able to negotiate budget categories which increase the extent of your choice and control regarding expenditures.

YKB (Indonesia) used this strategy successfully to increase its discretion in providing services. In 1983, the Indonesian Family Planning Board received a grant from USAID and contracted in turn with YKB to implement selected activities. A very small line item for "technical assistance" allowed for services to other providers. After a few years of experience, YKB realized that it could better achieve its mission with expanded technical assistance activities and greater discretion in designing its technical assistance program. Negotiations with the National Family Planning Board and USAID resulted in the designation of 15-20% of the budget funds for this purpose. As a result, YKB was able to work with physicians, midwives, pharmacists, and others to increase the quality and availability of family planning services in the community.

- **Managing and monitoring donor funds carefully**

Donors are becoming increasingly concerned with the financial accountability of their grantees and contractors. They require more and more detailed financial reports and conduct intensive independent audits. Your reputation for responsible, business-like financial management is an important factor in getting continuing support and in negotiating such arrangements as line item flexibility and the overhead or administrative fees described in Section 3. You **can** control the quality of your management.

The benefits of managing and monitoring donor funds carefully are illustrated by the experience of MEXFAM (Mexico). For a number of years, MEXFAM received donor funding for direct service delivery. but not for overhead or indirect costs. The organization consistently provided the donors with detailed, accurate expenditure reports and also invited donor representatives to participate with MEXFAM staff in the budget development process. As a result, MEXFAM's reputation for excellence in financial management grew rapidly, and donors gained a better understanding of the NGO's operations. Eventually, MEXFAM was able to persuade the donors to fund overhead costs. This increased the organization's financial viability and provided a much stronger foundation for its program activities.

2. BUDGETING AND CASH FLOW PROJECTION

How This Chapter Can Help You

Has your NGO ever planned to do more than it can afford? Do you study your spending options in advance to make sure you make the right decisions? Have you ever had to limit or stop services because of funding shortages? Do you know in which months you will have a cash shortage or a cash excess? Do you have to make frequent changes in your programs because of failure to predict income and expenses accurately? Many family planning NGOs share these problems. Weaknesses in financial planning can have a negative effect on the quantity and quality of services to clients, the morale of your staff, and the viability of your organization. This chapter explains the importance of budgeting and cash flow projection. It also suggests ways to improve these processes and thus increase your NGO's financial stability and self-reliance.

Budgets and cash flow projections have two purposes: (1) predicting and planning for the future and (2) monitoring financial performance. The quality of your estimates and plans depends on the accuracy of the information you use in developing them and your ability to assess future markets, income, and expenses. The quality of your monitoring depends on careful and timely recording of information comparing actual income and expenses to projected income and expenses. It also depends on how regularly you use the comparisons and how quickly you react to variances. Improving the accuracy of your budgeting and cash flow projection and actively using these documents in management will increase your control over the organization's financial performance and enhance your ability to make decisions about spending and revenue generation. This in turn will increase your financial self-reliance.

Budgets, generally prepared on an annual basis, show your best estimate of income and expenses for the coming year. They show how you are going to pay for the activities set out in your program plan. You can use the budget development process to test various program and management options. Thus, the budget is a decision-making tool. For example, you can estimate the effects of salary increases at several different levels (such as 3%, 4%, and 5%) to see how alternative personnel policy decisions will affect the overall financial picture. You can do the same thing with items such as supplies or rent. You can estimate the effect of a 10% increase in the cost of fuel in July or a 15% increase in your office rent in September. You can also examine the effect of changes in your service mix. If you are considering an increase in your outreach program, you can estimate the costs associated with additional travel, promotional materials, and staffing. Similar tests can be made on the revenue side. If your plan shows an estimated income of $5,000 from fees for services, you can test what will happen to the budget (what expenses you might not be able to cover) if you only earn $2,000. If you plan a new service, such as IUD insertion, you can compare the expected income to the projected cost and determine whether or not you are likely to break even. These are very simple examples of the kinds of analyses you can make. Carefully reviewing income and expense information from prior years, you can look at trends, estimate what will change and what will stay the same, and develop your plan for the next year. As the year progresses, you can monitor actual expenditures, see how accurate your projections were, and quickly respond to variances.

The **cash flow projection** is similar to the budget, except it predicts revenues and expenses **each month**. This is important because money does not flow in and out of the organization evenly throughout the year. Some expenditures, such as salaries, are pretty much the same each month. However, some months involve unusually large cash outlays. For example, you may have to pay one year's property insurance bill in advance in January of each year. If you purchase bulk supplies in March and September of each year, those expenses are high in those months. The same is true on the income side. You may receive a lump sum grant in February that is supposed to last for 12 months, or you may conduct a local fund raising campaign in August which is expected to yield income in September. If you collect fees for service, past experience may show that you can expect more fee income in November than in December. The reason you need a monthly cash flow projection is so that you can anticipate how much money you need and how much you can expect to have at every point in the year. Planning for these needs will avoid running short of cash. If you do run short of cash, you will not be able to pay your bills or keep your services and programs running.

Some organizations find it helpful to have a series of cash flow projections, one for each program or activity. For example, MEXFAM (Mexico) has a variety of programs with different sources of funding. There are a number of donor grants and contracts as well as fees generated from service delivery. To ensure that the needs of each major program can adequately be met, MEXFAM routinely prepares an annual cash flow for each one to minimize the potential for program interruption as a result of cash shortfalls. If your organization has a number of restricted fund sources that do not permit easy reallocation among programs, then this strategy may also be useful to you.

There are many budget development procedures and a variety of formats for budget presentation. The same is true for cash flow projection. Examples are shown in some of the reference publications listed in the Appendix. In some cases, procedures and formats are dictated by donors, but you may use others in-house for organizational purposes. There is no single set of procedures and formats that will work well everywhere. The formats you choose should arrange financial information in a way that is meaningful to you and should allow you to see the effects of alternate revenue and expense patterns. The procedures you choose should help you study the past, make good estimates of the future, and understand the strength of your financial position.

Opportunities for Improvement

Consolidated organizational budgeting
Getting an earlier start
Planning for more than one year
Stronger budget monitoring
Better cash flow

Budgeting and cash flow projection are internal operations. You can improve them and strengthen the role they play in the financial management of your organization. Despite donor requirements for project or activity budgets, you can develop and use a **consolidated** budget that better reflects the needs of the organization as a whole. You can start the budget process earlier, allowing more time for thought and testing options, and you can plan farther in advance to see the long-term implications of financial decisions. You can monitor expenditures more closely, catching variances early and minimizing their impact on the quality and quantity of your services. There are always steps you can take to improve your cash flow, regardless of local laws that may limit your banking and investment activities. All of these options are open to you, regardless of the size of your operation, the kinds of funds you have available, and special constraints in the environment. Stronger budgeting and cash flow projection will improve your financial management and control, and better management and control will help you move toward financial self-reliance.

Taking advantage of the opportunities

Here are some practices that will help you:

(1) Developing a consolidated organizational budget

Most family planning NGOs have a number of budget documents, often one for each donor-supported project or activity and one for unrestricted or general operating funds. Donors require these separate budgets, usually consisting of line items and associated costs that total up to the full grant or contract amount. Under donor agreements requiring a contribution by the organization as well, the budget also shows the amount of this contribution.

In NGOs with a large proportion of restricted funds, the tendency is often to look separately at each activity supported by each fund and determine whether or not it is viable. Increasing self-reliance requires looking at the organization **as a whole** -- all of its revenue and all of its expenses together. An NGO that can fund the technical aspects of its service delivery program -- clinic and community workers, supplies, and other direct costs -- but not its general management and administrative costs is not in a strong position. The same is true of an NGO that can attract funding for new projects, but not for the staff training or other organizational support that the new projects will require. Therefore, it is essential to have a consolidated organizational budget that looks at **all** of the revenue and expenses in an integrated way. This helps you look at the strength and viability of the organization as a whole, not just each of your projects and activities. It also shows you the financial implications of new or expanded services as well as planned income generation ventures that require initial start-up money.

To be useful for management, your budget must show revenue and expenses in categories that are relevant to your organization. If you are primarily donor-dependent, and if each donor supports a designated activity and requires separate reports, then your budget should show each of these sources separately. The same holds true on the expense side. Like PSS (India), you could organize your expenses by activity (e.g., family planning clinic operations, school programs, community promotion, and general management and administration). Like PSL (Sri Lanka), you could organize them by location if you operate several sites (e.g., headquarters, clinic site A, clinic site B, etc.). Other options include organization by cost center, as PDA (Thailand) does, or by line item expense (e.g., salaries, clinic equipment, vehicle fuel and maintenance, insurance, etc.), as do several of the other contributing NGOs. If the majority of your funds are restricted, then it saves time and effort to structure the expense categories the same way they appear in your individual donor budgets. In most cases, this is the line item format.

A balanced budget requires that your revenues are equal to or greater then you expenditures. If your expenses are greater, you will be operating at a deficit, and you will be unable to meet your programmatic or financial obligations. It is when you put the operating and revenue budgets together that you see whether or not you can afford your projected expenses. If your revenues are greater, then you have to decide what to do with the surplus. Depending on the regulations that affect your organization, you might go back to your expense budget and add money to some of the categories, make capital equipment purchases that you thought you couldn't afford, add to your cash reserve (see Section 4), commit the money to a new income generation venture, or invest it in order to earn interest.

Most family planning NGOs have to look **beyond** the "bottom line" balance of revenue and expenses. This is because when you have a large proportion of restricted funds, you must consider the limitations on how you can use these funds. For example, suppose you budgeted $2,000 for staff training and that only $500 was available in one of the donor budgets for this purpose. Even if you believe you could "save" the other $1,500 from other restricted budgets by operating the projects they support more efficiently, you could not at your own discretion reallocate that money to staff training. You would have to pay for it out of unrestricted funds. Since these same funds may also be needed for other purposes, you would have to decide which purpose was more important and readjust the operating budget accordingly.

(2) Allowing more time for developing the budget and cash flow projection

All too often, budget planning and cash flow projection begin shortly before a deadline established by the donors or the Board. Those workers who participate in the process -- program as well as financial staff -- have their regular duties to attend to, and they may be unable to put in the time required to consider carefully what has happened in the past and what needs and resources will be in the future. Another problem is that donors are sometimes slow in responding to funding requests and frequently ask for a series of revisions before the budget is approved. You cannot control the donors, but you can improve internal aspects of the budget process. For example, you can start the consolidated budgeting process six months in advance. Even though there may be some uncertainty about the portion to be picked up by the donors, you will still have plenty of time to assess the impact of various options and establish priorities for allocating unrestricted funds. You will also be better able to support your donor funding requests because you will have a better, more detailed understanding of how they were developed and exactly how each item was estimated.

PDA (Thailand) starts its budgeting in the third quarter of each year and uses a computerized management information system to develop and manage its comprehensive organizational budget. Each unit of operation, called a cost center, prepares its own budget after looking at its financial experience the previous year. These budgets are examined at each higher supervisory level up to headquarters management, where they are consolidated and reviewed before submission to the Board. Following Board approval, individual budgets are returned to each cost center to guide the next year's activity, and headquarters provides regular reports showing actual and projected expenditures. Variances must be explained and corrective actions taken quickly. PSS (India) has a similar system. By starting early, these NGOs have time to study their options and ensure that their budget decisions reflect careful analysis and thought.

(3) Planning for more than one year

Extending your budget for two years or more helps you understand the long-term implications of financial and program decisions you make now. For example, if you are given start-up donor funding for one year, you need to have a full understanding of what expenses you will have to cover in the following year, and you need to plan **now** for sufficient revenue to cover them. If you are informed by a donor that its current level of support will be reduced 10% each year starting next year, then you need to start thinking **now** about how the organization will adjust to the change. If you are starting an income generation scheme this year from which you expect a surplus next year, then you need to start thinking **now** about how you will use it.

Extending the routine budget period focuses the organization's attention on the future and stimulates a more thorough consideration of revenue and expense options. It also offers an opportunity to test the long-range effects of revenue and expense alternatives. You can project the effects of a decrease in donor or other support, long-range price increases, or unanticipated funding from grants, contracts, or income generation activities. MEXFAM (Mexico) regularly develops a three-year budget and has found this practice extremely helpful in increasing the organization's self-reliance. To ensure the viability of your organization and its services, it is important to think as far ahead as you can. This is the business-like approach to organizational planning and development.

(4) Better budget monitoring

The budget is not just a planning exercise. It is an important monitor tool, allowing you to compare actual and projected expenditures and revising the budget and operational plans as necessary before the variances start to affect your activities and services. The easiest way to monitor the budget is to prepare a routine monthly or quarterly **variance report**. This report shows, for each revenue and expense category in your budget, the projected figure, the actual figure, and the percentage variance. They may also show current year-to-date (YTD) expenses and the previous year's YTD. These variances quickly draw your attention to potential problems. The earlier you recognize the problems, the more control you have over solving them. For example, MEXFAM (Mexico) creates a budget for its five main programs and its 42 logistic centers. Variance reports are reviewed every two months so that problems can be identified and corrective actions taken quickly.

(5) Improving cash flow

If your cash flow projection shows few monthly surpluses during the year, your financial position is risky. Any drop in revenue or price increase will cause you to run out of money. So will a sudden unexpected expense, such as extensive repair of a vehicle or other equipment. There are a number of ways to reduce the risk, depending on the nature of your operation. For example, if permitted, you can put any excess you have in an interest-bearing account or investment, and the interest will increase your cash on hand. This strategy is used by the Family Planning Association of the Gambia and has contributed significantly to the growth of its cash reserves. Sometimes you can reschedule a local fundraising campaign from October to March so that the money is available earlier in the year. If your position looks better earlier in the year than later, you can make an early bulk purchase of supplies. The money you save by purchasing at the cheaper bulk rate will then be available later. If your local suppliers allow 30 days for payment but offer a discount if you pay within 10 days, you may be able to take advantage of these discounts in some months. MEXFAM (Mexico) and many of the other contributing NGOs regularly engage in this practice to maximize the productivity of their funds. If you have a fee for service program and extend credit to your clients, you can adjust your credit policy and require quicker payment. Study your cash flow projection carefully. Even if it looks like the organization is going to be pretty well off each month, there may be steps you can take to improve the situation and to put the organization in a better position to handle emergencies.

3. COSTING AND PRICING

How This Chapter Can Help You

What happens when your organization underestimates the costs of its activities? How do you cover the administrative costs associated with running your programs? If you were going to charge for services, how would you set the price? Have you ever set prices that turned clients away, because they were either too high or too low? An understanding of organizational costs and skills in cost recovery and price setting are essential for family planning NGOs striving toward self-reliance. This chapter introduces basic concepts of costing and pricing and shows how improved costing and pricing practices can increase the organization's financial health. It also suggests ways to increase cost recovery from both donor-funded and income generation programs.

Knowing the exact costs of your programs, services, and management is essential to increased financial self-sufficiency. First, it will help you budget and negotiate donor grants and contracts. You will be able to explain in detail every item in your proposed budget and make sure **all** of the costs associated with implementing the activity, including general administrative and facility expenses, are covered. Second, it will help you set fee prices. You will be able to determine what fees you need to charge simply to recover actual costs, and what fees will produce excess money that you can then use to subsidize other activities. Third, it will help you decide how much a new venture or income generation scheme will cost, and whether or not it will bring in enough money to justify the effort and funding required to mount it.

Costing

There are many ways to categorize and classify costs. Like budget categories, the ones you choose will depend on local costing standards, the policies of donors regarding how costs can be classified and what costs can be charged to their grants and contracts, and the nature of your organization. The important point is that you need to understand **all** of the costs associated with your organization -- its management and maintenance as well as its programs and activities -- so that you can plan carefully and make sure there is enough money to cover them. Covering only your program costs may make your **program** financially self-reliant, but your **organization** will not be self-reliant unless **all** of its costs are covered.

Many family planning NGOs underestimate or fail to consider their general administrative costs in developing program or service budgets, focusing only on aspects of service delivery. However, without adequate funding for these costs, the organization cannot support routine management functions or the critical institutional development activities necessary to enhance organizational viability and ensure sustainable, quality services. Strategic planning, goal setting, marketing and promotional planning, staff development, evaluation of organizational performance, and financial analysis and forecasting are not luxuries. They are key responsibilities of management staff. They take a lot of time, and they cost money. They also have a direct relationship to the quality of your programs. Therefore, their costs must somehow be integrated into overall program costs, so that they can be paid for, at least in part, through program funds. The more cost coverage you can achieve, the greater your opportunities to increase financial self-reliance.

One common cost classification system that helps you define and recover basic organizational costs involves dividing all expenses into two categories: (1) **direct** and (2) **indirect**. Direct costs are the ones easily assigned to specific activities. Typical examples include program worker salaries, clinic site rental and power supply, drugs, information materials you hand out to clients, an examining table, and maintenance of a vehicle used exclusively for an outreach program. Indirect costs are those that relate to general administration and management. Typical examples include salaries of the Executive Director and financial staff, rent and/or maintenance of the organization office, fees for legal and auditing services, banking charges, staff development, insurance, guard services, and maintenance of a general purpose vehicle. Sometimes a single cost item is split between the two categories. For example, if your Program Director spends half-time supervising existing programs and half-time developing new ventures or proposals for funding, then half of his or her salary is a direct cost and the other half indirect. If you are not sure how to divide your costs or how to treat depreciation and other special items, you can ask an accountant or other professional for advice.

Indirect costs can sometimes be combined into a single category called **overhead**. All of the costs are totalled up, and the total overhead is then presented as a percentage of salaries or of total direct costs. For example, using the salary method, if total salaries are $80,000 and the overhead costs come to $20,000, then the overhead rate is 25%. Using the total direct cost method, if total direct costs are $100,000 and overhead costs come to $20,000, then the overhead rate is 20%. When you prepare each activity budget (and sometimes even your consolidated organizational budget), you can enter the overhead as a separate line item. This is a way to "spread" all of your indirect costs over all of the organization's funds and ensure that each funding source -- including income generation programs -- pays its proportional share.

The direct-indirect classification is a helpful way of looking at total costs. Although you must continually monitor the actual costs of the items you placed in the overhead category to ensure that your percentage is correct, it is a time-saving method for budgeting. Unfortunately, it cannot always be applied. One potential problem is the variation in donor overhead policies. Some donors will not pay overhead at all, preferring instead direct costing of every item. If you estimated a particular activity supported by this kind of donor would take 10% of the Executive Director's time, 10% of the Financial Manager's time, and 20% of the bookkeeper's time, then you would have to show the applicable percentages of those salaries in the donor budget as direct costs. Another problem is variations among donors regarding what costs can be grouped under the overhead category. Some will allow general transportation, others will not. Some will allow costs of Board meetings, others will not. If you have several donors with different overhead regulations, then it will be hard for you to establish and use a general organizational overhead rate. Yet a third potential problem is local accounting practices that may limit your use of the overhead category.

For all of these reasons, it may not be feasible for you to use this system. However, understanding the concept of indirect costs will help you better understand your real program costs. A better understanding of these costs will in turn improve your budgeting and pricing. Remember that the purpose of overhead is to ensure that funding provided for activities is sufficient to support the administrative and other costs associated with them. Even if you don't have an overhead category as such, you can still make sure these costs are covered by charging them directly. In any event, they must be covered somewhere in your revenue budget.

Another way to classify costs is to divide them between (1) **fixed** and (2) **variable**. This is especially useful for NGOs considering new ventures, such as starting a fee-for-service clinic for middle income women to subsidize operations at another clinic serving only the poor. Fixed costs are those that do not change, regardless of the level of activity. For example, if you are going to rent a clinic site, the rent will be the same each month, regardless of the number of clients served. In contrast, variable costs are those that depend on the level of activity. For example, the more clients you have, the more supplies you will use. These cost classifications can be very useful in assessing expansion and new program options, especially income generation activities. Thinking in these terms helps you recognize risks and estimate the impact of taking these risks.

Pricing

Pricing is directly related to costing. It is also affected by the supply and demand related to the product or service sold, but this chapter focuses primarily on the cost aspects alone. Unless you know exactly what something costs, you cannot make a valid decision about how much to charge for it. Pricing is usually considered relevant only in the establisment of service fees for clients or in other income generation schemes, but it also has a role in donor negotiations. The budgets you prepare for donors are essentially pricing documents. They tell the donor what it will cost you -- and what you will charge -- to implement the activity. In this case, the pricing objective is simple cost recovery.

The pricing of fees for service and other sales for income generation purposes allows more flexibility. You can set fee prices simply to recover all of your costs, or to generate revenues that **exceed** costs. This results in unrestricted funds that can be allocated to organizational needs. If you plan to subsidize the activity with donor funding, then you can set a fee price to recover only part of the cost. Part II shows how important various pricing strategies were in helping the contributing

NGOs increase their independent revenues and their financial self-reliance. There may be local constraints that limit your opportunities to use some of these strategies. For example, the government may prohibit the sale of donated contraceptives, and even the sale of consultation services resulting in the distribution of these contraceptives. Another potential constraint is the basic policy or charter of your organization. If your charter requires that all of your services be delivered to your target clientele at no cost, then you cannot charge for them. It might be possible, however, to extend services to other clients, such as wealthier families, and charge fees for those services. Another option might be to develop new services for which you could charge.

Regardless of the constraints your organization may face, it is important to have a basic understanding of pricing so that you can take advantage of opportunities that do arise. In general, pricing is a function of policy, client market considerations, and cost. Policy considerations were suggested above, and market considerations, including the need to be cost-competitive with other local providers, are discussed in Section 6 (Feasibility Analysis). This section deals only with the cost aspects.

Considering only the cost aspects, price setting is basically a simple matter of arithmetic, although it can involve lots of paperwork, depending on how complex your scheme is. For example, if you operate a clinic that provides only family planning consultation, supply, and referral services, you can calculate the cost of each client visit by dividing total clinic operation costs (including the indirect or overhead expenses described earlier) by the total number of visits. If this comes out to $.50 per visit, then a fee of $.50 per visit will cover your costs. A fee of $.55 or $.60 per visit will give you excess income that you can reallocate elsewhere within the organization.

Pricing can become more complicated if you operate a clinic that, for example, provides all of the services mentioned above, plus sterilization services. These procedures are far more expensive. In this case, you might have to calculate the cost of **each** service by figuring out how much staff time, supplies, and other items are allocated to that service and then dividing those costs by the number of clients using the service. This would give you a different cost-recovery (or cost-recovery-plus) price for each service.

The process can become even more complicated if you estimate, for example, that 10% of the clients will be unable to pay, and you will have to recover 100% of your costs from 90% of your clients. This means each client will be charged slightly more than the actual costs for simple cost recovery, or an even higher price for excess recovery. Another more complex system would involve charging only the wealthier clients. In this case, you would have to estimate the number of those clients and divide total costs by that number to determine the price you will charge them. The use of sliding scales -- charging fees based on the client's ability to pay -- is another pricing strategy that requires more complex calculation. This strategy is used by PSS (India), which operates as a commercially viable social enterprise. PSS clinics charge for selected clinical and surgical services based on the ability of clients to pay. For indigent women, subsidized or free services are provided from funds set aside for that purpose. YKB (Indonesia) and CEMOPLAF (Ecuador) have similar programs, where each clinic site sets a different fee structure based on the economic characteristics of the local community, and the Family Planning Association of the Gambia has a two-tier price structure. There are many kinds of pricing schemes, but all of them require knowing what your cost is.

There is a lot of flexibility in pricing objectives -- partial, full, or excess cost recovery. There is flexibility also in the services for which you will charge fees and the target clients from whom you will collect them. This is characteristic of PSS (India) and several of the other contributing NGOs. You may decide to charge fees only in certain of the organization's units or programs. These units or programs then become "cost centers," and cost recovery is calculated for each center. The important point here is that you **can** set realistic prices if you know precisely what your costs are. The ability to set prices will enable you to take advantage of income generation opportunities when they arise and use them to increase the organization's financial self-reliance.

Opportunities for improvement

Better understanding of organizational costs
Increasing cost recovery from donors
Increasing fee income through better pricing

Costing is an internal management practice over which you have control. Taking time to analyze past expenses and carefully consider what kinds of administrative support your programs and your organization require, you can gain a better understanding of true organizational costs, including indirect costs, regardless of how these costs are currently classified or funded. With this understanding, you will be in a better position to negotiate with donors to increase the proportion covered by grants and contracts. You will also be able to set realistic prices that will increase fee income wherever fee schemes are available to you. Further, you will be able to recognize areas where costs may be excessive and introduce effiency measures to control them.

All NGOs can improve their understanding of organizational costs. This is part of becoming more business-like. In itself, it helps increase financial self-reliance because it guides you in establishing and pursuing revenue goals. The other two opportunities are not completely within your control. However, if you are aware of them, you can seek them out and take advantage of them wherever possible. Sometimes, by being entrepreneurial, you can **create** them where they didn't exist before.

Taking advantage of the opportunities

Here are some practices that will help you:

(1) Better understanding of organizational costs

It is important to take time to study what it really costs to run your programs and what it really costs to run your organization. These are not the same. It is relatively easy to determine your direct program costs. It is a little bit harder to determine the indirect costs associated with each program, but you can do it by considering such factors as how much of the Executive Director's time or how much office and/or clinic space the program takes. The hardest thing is to figure out the cost of the critical institutional development activities -- strategic planning, financial planning, market planning, and the like -- that must be carried out to make your organization strong. You can do it, however, by thinking through what you have to do, how much time it will take, and how much that time costs. With this knowledge, you can determine your total organizational costs and plan how to generate sufficient funds to cover them. Remember that there is a difference between **program** self-reliance and **organizational** self-reliance. When you are striving toward organizational self-reliance, you have to consider all of the organization's financial needs.

PDA (Thailand) has paid special attention to identifying, tracking, and managing overhead costs in its efforts to increase financial self-reliance. Careful studies were conducted to determine overhead costs and to designate as "overhead cost centers" those units that provide support services to central or field operations. The PDA management information system generates monthly overhead expenditure reports, for the organization as a whole and for each overhead cost center. This report also shows how much overhead is provided by donors and how much is supported by PDA's own funds. This system helps management control overhead expenditures and updates its view of total organizational costs on a continuous basis.

(2) Increasing cost recovery from donors

As pointed out earlier, donor cost policies differ, especially regarding indirect and organizational costs, so the way in which you recover these kinds of costs may also differ. The overhead rate option is one strategy that is acceptable to some donors. Charging an "administrative fee" or other kind of fee on top of each program budget is another option acceptable to some donors. This kind of fee tells the donor that it costs the organization something to run the program, and these costs must be recovered from the program budget. Like overhead, an administrative fee is usually some percentage of the program budget, and you can use the fee money for general organizational and administrative costs. A third option is to include administrative costs as direct costs in the program budget. With some donors, this is the only acceptable alternative.

The strategy you choose depends on the options open to you. Its success will depend on your negotiation skills and your ability to justify the costs your are claiming. Very often, attempts to recover indirect costs demonstrate to the donor that you are concerned about organizational viability and that you understand the administrative burden associated with providing quality services. In other words, they impress upon the donor that your organization is serious about responsible financial management. A donor that respects your commitment to good management is more likely to agree to support your management costs. This was certainly the case with MEXFAM (Mexico), as described earlier in Section 1.

(3) Increasing fee income through better pricing

Where fee options are open to you, you can increase your fee income by improving the process you use to set your prices. Again, one of the most important things is understanding the **total** cost -- direct and indirect -- of the service or item for which you are charging. There are also creative pricing strategies that you can use, such as setting prices low to attract a larger number of clients, or pricing one service low to attract clientele and then recovering your loss by charging higher prices for others. Pricing schemes -- and knowing how to calculate fee structures based on real costs -- will help you take advantage of opportunities when they arise.

The experience of CEMOPLAF (Ecuador) illustrates the complexity of pricing and the potential of better pricing to increase income. CEMOPLAF operates in communities where most people do not value or respect a service that is free, so the decision to charge fees was not a difficult one. When the organization first established service, laboratory, and pharmacy fees at its clinics, prices were set by simply using staff estimates of how much residents of each community would pay, without regard for actual costs. Later, donor-supported market research conducted by a local firm showed that in many areas higher prices could be charged without losing clients. In fact, in one community the price set for one IUD was so low that local doctors told clients it must be no good, and clients did not want to purchase it. Also, CEMOPLAF began to study its costs and set cost recovery objectives. As a result, CEMOPLAF raised its prices and increased its fee income while remaining a social enterprise. For pharmacy items, for example, CEMOPLAF receives a 25% discount from suppliers for volume purchases and charges its clients an additional 15%, but the CEMOPLAF price is still 10% below that of local commercial pharmacies. Thus, CEMOPLAF became more business-like without losing its commitment to service and now has more money available to subsidize services to those clients who truly cannot afford to pay.

4. BUILDING A CASH RESERVE

How This Chapter Can Help You

Can your NGO continue services if a donor payment is late? What happens to your programs if your fee income falls short of your projections? How would you pay for legal fees if you needed to defend your clinic against a court claim? Can you take advantage of investment opportunities, such as purchase of your own building? Can you afford the seed money to start an income generation program? Few family planning NGOs have excess unrestricted cash that they can use in emergency situations, and few have sufficient cash to make capital investments or start new ventures. This limits their capacity to achieve financial self-reliance. This chapter describes the importance of building and managing a cash reserve or working cash balance. It also suggests ways to create one and to plan your financial commitments more carefully so that the reserve can grow.

Most family planning NGOs have very tight budgets and very little excess cash. When the revenue you budgeted fails to come in, you have little or nothing to fall back on, and your operations may be interrupted. This is a serious threat to the quality of your services. If your clinics are not open, appropriately staffed, and appropriately supplied, you cannot provide good services. You will also lose the good will of your clients. Another common problem is that if the cash you have on hand belongs to a donor, it is usually restricted, so that you are not free to use it where it may be most needed at a particular time. These are immediate problems that jeopardize your routine operations and have a direct effect on client care.

Other problems resulting from a lack of working cash affect the NGO's organizational strength and viability and limit your capacity to contain costs. One problem is the inability to take advantage of significant money-saving opportunities. The simplest example is discounts for cash payments offered by many suppliers. If you do not have the cash when you need the supplies, you will pay a higher price for the privilege of credit. As another example, it may make better business sense to purchase rather than rent a building. On one hand, you will not be subject to uncontrollable rent increases. On the other, the building and its land will probably increase in value, thus increasing the financial assets of your NGO. Donors rarely fund these kinds of purchases.

Therefore, you need significant cash of your own on hand to make the down payment. By carefully building a cash reserve, PSS (India) has been able to take advantage of such opportunities. The cash reserve that allowed this investment was the result of creative income generation schemes as well as cost-conscious management and a commitment to efficient, high quality services.

Another problem is the burden of potential employer-related liability. Your organization may be legally responsible for providing pensions, severance pay, or other future benefits to workers. As years pass, these commitments grow. Unless you begin setting the funds aside early, you will not be able to meet your commitments. For example, in Trinidad and Tobago, the law requires severance pay for any employee made redundant and for workers released when an organization goes out of business. To meet its legal obligations, the local Family Planning Association puts in reserve a sum equal to this potential liability. Thus, the organization is prepared to meet worker claims, and its financial position will not be adversely affected when these claims are made. Moreover, the Association puts these set-aside funds to work by depositing them in an interest-bearing bank account. The interest earned can be left on deposit to increase the fund or withdrawn for other expenditures.

Yet another problem is the inability to make even small program investments that can result in successful income generation programs. For example, even though the Family Planning Association of Trinidad and Tobago and other contributing NGOs receive a lot of volunteer labor and donated goods to support local fundraising events such as fashion shows, they still have to pay for some of the costs associated with the event in order to earn the excess revenue generated by the event. It is hard to become self-reliant without sufficient cash to invest in new ventures. Without the flexibility of an unrestricted reserve, you have few options, and you will be unable to take advantage of many income generation opportunities that exist in your environment, even when the investment is modest.

In a very real sense, the amount of your cash reserve determines how much control you have over the organization and how rapidly you can move toward financial self-reliance. When most of your funds are restricted or already earmarked for specific operations, your business choices are limited. Even when one choice requires immediate payment but will save a great deal of money in the long run, you cannot make that choice if you don't have the cash. Even when you want to protect your organization against contingencies, you cannot do it unless you can acquire and set aside unrestricted cash. Even when you believe you could increase your fee income by making an expenditure now on program improvements, you cannot do it unless you have enough cash on hand to make the investment. A cash reserve -- even a very small one -- increases both the number of choices you have and the degree of your control over the present and the future.

There is no simple formula for calculating your reserve requirements. Clearly, the larger the reserve, the greater your control, and the more secure the organization. However, even a small reserve is helpful and goes a long way toward increasing self-reliance. Because of limited spending flexibility in restricted funds, your reserve should consist of unrestricted funds. Remember that you may have little choice in how you use restricted funds. Normally, you cannot "borrow" from one of these funds to cover a shortage in another. Also, many donors prohibit earning interest on their funds or using them for any other money-making investment.

Managing the reserve is as important as building it. The general objectives are to protect the money and, where laws permit, put it to work so that the reserve grows by itself. For example, if NGOs in your community are permitted to have interest-bearing bank accounts, you can shop around to find the bank that will pay the highest interest. The interest earned will then increase the amount of the reserve. Other investment opportunities may also be available to you. However, you don't want to take a chance on losing the money, so if you do invest, you should do so conservatively. Cash reserve management strategies generally must be approved by the Board.

Opportunities for improvement

Creating new sources of reserve funds
Making better decisions about spending now or saving for later
Making wiser use of reserves
Planning and managing risk

Without an adequate reserve, you have to be careful about making financial commitments. There is a risk that you will not be able to meet the commitment if it is based solely on your budgeted funding sources, especially when a large proportion is donor-provided restricted funding. You cannot control all of those sources, but you can control the amount of risk you take. You can also control spending decisions regarding unrestricted funds. Although current needs are always pressing, careful study may show that the organization's viability will be improved if spending is deferred and a reserve created. Finally, you can become more entrepreneurial, creating new funding sources that can be channeled into reserves. Taking advantage of these opportunities will increase the organization's financial self-reliance.

Taking advantage of the opportunities

Here are some practices that will help you:

(1) Creating new sources of reserve funds

Fees for service and other income generation activities are an excellent answer -- and in some cases the only answer -- to the challenge of building reserves. The benefits of this strategy have been mentioned many times already in this manual, because the strategy is key to increased financial self-reliance. Part II illustrates the range of income generation schemes creatively implemented by the contributing NGOs. Other excellent answers are deposits in interest-bearing accounts and other money-making investments in buildings, land, and other items that increase in value and can be sold at a profit to generate excess cash. Not every environment permits NGOs to engage in these kinds of activities, and some donors prohibit the use of their funds in this way. However, several of the contributing NGOs have successfully used these strategies to increase their cash reserves. For example, The Gambia Family Planning Association maintains both short-term deposit and savings accounts which earn 18% and 16% interest respectively, and the interest earned has created a growing reserve. The Family Planning Association of Trinidad and Tobago places both its employer liability and Board-designated unrestricted funds in interest-earning time deposits. While the liability fund is set aside as a "restricted" reserve, the interest it earns can be transferred to unrestricted reserves and used at the organization's discretion. MEXFAM (Mexico) deposits operating funds for its 42 logistics centers in an interest-bearing centralized account and makes electronic disbursements to each center every 15 days. This maximizes the amount of interest earned because it keeps the money on deposit right up until it is needed. It also makes the interest immediately available to central management.

Every NGO has opportunities for creating a reserve, even if it comes from a donation box in the clinic rather than a complex commercial venture. You can become more business-like, taking advantage of the opportunities you have now. You can also use your entrepreneurial talents to expand opportunities in the future.

(2) Making better spending decisions

Deciding not to spend money on what seems to be a pressing need and putting the money aside instead is a very difficult decision, particularly for family planning NGOs whose overriding concern is the delivery of needed, quality services to their clientele. However, it is part of becoming more business-like. There are times when securing your future position is more important than satisfying a current need. For example, you may believe that a second vehicle or another outreach worker would strengthen your program. If your program is fee-for-service, this improvement could increase your fee income. However, suppose you also anticipate a significant increase in rent, electricity, or the price of supplies. Is it better to make the investment in the program, or should you hold on to your reserve so that you can meet a future need? There is no easy answer. Each situation is different. The point is that when you have the discretion to spend or not to spend, consider your options carefully, and do not allow today's needs to distract your attention from tomorrow's.

(3) Making wiser use of reserves

NGOs experiencing a cash reserve for the first time often have trouble deciding how to use it. It is important to have a firm policy on reserves, designating the minimum amount to be set aside and the purposes for which the money can be used. Normally, this policy is established by the Board. Once in place, it guides staff in reserve management.

In addition to financing routine operations during temporary cash shortages, reserves can be used in many ways. MEXFAM (Mexico) uses part of its reserve to cover employer liabilities. The Family Planning Association of Trinidad and Tobago sets aside a reserve to cover employer liability and invests it to earn additional income. MEXFAM and PSL (Sri Lanka) allot portions to cover potential legal or other contingencies. PSL also maintains an advertising and sales promotion fund and a welfare fund that provides gratuities to retiring staff. The Family Planning Association of the Gambia has drawn on its reserves for various purposes, including staff training, facility renovation, equipment purchase, and salary increases. How you use your reserve will depend on its size and on your organizational needs. Creating the reserve is hard work. Therefore, it is important to manage it wisely and make sure it is used in the organization's best interest.

(4) Planning and managing risk

Every time you make a financial commitment, you take a certain amount of risk. When you hire workers, they expect regular salary payments. If a funding source fails and you have no reserves, you cannot pay your workers on time. The same is true when you sign a lease to rent clinic space for a year. If you cannot make the payments, you will have to close your operation and move out. Clearly, you cannot operate programs without people and space, so these are the kinds of risks you have to take.

Other commitments may be more discretionary. For example, suppose you normally purchase supplies in June, but you get an opportunity to buy bulk supplies very cheaply if you make the payment by 1 May. This will save money, which is beneficial for your budget overall, so you place the order and make the commitment to the supplier in March. You are expecting significant revenue in April, and you believe you can cover the purchase. But what if the revenue fails to come in? Without a reserve, you cannot meet your obligation. The supplier may then impose a penalty on you, making the supplies even more costly than they would have been if you waited for your normal June purchase cycle. These kinds of risks must be carefully evaluated. With little or no reserve, you have to limit your risk. You may not be able to take advantage of money-saving opportunities that are potentially beneficial, but also risky.

As you will see in Section 6 (Feasibility Analysis), any new income generation venture -- even a very small one -- involves some risk. There are generally start-up and initial operating costs that must be covered until the venture starts paying for itself. Feasibility analysis involves careful cost estimation and revenue forecasts, but unexpected things often happen. You may need to use your reserve funds to handle them. Therefore, you have to be realistic in your venture planning, making only those funding commitments that you can meet. If you have no reserve for emergencies, then the venture may fail, and you will lose your original investment in it. The risk needs to be considered carefully.

The experience of YKB (Indonesia) indicates the importance of risk planning and management in new venture development. YKB's management decided to establish a middle-income clinic that would eventually generate excess income to subsidize other operations in poorer neighborhoods. A careful feasibility study (see Section 6) showed that this idea was sound. It also projected when the clinic would become self-sustaining and when it would generate an excess, and showed how much investment would be needed. Partial initial funding was available from a donor, but a substantial contribution was also required by YKB. Some of the organization's other clinics were already generating excess revenue, and this revenue created an ongoing reserve to subsidize other operations that were not yet self-reliant. Thus, the investment seemed feasible. However, as the new venture developed, it became clear it would take a little longer than expected for the middle-income clinic to become self-sustaining. Because reserves were continuously being created by the other clinics, the situation was a manageable risk. In an organization with less capacity to replenish its available unrestricted cash supply, the risk might have been too great.

5. CREATIVE DONOR MANAGEMENT

How This Chapter Can Help You

If your NGO knew more about donors, would you have more success in getting donor funding? When one of your donors stops its support, do you know how to find another to take its place? Has your inability to negotiate with donors had a negative effect on your programs or management? Increased self-reliance requires that family planning NGOs increase their control over the search for and management of donor support. This chapter explains the need for greater attention to donor management. It also suggests ways to diversify your funding base, ensure that donor funding contributes to achievement of your organization's goals, and improve the terms of donor agreements.

Financial self-reliance does not exclude donor funding. This kind of funding will continue to be important, even as your independently-generated income grows. There will continue to be donor funds earmarked throughout the world for family planning NGOs, and you should not fail to take advantage of these opportunities. By improving the way you attract, use, and manage these donors and their funds, you can increase your self-reliance while still taking maximum advantage of donor funding opportunities.

Improving donor management is in part a management task, in part a public relations task, and in part an entrepreneurial task. Better management can stretch your funds, allowing you to accomplish more with what you have. It will also impress upon the donor that you handle your funds responsibly. Better public relations -- showing donors what you can do and how well you can do it -- will enhance your reputation and respect in the donor community. This in turn will increase your negotiating power and make it easier to persuade donors to support you. Better entrepreneurship -- identifying new funding sources and creating new ways to attract and use donor funds -- will help increase your control by diversifying your sources of support and reducing your dependence on a single donor. All of these improvements will help increase your financial self-reliance, even though they result in restricted funds.

Increasing your understanding of donors is key to continued funding success. Donors have missions and goals, just like NGOs, and their grant and contract policies must be consistent with them. When you seek funds, the donor looks at your program and activities to see if they fit with its missions and goals. If they do not, then the donor cannot provide funding support. Even when your goals match the donor's, if there is something in your plan that conflicts with donor funding regulations or program priorities, then the donor will not support it. For example, some donors will not fund the construction of a building; others will. Some require partial funding by the organization; others do not. Some will support programs using certain family planning methods but not others. Some support only those programs that focus exclusively on the poor; others support those with a more diverse client market. It is important for you to understand these differences so that you can invest your time and effort wisely in pursuing donor support.

Even when your program falls directly within a donor's guidelines, funding is far from automatic. There is lots of competition for donor funds, and donors have to make difficult funding choices, just as family planning NGOs do. They are reviewing NGO fund applications more and more carefully, looking for efficiency, knowledge of the local client market, evidence of local community support, quality of service, quality of management, coverage of hard-to-reach populations, financial stability, evidence of increasing self-reliance, and other factors. They want their funds to be well used and to increase the availability of family planning services, just as you do. You can control the quality of your appeal for funds, making sure it shows the strengths of your organization, describes activities and services in terms that are attractive to the donor, and contains a well thought out budget that reflects your commitment to business-like financial management.

In addition to helping you target your requests, learning about donors helps you identify new ones that might provide support. With the rise in competition and the growing financial constraints of donors, an NGO that relies almost exclusively on one or two donors is at risk. In the new economic environment, diversifying donor support is as important as income generation. Studying the possibilities, you may identify new sources of assistance. In addition to international donors, in some countries there are local foundations or other charitable organizations that are potential funders of family planning NGOs. There may be less competition for these funds. Also, these organizations may offer simpler grant application procedures and have less burdensome accounting and reporting requirements. Thus, their grants may be cheaper and easier to manage. As communities throughout the world increase their financial investment in their own development, the number and resources of local donors may grow. An entrepreneurial NGO can take excellent advantage of them, fostering local relationships and actively soliciting local support.

Opportunities for Improvement

Learning more about donors
Keeping your own goals in sight
Creating and using leverage
Improving negotiations with donors
Involving the donors in planning

All NGOs can increase their control over the process of seeking, managing, and using donor funds. Although they cannot control the donor's funding decisions, they can influence these decisions by presenting appeals for funds in a more persuasive way. By learning about the special interests and policies of each donor, you can target those that offer the most potential for your organization. By seeking donor funds that will help you achieve your own goals instead of trying to fit your programs to respond to the donor's goals, you can put donor funds to work for you, instead of the other way around. By developing activities that use a combination of donor funds and thereby increase the impact of each donor's contribution, you can improve your leverage in using a commitment from one donor to stimulate a commitment from another. By taking a more proactive role with donors, you can raise your status in the donor's eyes, increase your powers of persuasion, and negotiate more favorable grants and contracts. This is the business-like approach to donor management.

Taking advantage of the opportunities

Here are some practices that will help you:

(1) Learning more about donors

Detailed knowledge about donors -- their goals, policies, regulations, funding priorities, and funding cycles -- can help you identify potential sources of funds and develop successful proposals. There is lots of relevant information in donor publications, available by mail and at local and regional donor offices. You can also learn from other donor-funded NGOs in your community, local NGO councils or other NGO membership organizations, knowledgeable government and private sector leaders, and international donor representatives who visit your country or attend professional conferences with you. In addition, most NGOs already have at least one or two donors with whom they regularly negotiate funding agreements. By listening carefully to donor representatives during these discussions, you can learn a great deal about the donor's principal concerns and keep abreast of any changes in donor policies or interests that may affect your organization. By carefully studying and analyzing all available information, you can put in priority order the funding targets for your organization. You can also identify new sources of funds, including local foundations, that will give you increased program flexibility and reduce your dependence on your traditional sources.

The experiences of several contributing NGOs show how greater awareness of donor priorities can increase access to donor funds and expand organizational programs. For example, CEMOPLAF (Ecuador) decided to broaden its services to include surgical contraception, but knew that the International Planned Parenthood Federation and its other traditional donors would probably not support the introduction of this service. The staff then researched other funding opportunities and learned that surgical contraception was a high priority for The Pathfinder Fund. CEMOPLAF made a formal approach to this donor, and an agreement was reached whereby Pathfinder provides sterilization equipment to hospitals, trains doctors in its use, and conducts market studies. It also pays CEMOPLAF to recruit, administer, and train the physicians. The physician initially receives a very small fee but, after two or three years, owns the equipment. This is a strong incentive for physician participation. Also, the surgical fee charged to clients is much lower than those of other providers, so this program is totally consistent with CEMOPLAF's philosophy of providing low-cost, high-quality services in its target communities.

The Family Planning Association of Trinidad and Tobago began a similar search for diversified funding, although for a different reason. Until the decline of the national economy, the Association was extremely successful in raising funds locally. However, as these funds became scarcer, the organization had to turn its attention abroad to locate new donors. The objective was to diversify the overall donor portfolio to reduce reliance on a single donor and ensure a steady income from foreign sources. Through careful outreach and study, the Association increased its supporters from two foreign donors in 1985 to eight foreign donors the following year. While it still conducts a variety of local fundraising activities and generates about 40% of its support from the community, success in the international arena has enabled the Association to maintain its service programs and meet its clients' needs.

(2) Keeping your own goals in sight

Given pressing financial needs, it is tempting to accept any available donor funds. Sometimes this may require undertaking activities or programs that are not completely consistent with your organization's mission and goals. Sometimes it puts an unacceptably high burden on management and program staff. This kind of funding may relieve an immediate financial problem but create other problems later.

It is essential to keep your own goals and the overall viability of your organization in sight. If funding becomes available for a new service, activity, population, or geographic area, consider carefully whether or not the new focus is consistent with your organization's goals. The fact that something is new does not necessarily mean it does not fit. Actually, both the environment and its need and demand for your services change over time. A new program strategy or client group may be an excellent way to respond to this change and a good reflection of your mission in today's world.

If this is not the case, then you need to think about how accepting the funding will affect the organization.

Carrying out your mission depends on good management control as well as high quality technical services. New program funds generally cover technical staff adequately, but sometimes fall short on the management side. If accepting the funds will require increased management responsibilities and extensive supervision of widespread field activities, consider whether or not your organization can handle it. Have you planned adequately for this kind of growth? If you fail, what will the consequences be?

These are very hard questions, but they must be faced and answered. Increased self-reliance means becoming more business-like, taking better control over the organization's future by making conscious decisions about it. When you find yourself faced with funding that fits poorly, one strategy is to negotiate with the donor in an attempt to redirect the funding toward something more suitable for your organization. If you can support your position with solid information and logical arguments, you may be successful. If you are not, then you have to decide whether or not to accept the funds. No NGO wants to refuse, but sometimes it may be in the organization's best interest to do so.

Both PSS (India) and MEXFAM (Mexico) have had these kinds of experiences. In the case of PSS, the Government of India offered funding to set up one model clinic in each of the country's 412 districts. PSS declined this offer for two important organizational reasons. First, such sudden growth would require far more managerial expertise than was available and would put great stress on the organization. Second, management recognized that delays in payments could badly upset the organization's cash flow position. Eventually, PSS persuaded the Government to limit the number of projects to 10, and all of these clinics were established within two years. In the case of MEXFAM, a donor interested in environmental work offered funding for field projects in areas of Mexico that did not match the organization's geographical priorities. MEXFAM's management determined that this would conflict with the organization's mission and goals and declined the offer on that basis. In both cases, these NGOs faced difficult decisions and chose to maintain the strength and integrity of their organizations, despite the loss of potential funding.

(3) Creating and using leverage

Using funding from one donor to stimulate funding from another is a technique many NGOs can use to support comprehensive programs that no single donor would pay for alone. For example, suppose you want to open a new clinic to reach a special population. You need to construct the building, purchase a vehicle and other equipment, acquire family planning supplies, and hire and train new staff. You also need support for the indirect costs associated with start-up and maintenance of the program. From your study of donors, you can identify one that supports facility construction, another that provides free commodities, a third that funds staffing as well as limited equipment purchases, a fourth that puts a high priority on this population, and so on. Though each donor funds only its own specific interests, these interests can be integrated at the field or project level. Approaching each donor separately for partial funding, you could create a "package" or combination of funding to support the entire program. Once you get the first commitment, you can use it to leverage additional commitments from the others. This is a common practice in the business world. It is easily transferable to the non-profit world.

This is an entrepreneurial approach. It helps you manage the donors rather than having them manage you. Many donors are impressed by the creativity and entrepreneurship involved in developing it. They also like the fact that their relatively limited investment, when combined with the others, has a larger impact than it would alone. "Packaging" will become increasingly important as the demand for donor funds continues to rise. It is a good idea to start on a small scale, with very careful planning and realistic goals. As you become more skilled, you can attempt more ambitious multi-funded programs.

MEXFAM has used this technique in developing and supporting comprehensive programs at its rural facilities. First, the International Planned Parenthood Federation was approached to support sex education activities in a family planning and youth services program. Second, MEXFAM negotiated with the Government of Japan to add a parasite control component, and funding was provided for the purchase of drugs and equipment as well as for training of personnel. Finally, the Government of Finland was persuaded to support the development of youth educational materials, such as pamphlets and posters. As a result of MEXFAM's creativity and entrepreneurship, three separate donor contributions are now integrated into a comprehensive service delivery program. This program meets the objectives of the NGO as well as those of the three donors and demonstrates that well-planned, well-executed "packaging" can work.

(4) Improving negotiations with donors

Every donor grant or contract brings with it some management burden. There are routine accounting and financial reports, program reports, and reports on user statistics or other evaluation measures. There are also periodic ad hoc requests for information to which the NGO must respond. This burden can increase dramatically when an NGO has multiple donors, each one requiring different reports in different formats at different times. If your NGO is seeking to stabilize its funding base through donor diversification as in the case of the Family Planning Association of Trinidad and Tobago, then it is important to recognize and plan for the related management requirements. If you fail to meet them, the donors may turn to other NGOs that are more responsive to their accountability and information needs.

Donor recognition of this management burden is growing. So is donor willingness to discuss and revise reporting requirements, provided you can prove to the donor that you can meet its management objectives. You can initiate negotiations with donors, and you can take a proactive role in reaching a mutually agreeable solution. It is up to you to explain what the burden is, suggest how to reduce it, and convince the donor that your approach is sound. For example, MEXFAM was receiving funding from several donors, and each one had a different reporting schedule. In addition, there was considerable variation in the content of the reports and in the evaluation measures. As a result, data collection and report preparation were extremely time-consuming. MEXFAM believed some of this time could be better spent on other organizational tasks and that there were other ways to satisfy donor needs for information and accountability. After developing a concrete plan for standardization that reflected the needs of all the funding sources, the staff initiated meetings with the donors to negotiate for more uniformity. Agreement was eventually reached on standardized report formats, reporting schedules, and evaluation measures. These negotiations effectively reduced the management burden and simplified the overall donor management process at this NGO.

(5) Involving the donor in planning

More often than not, the first contact between the NGO and the donor occurs when the NGO submits the completed application or proposal for funding. Preparation of the document is entirely internal, and its consistency with the donor's interests depends on how well the NGO understands the donor's policies and objectives. Involving the donor much earlier can increase your chances for success. You can initiate meetings with donor representatives to "test" your ideas and to get some early feedback regarding the potential for funding support. These discussions will familiarize you with the particular requirements of each donor and help you frame your proposal in the best possible light. They may also help you refine your program concept. By involving the donor in the planning process, they will familiarize the donor with your organization and develop a sense of ownership in the program idea. When the proposal arrives, the donor will already understand what you are trying to do and how your program fits within its funding priorities. This practice has been used successfully by many of the contributing NGOs, such as PDA (Thailand), PSL (Sri Lanka), and MEXFAM (Mexico), to increase their funding success rates and facilitate the donor management process.

6. FEASIBILITY ANALYSIS

How This Chapter Can Help You

If your NGO spent money on developing an income generation program that failed, how would the loss affect the organization's financial position? On what basis do you decide to pursue an income generation opportunity? How would you choose between several that seem like good ideas? The inability to make well-reasoned, informed decisions of this kind is a common weakness among family planning NGOs. It also explains why many have had disappointing experiences when they tried to increase their financial self-reliance through income generation activities. This chapter introduces the basic components of feasibility analysis, a technique used to analyze the potential for new venture success. It also suggests ways to improve your capacity to identify and evaluate options.

An important part of financial self-reliance is the ability to analyze income generation opportunities and take advantage of those with the best potential. Family planning NGOs considering new ventures must be able to identify and evaluate options. This process is a management activity that involves assessing what would be workable within the local environment, what it would take to start up the program, and what would be gained from it. The process is a systematic evaluation called feasibility analysis. It is a technique adapted from the business world. Understanding and using it will help your organization become more business-like and move toward financial self-reliance.

Every new venture is risky. A good feasibility analysis helps you minimize risks and maximize gains. There are lots of theories about feasibility analysis and lots of systems for implementing the process. Some are simple, and some are complex. You need to choose one that will work for you, given your organizational assets, the type of ventures you are considering, and your revenue objectives.

No matter what system you use, the basic process is easy to understand. It involves analyzing (1) **environmental opportunities and constraints**, (2) **the local market** or clientele for the proposed venture, and (3) **projected costs and revenues**. In some cases, depending on the nature of the organization and the venture itself, feasibility assessment may involve analyzing a fourth issue -- the **non-monetary costs** to the organization. These "costs" include a wide variety of things, such as the effect the venture will have on the organization's reputation in the community, the effect of diverting staff time from service programs during the venture planning and start-up period, and the effect of rapid organizational growth that may result from the venture. These are important considerations that figure into the decision about the viability and appropriateness of the venture.

The analysis of **environmental opportunities and constraints** looks at laws, regulations, the political climate, and traditions in your environment that shape your income generation options. For example, local laws may prohibit you from charging fees for service, but not from developing non-service-related ventures, such as selling promotional T-shirts, running a rural transportation service, or collecting rentals on building space. Alternatively, you may be allowed to charge fees for services, but not to engage in any other kinds of income generation activities. Also, the local political climate may discourage fee-for-service family planning programs but allow for other income generation opportunities that focus on a less controversial service. As another example, you may be permitted to sell contraceptives but not education and consultation services, or vice versa. Further, organizational policy or local traditions may not permit any fees for poor clients, but would permit fees for other population segments or for local companies who purchase your services as part of their employee health plan. Finally, advertising of contraceptives or family planning consultation services may be against local law. Each country and each community is different. Before you begin an income generation venture, you need to analyze your environmental opportunities and constraints to identify options that are feasible for you.

Analysis of the **local market** involves identifying and understanding the potential buyers or consumers of the products or services you plan to sell. If you are selling family planning services, it is essential to distinguish between market **need** and market **demand**. From a health standpoint, local fertility rates and couple-year protection statistics may show a tremendous need, but there may be little demand. That is, people do not feel a need for services; therefore, they do not actively seek them out or use them when they are available. Most family planning NGOs are familiar with this situation. Considerable motivation, promotion, and education are often needed to **stimulate** demand.

If you are thinking about selling family planning products and services in a low demand area, then you will have to invest in promotion, and the income from the venture may not justify its costs. The same concept holds true for other kinds of sales you might consider. For example, there may be a need for a new rural transportation operation or laboratory service, but there may be no demand. In other words, people may not use the services. If demand is low, your income prospects are poor. Your best opportunities are where both need and demand are high.

After you establish that demand exists, there are still a number of factors left to consider in market analysis. For example, if you are considering a fee-producing service operation targeted at middle-class women, how many are there in the proposed service area? How many other organizations offer similar services? How many clients do they have? Do you expect to attract some of their clients to your clinic? If so, what will attract them? Price is another question. What is the current market price of the products and services you plan to sell? If you charge below market price, will that increase your clientele or make them think your products and services are inferior? These are just examples of market analysis questions. When you conduct a feasibility analysis, your key objective is to understand the market in detail so that you can make the best possible prediction of how it will respond to your income generation scheme. The better your prediction, the lower your risk.

Analysis of **costs and revenues** focuses on the financial aspects of the venture. Basically, it tells you whether or not your idea makes good economic sense. Every income generation scheme, no matter how small, will cost something, both for start-up and for continued operation. For example, a plan to institute fees at an existing clinic is a relatively modest undertaking. However, you will have to train staff in collection methods, and there will be an increase in accounting activity which may require more staff time. If you plan to use volunteers to coordinate community vegetable gardens, you need to train, support, and supervise them. If you plan an entirely new venture, such as opening a new clinic site or establishing a laboratory facility, then there are significant start-up costs as well as operating costs.

The financial analysis involves comparing the expected costs of the venture with its expected revenue. This is a critical paper exercise that tests the financial potential of the venture. It usually involves a month-by-month prediction of cost and revenue, showing you the "break even point" (when you will recover your start-up costs and begin earning enough to cover current expenses), the point at which you will begin to have a surplus, and the amount of that surplus. You can test various alternatives during the exercise, seeing what would happen to your cost recovery schedule and to the amount of your initial investment and operating costs under each one. This is what businesses do to maximize their profit. For you, it will maximize cost recovery and provide you with the unrestricted funds you need.

In general, costs are easier to predict than revenue, but you have to be careful not to underestimate them. For example, you must consider your indirect costs as well as the venture's direct costs. The accuracy of your revenue projection depends on the quality of your market analysis and your ability to use the market analysis information. It is important not to be overly optimistic about the market, projecting more clients and sales than you should. The risk is that if your projections are wrong, then the operation will cost more than you anticipated, and your earnings will be less. If the venture fails entirely because you cannot support it, you may not even recover the costs that you put into it. For family planning NGOs with scarce funds, this kind of risk is unacceptable. It helps to make analyses which project several levels of revenue (such as 50%, 75%, and 100% of what you predict) so that you will see clearly the financial implications of a revenue shortfall.

Analysis of **non-monetary costs** is important when there is a chance that the venture might have a negative impact on the organization or the quality of its services. This analysis is very specific to each situation. For example, suppose your organization has traditionally provided free family planning services to poor, rural clients. You are considering opening a fee-for-service town clinic where you hope to attract middle-class clients, using the excess revenues to extend your rural services. Will the new venture change your image in the eyes of the public? If so, will the change have a negative effect on your reputation? You may be able to answer these kinds of questions through internal discussions within the organization. You can also conduct opinion surveys and other market research activities to help answer them. The questions associated with the venture you select may be quite different. The point is that non-monetary costs are sometimes very important, so be careful not to overlook them.

You do not need to have within your organization all the expertise required to conduct a full feasibility analysis. There are legal, market research, and financial analysis resources in virtually every community. PSS (India), PSL (Sri Lanka), the Family Planning Association of Trinidad and Tobago, and other contributing NGOs have turned to these resources in identifying and evaluating options. Even PDA (Thailand), which has considerable in-house expertise in feasibility studies and cost-benefit analyses, sought outside help in evaluating the feasibility of a condom packaging plant. The important thing is for you is to understand what the process is and why it is necessary. As you move into income generation schemes to increase financial self-reliance, you can oversee and use the process, even if you cannot implement it alone. You are responsible for deciding whether or not to proceed with the scheme, and you need to understand all the factors that must be considered in this decision.

Opportunities for improvement

Studying your income generation options
Collecting market information
Establishing financial goals
Identifying sources of assistance

Each feasibility analysis is specific to the scheme you are considering. There is a lot of preliminary work that needs to be done before you select a scheme, and you can do much of it yourself. You can determine what options are open, given environmental constraints. There is sometimes a lot of market information available, such as demographic studies, consumer spending pattern analyses, and the like, that you can collect. Alternatively, you might participate in initiating the database, as did the Family Planning Association of Trinidad and Tobago when it conducted a local health and demographic survey with donor funding and technical assistance. You may also have useful data within your own organization. You can establish financial goals for your income generation program so that you have a good basis for judging the results of the cost-benefit portion of the feasibility analysis. Also, you can start looking for market experts and other professionals who can help you if needed in conducting the analysis.

(1) Studying your income generation options

Consulting with your Board and others, you can begin your environmental analysis to identify constraints and opportunities. This will help narrow the number of schemes you consider. You can also discuss with other local NGOs their income generation experiences. You can learn a lot from their successes and mistakes. You may also find an opportunity to collaborate with another organization on an income generation scheme, sharing the costs and revenues and reducing your own risk.

As you study your options, consider your organization's strengths and weaknesses at the same time. A "good" opportunity exists only when you have the resources to take advantage of it. For example, if like PDA (Thailand) and YKB (Indonesia) you decide to offer fee-producing training and consulting services, does your staff have the needed time and expertise to provide them? If not, can you recruit new staff, and can you afford to hire them? If like PSL (Sri Lanka) and PSS (India) you decide to charge for family planning services, do you have or can you get the expertise needed to set prices and promote the use of your facilities in the community? Can your accounting system handle the increased burden? Every NGO has its own strong points. The income generation options that are most promising are those that take the best advantage of organizational strengths.

(2) Collecting market information

Market surveys and other market research can be expensive. As you narrow the number of schemes under consideration, make a list of all the market information you will need. Then see how much of it you can find. There have been many surveys of coverage, demand, pricing, and other aspects of family planning in many communities throughout the world. If your area has been studied, you can use the data. This information is often available free of charge. In addition, your organization may have developed some market information on its own in the course of program design, delivery, and evaluation. If you are considering other ventures, such as building rental or transportation services, there may be market survey and other data gathered on these markets for other purposes. For example, the Family Planning Association of Bangladesh reviewed local pricing of commercial rental space before it set prices for its commercial rental program. Collecting information now will make it easier to conduct the feasibility analysis of the venture you select. It may also help you in the selection process, giving you preliminary information about what your best options might be.

(3) Establishing financial goals

It is important to have a clear, reasonable financial goal for income generation activities. It can be expressed as an amount of money or a percentage of the budget. It is usually established in consultation with the Board and shown in the organization's strategic plan. Using the goal as a benchmark will help you determine whether or not the results of the cost and revenue analysis justify the effort involved in implementing the scheme.

The importance of setting financial goals is illustrated by the experience of YKB (Indonesia). When this NGO considered establishing a clinic in a middle-income community, the specific financial objective was to generate an excess of revenue over expenses. The excess would then be used to subsidize other YKB clinics in poorer communities. Some of the major questions facing the organization were: (1) What would it take to establish the clinic? (2) How promising was the market for clinic services? (3) When would the clinic break even, and could YKB afford to operate it until then? (4) How much excess income would be generated? With outside assistance, a formal feasibility study was conducted, covering all the components mentioned earlier. The projected break even point was expressed in terms of clinic income, number of clients, and time. After careful study of the feasibility analysis results, YKB decided to go ahead with the scheme, and a formal business plan was developed. The clinic is now operating and moving towards the break even point much more rapidly than other YKB facilities in other communities.

(4) Identifying sources of assistance

If you believe you will need help in conducting feasibility analyses, look around in your community to see what kind of expertise is available. Look first to your Board. Like many of the contributing NGOs, you may have a variety of talented, influential Board members -- business experts, lawyers, epidemiologists, managers, fundraisers, commercial advertisers, public relations and marketing specialists, medical and paramedical practitioners, and other professionals -- who can either assist you directly or refer you to others. If you are persuasive, you may be able to convince some people, even those who do not serve on the Board, to volunteer their time or offer your organization a reduced rate for services. In any event, it is important to know where to turn so that you can start quickly once you make a decision to move into the income generation arena.

7. PLANNING FOR IMPROVED FINANCIAL MANAGEMENT

> **How This Chapter Can Help You**
>
> How many times has your NGO lost an opportunity to increase its financial self-reliance because of weak financial management? How much better would your services be if your budget were larger and more flexible? How much more could you accomplish if you were more business-like? This chapter helps you assess how well developed your financial management practices are and create a simple improvement plan. Improvement takes work. As the experiences of the contributing NGOs show, the reward is well worth the effort. Your commitment to change is an important first step in increasing the self-reliance of your NGO. It is up to you to make it.

Improved financial management is an objective that every family planning NGO can achieve. It is essential for increasing the organization's financial self-reliance. Your organization is a financial enterprise as well as a service-providing enterprise. You must be as concerned about its financial health as you are about the quality of its services. Achieving service goals requires adequate financing. This is the **business** part of planning. To ensure adequate financing, you must become more **business-like**. This means new ways of thinking and acting. It does not mean changing the general purpose, orientation, and goals of the organization. To the contrary, it will help you achieve those goals and better serve your clients and your community.

The preceding sections described six key financial management activities, explained what their benefits are, showed how you can realize these benefits, and suggested opportunities for improvement. They also gave specific examples of how the contributing NGOs took advantage of these opportunities and increased their self-reliance. Now is the time to take stock of how well developed your organization's financial management capacity is, and how you can improve it. Remember what the improvements can do for you:

Benefits of Improving Financial Management

Clearer understanding of how money flows in and out of your NGO

More accurate picture of how much it costs to deliver services, singly and in total

Greater control over costs

Enhanced capacity to increase efficiency

Improved ability to monitor income and expenditures

Capability to evaluate the feasibility of new programs and ventures

More rational financial decision-making

Increased control over the organization's financial future

Overview of the planning process

This section offers two exercises that will help you develop a financial management improvement plan. The first helps you assess where you are now and identify opportunities for improvement in each of the six functional areas. It guides you through three simple steps: (1) describing current practices; (2) identifying current benefits; and (3) identifying opportunities for improvement. The second helps you integrate your findings and establish a comprehensive improvement plan. Every organization has the capacity to carry out these exercises. You are looking at **your** financial management activities and **your** needs for improvement.

By undertaking these exercises, you are making an organizational commitment to change. This is an important commitment. When it becomes hard, or when there are conflicting demands on your time, think about what you can gain from improved financial management. The potential benefits are well worth the time and effort. All of the contributing NGOs have gone through a process like this. Their success in increasing financial self-reliance shows how great the rewards can be.

Preparing for the planning process

(1) Assembling documents

You will be looking at each of the six financial management functions within your organization. It will help to collect all available internal materials related to each one so that you can refer to them during the exercises. Examples of relevant documents you may have include:

- organization goal or mission statement
- organizational strategic plan
- fund account formats and statements
- financial statements and reports
- summary of financial accounting and reporting requirements
- budget forms, variance reports, program budgets, and consolidated budgets
- cash flow projections
- cost and price data
- bank statements
- cash reserve account statements
- feasibility analyses conducted in the past
- marketing plans for donor funds and income generation activities
- financial plans
- multi-year analyses of expenses and revenues
- program and business plans

It will also help to collect information about the environment in which you operate. This may include government family planning policy statements, market analyses, local NGO rules and regulations, descriptions of competing NGOs, and the like. This will assist you in deciding exactly what kind of improvements are feasible and most beneficial for you.

(2) Assembling a planning group

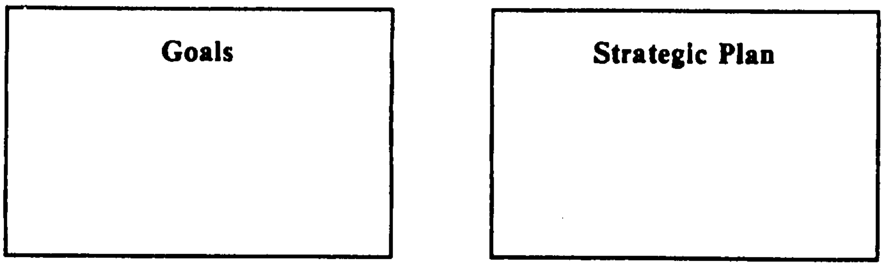
The ideal way to conduct the exercises is to assemble a group of staff members representing various levels within the organization -- and perhaps Board representatives -- who can participate with you in assessing your financial management practices and developing an improvement plan. Having different points of view during the self-study will help you keep in mind the inherent linkage between financial management, program management, and organizational goals. A multi-level, interdepartmental group encourages planning and commitment from the bottom up. It will also help you define and assess operating systems and procedures which are not well documented but are part your organization's routine management activities. Finally, it will develop the consensus necessary to carry out constructive change. Those who participate in making planning decisions will have a sense of ownership in the plan as well as a stake in its success, and they will take an active role in making the improvements.

(3) Setting a schedule

The planning process takes time, and there are already many demands on your time and your staff's time. Consider what would be a reasonable planning process for your organization, and schedule a series of meetings that can be conducted without adversely affecting necessary management and service delivery activities. This is an important priority, and you can manage it if you try.

(4) Arranging a meeting area

The meeting area must be comfortable, with adequate space for seating as well as a table on which you can place materials and write. To keep your attention on the relationship between financial management, programs, and achievement of organizational goals, put two large pieces of paper on the wall of the meeting room.



On one of them, write the key points of your organizational goals. On the other, write the key points of your strategic plan. This is a long-range organizational plan that shows how the organization plans to achieve its goals. If you do not have one, then take time now to review whatever documents are available and see if you can describe your long-range objectives and strategies. Keep both statements concise, using key words and phrases. The purpose is to help you remember why financial management is important as you proceed with the exercises. Short summaries are sufficient.

If possible, leave these papers on the wall until you have finished both of the exercises described below. If not, put them up before each meeting session.

EXERCISE 1. IDENTIFYING OPPORTUNITIES FOR IMPROVEMENT

This exercise is to be conducted for **each** of the six financial practices discussed in Part I. That is, first complete Steps 1 through 3 for fund accounting. Next, complete Steps 1 through 3 for budgeting and cash flow projection, then for costing and pricing, and so on. In Exercise 2, you will take an integrated view of the six functional areas together.

Step 1. Describe current practices

This is an opportunity for you to review current practices and describe the present level of development in each financial management area. Do not try to evaluate your practices at this point. You will have an opportunity to do that later. Just focus now on describing what the practices are. Key questions to discuss and answer are:

- Do we carry out this function? When? Regularly, or just when a problem comes up?
- Why do we do it?
- What systems and procedures do we use?
- Who is responsible for implementing and managing them?
- What information is produced as a result of this activity?
- Who gets the information?

Summarize the outcomes of your discussions on a large piece of paper, again using key words and phrases. You can write more lengthy descriptions later if you want to. In some cases, you may also want to develop "flow diagrams" or other graphic pictures of your current practices. This will show you how the function fits into your general operations. It will also help you see where you might streamline processes to make them more efficient as part of the improvement process.

Overview of Current Practices

Step 2. Identify current benefits

This step is where you begin to evaluate your practices. The objective is to list all the benefits they provide to the organization now. In other words, this focuses on the positive aspects of your existing financial management activities. The potential benefits of each function are different. Examples of benefits are preventing cash shortfalls, saving money, creating valuable information, improving decision-making, and increasing spending flexibility. Think through carefully how the practice helps your organization now and compile a benefits list, being as specific as you can.

Current Benefits

Step 3. Identify opportunities for improvement

Here is where you look at how current practices fall short and at the benefits of improvement. In step 2, you listed ways the practices help you now. In this step, your objectives are (1) to identify additional benefits you could gain if the practices were improved and (2) to determine what specific, practical improvements are needed.

First, brainstorm all the additional benefits you would like. For each one, show the rationale -- why it is important and how you would take advantage of it.

Additional Benefits	Rationale

When your list is finished, study it carefully and put the items in priority order by writing "1" beside the most important one, "2" beside the next most important one, and so on. You may find later on that you cannot make all the improvements at once. Therefore, you need to set priorities so you can decide what to do first.

Next, refer back to your step 1 description of current practices to figure out what changes are needed to make the additional benefits available. These are your opportunities for improvement. List them in priority order, being as specific as you can, and list the expected benefits of each one.

Opportunities	**Benefits**

Save all of these sheets for use in Exercise 2.

EXERCISE 2. DEVELOPING AN IMPROVEMENT PLAN

You now have six lists of opportunities for improvement and an indication of the benefits they will bring. Taking advantage of all the opportunities right away is probably far too ambitious and expensive. What you need to do is look at all of them together, see how they relate, compare costs and benefits, and find a reasonable, feasible sequence of activities that will have the greatest impact on your organization. Like the budgeting and feasibility analysis activities described earlier, selecting the right plan involves considering alternatives and projecting the relative costs and benefits of each one.

Step 1. Consolidate benefit lists

Gather all six of the opportunity-benefit sheets developed at the end of Exercise 1.

Transfer all of the benefits onto a separate sheet. You may find the same benefit, such as "more flexibility," on several of the functional opportunity-benefit sheets, but enter it only once here.

Benefits

Step 2. Rank the benefits

Look at the consolidated benefits list. Considering the organization's overall needs, rank these benefits in priority order by entering a number beside each one.

Step 3. Determine improvements required

Refer back to the opportunity side of the six functional sheets. Starting with priority number 1, list all of the financial management improvements required for **each** of the benefits listed in step 2 above. Use a separate sheet for each benefit.

Benefit: ________

Improvements Required

Step 4. Develop the improvement plan

When you started Exercise 1, you made an organizational commitment to change. Now you are making a commitment to act on what you have learned about your organization. This is also the point where you have to make hard choices. You will not be able to do everything at once. Some of the improvements are long-term rather than short-term tasks. All require an investment -- of time, money, or both -- and you have limited resources to invest.

Carefully study the results of step 3. Brainstorm several combinations of activities that you think would be effective in meeting your priority needs. Estimate how long each combination would take, how much it will cost, and how your status would be improved. This part of the exercise is a "what if" analysis, where you estimate the requirements and outcomes of various strategies. It will take a lot of time and thought.

After you have analyzed several options, compare the requirements and outcomes -- the costs and benefits -- and decide what is best for your organization. This decision is very complex. It depends on how well developed your financial management is now, how much growth you expect, what your most serious problems are, how much you can invest in the process, and a host of other factors.

Once you make the decision, translate it into a detailed but simple operational plan showing objectives, activities, schedules, assignment of responsibilities, costs, and other resources required. This plan will be integrated into your general operational plan, so use your organization's routine planning format.

Operational Improvement Plan

Step 5. Develop a monitoring plan

You need to keep careful track of your progress. The improvements will enhance your capacity to take advantage of opportunities for increased financial self-reliance. They will also contribute to better staff morale, as the organization's workers recognize that the organization is moving towards achievement of its financial management goals.

Study the operational plan carefully and determine how it can best be monitored. Develop a detailed monitoring plan showing what activities are required, who is responsible for them, when they are to take place, and how achievement will be measured. This monitoring plan should be integrated into your general management plan, so use the formats with which you and your staff are most familiar.

Monitoring Plan

Moving toward financial self-reliance

You now understand the importance of improved financial management in increasing the financial self-reliance of your NGO, and you have an improvement plan. You have already taken a step toward greater self-reliance by making a commitment to change. Monitor plan implementation carefully. When you have a problem, keep your improvement goals in sight, and use your analytic skills to solve the problem quickly before the plan gets off track. Also monitor the benefits you begin to see. Focusing on your successes will help you during difficult times and show you that you are making progress. As you see gains in financial self-reliance, your commitment to improved financial management will become even stronger, and you will understand the value of your investment in the challenging but essential improvement program.

PART II. INCOME GENERATION OPPORTUNITIES

How Part II Can Help You

Has your NGO ever been disappointed because an income generation scheme failed? Have you avoided income generation programs because you don't know how to design and run them or because you don't think they would work in your environment? Do you seek out opportunities, and do you recognize them when they occur? Income generation is critical to self-reliance, and there is a way for every NGO to become involved in it. Part II illustrates some of the creative strategies developed by the ten contributing NGOs. There is great diversity in their environments and in the kinds of activities they undertake. Their experiences will introduce you to new ideas. It is up to you to evaluate these ideas, adapt the ones you can use, and make them work for your NGO.

This part of the manual describes six types of income generation opportunities available to family planning NGOs:

1. **Charging fees for family planning and other existing services and products**
2. **Developing and charging fees for new health-related services and products**
3. **Developing and charging fees for other new services and products**
4. **Local fundraising**
5. **Creative grant and contract development**
6. **Investments**

Each of these opportunities has been successfully exploited by at least one of the NGOs that contributed to the development of this manual. The result has been increased financial self-reliance for these organizations. As you will see, strong financial management is essential to take advantage of the opportunities and make the most of them.

The next six chapters provide an overview of the kinds of activities that can be implemented within each of the categories listed above. They also suggest factors to consider in deciding whether or not these activities have good income generation potential for your organization. The principal factors are:

- the nature of the competition and your NGO's capacity to compete successfully with other providers
- government and other regulations affecting NGO operations
- political conditions and religious attitudes influencing the range of income generation opportunities open to you
- the venture's financial and other costs
- the venture's feasibility, or the relationship between costs and expected revenues
- potential effect on the organization's image in the community

The effect of each factor varies with the kind of income generation strategy you choose. As you will see, all of the contributing NGOs faced constraints as well as opportunities in their environments. By taking creative advantage of options open to them, they were able to establish productive income generation programs.

Each chapter contains specific examples of successes among the contributing NGOs. The intent is not to describe in full all the elements of each NGO's income generation program. Rather, it is to highlight particularly creative, productive activities that may be transferable to other environments and to illustrate that potential barriers can be overcome.

Not all of the strategies suggested in Part II will be feasible or desirable for you. The nature of your environment may rule some of them out. Others may be inconsistent with your organization's goals or its image in the community. Still others may be beyond your capacity at this time. Nevertheless, keep an open mind when you read this part of the manual. A strategy that seems inappropriate at first glance may, with a little creative adaptation, turn out to be quite successful. Entrepreneurship -- the ability to create, recognize, and take advantage of opportunities -- is part of becoming more business-like. It is critical in income generation ventures.

The ability to generate independent income is essential to increasing financial self-reliance. Every NGO has income generation options. These options differ from one organization to another. Your job is to find the ones that exist for you and make them work. This manual can help you do that. Remember what the benefits can be:

Benefits of Income Generation Activities

Reduced dependence on donors

More "unrestricted funds" and more flexibility in how you spend those funds

Increased financial stability and viability

Greater control over the organization's financial future

1. CHARGING FEES FOR FAMILY PLANNING AND OTHER EXISTING SERVICES AND PRODUCTS

This is in many ways the simplest strategy for family planning NGOs initiating income generation programs. The service already exists, the clientele exists, the delivery system is in place, and the activity is consistent with the organization's image. All of the contributing NGOs include this strategy in their income generation programs. For some, it was part of the initial program plan. In other words, self-reliance was always an objective, and services were never free. For others, it was established when the NGO decided to become involved in income generation. For some, it provides the major portion of independent income. For others, it accounts for a less significant percentage of revenue but remains an important part of the overall income generation effort. Examples of existing services and products that generate income among the contributing NGOs are contraceptive sales, fees per visit, fees per service (for example, family planning consultation, maternal and child health consultation, prenatal or post-natal care, laboratory tests, parasite control, IUD insertions, physical checkups, and surgery), drug sales, and membership fees (some of which provide a "package" of services for the price of the fee).

Factors to consider in evaluating options

In virtually all environments, the greatest **competition** in these kinds of programs comes from free government services. All NGOs face this problem, as most governments provide at least minimal public services in the specialty areas of family planning NGOs. The effect of this competition on an NGO's income generation potential depends in part on the strength of the government program, the level of demand for services, public attitudes toward free and for-pay services, and the marketing and promotional skill of the NGO. For example, in Bangladesh public services are quite extensive in some areas, and the Family Planning Association has had disappointing results in its contraceptive sales program to date. However, other contributing NGOs have been able to compete more successfully. For example, in Ecuador, public services are available, but cultural norms favor payment for service rather than receipt of free services, and CEMOPLAF's 22 clinics and 600 health posts have been successful in selling low-cost services and products. Of all its clients, 97% pay the regular CEMOPLAF price, 2% pay a lower subsidized price that they can afford, and 1% receive free services because they are unable to pay at all. PSL and PSS have well-developed marketing programs and were able to capture clientele in Sri Lanka and India respectively even when government services were widespread. Now that public services in Sri Lanka are very limited because of the unsettled political condition, PSL is the single largest provider of family planning services in the country. Thus, the fact that free services exist does not prevent a creative, entrepreneurial NGO from successfully marketing its products and services in the same communities. There are also communities not adequately covered by public services that might respond well to low-cost services provided by an NGO.

The same is true with regard to **competition in the private sector**. In many countries and many communities, various private providers are now entering the health and related services fields. Some are NGOs, and some are commercial enterprises. Even where public services are not readily available or not well regarded by clients, private sector competitors can pose a challenge to NGOs seeking income generation from fee programs. For example, in Indonesia and Ecuador, many private physicians are opening for-profit health and family planning clinics targeting the same clients as the NGOs. In Mexico, MEXFAM itself is stimulating the involvement of private physicians in the provision of low-cost family planning services in underserved areas, providing the initial start-up costs and various other kinds of support. These operations are successful, becoming self-sufficient generally within two years. Nevertheless, despite the availability of services from other providers, an NGO with high-quality services, attractive prices, and marketing and promotional skills can compete successfully in this kind of environment.

Another potential consideration is **government and other regulations** that may prohibit sales of your existing services and products. For example, if you receive free contraceptives from the government, you may not be allowed to sell them. This is the case in India. However, PSS was able to arrange to purchase government supplies at a subsidized price for resale in its contraceptive social marketing program. There may also be regulations that restrict sales of any kind to individual clients. In this case, you might consider a new kind of service or product you could sell to other providers, as illustrated in Section 3. You might also be able to sell your existing services to companies for their workers, as discussed in Section 5. In any event, each NGO has to analyze its own regulatory environment and work within whatever constraints it imposes.

The **political and religious climate** is another important factor. If the services and products you offer are very sensitive, as family planning often is, then you may not be able to market them. As the experiences of the contributing NGOs show, strong marketing is a necessary ingredient in successful income generation programs, especially when competing with other providers. An environment that permits you to deliver sensitive services that are free may be less tolerant of the same services offered for pay. Therefore, it may not be possible to promote and market fee-for-service programs widely enough to generate substantial income. Again, the political and religious climate is unique to each NGO, and its effect must be considered on a case-by-case basis.

Finally, there is the question of **organizational capacity**. Even though there is no change in products or services, there are new management requirements in fee-for-service programs, such as promotion, marketing, pricing, cash management, and in some cases new staffing. Fee programs require more business-like operations, and your staff may not be well enough prepared to develop and manage them. You may also have to find new sources of supply or make an initial cash investment in the fee program. Even when these additional requirements are modest, you need to be sure that your organization can meet them before you proceed.

Examples of success

Here are several examples of how the contributing NGOs have generated income from fees for family planning and other existing products and services. These examples show that the strategy can work. They may suggest how you can take advantage of similar opportunities that exist in your environment.

(1) Generating income from family planning clinics - PSL (Sri Lanka)

Almost half of PSL's budget is now funded by independent income generation activities. From 1984 to 1988, about one-third of the budget was funded through charges for family planning and other health supplies and services. These results reflect PSL's commitment to achieving financial self-reliance through income generation activities.

PSL's philosophy is that successful sales of family planning services and products can be achieved through the application of business techniques in the social service arena. In 1984, PSL was operating three small projects providing 30,000 couple-years of protection. By 1988, its programs included nine family planning and maternal and child health clinics and a large tea plantations project covering 60 estates; it provided 118,000 couple-years of protection, making it the largest provider outside of government. Today, given the decline in public services due to civil unrest, PSL in the largest single provider of family planning services in Sri Lanka.

PSL's objective is to bring high-quality, reasonably priced family planning services to underserved segments of the population. The first clinic was opened in 1983. Local studies showed that the target population was willing to pay for services. In addition, PSL was encouraged by the government, which was experiencing a decline in coverage as well as in its ability to meet demand. In thinking through the early stages of a fee-for-service strategy, PSL first developed a concept paper for use in securing outside start-up funding. After initial funding was received, PSL located a site, engaged a doctor to provide services, and opened the clinic. Interestingly enough, PSL did not conduct a feasibility study for this clinic, but proceeded on a "gut feeling" of what the market place could accommodate. The clinic was opened by government functionaries. This showed that the NGO enjoyed the government's support. In addition, other individuals and organizations whose cooperation was necessary were invited to the opening ceremonies. PSL provided seminars for doctors who were going to be handling referrals of clients seeking services. Health educators were employed to help get the message out to the public, but in a modest way. Even today, due to local regulations and cultural norms, PSL does not advertise in the mass media.

During its first three months of operation, the clinic provided free services. This was a marketing strategy to attract clientele. Thereafter, a fee structure was introduced, and clients remained loyal to the clinic. This clinic reached the break-even point by the end of the first year. Since that time, additional clinics have been opened in other locations, and all of them have enjoyed similar success.

(2) Generating income from community-based family planning - PDA (Thailand)

PDA has always believed in the concept of self-reliance and self-support for all of its projects. Therefore, every project design incorporates from the beginning an income-producing component and a self-reliance objective. PDA is now Thailand's largest non-governmental, non-profit organization. Over 40% of its budget comes from income generation programs. About 40% of these funds in turn result from the sale of family planning and health-related services.

In 1974, a program called Community-Based Family Planning Services was established to distribute pills and condoms through a community-based volunteer system. The objectives were to (1) test the effectiveness of this system in expanding access to and information about family planning methods, (2) create a new and increased demand for services, and (3) achieve self-sufficiency in four years. Donated contraceptives were to be sold at a reduced price sufficient to cover operating costs. Initial funding was provided by a donor.

This program has three components. First, the Village Program has a network of 12,000 village-based volunteer distributors in 157 districts (covering about one-third of the country). The distributors purchase contraceptives from PDA and resell them to acceptors at a slightly higher price. The Village Program became completely self-sufficient within five years. Second, the Public Institution Program provides family planning services in factories, low-income housing estates, schools, and other institutions where people can take advantage of convenient, accessible services. A mobile team was added to provide reasonably priced on-site parasite and other physical check-ups. Later, services were broadened to include general medical and dental check-ups. Because the services are so convenient and priced lower than comparable services provided by doctors in local private clinics, they are extremely popular, and the program is now totally self-reliant. Third, the

Private Sector Program concentrates on distributing condoms and family planning promotional items, such as condom key chains, T-shirts with family planning slogans, and cigarette lighters. Condoms are marketed on a commercial basis through retail dealers and drugstores. While this component is not yet completely self-reliant, its sales are substantial. Moreover, the boldness of the advertising approach has helped to desensitize the issue of family planning in the community.

This kind of program is ambitious. Other NGOs with fewer resources might have more success trying one component at a time. PDA has found that the success of its program depended on good cooperation with the public sector in order to get permission to charge fees and set prices, careful attention to volunteer recruiting and screening, strong staff commitment, well-developed marketing skills, and effective planning, monitoring, and follow-up to ensure that products and services are selling well. In addition, the supply of donated contraceptives enabled PDA to set relatively low prices and compete with the free products available from government service centers.

(3) Generating income from laboratory services - CEMOPLAF (Ecuador)

CEMOPLAF generates 44% of its funding through fee-for-service programs. In addition to charging for family planning services and products at all its locations using graduated, site-specific fee scales, it operates laboratories at eight of its clinics. Clinics that do not have resident laboratories refer their tests to the nearest CEMOPLAF lab facility. These laboratories provide a wide variety of services, included pap tests, pregnancy tests, and other laboratory tests and examinations. The decision to establish laboratories was based on both the medical desirability of on-site testing and the organization's income generation needs. On-site laboratory services were considered medically important in the control of prenatal care as well as pill users, and in getting quick results on pap smears and pregnancy tests. CEMOPLAF recognized that clients were already paying for these services elsewhere, and that it could take advantage of the ready market that its clientele provided. The laboratories are now completely self-supporting; in fact, they generate surpluses that help defray the costs of subsidized family planning services. The current revenue is $1.50 per pap test, $1.00 per pregnancy test, and $.50 for other test and examination services.

Early pricing structures were developed without formal market research. As with its clinical services, CEMOPLAF soon discovered that some of its laboratory prices were too low, giving the impression that its services were not as good as those of other providers and limiting the amount of income generated. After formal research was conducted, prices were raised, and income grew steadily. Further price increases are being considered now, because the costs of reagents and other laboratory materials are rising. A study is being carried out to determine the actual costs of each test. Fees will then be set to cover these costs and yield a profit. This study focuses on the client market, services and prices of competing providers, and pricing policies of suppliers of materials.

In implementing its laboratory services program, CEMOPLAF has learned that it is important to engage personnel with high professional status, and that clinics can gain loyalty from clients by meeting all their testing needs. In some cases, this requires coordination with other local labs that may have more extensive facilities. CEMOPLAF also recognizes the need to promote the labs within its own organization, ensuring that clinics without labs use the facilities that are equipped for testing, and to be competitive with other providers.

(4) Generating income from one family health clinic to subsidize others - YKB (Indonesia)

Like PSL (Sri Lanka) and PDA (Thailand), YKB has always been involved in income generation. Its objective is overall organizational sustainability. Not every program is expected to pay for itself. However, some are expected to generate excess income to subsidize those that are not self-sustaining. Thus, YKB strives for organizational self-reliance through cross-subsidization among its programs.

With this philosophy in mind, YKB decided to open a family health clinic in a middle-income community where clients could be expected to pay prices that exceed costs. When this decision was made, several YKB clinics in less affluent neighborhoods had already exceeded their break-even points and were generating excess income. On the average, it took them about five years to reach this point. A feasibility study helped locate a site for the new clinic, set prices, project client load, and estimate the break-even point. YKB secured donor start-up support and committed some of its own funds as well.

After the clinic opened, it became clear that the concept was sound, but some parts of the implementation plan had to be revised as conditions changed. For example, the clinic did not attract the number of clients projected during its early period, so income was lower than expected. However, YKB found that costs were also lower, and that higher prices could be charged. Thus, by raising prices the clinic was better able to achieve its revenue objectives despite client shortfalls. Another unanticipated development was that other clinics began to open in this previously underserved area. In response to this competition, the clinic team participated in extensive promotional outreach activity, making presentations to community groups and local employers. It also arranged with local dentists to provide dental services at the clinic, using clinic space, and to share the income from these services.

Although the break-even point was not reached as soon as expected, this clinic is becoming self-sufficient at a much faster rate than YKB's other clinics. Thus, it will make a significant contribution toward achievement of the organization's cross-subsidization objective.

(5) Generating income through contraceptive social marketing - PSS (India)

Though it does not ordinarily charge fees for family planning contraceptive and sterilization services, PSS generates 66% of its income independently. This income is the result of charges for a variety of clinical and surgical services, as well as sales of post-operative drugs, health check-ups, and referral commissions. In 1988, PSS decided to start contraceptive social marketing (CSM) in the state of Harayana to generate additional income. Harayana has a population of 12 million and is close to PSS headquarters in New Delhi. Start-up funding was received from a donor.

Because CSM differed from normal programming, PSS set up a new kind of project structure and recruited from the business community personnel with marketing skills. These staff researched the competition, studied other social marketing programs, and conducted qualitative and quantitative market research. Special attention was paid to determining what consumers would pay, since the government was providing free supplies. The team also investigated what margins were required for retailers, realizing that the margin had to provide a retailer incentive but could not price the products beyond the reach of consumers. In addition, special arrangements had to be worked out with the government regarding supply. Previously, PSS had received free commodities and distributed them without charge. In the CSM program, it planned to brand and sell the contraceptives. Thus, new pricing and shipping agreements were needed. After careful negotiation, PSS obtained a 67% subsidized purchase price, and a new supply was developed.

To ensure that program products met market requirements, PSS conducted both brand and package testing. Condoms were marketed under two names. "Sawan" (meaning"Monsoon") was sold at cost and had mass appeal because the name was associated with sex and romance. "Bliss", a premium product, was sold with a larger profit margin to a more limited market. The program also sold oral contraceptives called "Ecrcz" (meaning "Once A Day"). Products were promoted through retailers in larger towns. A formal van operation was set up to reach smaller towns that had no retail outlets. A special launch, using audiovisuals and films, was used to kick off the sales campaign. The marketing strategy created such a high demand that, from time to time, PSS had to use its cash reserve to purchase additional products. The project was soon extended to adjoining territories of the Punjab and Himachal Pradesh.

The CSM program was a success. In the first year alone, PSS gained 20% of the state's condom market share in the respective segment and earned $23,000 from condom sales.

(6) Generating income through membership and other flat fees - Family Planning Association of Trinidad and Tobago, Family Planning Association of Bangladesh, and PSS (India)

The Family Planning Associations of Bangladesh and Trinidad and Tobago offer membership "package" fees as well as selected fee-for-service programs in their clinics. In 1988, the Trinidad and Tobago Association earned 60% of its locally-generated income through this mechanism. For an annual registration fee of about $4.00, clients are entitled to medical examinations as well as free contraceptives and counseling services. For a one-time charge, the Association in Bangladesh issues a health card, color-coded based on client income, which entitles the cardholder to services. PSS offers a similar fixed cost annual "Medicheck" program which provides a blood sugar test, high blood pressure check, pap test, breast examination, routine urine test, and complete physical examination. The fee also includes the pap test report combined with free follow-up and referral if necessary.

These kinds of programs are often easy to establish. Some generate significant amounts of income. Even when they do not, they are an excellent public relations strategy, creating a bond between the member and the organization. Loyal clients will return year after year and may refer friends and relatives as well.

(7) Generating increased income from family planning services through creative advertising - Family Planning Association of Trinidad and Tobago

Though this association has had a fee-for-service program for some time, poor local economic conditions have had an adverse impact on the organization's budget in recent years. In 1987, management decided that intensive advertising was needed to increase its client load and its income from services. Assisted by donor seed money, the Association arranged with its regular advertising agency to produce -- at a reduced fee -- a television commercial that promoted the Association, providing information about its convenient business hours, low prices, and range of services provided. The commercial was designed to stimulate awareness of family planning, encourage contraceptive usage, and increase the number of users seeking services at Association clinics.

From November 26 to December 20, 1987, the commercial was aired 58 times. By aligning its account with that of a local drug distribution firm working on the Association's contraceptive social marketing program, the Association was able to secure a reduced rate from the television company to air eight additional spots in January 1988.

The Association monitored usage statistics carefully in an attempt to evaluate the effectiveness of the advertisement. Between December 1, 1987, and February 12, 1988, there were 2,731 new clinic users, compared with 2,047 during the same period the previous year. This was an increase of one-third. Almost 1,000 users were interviewed during the advertisement period, and one-third of these said the television commercial was their main motivation to attend the clinic. The Association recovered 83% of the cost of the campaign through income derived from new clinic users in a three-month period. This shows that mass advertising can be an extremely effective income generation strategy, and that its results can justify its costs.

2. DEVELOPING AND CHARGING FEES FOR NEW HEALTH-RELATED SERVICES AND PRODUCTS

Unlike the strategy described in the previous section, the development of new health-related services and products involves branching out into different -- and perhaps unfamiliar -- activities. In most of the contributing NGOs that selected this strategy, new services were added for two reasons. First, the revenue they generate can be used to subsidize family planning services. Second, they expand the services available on-site to clients, which generally leads to higher satisfaction and increased loyalty among clientele. Because the activities are still in the health area, this strategy can often be implemented relatively easily. For one thing, the extension of services does not radically change the organization's image. In fact, it emphasizes the organization's commitment to family health. For another, you can often target the same clientele. For example, adding pre- and post-natal care as well as general maternal and child health services will retain family planning clients who decide to stop contraception temporarily to have a child. Conversely, you may be able to enroll a mother in your family planning program after her child is born if you provide pre-natal care or delivery services, or if she brings her child in for immunization or other primary health care. Further, expanding your health services in a modest way is not always expensive. It may involve minimal purchases of equipment and supplies, and your staff may already have sufficient expertise. Like YKB in its dental services program, you may even be able to make a cost-sharing arrangement with other professionals to deliver the new service.

There are many kinds of health-related services and products that family planning NGOs can add to their program spectrum. Examples of new services introduced by the contributing NGOs are laboratory facilities, parasite control, family life education for youth, contraceptive sales to pharmacies or private practitioners, school health check-ups, dental services, and maternal and child health services.

Factors to consider in evaluating options

As with existing services, **competition -- both public and private --** is an important issue in developing new health-related services and products to generate income. An added complication in a new service area is that you may be unfamiliar with your potential competitors, so initial research and information gathering may be needed. It is important to document both demand for and availability of the service or product. You also need to know competitors' prices so that you can determine your potential for profitable marketing. As suggested in Part I, you may be able to complete this analysis relatively inexpensively, using available documents and existing staff expertise as well as contributed or reduced-rate services from other experts.

The **regulatory and political/religious climates** also affect both existing and new services. As discussed in the previous section, you need to determine what NGOs can do, and how they can do it most effectively, within your community. While family planning may be a sensitive issue, other primary health care components, particularly maternal and child health, generally are not, and NGOs expanding into these areas usually face few limitations. Unless NGOs are prohibited from charging fees to clients for any purpose, there is usually nothing in the local regulatory environment that prevents using this strategy. In fact, many of the contributing NGOs promote themselves as family health organizations and highlight the fact that their family planning programs are just one part of an integrated family health service.

Organizational capacity is a key factor in developing a new service, even if that service is closely related to ongoing activities. If you plan to use your existing staff, they must be qualified to provide the new service and able to assume the added burden. If new staff are required, the organization must be able to recruit, hire, and absorb them. The same is true for space and equipment. Either existing assets will be made available, or money must be invested in new purchases. Regardless of how you plan to develop and implement the service, it represents a change. If the organization cannot manage that change, then the income generation scheme will fail. One way to maximize your potential for success is to start out with a modest venture that requires only limited change. As you gain confidence and experience, you can undertake more ambitious ventures that impose greater organizational demands.

Feasibility is another important consideration. If your objective is excess revenue to subsidize your family planning program, then the venture's potential for profitability must be high. If your objective is simple cost recovery, then your analysis must prove that the new service will be self-sustaining. Even though the activity you consider may be similar in many ways to your existing activities, it is still new, and careful attention is needed to all aspects of the feasibility analysis process outlined in Part I.

Examples of success

Here are several examples of how the contributing NGOs have generated income by introducing new health-related services and products. These examples show that the strategy can work. They may suggest how you can take advantage of similar opportunities that exist in your environment.

(1) Generating income from enhanced laboratory service sales to subsidize family planning programs - HSF (Brazil)

HSF was established as a private, non-profit hospital serving the poor in Belo Horizonte, the capitol of the state of Minas Gerais. Built by the community in 1977, it has grown from a small out-patient clinic to a regional maternal and child health/family planning facility providing in- and out-patient services to a population of approximately 300,000. It began providing family planning services in 1981. Its primary source of revenue is now a government services contract with INAMPS, Brazil's national health care program. This contract began in 1986. INAMPS reimburses the hospital on a fee-for-service basis for in-patient admissions, out-patient visits (including family planning), laboratory exams, electrocardiograms, and dental care. Each service has a different fixed price, and contractors are authorized to provide up to a ceiling number of each service per year. Some providers, like HSF, are highly cost-efficient, and the amount of the reimbursement actually exceeds the cost of the service. The excess can be used by the provider to subsidize other services. In HSF's case, the primary beneficiary of this subsidy has been the family planning program, which has received decreasing donor support.

While HSF was able to reach its ceiling in many of the INAMPS service areas, the inadequacy of its laboratory facility limited its capacity. As a result, the hospital was unable to perform the maximum allowed number of 3,600 laboratory tests and examinations. This caused the loss of income which was otherwise guaranteed by the INAMPS contract. In 1988, HSF received donor funding for the purchase of laboratory equipment and materials and contributed its own funds toward expanding and remodeling the facility, as well as toward other direct and indirect operational costs. The objectives were to enable the laboratory to perform the maximum number of procedures authorized for reimbursement under the INAMPS contract, to generate enough income to cover 40% of HSF's annual expenditures for family planning, and to support the provision of family planning services to approximately 19,200 new acceptors over eight years.

In effect, the improved laboratory was really a new service of a very different kind. As a result of laboratory expansion, HSF was able to perform in-house routine lab exams that previously had to be referred to other facilities. The number of exams doubled, and the INAMPS ceiling was reached within four months. Billings to INAMPS increased proportionately, and sufficient income was generated to meet the family planning cost coverage objective. The actual profit from the lab is enough to cover the costs of 1,145 new family planning users, 3,058 family planning visits, 474 voluntary surgical contraceptive procedures, and 7,180 couple-years protection annually, despite rapid inflation. Had inflation been less severe, these numbers might have tripled. Nevertheless, the development of this new service contributed significantly to strengthening the hospital's financial position and to the expansion of family planning services to HSF clients.

(2) Generating income from a sonogram laboratory - CEMOPLAF (Ecuador)

In 1987, CEMOPLAF established a sonogram laboratory at an existing clinic, investing some of its surplus in equipment purchase and clinic renovation. Up until that time, clients who needed sonography services in prenatal care or to monitor a gynecological problem were referred to other providers with the necessary facilities. After considering the number of patients being referred elsewhere and the prices being charged in the area, CEMOPLAF determined that it could provide better services and, at the same time, generate additional income if it had its own sonogram laboratory.

The Board conducted a limited feasibility study to establish a pricing structure. It was decided that the laboratory would operate two hours per day and would be staffed by a physician from the local clinic site. This meant that no new staff would have to be hired. During its first year, the financial returns were disappointing. CEMOPLAF had conducted little external advertising, and operating for only two hours a day did not produce a significant amount of income. The organization has now decided to increase its marketing efforts and hire a full-time physician to staff the laboratory eight hours a day. This is expected to increase its profitability and strengthen its contribution to CEMOPLAF's income generation program.

(3) Generating income through environmental sanitation improvement programs - PDA (Thailand)

The PDA community-based family planning program described in the previous section resulted in a grass-roots network of volunteers with direct access to villagers. In 1976, a Ministry of Public Health study showed that 60% of Thailand's population had at least one type of parasitic infection. PDA initiated a treatment program to eradicate these infections but found that the rate of reinfestation was extremely high because of poor sanitation habits and unclean sources of drinking water. It soon became apparent that the mass treatment approach would never be as cost-effective and self-reliant in the rural areas as it was in urban settings.

Thus, in 1978, PDA secured donor assistance to begin a program to build sanitary latrines and water tanks. Villagers who contract to build a latrine, water jar, or water tank provide their own labor. They also receive training and are expected to train other villagers in turn. In addition, they make a commitment to repay PDA for the full cost of raw materials plus a small administrative charge to cover program operating costs. In this way, a revolving fund is established, enabling the construction of additional water improvement facilities on an continuous basis. Villagers repay the fund in monthly installments. The repayment period ranges from eight to 17 months. The repayment rate usually averages over 80%. This project is now completely self-sufficient, and repayments from tank owners replenish the fund.

3. DEVELOPING AND CHARGING FEES FOR OTHER NEW SERVICES AND PRODUCTS

For many family planning NGOs, involvement in activities other than direct health service delivery means moving in a totally new direction. This represents a significant change. However, it is not necessarily as difficult or as threatening as it sounds. It can be as simple as drawing on the talents of your staff to provide consulting or training services to other organizations in the area of family planning or other existing services, or charging others for the privilege of using facilities or equipment you already have. Of course, it can also become more complex. For example, as in the case of PDA (Thailand), it can involve starting a separate for-profit corporation and using the venture's profits to subsidize your family planning services. With regard to organizational mission, it can represent merely a programmatic extension of your organization's mission, as in the case of PDA's transition from family planning into environmental sanitation and more general community development. It can also be an activity of a totally different kind, where the sole purpose is to generate income to subsidize those programs that directly support achievement of your mission. You face many choices when considering new services and products. Examples of those developed by the contributing NGOs include rentals of available space for meetings, dormitories, or surgical procedures; management and rental of commercial space; training; consulting; establishing "sister" organizations as straight commercial enterprises; and making loans to entrepreneurs who then share their profits with the NGO. The choices you make will depend on your own resources and the flexibility you have to move in new directions.

Factors to consider in evaluating opportunities

Competition and **regulatory requirements** are important in new ventures, just as they are in the two categories described earlier. You must be able to create and take advantage of a demand for the new service or product, and its price and quality must enable you to compete with other providers. In addition, the regulatory environment must permit NGOs to branch out into new areas. The **political/religious climate** also affects new activities open to you. NGO services and products that are acceptable in some communities are not practical in others. All of these considerations must be assessed in selecting a new venture.

However, the most important factors are the venture's **feasibility** and the organization's **capacity** to start and maintain it. Every new venture requires some investment of money and effort. With regard to feasibility, as shown in Part I, what you expect to get out of the venture must justify what you put into it. That is, its potential profitability must be high. In addition, the venture must be manageable and affordable in terms of your organization's resources.

Becoming involved in new products and services also can affect your NGO's **image**. This is one of the non-financial costs mentioned in Part I. If your organization is known for its interest in family health, how will the community react if you move into transportation or facility rental? If you are viewed as a sponsor of community development, how will the community react if you move into commercial activities? This is an important issue. However, the experiences of the contributing NGOs show that such transitions can be made without harming the organization's image. It all depends on what kind of venture you choose, how you present and promote it, and how well you make it work to serve the organization's best interests.

Examples of success

Here are several examples of how the contributing NGOs have generated income by introducing new services and products other than direct health service delivery. These examples show that the strategy can work. They may suggest how you can take advantage of similar opportunities that exist in your environment.

(1) Generating income through commercial rentals - Family Planning Association of Bangladesh

Through an unusual arrangement with the government, the Family Planning Association of Bangladesh receives free leases on prime pieces of government land in the capital and in other towns where the organization has branches. Each lease is for 99 years and can be renewed. The land is designated for commercial use. After securing the land, the Association selects a builder/developer to construct a commercial building at his or her expense. In addition, the builder pays an up-front fee to the Association for the privilege of construction on the site. In return, the builder retains the long-term right to maintain the building. The buildings are then leased out to tenants as office and commercial space. The Association manages the rentals, which are priced at $0.25 per square meter, below the market price of $0.30. The income generated from the rentals amortizes the cost of the building, and excess income goes to the Association's general operating fund. About 20% of the Association's independently generated income results from this rental program.

(2) Generating income through consulting services - YKB (Indonesia)

YKB has many highly qualified professionals on its staff and decided to take advantage of their expertise to generate income through consulting services. In developing this venture, YKB recognized the need for a strong marketing strategy, because there were a number of local groups competing for the same kind of clients. The first step involved collaboration with drug companies, where YKB discovered its staff could meet existing needs for expert assistance. Services provided to these companies included coordinating a study to test an IUD and developing information, education, and communication materials for product promotion. Another YKB marketing strategy involved collaboration with the National Family Planning Board, which had already worked closely with YKB and knew the quality of its staff. Under an arrangement with the Board, YKB now participates in family planning training at local medical schools. In addition, YKB provided expert follow-up technical assistance and research services in statistical analysis and how to analyze data after a Board-sponsored conference. As the organization's reputation grew, new assignments were secured, including assisting the medical division of a hospital plan an evaluation project, helping the Indonesian Midwives Association improve its organizational management system, and preparing secondary data on the contraceptive market. One of YKB's best marketing strategies has been its emphasis on high-quality services and client satisfaction. Having learned that competitors are often less thorough, YKB works carefully with its clients to ensure that all their needs are met. This has created a loyal clientele that returns to YKB when additional consulting needs arise.

Consulting services now account for 20% of YKB's income, so branching out into this new activity has proved financially rewarding. However, it has put a number of new demands on the organization. For one thing, YKB staff cannot meet the needs of the growing market. Thus, other well-qualified individuals have been identified, and YKB has formed a "pool" of experts who can assist in performing consulting assignments. There have also been some problems with regard to fee setting. In many of its consulting assignments, YKB has been bound by standard government professional consulting fees which are based on the seniority and qualifications of the consultant. This restricts YKB's flexibility in price setting for consulting services. However, charges for related services such as data processing are unregulated, and YKB has developed a profitable fee structure for these kinds of services to maximize their income generation potential.

This income generation program is under continuous expansion, and YKB is constantly assessing the market for new opportunities. At present, it is considering creating a demand for various health-related information, education, and communication materials, developing the materials, and persuading local publishers to pay the printing costs. YKB would then sell the materials, perhaps sharing the fees with the publishers. The organization is also actively marketing for follow-up services among its existing consultancy clients.

(3) Generating income through training and consulting services - PDA (Thailand)

In 1979, PDA established a formal training center called the Asian Centre for Population and Community Development (ACPD). Originally funded by grants, this center is now wholly self-sufficient, and accounts for about 20% of PDA's locally generated income. The core program involves a series of regularly scheduled training courses offered throughout the year. Since 1978, these courses have been attended by over 1,000 participants from 39 countries.

In addition, center staff provide a variety of consulting services, most of which are designed to improve the training capabilities of other NGOs. For example, needs assessment visits were conducted at NGOs in Bangladesh, India, Pakistan, the Philippines, and Indonesia, and ACPD consultants advised the staff of these organizations on how to set up a training institute or how to strengthen training capacities. The center also received a grant to develop a course in organization and personnel management for Asian NGOs. Center staff conducted needs assessment visits to guide the development of the curriculum and offered the course to 15 multinational NGO personnel. Following the course, PDA staff conducted follow-up visits to assist participants in applying their skills. Experiences like this have helped PDA expand its training curriculum to new areas, promote its reputation among donors and other NGOs, and strengthen its independent income generation capacity.

(4) Generating income through community development programs - PDA (Thailand)

Success in the environmental sanitation scheme described in the previous section led PDA to establish the Community-Based Integrated Rural Development (CBIRD) Project in 1979. PDA realized that even its reasonably priced water tanks and other environmental services were beyond the reach of a large proportion of the Thai population. The focus of the CBIRD program is much broader, addressing a wide range of community development problems. It operates through eight CBIRD centers, each of which services a number of area communities and villages. The center acts as the demonstration, supply, training, and marketing hub for the village programs. For example, at one center, staff breed fish, ducks, piglets, chickens, frogs, and other animals to assist the villagers in animal husbandry. Villagers borrow the animals and raise them until they are ready for market. Once they have been sold, the cost of the original animal is returned to the revolving fund for animal husbandry. For crop inputs such as fertilizers and pesticides, villagers have been encouraged to form cooperatives to make bulk purchases, thus reducing the unit cost. Rice banks have also been set up, with initial funding provided by PDA. Through these activities, villagers have gained sophistication and marketing and trading, and their capacity to earn an adequate livelihood has been increased.

The program design calls for each center to be self-sufficient when outside funding ceases. Each center has a different strategy to achieve this objective. For example, several are involved in commercial construction of water tanks, buying and selling agricultural crops, and producing crops and animals for local market sales. Others in areas that attract tourists operate guest houses and restaurants. The restaurants use vegetables grown by the center. One of the most innovative self-sufficiency strategies is the one developed at the Nang Rong CBIRD Center, which has already set up 13 sub-district cooperatives. These cooperatives now engage in profitable rice and fertilizer trading. They also provide community development services. In the final year of the project, these cooperatives will join a Central Cooperative able to take advantage of economies of scale in purchasing and selling agricultural and other products. Eventually, the Central Cooperative will take over the CBIRD Center itself, including the profit-producing rice mill. In this way, the Central Cooperative, a registered legal entity controlled by villagers, will be able to hire professional managers for the Center and control its own affairs, with only guidance provided by PDA.

4. LOCAL FUNDRAISING

NGOs are generally tax-exempt organizations. In most countries, this means there is a tax incentive for individuals and organizations that contribute to the NGO. This incentive is sometimes quite significant, encouraging charitable contributions from those who can afford them. It may apply both to cash donations and to in-kind contributions of materials, services, or equipment. Therefore, it is to every NGO's advantage to capitalize on this opportunity to the maximum extent possible.

Factors to consider in evaluating opportunities

All of the contributing NGOs are involved to some extent in fundraising activities. The funds raised are unrestricted, thus increasing the organization's spending flexibility. However, the results of these activities have been mixed, and there are fewer success stories here than in other income generation strategy categories. This is primarily because the cost of fundraising can be very high. Sometimes it exceeds the amount of money raised. For example, PSS (India) raised a significant amount of money through arranging a premier showing of a popular Hindi film, but undertook a mail solicitation which cost more than the amount of money it brought in. Other NGOs have had similar experiences, concluding that the outcome does not justify the use of resources in this way. However, NGOs that can conduct fundraising activities cheaply and easily or raise significant amounts of money may find that this strategy is appropriate for them. Careful thought is required to weigh the burden on staff and the financial investment required against the expected revenue from this kind of activity. Also, there are some very simple techniques, such as installing a clinic donation box, that cost virtually nothing. Although collections may be small, NGOs with limited restricted funding can use this money to start building an unrestricted reserve.

As with the fee-for-service programs discussed in the previous three sections, **local regulations** must be considered. While most NGOs are eligible for charitable contributions, there may be limitations on the ways you are permitted to solicit funds. For example, you may not be permitted to advertise in mass media, or to conduct contests or lotteries that award prizes. There may also be restrictions on the kinds of material you can send through the mail. Nevertheless, there are always some avenues you can use to appeal for funds, and it is up to you to find out which ones are available to you.

The **political/religious climate** is another factor. For example, if family planning is a sensitive issue, you may have trouble generating donations for your family planning programs. However, if your NGO also provides other services, such as maternal and child health, you may be able to focus your appeals on these kinds of activities that are more popular. As long as you raise unrestricted funds through these appeals, the organization is free to decide how the proceeds will be used. Also, some NGOs join with others in local fundraising programs, thus focusing less attention on services that may be controversial and more attention on those that have greater appeal or more widespread support. This approach is used by the Family Planning Association of Trinidad and Tobago and has resulted in substantial donations.

Depending on the traditions in your community and the strengths of fundraising programs by other local NGOs, there may be a lot of **competition** for a limited amount of charitable funding. In many areas, religious groups, orphanages, private schools, child nutrition centers, and other community welfare organizations are quite active on the local fundraising scene. If this is true in your environment, then successful local fundraising depends on your ability to promote your organization and its mission in an attractive, persuasive, competitive way. The tone and message of your appeal are critical. This is really a marketing challenge. Many NGOs with little fundraising experience have turned to their Board members for advice in designing the appeal. These individuals are often knowledgeable, influential community leaders who understand public opinion and can help you decide how best to persuade the public to support you.

Examples of success

Here are two examples of how the contributing NGOs have generated income through local fundraising activities. These examples show that the strategy can work. They may suggest how you can take advantage of similar opportunities that exist in your environment.

(1) Annual telethon and other special events - Family Planning Association of Trinidad and Tobago

Despite the fact that the local economic decline has reduced community financial support, the Association's annual telethon continues to raise funds for the organization and is an excellent example of creative income generation by a family planning NGO. The funds are used for purchasing equipment. The telethon is a national event in which the Association joins with other NGOs, such as the Cancer Society, the Trinidad and Tobago Chapter of the Disabled People's International, and Samman House (a drug rehabilitation center), to solicit funds. Both costs and profits are shared among the participating organizations. Some of these organizations have greater emotional appeal among the general public. Their participation increases the total amount of money raised and also the share going to the Association. This would therefore be a good strategy for NGOs operating in environments where family planning is a relatively sensitive, controversial issue.

The telethon is an intensive, six-hour television event which requires a great deal of planning. Association staff have the necessary skills and have been very successful in enlisting volunteers to advertise and promote the telethon. Although the budget for the event is substantial, volunteer participation helps to minimize costs. The telethon involves non-stop live entertainment by Trinidad and Tobago's top entertainers and performers, including popular calypso musicians. The entertainment is interspersed with information about the Association's programs as well as air time to acknowledge gifts and pledges phoned in by viewers. The entertainers contribute their services, and television time is free. The master of ceremonies focuses viewer attention on the financial goals of the telethon and encourages viewers to meet the target. In 1988, the event raised 850% of its actual cost and accounted for 5% of the Association's locally generated income. It also provided lots of exposure and increased the visibility of the organization.

In addition to its telethon, the Association sponsors a number of special events, such as fashion shows, barbecues, and jumble sales. These events have two purposes. One is to raise funds.

When volunteers contribute to preparing for and implementing the event, the cost is low, and the return is relatively high. The second is to publicize the services of the Association and encourage their use. Participation in broadly based community activities familiarizes people with the organization and permits low-key marketing in a social setting.

(2) Annual lottery - Family Planning Association of Bangladesh

This association solicits donated prizes from local individuals and corporations and holds a lottery every year. Each branch is responsible for selling a certain number of tickets and returning the proceeds to the headquarters office. While this activity accounts for only 3% of all locally generated income, it serves a strong advertising function. It familiarizes participants with the Association's name and associates the name with a popular activity. This has excellent potential long-range benefits for NGOs working in environments where there is a great deal of sensitivity about family planning.

5. CREATIVE GRANT AND CONTRACT DEVELOPMENT

The need for donor diversification and the identification of new funding sources is leading many family planning NGOs to find new sources of income through creative grant and contract development. Support may be sought for ongoing or new activities and services. As the experiences of the contributing NGOs show, success in this kind of income generation strategy depends largely on the ability of the organization to **market** or sell its capabilities to new buyers. Success requires that you be proactive, introducing others to what your organization can do. For example, in many countries, laws now require employers to make family planning services available to their workers. The employers have little or no experience in this area. Family planning NGOs, on the other hand, have a great deal, and they can assist employers in meeting their obligations. Many employers are willing to pay for this expertise and will contract for services with an NGO. If this opportunity exists in your environment, it is up to you to make employers aware of your capabilities and of ways you can assist them. The employers have to pay for these services anyway. There is no reason why they shouldn't pay your NGO rather than another provider. This is just one example of creative contract development. Other possibilities may exist in your community.

With regard to grant development from donors, Part I already explained the need for donor diversification as well as improved donor management. Increased self-reliance requires you to broaden your base of support and reduce your dependence on one or two donors. Better public relations and better salesmanship can bring you new sources of donor grants. You cannot wait for donors to come to you. Instead, you must reach out to them and show them what a good investment your organization represents. By being more creative in your approach to and relationships with donors, you can take advantage of greater opportunities for donor support, regardless of the size of your NGO or the scope of its programs.

Factors to consider in evaluating opportunities

Since marketing is a key to success in broadening your contract and grant options,

organizational capacity is a key consideration. Many NGOs are reluctant to promote themselves in order to get new business, believing that the commitment to client services conflicts with a "sales" approach. The experiences of the contributing NGOs show that this is untrue. Some of the most innovative grant and contract development strategies have been developed by those NGOs whose service objectives are widely acknowledged and respected. In fact, past excellence in providing services is one of the most persuasive factors with new grant and contract sources. Therefore, there is nothing to prevent an NGO from selling itself, except perhaps lack of experience and skill. If you and your staff feel that you need marketing advice, your Board members may be able to help you in deciding how to go about this important task. However, remember that you know your programs and capabilities. The challenge is to describe them in terms that will attract new contracts and grants. A social enterprise can use a business-like approach to marketing without sacrificing its mission.

Concern for the organization's **image** is another consideration. Some NGOs are concerned that if they begin to provide services to companies or embark on new programs to attract broader donor support, their reputation will suffer. Again, the experiences of the contributing NGOs do not bear this out. In fact, as you will see below, it was the strong support of the community that enabled HSF to expand its funding base to include fee-for-service contracts with the government. If you select your grant and contract targets carefully, you can preserve your organization's image -- and even enhance it -- as you attract new sources of funding.

Governmental regulations and the **political/religious climate** can affect the number of options open to you in this income generation strategy category. However, as with the introduction of new services described in Section 3, almost every environment offers some opportunity for providing contract services and undertaking new grants. The challenge is to identify those with the best potential in your setting.

Competition for new grants and contracts is increasing every day as NGOs recognize the growing limitations of traditional funding sources. Leading NGOs everywhere are developing increasingly sophisticated grant-seeking strategies. They are also reaching out to the commercial sector for service contracts and other kinds of support. It is important for your organization to enter the competition early. Your track record in successfully meeting the needs of one company will make it much easier to secure a contract from another. Similarly, a good reputation in the donor community will facilitate your access to new sources of grants. It is up to you to become competitive with other NGOs and actively pursue this new market.

Examples of success

Here are two examples of how the contributing NGOs have generated income through creative grant and contract development. These examples show that the strategy can work. They may suggest how you can take advantage of similar opportunities that exist in your environment.

(1) Generating income through contract services - HSF (Brazil)

This is an excellent example of how an NGO can use its reputation and community support to attract additional contract income and increase its financial self-reliance. The hospital began in 1977 as a small out-patient facility. The land was donated by a wealthy area resident, and building materials and supplies were contributed by members of the community. Construction was completed by volunteer workers. Thus, this was a grass-roots effort, originating in the community itself. In 1982, a large donation of used hospital equipment enabled the addition of in-patient services and a laboratory. HSF has always charged fees for services. Prices were set in relation to the minimum wage rate. For example, a voluntary surgical contraception costs 50% of the minimum wage rate, a clinic visit 10%, and so on.

HSF realized that it could never become self-sufficient on community fee income alone. Prices are set deliberately low. Even so, many people cannot afford them, and some care is still heavily subsidized. International donor support was generous for several years, but declining donor funding made HSF leaders realize that they had to look elsewhere for revenue, particularly for family planning services. For example, funding for family planning in 1988 was only half of what it had been in 1986. The leaders decided to approach INAMPS, Brazil's national health care program, which does business with 85-90% of the country's hospitals. Each INAMPS contract authorizes the provider to perform up to a ceiling number of designated services each year and guarantees reimbursement for all services up to that number. Each kind of service is reimbursed at a specified price. An efficient provider that can offer quality services that cost less than the INAMPS price can use the excess reimbursement to support its other operations and increase its self-reliance.

Under the INAMPS system, a provider must meet basic standards in order to be eligible for a contract. There are various levels of eligibility, and those providers who are better equipped are reimbursed at a higher rate. At the time the hospital initiated negotiations with INAMPS, it did not meet even the minimum standards. Thus, it was technically ineligible to become an INAMPS provider. However, tremendous community pressure was exerted on INAMPS and state government officials, urging award of the contract. Community leaders who had contributed to HSF themselves lobbied heavily for the contract, and community residents who had enjoyed HSF services offered vocal support for the program. This outpouring of public support was effective. Eventually, INAMPS decided to make the contract award based on the enthusiasm and commitment of HSF staff, despite the hospital's technical ineligibility. In return, HSF promised to upgrade its facilities, reinvesting earnings in capital improvements, so that it would meet the basic INAMPS standards.

The INAMPS contract now provides 80% of HSF's income and a substantial subsidy for its family planning services. The hospital has fulfilled its commitment to upgrade its facilities and now meets the minimum qualifications. Its next objective is to improve its facilities even more so that it can move into a higher INAMPS fee category. If successful, fees can be raised by 80%, and expected revenues by 50%.

(2) Generating income through intensified grant and contract development programs - PDA (Thailand)

In response to declining sources of donor support and increasing competition from other NGOs, PDA has established a separate unit to help develop proposals, prepare persuasive project progress reports, maintain cooperative working relationships with donors, and support the organization's marketing efforts. Staffed by qualified Thai and foreign professionals, this unit researches additional funding opportunities, keeps track of donor priorities, arranges for donor representatives to visit ongoing programs, and invites their participation in evaluation activities. PDA's commitment of staff and other resources to this activity reflects the organization's understanding that creative grant and contract development is essential to increased self-reliance.

Recognizing that external funding will become increasingly scarce, PDA is also turning to commercial enterprises for financial and technical support. The objective is to persuade local and foreign corporations to join with PDA in promoting rural development through the creation of income generation activities and employment opportunities in rural communities. The design calls for each company to adopt at least one village of its choice and collaborate with PDA and the villagers in a variety of local development programs. Although this is a relatively new initiative, two corporations -- one local and one foreign -- have already begun implementation. As the program matures and more companies participate, PDA's rural development program will no longer risk interruptions from declines in donor funding or changes in donor priorities.

6. INVESTMENTS

This strategy involves using the money you have to make more money. Individuals and for-profit corporations throughout the world engage in this practice. NGOs are beginning to become involved in it also whenever they can, since conservative investment is generally a safe, easy way to increase cash reserves and financial self-reliance. While some schemes can be complex, others are as simple as depositing cash on hand in an interest-bearing account. Therefore, an NGO without sophisticated financial expertise can take advantage of investment income opportunities.

Factors to consider in evaluating opportunities

There are really only two significant limitations on investment opportunities. One is the combination of **donor restrictions** and **local regulations** concerning what an NGO can do with its money. As discussed in Part I, some donors do not allow their funds to be placed in interest-bearing accounts. It is seldom possible to negotiate a change in this kind of policy, though some compromises may be reached. Other donors are more permissive. Therefore, if you have a diversified donor funding base, you may be able to invest some of it, at least for short periods of time. With regard to unrestricted funds, many regulatory environments offer a wide range of investment options. However, there are some governments that prohibit NGO bank investments of any kind and require that these organizations use only current (non-interest-bearing) accounts. Nevertheless, these same governments may permit NGOs to purchase and then resell property at a profit. You need to examine both your donor agreements and local laws and regulations carefully to see what opportunities are open to you.

The second limitation is the **amount of cash you have to invest**. Part I already indicated the importance of a working cash balance or reserve in increasing financial self-reliance. When you invest your reserve in interest-bearing accounts, the amount of interest earned depends on the size of your deposit. Thus, the more cash you can put aside, the more interest you can earn. If you plan to invest in property, you need sufficient cash to make the purchase. For many NGOs with small reserves and little unrestricted funding, investment opportunities may be narrow. However, as the experiences of the contributing NGOs show, even a small amount of investment income can make a difference, and investment programs offer good potential for financial growth.

Examples of success

Here are two examples of how the contributing NGOs have generated income through investments. These examples show that the strategy can work. They may suggest how you can take advantage of similar opportunities that exist in your environment.

(1) Generating income through local investment accounts - The Gambia Family Planning Association

In 1988, The Gambia Family Planning Association earned 10% of its total budget from income generation activities. Of this amount, 40% was the result of income earned on investment accounts.

This strategy was discussed at an International Planned Parenthood Federation conference attended by the Association's Director in 1984. After researching the local regulatory environment, he determined that it was a feasible approach for his organization. In 1985, the Association opened both short-term deposit and savings accounts. Interest earned on the three-month, short-term deposits is 18%, while 16% is earned on the savings account.

There are several sources of funds for deposit. First, some of the Association's donors allow a certain portion of available grant funds to be deposited in these accounts. After a thorough review of cash projection needs, the Association invests available surpluses until the money is needed for current expenses. Second, the Association experiences some gains on exchange because of fluctuating currency rates. While some donors request that these gains be returned, others do not. In those cases, the gains are reflected on the Association's books as surpluses and are invested. Finally, income on special projects and private donations is classified as unrestricted funding and can be deposited in these investment accounts.

Results from the investment program have been modest to date, but they have been encouraging. The money earned has been used for a variety of purposes, including building renovations, staff training, salary increases, development of new projects, increased contracting for support services, and purchase of new equipment. In the past two years, the Association has earned $6,000 from the two investment accounts. In addition, the intensified budget review and cash flow analysis required by the investment program have improved management's capability for financial planning. The gains realized have stimulated the Association to undertake several new income generation activities that will build up the investment account balances. These new projects include selling contraceptives and marketing all of the Association's services more aggressively. Thus, the investment program has contributed to the Association's organizational development as well as its financial growth.

(2) Generating income through a diversified investment program - MEXFAM (Mexico)

MEXFAM operates in an environment that places relatively few investment-related restrictions on NGOs. It also offers a high-technology banking system providing electronic transfer, free check-writing on certain kinds of accounts, and other opportunities for easy, economical money management. In addition, about 55% of MEXFAM's budget consists of unrestricted funds, with no investment limitations. Even within selected restricted funds, MEXFAM has negotiated some agreements that increase its investment opportunities. For example, the International Planned Parenthood Federation permits MEXFAM to place about 7.5% of the project budget in an interest-bearing account. During the first half of 1989, MEXFAM earned about $25,000 through its investment program.

MEXFAM uses several strategies to generate investment income. First, the organization places the operating funds for its 42 logistics centers in a central, interest-bearing account. Second, it holds the money in this account as long as possible to maximize the interest earned. Disbursements are made by electronic bank transfer to each center every 15 days. The size of each disbursement depends on the center's needs for that period. Available surpluses remain in the central account, constantly earning interest. Third, cash reserves covering employee benefits and contingency funds are deposited in a separate interest-bearing account which permits steady growth of this reserve. Fourth, some foreign currency is deposited in simple accounts in the U.S. This protects MEXFAM from losses associated with local currency devaluation. Finally, MEXFAM's financial managers constantly monitor the organization's cash supply and, whenever possible, move available funds into money market accounts which yield higher interest than simple bank accounts. The bank does not charge for these kinds of transfers, so MEXFAM can initiate them whenever the cash flow situation permits. Reverse transfers back to the simple accounts are also cost-free, so the organization can draw on these money market funds as needed for current expenditures.

This comprehensive investment and money management program requires a fairly liberal regulatory environment and well-trained financial staff. Therefore, it may be beyond the capacity of other NGOs that are just beginning to generate investment income. However, a less ambitious strategy involving perhaps only one or two of the techniques used by MEXFAM may be feasible in other settings. Even a small program has good potential for financial growth, and more sophisticated strategies can be implemented as the NGO's skill and confidence increase.

MOVING FORWARD

Income generation is now essential for the survival and growth of family planning NGOs. It is no longer a luxury. Like improved financial management, it is key to increased financial self-reliance. If your NGO has not yet moved in this important direction, now is the time to do so. If you have already begun this critical task, your challenge now is to expand your efforts, increase your revenue, and enjoy greater organizational flexibility and self-sufficiency.

All of the contributing NGOs have recognized the importance of income generation, and all of them have developed productive programs. Some are simple; others are more complex. Some produce modest amounts of money; others are financially more rewarding. Some require no change in services; others represent new program directions. These differences reflect diversity in the environment, in the length of time the income generation programs have been operating, and in the organizational capacity of the NGOs. Yet all of the organizations share one thing in common: income generation has strengthened their financial position, assisted them in expanding programs and service delivery, and helped to secure their future. This improves their ability to meet their clients' needs and achieve their organizational goals. If you can adapt their ideas or develop other kinds of programs better suited to your community, your organization can share these gains.

Introducing or expanding income generation activities is a commitment to change. You have to assess your opportunities, select and plan your strategy, and follow through. All of this takes hard work. Nevertheless, every NGO can do it, and the potential benefits are well worth the effort. The choice is yours.

APPENDIX: REFERENCE MATERIALS

Anthony, Robert N. and Herzlinger, Regina E., Management Control in Nonprofit Organizations, Richard D. Irwin, Inc., 1980.

Assessing Your Organizational Assets: A Manual for Managers of Private Voluntary Organizations Involved in Family Planning, The Enterprise Program, 1987.

Bryce, Herrington J., Financial and Strategic Management for Nonprofit Organizations, Prentice Hall, Inc., 1987.

Cagnon, Charles, Successful Business Ventures for Non-Profit Organizations, The Northern Rockies Action Group, 1982.

O'Connell, Brian, Nonprofit Management Series, Independent Sector, 1988. Nine volumes:

1. The Role of the Board and Board Members
2. Finding, Developing, and Rewarding Good Board Members
3. Operating Effective Committees
4. Conducting Good Meetings
5. The Roles and Relationships of the Chief Volunteer and Chief Staff Officers, Board, and Staff: Who Does What?
6. Recruiting, Encouraging and Evaluating the Chief Staff Officer
7. Fund Raising
8. Budgeting and Financial Accountability
9. Evaluating Results

Part of the Solution: Innovative Approaches to Nonprofit Funding, Institute for Public Policy and Administration, Union for Experimenting Colleges and Universities, 1988.

Wolf, Thomas, The Nonprofit Organization: An Operating Manual, Prentice Hall Press, 1984.

Working Toward Self-Sufficiency, Family Planning International Assistance, 1986.